

23 June 2020

SKP Resources

Better Year Ahead

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4QFY20 NP came in at RM7m (-72% QoQ; -65% YoY), as the MCO restrictions had the company operating at only 10% of its workforce. FY20 NP of RM75.7m (-21% YoY) missed our and consensus forecasts, accounting for 85% and 87% of estimates, respectively. FY21 will benefit from the internalisation of PCBA supply and battery pack assembly with their gestation curves passed. Maintain **OUTPERFORM** with an adjusted Target Price of RM1.50 (previously RM1.56) after tweaking FY21 NP by -5% to account for lower output in April.

Below expectations. 4QFY20 NP came in at RM7m (-72% QoQ; -65% YoY), as it was negatively impacted by the movement control order (MCO) which had the group operating with limited workers during the initial phases. FY20 NP of RM75.7m (-21% YoY) came below our and consensus forecasts, accounting for 85% and 87% of estimates, respectively.

Results highlight. YoY, FY20 revenue climbed 10% thanks to better sales in the earlier quarters. However, net profit fell 21% due to the gestation period for its PCBA line coupled with the negative impact from MCO in 4Q. QoQ, revenue fell 23% due to lower output as the group operated with only 10% workforce during the initial phases of the MCO. NP (-72%) fell by a larger quantum due to the under-utilised plant which resulted in unabsorbed overhead.

Back on line fully. The group indicated that it has resumed to 100% workforce since May to meet order backlogs. Its key customer has also resumed order forecast to pre-Covid 19 levels and is requesting the group to operate even on Sundays to cope with increased orders.

Healthy pipeline with new products. The group's pipeline is currently fully occupied with a slew of exciting household and hygiene products. One of the products recently launched two week ago boasts the same efficiency as its predecessor but at half the weight, which allows for better portability. This item will be mainly catered to the South East Asia (SEA) region. The group is still experiencing robust demand for existing products from the SEA region and the western market, thanks to strong online sales even during the lockdown period.

PCBA internalisation to improve margin. With the gestation period over, better performance can be expected in FY21 as the group's PCBA line and battery pack assembly 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.

Tweaked FY21E NP by -5% to RM132.2m to factor in lower utilisation for the month of April.

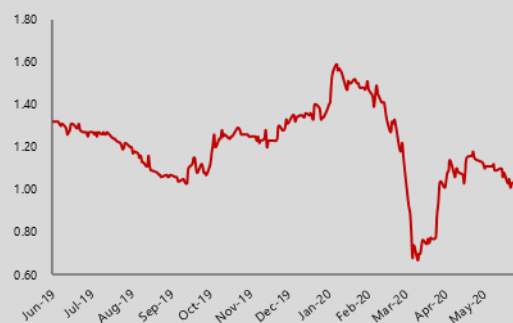
Maintain OUTPERFORM with an adjusted Target Price of RM1.50 (previously RM1.56) based on an unchanged FY21E PER of 14.0x, in line with its 5-year mean.

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 : **RM1.35**
Target Price : **RM1.50** ↓

Share Price Performance



KLCI 1,511.24
YTD KLCI chg -5.1%
YTD stock price chg 0.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,688.8
Shares Outstanding	1,250.2
52-week range (H)	1.59
52-week range (L)	0.66
3-mth avg daily vol:	3,127,670
Free Float	55%
Beta	1.6

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)	2020A	2021E	2022E
Turnover	1826.7	2339.0	2579.0
EBITDA	127.4	209.7	221.0
PBT	99.2	167.8	183.1
Net Profit (NP)	74.7	132.2	144.2
Consensus (NP)	n.a	129.5	157.2
Erg Revision	n.a	-5%	0%
EPS (sen)	6.0	10.6	11.5
EPS growth (%)	-23.0	45.1	9.1
NDPS (sen)	0.0	5.3	5.8
BVPS (RM)	0.5	0.5	0.6
PER (x)	20.4	11.5	10.6
PBV (x)	2.5	2.2	2.0
Net Gearing (x)	(0.1)	(0.0)	0.0
Dividend Yield (%)	0.0	3.9	4.3

23 June 2020

Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	426.0	551.3	-23%	357.1	19.3%	1826.7	1654.2	10.4%
EBIT	9.9	30.9	-67.9%	21.5	-54.0%	92.8	117.3	-20.9%
PBT	11.4	32.4	-64.8%	24.1	-52.6%	99.2	124.6	-20.4%
Taxation	-4.4	-7.5	41.6%	-4.0	-9.3%	-24.6	-28.6	14.1%
Net Profit	7.0	25.3	-72.1%	20.4	-65.5%	75.7	96.0	-21.2%
EPS (sen)	0.6	2.0	-72.3%	1.6	-65.6%	6.1	7.7	-21.7%
NDPS (sen)	0.0	0.0		0.0		0.0	3.8	
EBIT margin	2.3%	5.6%		6.0%		5.1%	7.1%	
PBT margin	2.7%	5.9%		6.7%		5.4%	7.5%	
NP margin	1.7%	4.6%		5.7%		4.1%	5.8%	
Effective tax rate	-38.2%	-23.0%		-16.6%		-24.7%	-22.9%	

Source: Kenanga Research

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23 June 2020

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	0.750	863.3	Y	12/2020	-5.7%	6.5%	-15.5%	43.5%	24.0	28.0	19.8	1.6	1.4	10.9%	2.0%	0.86	OP
KESM INDUSTRIES BERHAD	7.62	327.7	Y	07/2020	-23%	24.0%	-37.0%	366%	53.7	84.5	18.1	1.0	0.9	2.0%	1.1%	7.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	11.00	2,310.9	Y	06/2020	2.2%	9.0%	7.6%	29.0%	12.8	12.5	9.7	1.6	1.6	10.5%	3.0%	13.30	OP
P.I.E. INDUSTRIAL BERHAD	1.35	514.7	Y	12/2020	13.5%	13.5%	24.3%	15.0%	8.9	7.1	6.2	0.7	0.7	9.6%	1.6%	1.40	MP
SKP RESOURCES BHD	1.35	1,690.8	Y	03/2020	28.1%	4.9%	76.9%	9.2%	17.0	11.5	10.5	2.4	2.2	19.0%	4.4%	1.50	OP
UNISEM (M) BERHAD	1.96	1,420.2	Y	12/2020	-7.0%	15.9%	40.2%	23.2%	N.A.	14.0	12.6	1.0	1.0	7.3%	3.1%	1.80	MP

Source: Bloomberg, Kenanga Research

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23 June 2020

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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