

SLP Resources Berhad

Turning Bullish Post-Site Visit

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After a recent site visit, we are turning more bullish on SLP, upgrading our call to **OUTPERFORM** from **MARKET PERFORM**. SLP has been able to raise their products' ASPs (by 10-15%) to match the higher resin costs (up 10-15%). The Group also has several new high-margin products in the pipeline, which we think will allow it to grow revenues while preserving margins. Resin costs are starting to flatten as they continue to raise ASPs. We raise FY21E/FY22E CNP by 9%/3% to RM21.5m/RM22.3m. Hence our TP is raised to RM1.22 (from RM0.95) on higher FY21E EPS of 6.77 sen and PER of 18x (from 14x), which is -0.5SD (vs -1SD previously) from its 5-year mean.

Passing on costs. YTD, while resin costs have increased by 10-15%, SLP has also been able to pass on such hikes, as seen in the similar 10-15% rise in their ASPs. More importantly, SLP's customers are accepting of the higher ASPs as there is generally a broad-based rise in selling prices of plastic products. Relative to SLP's peers, SLP is more able to pass on the higher costs of garbage bags to Japanese customers, as SLP serves numerous small customers in Japan, vs. the handful of large customers of its peers.

Signs of flattening resin prices. Since the end of March, resin prices have fallen by between 2% to 5%, showing signs of softening supply-demand dynamics. That said, resin prices are likely to remain steady for some time as the month-long disruption has left deep deficits throughout the global supply chain. For SLP, which resin composition of mainly LLDPE (45% of COGS) and HDPE (35% of COGS), we maintain our CY21 average resin cost assumption of USD1,100/MT vs the market price of ~USD1,300/MT.

Upcoming new products. SLP has several new products in the pipeline, one of which is a medical device packaging, which had already begun production in Feb 2021. Management guided that the product, which commands above Group's average margin (SLP's GP margin: 17~22%), is for a long-time customer and we believe that the product will be a new source of recurring revenue for SLP. Furthermore, management has also indicated that they are in discussion with a new customer for a new packaging product that will also fetch superior gross margins.

Post-site visit. Increase FY21E/FY22E CNP by 9%/3% to RM21.5m/RM22.3m from RM19.7m/RM21.6m. We keep our FY21E revenue unchanged but reduce FY22E revenue as our previous estimate of RM200m appears too aggressive relative to SLP's expansion plans. We raised FY21E/FY22E CNP as we raised our CNP margin assumptions from 11% to 11.9% for FY21 and from 10.8% to 12% for FY22. We raised our CNP margin estimates on the back of its: (i) ability to raise ASPs and (ii) new high margin products. We maintain our FY21E/FY22E DPS at 5.5 sen each (FY19 and FY20: 5.5 sen each), implying yield of 6%.

Upgrade to OUTPERFORM with a higher TP of RM1.22 (from RM0.95) on an ascribed forward PER of 18x on FY21E EPS of 6.77 sen. The ascribed 18x PER (from 14x PER) is now at -0.5SD (vs. -1SD) of 5-year mean of 21x. We have increased our ascribed PER ratio on SLP because we are turning more bullish on the stock for: (i) their ability to pass on higher costs, (ii) growth in high margin products and (iii) improving sentiment on plastic manufacturers. We did not raise the PER to its 5-year mean as demand for its products is still recovering. That said, the current share price implies a forward PER of 14x, significantly below its 5-year mean of 21x, suggesting that the market is underestimating SLP's ability to pass on higher costs.

Risks to our call include: (i) higher-than-expected resin costs (ii) labour shortage (iii) lower-than-expected orderbook

OUTPERFORM ↑

Price: **RM0.925**
Target Price: **RM1.220** ↑

Share Price Performance



KLCI	1,598.28
YTD KLCI chg	-1.8%
YTD stock price chg	2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK Equity
Market Cap (RM m)	293.2
Shares Outstanding	317.0
52-week range (H)	1.20
52-week range (L)	0.76
3-mth avg daily vol:	253,045
Free Float	19%
Beta	0.5

