

03 June 2019

SKP Resources

FY19 Within Expectation

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FY19 NP came within our/consensus estimates, accounting for 96%/95% of full-year forecasts. The absence of dividends was expected. Trim FY20E NP by 4% to RM126.5m after reducing sales assumptions by 5%, while introducing FY21E NP of RM143.2m. Maintain OUTPERFORM with a lower Target Price of RM1.40 based on FY20E PER of 14.0x.

FY19 within expectations. FY19 Net Profit (NP) of RM97.0m (-14% QoQ, -24% YoY), is within our/consensus estimates. Absence of dividend was as expected. Note that the group usually pays its final dividend by end of July/early August, with dividend pay-out of no less than 50% as per its dividend policy. We are expecting a DPS of 4.0 sen for FY19 based on a pay-out ratio of 51%.

Slower uptake. YoY, FY19 NP fell (-24%) to RM97.0m as revenue declined (-21%) from slower uptake in conventional electrical appliances following the shift in its main customer to the evolutionary model, exacerbated by a higher effective tax rate (ETR) of 22.6% (+3.7ppt) as certain tax incentives expired. **QoQ,** 4Q19 revenue fell (-11%) which we believe was mainly due to slower ramp-up in lifestyle products and other customers. Despite lower operational efficiency, which caused EBIT margin compression (-1.3ppt) to 6.0%, NP margin only compressed (by 0.2ppt) to 5.6%, as ETR decreased (-9.1ppt) to 16.6% (due to overprovision).

PCBA has commenced. The group's first PCBA line has commenced in April, while additional lines for newer products are slated to begin in July and Sept 2019. This also paves the way for more contracts given the key customer's emphasis for its contract manufacturers to be vertically integrated. Meanwhile, the group has identified a 2.2-acre land and placed orders for new plastic injection machines in anticipation of new products, while its Johor plant still has c.50% of floor space to cater for new contracts. With its PCBA up and running, SKPRES should no longer trade as a laggard to its peers with similar capabilities.

Trim FY20E NP by 4% to RM126.5m to be on the conservative side as we trimmed our bullish sales assumptions slightly by 5%. We also introduce FY21E NP of RM143.2m.

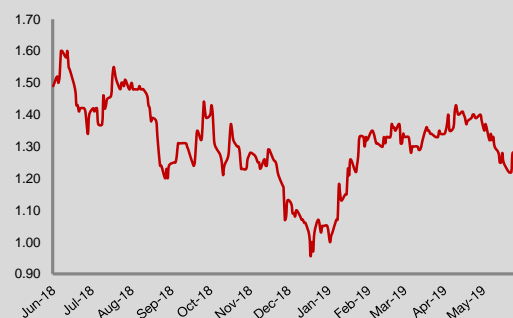
Maintain OUTPERFORM with a lower Target Price of RM1.40 (from RM1.45) based on an unchanged FY20E PER of 14.0x. At current price, SKPRES is trading at a forward PER of 12.9x vs. its 1-year mean of 14.0x which we believe is unjustified given its robust expected earnings growth (alongside decent dividend yield of 4.0%).

Risks to our call include: (i) lower-than-expected orders from its customers, (ii) higher input costs, and (iii) single customer concentration risk.

OUTPERFORM ↔

Price : RM1.30
Target Price : RM1.40 ↓

Share Price Performance



KLCI	1,650.76
YTD KLCI chg	-2.4%
YTD stock price chg	23.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,625.2
Shares Outstanding	1,250.2
52-week range (H)	1.62
52-week range (L)	0.95
3-mth avg daily vol:	1,469,561
Free Float	41%
Beta	1.2

Major Shareholders

Renown Million Sdn Bhd	30.5%
Beyond Imagination Sdn Bhd	14.4%
Kumpulan Wang Persaraan	14.2%

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	1664.9	2140.0	2464.5
EBITDA	95.9	189.2	211.5
PBT	125.2	168.6	191.0
Net Profit (NP)	97.0	126.5	143.2
Consensus (NP)	n.a.	133.6	154.0
Ergn Revision (%)	n.a.	-4%	0%
EPS (sen)	7.8	10.1	11.5
EPS growth (%)	-24.8	30.4	13.3
NDPS (sen)	4.0	5.2	5.8
BVPS (RM)	0.5	0.5	0.6
PER (x)	16.8	12.9	11.3
PBV (x)	2.8	2.5	2.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.0%	4.0%	4.5%

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY			YoY
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	357.1	400.0	-10.7%	457.3	-21.9%	1664.9	2095.0	-20.5%
EBIT	21.5	29.3	-26.6%	25.2	-14.7%	117.9	153.3	-23.1%
PBT	24.1	31.1	-22.7%	26.7	-9.8%	125.2	156.2	-19.9%
Taxation	-4.0	-8.0	50.1%	1.5	-362.1%	-28.3	-29.6	4.4%
PATAMI	20.1	23.3	-13.7%	28.2	-28.8%	97.0	126.7	-23.5%
EPS (sen)	1.6	1.9	-12.4%	2.3	-29.1%	7.8	10.3	-24.3%
NDPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
EBIT margin	6.0%	7.3%		5.5%		7.1%	7.3%	
PBT margin	6.7%	7.8%		5.8%		7.5%	7.5%	
NP margin	5.6%	5.8%		6.2%		5.8%	6.0%	
Effective tax rate	-16.6%	-25.6%		5.7%		-22.6%	-18.9%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BERHAD	0.620	686.9	Y	12/2019	7.5%	15.6%	18.1%	26.0%	19.0	17.2	14.6	2.2	2.2	12.5%	1.8%	0.650	MP
KESM INDUSTRIES BERHAD	7.11	305.8	N	07/2019	-9.8%	15.1%	-67.1%	59.0%	7.8	23.6	14.9	0.9	0.8	3.6%	2.6%	7.20	UP
MALAYSIAN PACIFIC INDUSTRIES BHD	8.94	1,778.1	N	06/2019	8.1%	5.3%	16.0%	5.8%	10.4	9.0	8.5	1.6	1.5	13.6%	3.5%	13.00	OP
P.I.E. INDUSTRIAL BERHAD	1.23	472.4	Y	12/2019	10.4%	6.2%	1.4%	13.0%	11.1	11.0	9.7	1.1	1.1	9.9%	4.1%	1.55	OP
SKP RESOURCES BHD	1.30	1,625.2	Y	03/2020	28.5%	15.2%	30.4%	13.3%	16.8	12.9	11.3	2.8	2.5	20.3%	4.0%	1.40	OP
UNISEM (M) BERHAD	2.53	1,839.5	Y	12/2019	1.7%	8.0%	3.6%	29.5%	19.3	18.7	14.5	1.3	1.3	6.8%	3.6%	2.15	UP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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