

02 December 2019

## SKP Resources

### Better Sales Ahead

By Adrian Kok | [adrian.kok@kenanga.com.my](mailto:adrian.kok@kenanga.com.my)

**1HFY20 NP missed our/consensus estimates, accounting for only 39%/40% of full-year forecasts due to higher start-up cost incurred for new products. However, following quarter should benefit from better sales due to the year-end festive season. The absence of dividends was expected. Trim FY20E NP by 12% after taking into account the gestation period for its new lifestyle products. Maintain OUTPERFORM with an unchanged Target Price of RM1.35.**

**1HFY20 missed expectations.** 1HFY20 Net Profit (NP) of RM43.4m (-19.6% YoY) missed expectations, making up 39%/40% of our/consensus estimates. The disappointment was attributable to higher start-up cost incurred for new lifestyle products. Absence of dividend was as expected.

**Results highlight. YoY,** 1HFY20 revenue dipped 6.4% while NP fell 19.6% as demand for the conventional electrical appliances taper down. This is in tandem with the key customer's shift to updated models. The larger quantum in NP decline can be explained by higher start-up cost incurred for new lifestyle products, which resulted in a 1.3ppt dip in EBIT margin to 6.1%. **QoQ,** NP soared 35% together with a 34% jump in revenue, owing to strong sales for the hair care and floor care (including a new variant) products.

**Better outlook ahead** can be expected after witnessing exceptional sales recorded during the 11.11 singles day sale. China in particular saw its key customer being listed as the top selling brand in e-commerce sites such as JD.com, Tmall and Suning. A continuity of positive sales should be supported by the year-end festive season as the group anticipates more demand for the updated variant floor care product and the hair care product. The group's PCBA line has commenced in May 2019 and has been self-sufficient for the production of the new variant floor care product. However, like all new production lines, there will be a learning curve before it achieves the targeted yield. Hence, bulk of the margin improvements are more likely to be felt in FY21E. Having said that, we are positive on the commencement of the group's PCBA line, as will better equip the group for more contracts given the key customer's emphasis for its contract manufacturers to be vertically integrated.

**Trim FY20E NP by 12% to RM99.1m** after taking into account the gestation period for its new lifestyle products and the PCBA line before it achieves optimal efficiency.

**Maintain OUTPERFORM with an unchanged Target Price of RM1.35** based on an unchanged FY21E PER of 13.0x (vs. peers' average of 13x). Note that among its closest peers, SKPRES pays the highest quantum of dividend (50% payout) translating into decent FY20-21E dividend yield of 3.3-4.3%.

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

## OUTPERFORM ↔

Price : RM1.22  
Target Price : RM1.35 ↔

### Share Price Performance



KLCI	1,561.74
YTD KLCI chg	-7.6%
YTD stock price chg	17.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,537.7
Shares Outstanding	1,250.2
52-week range (H)	1.44
52-week range (L)	0.95
3-mth avg daily vol:	1,746,733
Free Float	56%
Beta	1.2

### Major Shareholders

Beyond Imagination Sdn Bhd	14.4%
Kumpulan Wang Persaraan	14.2%
Gan Kim Huat	9.5%

### Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	1664.9	1980.0	2259.0
EBITDA	140.0	148.1	199.5
PBT	125.2	132.2	175.6
Net Profit (NP)	97.0	99.1	130.0
Consensus (NP)	n.a.	111.7	135.2
Eng Revision (%)	n.a.	-12%	0%
EPS (sen)	7.8	7.9	10.4
EPS growth (%)	-24.8	2.3	32.8
NDPS (sen)	3.8	4.0	5.3
BVPS (RM)	0.5	0.5	0.6
PER (x)	14.1	15.9	12.0
PBV (x)	2.3	2.5	2.2
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Dividend Yield (%)	3.5	3.3%	4.3%

02 December 2019

<b>Result Highlight</b>								
	<b>2Q</b>	<b>1Q</b>	<b>QoQ</b>	<b>2Q</b>	<b>YoY</b>	<b>1H</b>	<b>1H</b>	<b>YoY</b>
<b>FYE Mar (RM'm)</b>	<b>FY20</b>	<b>FY20</b>	<b>Chg</b>	<b>FY19</b>	<b>Chg</b>	<b>FY20</b>	<b>FY19</b>	<b>Chg</b>
<b>Revenue</b>	<b>486.9</b>	<b>362.5</b>	<b>34.3%</b>	<b>477.2</b>	<b>2.0%</b>	<b>849.4</b>	<b>907.7</b>	<b>-6.4%</b>
EBIT	30.3	21.7	39.1%	34.9	-13.4%	52.0	67.1	-22.5%
PBT	31.9	23.5	35.5%	36.6	-12.9%	55.4	70.0	-20.9%
Taxation	-7.3	-5.4	-35.4%	-8.6	14.6%	-12.7	-16.3	21.8%
<b>Net Profit</b>	<b>24.9</b>	<b>18.5</b>	<b>34.9%</b>	<b>28.1</b>	<b>-11.4%</b>	<b>43.4</b>	<b>53.9</b>	<b>-19.6%</b>
EPS (sen)	2.0	1.5	34.5%	2.3	-11.6%	3.5	4.3	-19.5%
NDPS (sen)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	6.2%	6.0%		7.3%		6.1%	7.4%	
PBT margin	6.5%	6.5%		7.7%		6.5%	7.7%	
NP margin	5.1%	5.1%		5.9%		5.1%	5.9%	
Effective tax rate	-23.0%	-23.0%		-23.5%		-23.0%	-23.3%	

Source: Kenanga Research

*This section is intentionally left blank*

02 December 2019

## Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	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	0.725	807.4	Y	12/2019	3.7%	10.5%	5.8%	30.3%	27.3	27.7	22.7	2.6	2.6	9.3%	1.4%	0.670	MP
KESM INDUSTRIES BERHAD	8.78	377.7	Y	07/2020	13.8%	5.4%	237.6%	17.1%	60.2	18.3	15.2	1.1	1.0	5.8%	1.1%	9.30	OP
MALAYSIAN PACIFIC INDUSTRIES BHD	11.12	2,211.7	Y	06/2020	2.2%	5.2%	25.5%	6.7%	15.6	13.1	12.3	1.9	1.9	12.2%	2.4%	14.00	OP
P.I.E. INDUSTRIAL BERHAD	1.39	533.8	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	12.6	13.6	11.7	1.3	1.2	9.1%	3.6%	1.40	MP
SKP RESOURCES BHD	1.23	1,537.7	Y	03/2020	18.9%	14.1%	2.3%	32.8%	15.9	15.5	11.7	2.6	2.4	16.1%	3.2%	1.35	OP
UNISEM (M) BERHAD	2.15	1,563.2	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	16.4	22.1	16.8	1.1	1.1	4.9%	2.8%	2.15	UP

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

02 December 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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