Major Shareholders

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

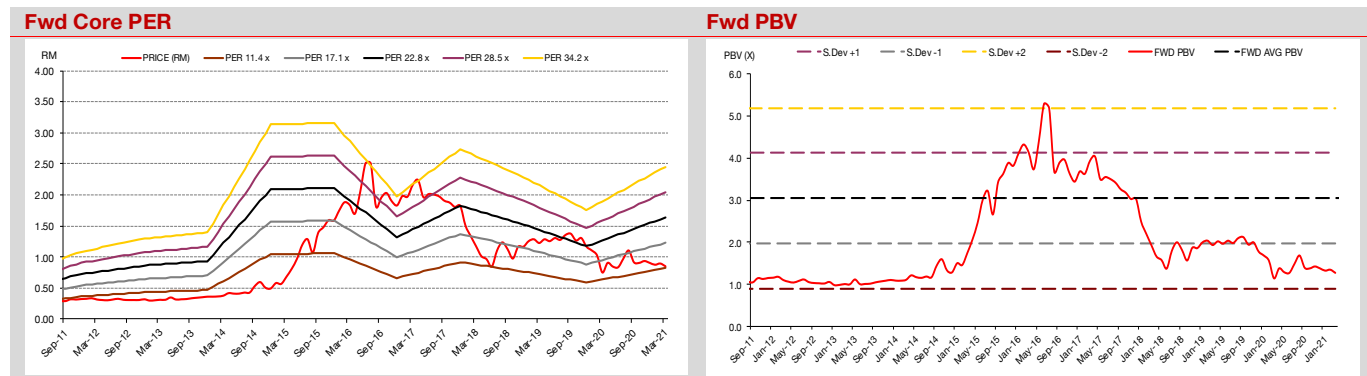
Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	147.0	179.7	185.2
EBIT	21.4	27.1	28.2
PBT	22.3	27.9	29.0
Net Profit (NP)	16.3	21.4	22.3
Core NP*	16.2	21.5	22.3
Consensus (NP)	N.M.	19.7	21.6
Earnings Revision	N.A.	8.8%	3.3%
Core EPS (sen)	5.1	6.8	7.0
EPS growth (%)	-24.1	31.5	4.0
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	18.0	13.6	13.1
BVPS (RM)	0.6	0.6	0.6
PBV (x)	1.6	1.6	1.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.0	6.0	6.0

15 April 2021

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	188.1	166.8	147.0	179.7	185.2	Growth (%)					
EBITDA	32.5	30.5	28.1	32.3	33.3	Revenue	4.4	-11.3	-11.9	22.3	3.1
Depre& Amort	-5.5	-6.3	-6.7	-5.2	-5.1	EBITDA	15.5	-6.0	-8.0	15.2	3.1
EBIT	27.0	24.1	21.4	27.1	28.2	EBIT	15.2	-10.5	-11.3	26.7	4.0
Finance Income	1.5	1.2	0.9	0.7	0.8	Pre-tax Income	16.6	-11.1	-11.7	24.8	4.0
PBT	28.5	25.3	22.3	27.9	29.0	Net Income	32.0	-15.2	-24.1	31.5	4.0
Taxation	-3.1	-3.8	-6.0	-6.4	-6.7	Core Net Income	32.0	-15.2	-24.1	31.5	4.0
PATAMI	25.4	21.5	16.3	21.5	22.3						
Core PATAMI	25.4	21.5	16.3	21.5	22.3	Profitability (%)					
						EBITDA Margin	17.3	16.2	14.9	17.2	17.7
						EBIT Margin	14.3	12.8	11.4	14.4	15.0
						PBT Margin	15.1	13.5	11.9	14.8	15.4
						Net Margin	13.5	11.4	8.7	11.4	11.9
						Effective Tax Rate	10.9	13.4	21.1	22.5	23.4
						ROE	14.0	11.9	9.0	11.8	12.3
						ROA	12.1	10.3	7.8	10.3	10.7
						DuPont Analysis					
						Net Margin (%)	13.5	11.4	8.7	11.4	11.9
						Assets Turnover (x)	0.9	0.8	0.7	0.8	0.8
						Leverage Factor (x)	1.2	1.1	1.2	1.2	1.2
						ROE (%)	14.0	11.9	9.0	11.8	12.3
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
						Net Debt/(Cash)	-54.2	-74.2	-74.4	-75.8	-76.3
						Net Debt/Equity (x)	-0.3	-0.4	-0.4	-0.4	-0.4
						Valuations					
						Core EPS (sen)	8.0	6.8	5.1	6.8	7.0
						DPS (sen)	5.18	5.50	5.50	5.50	5.50
						BVPS (RM)	0.6	0.6	0.6	0.6	0.6
						Core PER (x)	11.6	13.6	18.0	13.6	13.1
						N. Div. Yield (%)	5.60	5.95	5.95	5.95	5.95
						PBV (x)	1.6	1.6	1.6	1.6	1.6

Source: Kenanga Research



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15 April 2021

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	2.27	434.8	Y	04/2021	13.1%	16.1%	90.2%	1.8%	25.2	12.6	10.3	2.6	2.3	18.2%	3.1%	2.62	OP
SCIENTEX BHD	4.21	6,528.0	Y	07/2021	14.0%	1.7%	7.8%	8.8%	16.0	14.9	13.7	2.7	2.3	16.7%	2.0%	3.75	MP
SLP RESOURCES BHD	0.925	293.2	Y	12/2021	22.3%	3.1%	31.5%	4.0%	18.0	13.6	13.1	1.6	1.6	11.8%	5.9%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.40	907.9	Y	12/2021	12.8%	8.6%	14.1%	8.5%	11.8	10.4	9.6	1.4	1.3	12.8%	2.1%	3.00	OP
TOMYPAK HOLDINGS	0.615	264.8	Y	12/2021	12.8%	3.8%	2200.0%	87.0%	N.A.	130.6	79.2	1.4	1.4	1.1%	0.0%	0.415	UP
Simple Average					15.0%	6.7%	468.7%	22.0%	17.8	36.4	25.2	1.9	1.8	12.1%	2.6%		

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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