

Kumpulan Perangsang Selangor

A Soft Patch, Stronger Prospects Ahead

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KPS's 9MFY22 results came in within expectations. The results are consistent with our projection of a soft FY22 as the demand for consumer electronics came off its pandemic-induced peak, coupled with supply-chain disruptions and shortages of integrated circuits. However, the situation will improve significantly in FY23. We maintain our forecasts, TP of RM0.77 and OUTPERFORM call.

Stronger 4Q ahead. 9MFY22 core net profit of RM24m came in at only 68% of both our full-year forecast and the full-year consensus estimates. However, we consider the results within expectations as we expect a bumper 4QFY22 due to the year-end shopping season that will boost demand for consumer electronics. It declared a special dividend and first interim NDPS of 4.5 sen and 2.0 sen, respectively.

A soft patch in 9MFY22. YoY, 9MFY22 revenue jumped 5% driven by the sale of water chemicals and water meter from trading segment as well as excess licensing revenue from international licensees coupled with upfront payment made by existing customers for renewal of long-term licensing agreement.

However, 9MFY22 core net profit dropped by 7% due to lower share of profit from associates (mainly from SPRINT's one-off traffic volume adjustment of RM3m) and higher input costs (i.e., resin cost and wages), eroding its margins.

Forecasts. We maintain our forecasts that projected FY22F net profit to contract 13% on a flattish turnover as the demand for consumer electronics has come off its pandemic-induced peak, coupled with ongoing supply-chain disruptions due to lockdowns in China arising from Beijing's zero-Covid policy as well as shortages of materials including integrated circuits. However, we expect the situation to improve significantly in FY23, spurring a 14% growth in net profit on the back of a 5% increase in turnover.

We continue to like KPS for: (i) it being a strong proxy to the resilient global consumer electronics industry on rising affluence especially in developing countries, (ii) it being a beneficiary of the diversification of MNCs away from China to South-East Asia as KPS operates in Malaysia, Vietnam and Indonesia, and (iii) the greater role it is playing in the supply chain of a renowned privately-owned innovator of high-tech consumer electronic appliances.

We maintain our TP of RM0.77 based on FY23F PER of 10x, which is in line with the average forward PER of the manufacturing sector. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**,

Risks to our call include: (i) the global economy slipping into a sharp slowdown or recession, (ii) escalating input costs, and (iii) termination or non-renewal of contracts by key clients, resulting in both financial and reputational loss.

OUTPERFORM ↔

Price: RM0.73
Target Price: RM0.77 ↔

Expected Capital Gain: RM0.04 +5.5%
Expected Divd. Yield: RM0.065 +8.9%
Expected Total Gain: RM0.105 +14.4%

KLCI Index 1,486.54

Stock Information

Bloomberg Ticker	KUPS MK Equity
Bursa Code	5843
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	537.4
Market Cap (RM m)	392.3
Par value per share (RM)	N.A.
52-week range (H)	0.84
52-week range (L)	0.66
Free Float	27%
Beta	0.8
3-mth avg daily vol	73,666

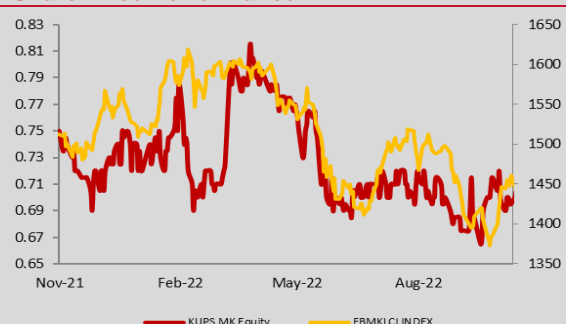
Major Shareholders

Darul Ehsan Investment Group Bhd	57.9%
Perbadanan Kemajuan Negeri Selangor	5.5%
Ng Chiew Eng	4.7%

Summary Earnings Table

FY Mar (RM m)	2021A	2022F	2023F
Turnover	1328	1336	1400
EBIT	105	90	91
PBT	88	66	74
Net Profit	57	36	41
Core Net Profit	42	36	41
Consensus (NP)		36	46
Earnings Revision (%)		-	-
Core EPS (sen)	7.7	6.7	7.7
Core EPS growth (%)	3.4	-13.2	14.4
NDPS (sen)	4.5	6.5	3.1
BVPS (RM)	1.9	2.0	2.1
PER (x)	9.3	10.9	9.1
PBV (x)	0.4	0.4	0.3
Net Gearing (x)	0.1	0.1	0.1
Net Div. Yield (%)	6.3	8.9	4.4

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.5%	1.4%	-2.7%
Relative (%)	0.6%	2.0%	-1.0%

