

05 August 2019

SLP Resources Berhad

1H19 Within Expectations

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1H19 core net profit of RM11.7m came within our expectation at 49%. No available consensus. However, the 1H19 dividend of 3.0 sen surpassed expectation (at 80%) on a higher-than-expected payout ratio of 81%. Maintain FY19-20E CNP of RM23.8-25.1m but increase our dividend payout ratio. Upgrade to OP (from MP) with a higher TP of RM1.45 (from RM1.35) post rolling forward to FY20E estimates.

1H19 core net profit of RM11.7m came in well within our expectation at 49%. No consensus is available. 2Q19 dividend of 1.5 sen brought 1H19 dividend to 3.0 sen, above our expectation (80% of our FY19E dividend of 3.8 sen) on a higher-than-expected payout ratio of 81% (vs. ours of 50%), while the Group has a 40% minimum payout policy.

Results highlights. YoY-Ytd, top-line was down marginally by 2.5% on slower domestic sales. That said, PBT margin was fairly flattish at 15.5% (vs. 15.6%) on better cost management, causing PBT to only decline by 1.5%. As a result, CNP only declined by 0.3% on a slightly lower effective tax rate of 13.3% vs. 14.1%. QoQ, top-line was rather flattish, up 0.3% but PBT margin improved by 1.8ppt likely due to lower raw material cost this quarter and better product mix. All in, CNP was up by 28% on a lower effective tax rate of 8.7% (vs. 18.6%).

Outlook. We expect capex allocation of RM10-10m in FY19-20, with the Group remaining in a net cash position. FY19-20E capex is slated for capacity expansion and funded by the previous share placement and internal funds. SLP plans to increase capacity gradually up to 38k MT (+38%) by FY21, and we expect average utilisation rates of between 60-70%.

Maintain FY19-20E CNP of RM24-25m for now. However, we increase FY19-20E dividend to 4.5-4.8 sen (from 3.8-4.0 sen) on a higher dividend payout ratio of 60% (from 50%) which is closer to the current 1H19 payout level of 81%, while FY18A dividend payout ratio was 56%. This implies 3.6-3.8% yield in FY19-20.

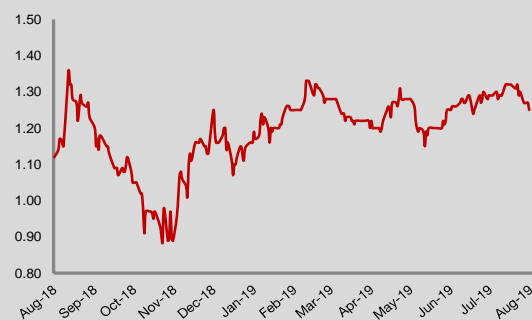
Upgrade to OUTPERFORM (from MARKET PERFORM) on a higher TP of RM1.45 (from RM1.35) post rolling forward to FY20E EPS of 7.9 sen (from 7.5 sen) on an unchanged target PER of 18.0x based on 4-year historical average. We believe our upgrade is warranted at the current level, as the share price has retraced from its YTD's high of RM1.32 in recent weeks (-5%) and we expect the Group to continue improving its product mix and utilization going forward. We like SLP as it also commands premium margins (c.15% EBIT) vs. other plastic packagers under our coverage of 5-6% (save for TOMYPAK) which are valued at -1.0SD PER and -2.0SD PBV valuations.

Risks to our call include: (i) higher/lower-than-expected resin cost, (ii) weaker/stronger product demand from Japan (25-30% of sales), (iii) foreign currency risk from strengthening Ringgit, and (iv) new entrants/competition biting into its market share.

