

28 February 2020

SKP Resources

Moving into a Bumper Year

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3QFY20 NP came in at RM25.3m (+1.4% QoQ; +8.5% YoY), supported by higher sales during the period in conjunction with the year-end festive season. 9MFY20 NP of RM68.6m (-10.7% YoY) was within our forecast but missed consensus estimates, accounting for 70% and 65% respectively. Increase FY21E NP by 7% to factor in higher contribution from the PCBA line. Maintain OUTPERFORM with a higher Target Price of RM1.56.

Within expectations. 3QFY20 NP came in at RM25.3m (+1.4% QoQ; +8.5% YoY), supported by higher sales (+13% YoY) during the period, in conjunction with the year-end festive season. 9MFY20 NP of RM68.6m (-10.7% YoY) was within our forecast but missed consensus estimates, accounting for 70% and 65% respectively.

Results highlight. YoY, 9MFY20 revenue climbed 7.1% thanks to stronger demand for its household products. However, NP slid 10.7% due start-up cost incurred for the additional capacity installed. Similar trend is seen on a **QoQ** basis as revenue rose 13% while NP inched 1.4% higher. The gestation period has mostly been completed and margins are expected to improve going forward.

No supply disruption. Management has always been proactive in managing supplies of raw materials. In the case of the Covid-19 outbreak, the group managed to stocked up sufficient supplies to weather through the entire month of February, ensuring that the production floor continue running as usual. With March supplies already shipping in, the group is on track to meet its targeted output.

Brighter prospects ahead can be expected after witnessing excellent sales recorded during Q3FY20. The management expects a continuity of positive sales for the subsequent quarter, supported by robust demand for the updated variant household product. The new variant is very well marketable thanks to its friendlier price tag that is able to penetrate a wider group of consumers.

Meaningful margin improvement can be seen in FY21F as the group's PCBA line is expected to be well optimised for the production of the new variant household product. The group is also in the midst of getting qualified by its key customer to supply PCBA for other products that are currently in the group's portfolio. We are positive on the group's effort to be self-sufficient on PCBA, as it will better equip the group for more potential contracts given the key customer's emphasis for its contract manufacturers to be vertically integrated.

Increased FY21E NP by 7% to RM139.4m to factor in higher contribution as the PCBA line achieves optimal efficiency.

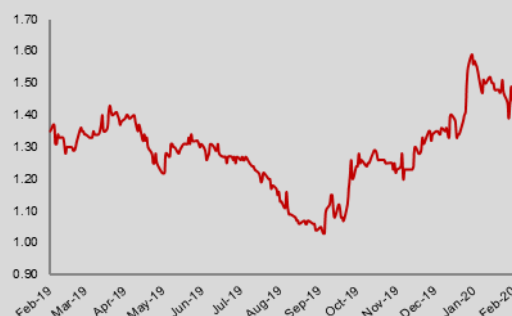
Maintain OUTPERFORM with a higher Target Price of RM1.56 (previously RM1.46) based on an unchanged FY21E PER of 14.0x, in line with its 5-year mean.

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 : **RM1.37**
Target Price : **RM1.56** ↑

Share Price Performance



KLCI 1,505.59
YTD KLCI chg -5.2%
YTD stock price chg 0.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,712.8
Shares Outstanding	1,250.2
52-week range (H)	1.59
52-week range (L)	1.03
3-mth avg daily vol:	3,127,670
Free Float	55%
Beta	1.1

Major Shareholders

Beyond Imagination Sdn Bhd	14.4%
Kumpulan Wang Persaraan	13.5%
Gan Kim Huat	9.5%

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	1664.9	1980.0	2459.0
EBITDA	140.0	144.1	209.7
PBT	125.2	128.2	185.8
Net Profit (NP)	97.0	96.2	139.4
Consensus (NP)	n.a.	105.7	133.2
Erg Revision (%)	n.a.	-3%	7%
EPS (sen)	7.8	7.7	11.1
EPS growth (%)	-24.8	-0.8	44.9
NDPS (sen)	3.8	3.8	5.6
BVPS (RM)	0.5	0.5	0.6
PER (x)	15.7	15.9	10.9
PBV (x)	2.6	2.4	2.2
Net Gearing (x)	(0.1)	(0.1)	(0.0)
Dividend Yield (%)	3.1%	3.2%	4.6%

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	551.3	486.9	13%	400.0	37.8%	1400.7	1307.8	7.1%
EBIT	30.9	30.3	2.0%	29.3	5.3%	82.9	96.4	-14.0%
PBT	32.4	31.9	1.8%	31.1	4.2%	87.8	101.2	-13.2%
Taxation	-7.5	-7.3	-1.8%	-8.0	6.5%	-20.2	-24.3	16.8%
Net Profit	25.3	24.9	1.4%	23.3	8.5%	68.6	76.9	-10.7%
EPS (sen)	2.0	2.0	1.5%	1.9	8.6%	5.5	6.2	-11.2%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	5.6%	6.2%		7.3%		5.9%	7.4%	
PBT margin	5.9%	6.5%		7.8%		6.3%	7.7%	
NP margin	4.6%	5.1%		5.8%		4.9%	5.9%	
Effective tax rate	-23.0%	-23.0%		-25.6%		-23.0%	-24.0%	

Source: Kenanga Research

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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.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BERHAD	0.770	866.5	Y	12/2020	11.6%	6.6%	29.2%	16.8%	24.7	19.1	16.4	2.4	2.2	11.5%	1.3%	0.910	OP	
KESM INDUSTRIES BERHAD	9.35	402.2	Y	07/2020	13.8%	5.4%	237.6%	17.1%	64.1	19.5	16.2	1.1	1.1	5.8%	1.0%	10.80	OP	
MALAYSIAN PACIFIC INDUSTRIES BHD	11.00	2,187.9	Y	06/2020	2.2%	9.0%	7.6%	29.0%	15.4	15.1	11.7	1.9	1.9	10.5%	2.5%	13.30	OP	
P.I.E. INDUSTRIAL BERHAD	1.40	537.7	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	12.7	13.7	11.8	1.3	1.2	9.1%	3.6%	1.40	MP	
SKP RESOURCES BHD	1.37	1,712.8	Y	03/2020	18.9%	24.2%	-30.4%	-0.8%	17.7	17.8	12.3	2.9	2.7	15.8%	2.8%	1.56	OP	
UNISEM (M) BERHAD	2.11	1,534.2	Y	12/2019	2.7%	15.9%	56.0%	22.5%	N.A.	15.3	12.5	1.1	1.1	7.3%	2.8%	2.00	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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