29 November 2022

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	382.8	325.5	17.6%	360.1	6.3%	1,037.5	992.2	4.6%
COGS	-301.3	-263.1	14.5%	-285.0	5.7%	-824.6	-803.1	2.7%
Gross Profit	81.4	62.4	30.5%	75.1	8.5%	212.9	189.1	12.5%
Other Income	20.4	15.6	30.9%	15.5	31.9%	50.4	39.4	28.0%
Other Expenses	-67.8	-59.5	13.9%	-50.2	35.1%	-177.4	-148.0	19.8%
EBIT	34.0	18.5	83.9%	40.4	-15.7%	85.9	80.5	6.7%
Finance Costs	-5.7	-5.2	10.2%	-6.0	-3.5%	-16.2	-18.3	-11.2%
Share of Profit of Associates	-1.8	-1.4	31.6%	1.9	-197.6%	-7.4	2.7	-375.3%
PBT	26.5	11.9	122.3%	36.3	-27.0%	62.3	64.9	-4.1%
Taxation	-9.5	-7.2	33.0%	-8.2	16.5%	-24.2	-21.8	10.9%
MI	-2.9	-2.1	39.2%	-2.4	20.4%	-11.1	-4.8	129.7%
Net profit	14.0	2.6	430.7%	25.7	-45.4%	27.0	38.3	-29.5%
Core Net Profit	14.0	0.9	1451.1%	14.6	-4.0%	24.4	26.2	-6.8%
Gross Margin	21.3%	19.2%		20.9%		20.5%	19.1%	
EBIT margin	-11.3%	-7.0%		-14.2%		-10.4%	-10.0%	
PBT margin	6.9%	3.7%		10.1%		6.0%	6.5%	
Net margin	3.7%	0.8%		7.1%		2.6%	3.9%	
Core net margin	3.7%	0.3%		4.1%		2.4%	2.6%	
Effective tax rate	-36.0%	-60.2%		-22.6%		-38.9%	-33.6%	

Source: Company, Kenanga Research

Revenue Segments								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue								
Manufacturing	323.1	272.7	18.5%	319.0	1.3%	866.8	862.6	0.5%
Trading	43.3	40.3	7.5%	30.5	42.0%	118.3	86.8	36.3%
Licensing	9.8	9.7	1.2%	8.6	14.2%	40.9	26.6	53.4%
Infrastructure	4.2	0.5	784.5%	-0.3	-1735.3%	4.7	9.6	-51.0%
Investment Holding	0.5	-	-	0.6	-19.1%	0.5	1.9	-73.6%
Property Investment	2.3	2.3	0.3%	2.2	3.0%	6.8	6.6	2.5%
PBT								
Manufacturing	28.8	16.9	70.6%	38.1	-24.3%	57.6	68.8	-16.3%
Trading	2.0	2.2	-9.1%	2.4	-16.6%	6.5	6.8	-3.6%
Licensing	5.2	4.3	20.9%	4.1	27.6%	26.2	14.3	82.9%
Infrastructure	-0.1	-1.7	-92.3%	0.5	-125.5%	-7.1	-0.1	7891.0%
Investment Holding	-9.6	-10.5	-9.3%	-8.1	17.3%	-23.3	-23.1	0.9%
Property Investment	0.4	0.4	-12.8%	-0.1	-364.7%	1.5	0.5	171.3%
PBT margins								
Manufacturing	8.9%	6.2%		11.9%		6.6%	8.0%	
Trading	4.6%	5.4%		7.9%		5.5%	7.8%	
Licensing	53.3%	44.6%		47.7%		64.0%	53.7%	
Infrastructure	-3.1%	-361.6%		-200.4%		-151.4%	-0.9%	
Property Investment	16.1%	18.6%		-6.3%		21.6%	8.2%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BOILERMECH HOLDINGS BHD	OP	0.755	0.830	9.93%	389.6	Y	03/2023	3.5	5.2	7.6%	45.9%	0.2	0.1	1.5	7.1%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.29	1.63	26.36%	363.1	Y	12/2022	11.3	15.3	-31.7%	36.3%	11.5	8.4	1.4	13.0%	6.0	4.7%
HIL INDUSTRIES BHD	OP	1.10	1.13	2.73%	365.1	Y	12/2022	8.8	11.8	-2.3%	34.6%	12.5	9.3	0.9	7.2%	2.0	1.8%
HPP HOLDINGS BHD	OP	0.420	0.460	9.52%	163.1	Y	05/2023	3.5	4.2	63.1%	18.2%	11.9	10.1	1.3	11.2%	2.0	4.8%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.730	0.770	5.48%	392.3	Y	12/2022	6.7	7.7	-13.2%	14.4%	10.9	9.5	0.4	3.4%	2.4	3.3%
SCIENTEX BHD	MP	3.32	3.33	0.30%	5,149.3	Y	07/2023	35.2	36.9	31.9%	4.9%	9.4	9.0	1.6	17.8%	7.4	2.2%
SLP RESOURCES BHD	MP	0.980	0.92	-6.12%	310.6	Y	12/2022	6.2	7.2	11.4%	16.4%	15.9	13.7	1.6	10.4%	5.5	5.6%
THONG GUAN INDUSTRIES BHD	OP	2.52	3.99	58.33%	983.4	Y	12/2022	30.0	36.4	22.2%	21.2%	8.4	6.9	1.1	14.3%	5.5	2.2%
Simple Average								13.1	15.6	11.1%	24.0%	10.1	8.4	1.2	10.5%		3.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Migrant Worker Welfare	★	★	☆		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Usage of Biodegradable Materials	★	★	★		
	Chemical Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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