OUTPERFORM ↑

Price: **RM1.25**
Target Price: **RM1.45** ↑

Share Price Performance



KLCI 1,626.76
YTD KLCI chg -3.8%
YTD stock price chg 7.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	396.2
Shares Outstanding	317.0
52-week range (H)	1.50
52-week range (L)	0.86
3-mth avg daily vol:	60,310
Free Float	35%
Beta	0.7

Major Shareholders

Khoo Tee & Family Sdn Bhd	40.1%
Khaw Seang Chuan	15.0%
Khaw Khoo Tee	9.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	188.1	211.7	223.1
EBITDA	28.3	37.9	40.3
PBT	28.3	30.0	32.2
Net Profit	25.3	23.8	25.1
Core Net Profit	25.5	23.8	25.1
Consensus	N.A.	24.9	26.5
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	8.0	7.5	7.9
Core EPS growth (%)	37.8%	-6.6%	5.7%
NDPS (sen)	4.5	4.5	4.8
BVPS (RM)	0.6	0.6	0.7
Core PER (x)	15.6	16.7	15.8
P/BV	2.2	2.0	1.9
Net Gearing	N.Cash	N.Cash	N.Cash
Net Div yield (%)	3.6	3.6	3.8



05 August 2019

OTHER POINTS**Results Highlights**

FYE 31 Dec (RM'm)	2Q19	1Q19	QoQ	2Q18	YoY	1H18	1H19	YoY-Ytd
Revenue	43.2	43.1	0.3%	44.4	-2.6%	88.5	86.3	-2.5%
Other operating income	0.3	0.3	12.1%	0.4	-18.2%	0.8	0.6	-28.3%
Operating profit	7.1	6.3	12.9%	7.4	-3.4%	13.7	13.5	-1.5%
Finance cost	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit before taxation	7.1	6.3	12.9%	7.4	-3.4%	13.7	13.5	-1.5%
Taxation	-0.6	-1.2	47.3%	-0.8	-23.6%	-1.9	-1.8	-6.8%
Profit after taxation	6.5	5.2	26.6%	6.6	-0.9%	11.8	11.7	-0.6%
Minority interests	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net profit	6.5	5.2	26.6%	6.6	-0.9%	11.8	11.7	-0.6%
Core Net profit	6.6	5.1	27.8%	6.6	-0.4%	11.8	11.7	-0.3%
EPS (sen)	2.06	1.63	26.6%	2.08	-0.9%	3.71	3.69	-0.6%
Core EPS (sen)	2.07	1.62	27.8%	2.08	-0.4%	3.71	3.70	-0.3%
Effective tax rate	8.7	18.6		11.0		14.1	13.3	
Operating profit margin (%)	16.5	14.7		16.7		15.5	15.6	
PBT margin (%)	16.5	14.7		16.7		15.5	15.6	
Core net profit margin (%)	15.2	11.9		14.9		13.3	13.6	

Source: Company, Kenanga Research

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05 August 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	0.805	154.2	Y	04/2020	11.4%	5.2%	314.3%	200.0%	N.A.	107.3	36.8	1.0	0.9	0.8%	1.2%	0.805	UP
SCIENTEX BHD	8.42	4,338.5	Y	07/2019	26.0%	14.7%	-4.2%	18.4%	14.7	15.4	13.6	2.4	2.0	14.5%	2.9%	8.15	MP
SLP RESOURCES BHD	1.25	396.2	Y	12/2019	12.5%	5.4%	-6.6%	5.7%	15.6	16.7	15.8	2.2	2.0	12.6%	3.6%	1.45	OP
THONG GUAN INDUSTRIES BHD	2.53	442.1	Y	12/2019	3.4%	2.9%	0.8%	2.7%	9.6	9.5	9.3	0.9	0.9	9.5%	3.6%	2.40	MP
TOMYPAK HOLDINGS	0.490	205.3	Y	12/2019	5.6%	7.7%	-6.6%	-194.9%	N.A.	N.A.	N.A.	1.4	1.0	-3.3%	0.0%	0.430	UP
Simple Average					11.8%	7.2%	59.5%	6.3%	13.3	37.2	18.9	1.6	1.4	6.8%	2.2%		

Source: Bloomberg, Kenanga Research

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05 August 2019

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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