

26 February 2021

SKP Resources

Expansion for New Orders

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3QFY21 NP of RM43.5m (+72% YoY) brings 9MFY21 NP to RM97.6m (+42% YoY). We deem the results to be within expectations, representing 80% and 78% of our and consensus forecasts, respectively. SKP has won 2 out of 3 bids for new products and is likely to win the third one to secure a 100% winning rate. To take on new projects, SKP will be building a new plant in Johor Bahru by year-end and has put in order for a third PCBA line. Current workforce is sufficient for new product wins. We upgrade our call to **OUTPERFORM** with a higher TP of RM3.00.

Within expectations. 3QFY21 NP of RM43.5m (+72% YoY) brings 9MFY21 NP to RM97.6m (+42% YoY). We deem the results to be within expectations, representing 80% and 78% of our and consensus full-year forecasts, respectively.

Results highlight. YoY, 3QFY21 NP climbed 72% to RM43.5m on a 29% increase in revenue to RM713.3m as the group secured higher order volume from key customer, in line with the increased consumer spending on household items. Cumulatively, 9MFY21 NP jumped 42% to RM97.6m while revenue increased 31% to RM1.84b. **QoQ**, 3QFY21 numbers was largely on par with 2QFY21, retaining the same lucrative NP margin of at least 6%.

New model wins. The group was invited by its key customer to tender for 3 products that will be rolled out this year and so far the group has won 2 of them (household and hygiene products), exhibiting a strong win rate for SKP. Both products will start production in April 2021 and Dec 2021, respectively. With the group's strong track record of optimising current production and PCBA lines with excellent yield rates, SKP stands a good chance to secure the third product to seal a 100% winning rate.

New factory by end-2021. Existing products are running near maximum level and capacity is getting tight as order pipeline remains strong, in line with key customer's direction to double product portfolio by 2025. SKP has acquired a piece of land for RM14m in Johor Bahru and set aside RM45m for the construction of a new plant which is slated to be completed by Dec 2021. In addition, the group has put in an order worth RM6m for its third PCBA line to take on the new battery pack assembly contract from its key customer. The group has sufficient labour to take on these new projects as it recently recruited approximately 278 new foreign workers who were laid off from a nearby plant that recently ceased operations.

Maintained FY21E forecast but raised FY22E NP to RM161.8m, factoring in new wins from key customer.

We upgrade our call to OUTPERFORM from MARKET PERFORM with a higher Target Price of RM3.00 based on higher 23x (previously 16.2x) rolled-forward FY22E PER, representing +2SD to 3-year mean.

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

OUTPERFORM ↑

Price: RM2.39
Target Price: RM3.00 ↑

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	11.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	2,987.2
Shares Outstanding	1249.9
52-week range (H)	2.57
52-week range (L)	0.66
3-mth avg daily vol:	3,012,459
Free Float	61%
Beta	1.6

Major Shareholders

Beyond Imagination Sdn Bhd	14.4%
Kumpulan Wang Persaraan	9.7%
Graceful Assessment Sdn Bhd	8.2%

Summary Earnings Table

FYE Mar (RM m)	2020A	2021E	2022E
Turnover	1826.7	2259.0	2719.8
EBITDA	126.8	199.4	255.9
PBT	98.2	163.1	215.6
Net Profit (NP)	73.2	122.4	161.8
Consensus (NP)	n.a	124.6	160.7
Earnings Revision	n.a	0%	9%
EPS (sen)	5.9	9.8	12.9
EPS growth (%)	-24.5	67.3	32.2
NDPS (sen)	2.9	4.8	6.4
BVPS (RM)	0.5	0.5	0.6
PER (x)	40.8	24.4	18.5
PBV (x)	4.9	4.4	4.0
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Dividend Yield (%)	1.8	2.0	2.7

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	713.3	726.3	-1.8%	551.3	29.4%	1838.2	1400.7	31.2%
EBIT	57.5	57.9	-0.7%	30.9	86.2%	128.6	82.9	55.2%
PBT	57.5	57.8	-0.6%	32.4	77.2%	128.5	87.8	46.3%
Taxation	-13.9	-13.7	-1.5%	-7.5	-86.8%	-30.8	-20.2	-52.6%
Net Profit	43.5	44.1	-1.2%	25.3	72.4%	97.6	68.6	42.2%
EPS (sen)	3.5	3.5	-1.4%	2.0	72.3%	7.8	5.5	42.3%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	8.1%	8.0%		5.6%		7.0%	5.9%	
PBT margin	8.1%	8.0%		5.9%		7.0%	6.3%	
NP margin	6.1%	6.1%		4.6%		5.3%	4.9%	
Effective tax rate	-24.2%	-23.8%		-23.0%		-24.0%	-23.0%	

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	3.99	4,644.4	Y	12/2019	44.3%	21.9%	102.4%	21.3%	79.9	39.5	32.5	9.6	8.3	21.0%	0.9%	4.20	OP	
INARI AMERTRON BHD	3.64	12,068.9	Y	06/2020	37.4%	24.9%	80.1%	15.8%	67.6	38.1	32.9	8.9	8.5	23.3	2.5%	4.00	OP	
JHM CONSOLIDATION BHD	2.44	1,360.5	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.35	MP	
KELINGTON GROUP BHD	2.48	797.1	Y	12/2020	-8.2%	22.3%	-44.7%	130%	20.8	40.3	17.5	3.3	3.3	8.1%	0.6%	3.10	OP	
KESM INDUSTRIES BERHAD	15.9	683.9	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP	
MALAYSIAN PACIFIC INDUSTRIES BHD	38	7,558.1	Y	06/2020	10.0%	10.0%	44.0%	11.1%	47.5	32.9	29.6	5.8	5.2	14.2%	0.8%	43.00	OP	
P.I.E. INDUSTRIAL BERHAD	3.47	1,332.6	Y	12/2020	-6.0%	76.0%	-46.0%	185%	22.5	41.8	14.7	1.8	1.8	4.0%	1.4%	3.30	OP	
SKP RESOURCES BHD	2.39	2,987.2	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP	
UNISEM (M) BERHAD	8.97	7,174.2	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP	

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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