

11 May 2022

SLP Resources Berhad

1QFY22 Within Expectation

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1QFY22 CNP came within our expectation at 20% of our FY22 estimates. DPS of 1.0 sen is as expected. With increased sales volume and ASPs in both manufacturing and trading segments, margins expanded QoQ. We remain positive on SLP for its better product mix and sustainable products demand. As we expect earnings in the coming quarters to come in stronger, we maintain our FY22E/FY23E numbers and DPS of 5.5 sen each, yielding 6.1%. Maintain OP with unchanged TP of RM1.18 based on FY22E EPS of 7.1 sen at 16.6x PER.

Within expectation. 1QFY22 CNP of RM4.5m came in line with our expectation at 20% of our full-year CNP estimate of RM22.5m. 1QFY22 dividend of 1.0 sen is within our estimate.

YoY, 1QFY22 revenue fell by 1.1%, mainly due to labour shortage in production as a result of lower sales volume from the manufacturing segment. 1QFY22 CNP declined 25.3% in tandem with PBT due to higher production costs (such as raw material, labour cost, while utility costs have increased c.15% due to higher electricity tariff). Reflecting this, operating margins dropped by 4.3ppt to 12.6% in 1QFY22.

QoQ, despite soaring resin cost due to the geopolitical tension, SLP reported revenue of RM45.5m (+0.6%), on the back of: (i) increased sales volume from both manufacturing and trading segments, (ii) elevated ASPs across the board, and (iii) new recurring income from new product (MDOPE). Operating profit improved by 13.7% as operating margins rose by 1.4ppt, likely due to better product mix and operational cost efficiency. All in, CNP was up by 15.3% on a lower effective tax rate of 22% (vs. 4QFY21: 25%)

Outlook. We expect resin prices to maintain elevated at a higher price level until 1HCY22 due to: (i) unresolved geopolitical tension, (ii) the recent lockdown in China, and (iii) the ongoing supply-chain crunch. Thus, we foresee that ASP will remain stable with the elevated resin costs. We gathered that SLP's utilization rate has declined to 55% in 1QFY22 (vs. 4QFY21: 60-62%) due to the festive break in February 2022. We understand that SLP faces labour shortage issues, and to reduce the dependence on labour, SLP will implement a strategy of automating manual processes with a guided capex of RM800k for FY2022. We continue to be positive on SLP on the back of: (i) better product mix in the manufacturing segment, (ii) maintaining a favorable trading margin due to higher ASPs on raw materials, and (iii) sustainable demand. However, we also continue to be prudent on the manufacturing margin in the subsequent quarters on the back of: (i) higher production cost on the increase in labour cost and utility cost, (ii) prolonged supply chain disruption, and (iii) strong USD which will affect customers' buying power.

No changes to FY22E/FY23E estimates as we expect earnings in the subsequent quarters to catch up following the weak 1QFY22 result.

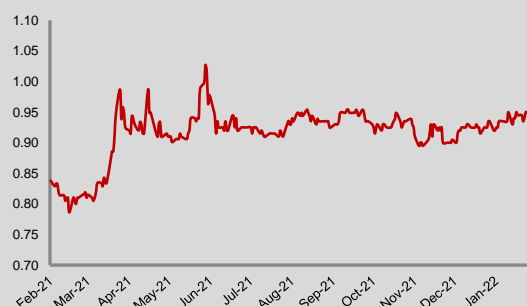
Maintain OUTPERFORM with unchanged TP of RM1.18 based on FY22E EPS of 7.1 sen with an ascribed 16.6x PER, which is -0.5SD to its 5-year mean of 18x. We maintain our valuation to reflect its lower utilization rate than its peers and prolonged supply chain disruption, which affect cost efficiency. A reliable dividend yield of 6.1% is above the industry average of 4.2%.

Risks to our call include: (i) higher-than-expected resin cost, (ii) lower-than-expected export demand, (iii) foreign currency risk, (iv) labour shortage

OUTPERFORM ↔

Price: **RM0.90**
Target Price: **RM1.18** ↔

Share Price Performance



KLCI	1,554.58
YTD KLCI chg	-0.8%
YTD stock price chg	-2.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	285.3
Shares Outstanding	317.0
52-week range (H)	1.07
52-week range (L)	0.88
3-mth avg daily vol:	58,860
Free Float	19%
Beta	0.4

Major Shareholders

Khoon Tee & Family SdnBhd	41.5%
KhawSeangChuan	15.0%
KhawKhoon Tee	9.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	168.9	185.3	195.5
EBIT	22.6	28.4	31.5
PBT	23.3	29.2	32.4
Net Profit	17.7	22.5	24.6
Core Net Profit	17.5	22.5	24.6
Consensus	N/A	N/A	N/A
Earnings Revision	N/A	N/A	N/A
Core EPS (sen)	5.5	7.1	7.8
Core EPS growth (%)	8.8	28.6	9.3
NDPS (sen)	5.5	5.5	5.5
BVPS (RM)	0.57	0.59	0.61
Core PER (x)	16.3	12.7	11.6
P/BV (x)	1.5	1.5	1.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div yield (%)	6.1	6.1	6.1

11 May 2022

Results Highlights

	1Q	4Q	QoQ	1Q	YoY
FYE 31 Dec (RM'm)	FY22	FY21	Chg	FY21	chg
Revenue	45.5	45.2	0.6%	46.0	-1.1%
Operating Income	5.7	5.0	13.7%	7.8	-26.3%
Other Income	0.1	0.2	-56.8%	0.2	-46.1%
Profit Before Taxation	5.8	5.2	11.1%	7.9	-26.7%
Taxation	-1.3	-1.3	0.3%	-1.9	-31.6%
Profit After Taxation	4.5	3.9	14.6%	6.0	-25.1%
Core Net profit	4.5	3.9	15.3%	6.0	-25.3%
EPS (sen)	1.4	1.2	14.6%	1.9	-25.1%
Core EPS (sen)	1.4	1.2	15.3%	1.9	-25.3%
Effective tax rate (%)	22.3	24.7		23.9	
Operating profit margin (%)	12.6	11.1		16.9	
PBT margin (%)	12.8	11.6		17.2	
Core net profit margin (%)	9.9	8.6		13.1	

Source: Company, Kenanga Research

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11 May 2022

Peer 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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
BP PLASTICS HOLDING BHD	1.51	425.0	Y	12/2022	8.9%	12.7%	4.5%	5.4%	9.2	8.8	8.3	1.8	1.7	19.8%	7.3%	2.07	OP
SCGM BHD	2.29	441.0	Y	04/2022	15.1%	16.0%	-10.3%	13.4%	12.9	14.5	12.7	2.3	2.1	15.1%	2.8%	2.53	OP
SCIENTEX BHD	3.77	5,847.3	Y	07/2022	12.4%	10.7%	6.1%	17.6%	13.2	12.4	10.6	2.0	1.8	15.4%	2.5%	4.15	MP
SLP RESOURCES BHD	0.900	285.3	Y	12/2022	9.7%	5.5%	28.6%	9.3%	16.3	12.7	11.6	1.5	1.5	12.0%	6.1%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.50	962.5	Y	12/2022	19.7%	20.4%	22.2%	21.2%	10.2	8.3	6.9	1.3	1.1	14.3%	2.2%	3.90	OP
Simple Average					13.1%	13.1%	10.2%	13.4%	12.3	11.3	10.0	1.8	1.6	15.3%	4.17%		

Source: Bloomberg, Kenanga Research

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11 May 2022

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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Published and printed by:

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