

25 February 2021

SLP Resources Berhad

Recovering Amid High Resin Prices

By Marie Vaz | msvaz@kenanga.com.my

FY20 CNP of RM16m (-24%) came below our estimate but dividend is in line. Looking ahead, as lockdown restrictions are lifted, we expect a recovery in demand and utilisation rate of 65-70%. However, in our view, high resin prices will persist, and thus expect higher resin prices of USD1,100/MT (from USD1,000/MT) in FY21. Revise FY21E CNP by -7% to RM20m. Introduce FY22E CNP of RM22m (+10% YoY). FY21E/22E DPS of 5.5 sen each, implying 6% yields. Maintain MP with unchanged TP of RM0.95 post rolling forward at 14x PER, -1SD below 5-year mean.

FY20 below. FY20 CNP of RM16m came below our expectation at 94% as we had expected a stronger 4QFY20 on hopes of economic recovery. Top-line is within but CNP margin dragged (FY20E: 12% vs. FY20A: 11%). FY20 DPS of 5.5 sen is as expected. Due to lower-than-expected PAT, FY20 payout ratio came in at 107%.

YoY, revenue declined 12% due to lower sales and volume of plastic packaging products. The shipping container shortages in 4QFY20 affected exports, softening sales. While PBT fell 12% in tandem with revenue, CNP fell 24% on higher tax rate of 27% (vs. 16%) due to the absence of reinvestment allowance incentives.

QoQ, 4QFY20 revenue rose 10% to RM41m (vs. RM37m) on the back of: (i) higher trading volume as resin buyers increased inventory of resins fearing higher prices, and (ii) higher volume and sales of flexible plastic packaging. However, EBIT fell 14%. We deem higher opex to be unlikely as demand had been slow to recover. Therefore, we attribute the EBIT reduction to higher COGS from higher resin costs. In line with the reduction in EBIT, PBT/CNP fell 14/17%.

Recovery in sight... With the container shortage less acute, SLP managed to catch-up in revenue recognition, making January 2021 one of the strongest months in recent years. Its ASPs have also continued rising to catch up with rising resin costs. Based on SLP's utilisation rate of 58% in 4QFY20, we are expecting utilisation rates of between 65-70% in FY21. We are cautiously optimistic as management has pointed out that order volumes for their manufacturing segment have started recovering to 50% of pre-Covid levels. With vaccination and lifting of lockdown restrictions in sight, we expect order volumes to resume to 60-70% of pre-Covid levels in the coming months.

...but high resin prices may persist for a few more months, in our view, as: (i) disrupted plants require weeks to resume production, (ii) crude oil prices may rise/sustain from recovery in tourism and industrial activity, and (iii) continued economic recovery will spur demand for plastic products. We assume average FY21 resin costs of USD1,100/MT (from USD1,000/MT).

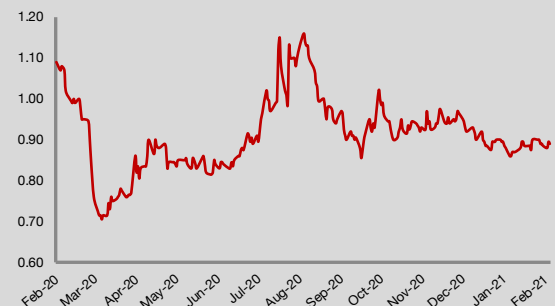
Post results, we reduce FY21E CNP by 7% to RM20m (from RM21m), as higher resin cost assumptions are cushioned by higher revenue assumptions. Maintain FY21E DPS of 5.5 sen. Introduce FY22E CNP of RM22m (+10%) and DPS of 5.5 sen, yielding an attractive 6%.

Maintain MARKET PERFORM with an unchanged TP of RM0.95. We roll forward our valuation to FY22. TP of RM0.95 is derived using FY22E EPS of 6.8 sen and our ascribed PER of 14x, which is -1SD below its 5-year mean. We may raise our ascribed PER once utilisation rates stage a convincing rebound and resin prices turn favourable for SLP.

MARKET PERFORM ↔

Price: RM0.890
Target Price: RM0.950 ↔

Share Price Performance



KLCI	1,557.55
YTD KLCI chg	-4.3%
YTD stock price chg	-1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK Equity
Market Cap (RM m)	282.1
Shares Outstanding	317.0
52-week range (H)	1.20
52-week range (L)	0.69
3-mth avg daily vol:	284,852
Free Float	19%
Beta	0.6

Major Shareholders

Khoo Tee & Family S	40.6%
Khaw Seang Chuan	15.6%
Khaw Khoo Tee	9.9%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	147.0	179.8	200.9
EBIT	21.4	25.3	27.8
PBT	22.3	25.3	27.7
Net Profit	16.3	19.7	21.6
Core Net Profit	16.2	19.7	21.6
Consensus	-	-	-
Earnings Revision	-	-7%	-
Core EPS (sen)	5.2	6.2	6.8
Core EPS growth (%)	-23	19	10
NDPS (sen)	5.5	5.5	5.5
BVPS (RM)	0.6	0.7	0.7
Core PER (x)	17.2	14.4	13.2
P/BV (x)	1.5	1.3	1.3
Net Gearing (x)	N. Cash	N. Cash	N. Cash
Net Div. yield (%)	6.1	6.1	6.1

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OTHER POINTS

Risks to our call include: (i) lower/higher-than-expected resin cost, (ii) lower/higher export demand (iii) foreign currency risk from weakening Ringgit.

Results Highlights								
FYE 31 Dec (RM m)	4Q20	3Q20	QoQ Chg	4Q19	YoY Chg	FY20	FY19	YoY Chg
Revenue	40.9	37.1	10.3%	37.9	7.9%	147.0	166.8	-11.9%
EBIT	5.2	6.1	-13.8%	4.7	11.6%	21.4	24.1	-13.3%
PBT	5.4	6.3	13.8%	5.0	8.1%	22.3	25.3	-11.7%
Taxation	-1.6	-1.9	-15.1%	-1.1	38.7%	-6.0	-4.1	-27.0%
Net profit	3.8	4.4	-13.2%	3.9	-1.0%	16.3	21.2	-23.1%
Core Net Profit (CNP)	3.7	4.5	-16.9%	4.0	-7.6%	16.2	21.5	-24.7%
Core EPS (sen)	1.2	1.4	-16.9%	1.2	-7.6%	5.2	6.7	-24.7%
Effective tax rate	29.0	30.0		16.7		26.9	16.1	
EBIT margin (%)	12.8	16.4		15.3		14.6	14.5	
PBT margin (%)	13.3	17.0		16.0		15.2	15.2	
CNP margin (%)	9.1	12.0		13.4		11.0	12.9	

Source: Company, Kenanga Research

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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	1.86	356.2	Y	04/2021	16.0%	13.3%	101.7%	21.2%	20.7	10.3	8.5	2.1	1.9	19.5%	3.8%	3.85	OP
SCIENTEX BHD	4.01	6,217.9	Y	07/2021	14.9%	0.8%	11.6%	5.1%	15.3	13.7	13.0	2.6	2.2	17.3%	2.2%	3.78	MP
SLP RESOURCES BHD	0.890	282.1	Y	12/2021	22.3%	12.3%	21.6%	9.6%	17.2	14.4	13.2	1.5	1.3	9.7%	6.2%	0.950	MP
THONG GUAN INDUSTRIES BHD	2.33	885.6	Y	12/2020	3.9%	6.9%	20.8%	13.8%	14.3	11.8	10.4	1.5	1.4	12.4%	2.0%	3.25	OP
TOMYPAK HOLDINGS	0.705	303.6	Y	12/2020	3.9%	6.7%	-84.8%	65.0%	N.A.	176.3	117.5	1.6	1.7	1.1%	0.0%	0.415	UP
Simple Average					12.2%	7.9%	14.2%	22.9%	16.8	45.3	32.5	1.8	1.7	12.0%	2.8%		

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

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