

01 December 2022

SKP Resources

Resilient Orders

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SKPRES's 1HFY23 results met expectations. Its revenue rose 20.8% YoY on growing demand for all products, especially personal grooming products. Its core net profit grew at a slightly slower pace of 15.3% YoY but for a good reason, i.e. as the group incurred some start-up costs for a new household product that is advancing into the mass production stage. SKPRES expects demand to remain encouraging going into the year-end season. We maintain our forecasts, TP of RM2.10 and OUTPERFORM call.

Within expectations. 1HFY23 CNP of RM83.7m (+15.3% YoY) came in within expectations, representing 46% and 45% of our full-year forecast and the full-year consensus estimate, respectively.

Results highlight. YoY, 1HFY23 revenue rose 20.8% YoY, in line with the higher fulfilment of increasing demand received from its key customer. We learnt that the orders for its personal grooming product continued to grow and the group had to reprioritise its workforce to cater for the higher output demanded. 1HFY23 core net profit grew 15.3% YoY, a marginally slower pace compared to its revenue growth as the group incurred some start-up costs in 2QFY23 in anticipation of a new household product advancing into mass production in subsequent quarters.

Its customer orders remain encouraging going into the year-end season which will keep SKPRES busy. The group has completed the recruitment of its final batch of 250 workers which brings its current workforce to c.7,600 employees. Another 1,500 workers have been applied for and approved in preparation for the upcoming new 650k sq ft plant on a 6.4-acre land in Johor Bahru which will be completed by 1QCY23, increasing its total floor space by c.50% for new projects.

Forecasts. Maintained.

Investment thesis. We like SKPRES for: (i) being a direct proxy to a fast-growing premium brand for household products, (ii) having better bargaining power by being vertically integrated, and (iii) its ability to maintain margins with the pass-through mechanism in place to mitigate fluctuations in material costs.

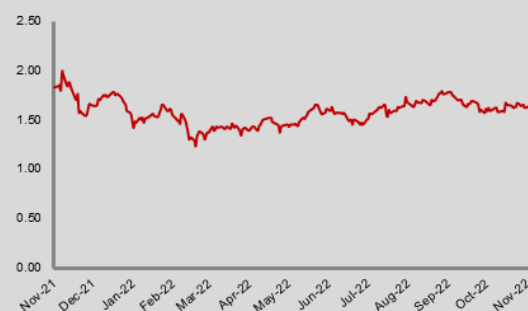
We maintain our TP of RM2.10 based on 17x CY23F PER, at a slight premium to its peers' average forward PER of 15x which is justified by SKP being the only company that has full exposure to the fast-growing premium brand. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) loss of orders from non-renewal of contracts by its key customer, (ii) labour shortage and rising labour cost, (iii) negative social activists' reviews on treatment of migrant workers, and (iv) unfavourable currency movements.

OUTPERFORM ↔

Price: RM1.71
Target Price: RM2.10 ↔

Share Price Performance



KLCI 1,488.8
YTD KLCI chg -1.7%
YTD stock price chg -5.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SKP MK Equity
Market Cap (RM m) 2,671.6
Shares Outstanding 1,562.4
52-week range (H) 2.34
52-week range (L) 1.17
3-mth avg daily vol: 1,299,5852
Free Float 56.2%
Beta 0.6

Major Shareholders

Beyond Imagination Sdn Bhd 14.2%
Kumpulan Wang Persaraan 8.5%
Renown Million Sdn Bhd 8.1%

Summary Earnings Table

FYE Mar (RM m)	2022A	2023F	2024F
Turnover	2318.2	2718.2	2927.2
EBITDA	255.3	288.0	305.6
PBT	216.2	237.5	255.8
Net Profit (NP)	169.8	180.5	194.4
Consensus (NP)	n.a.	184.6	212.4
Earnings Revision	n.a.	0%	0%
EPS (sen)	10.9	11.6	12.4
EPS growth (%)	27.5	6.3	7.7
NDPS (sen)	5.4	5.8	6.2
BVPS (RM)	0.5	0.6	0.6
PER (x)	15.7	14.8	13.7
PBV (x)	3.3	3.0	2.7
Net Gearing (x)	(0.1)	(0.3)	(0.3)
Dividend Yield (%)	3.2	3.4	3.6

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Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Mar (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	736.5	555.2	32.7%	553.7	33.0%	1291.6	1068.9	20.8%
EBIT	61.5	48.9	25.7%	52.8	16.4%	110.4	95.5	15.6%
PBT	61.2	48.8	25.3%	52.8	16.0%	110.0	95.4	15.3%
Taxation	-14.7	-11.7	-26.0%	-12.6	-16.2%	-26.3	-22.8	-15.3%
Net Profit	46.5	37.2	25.1%	40.1	15.9%	83.7	72.6	15.3%
EPS (sen)	3.0	2.4	25.1%	2.6	15.9%	5.4	4.6	15.3%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	8.3%	8.8%		9.5%		8.5%	8.9%	
PBT margin	8.3%	8.8%		9.5%		8.5%	8.9%	
NP margin	6.3%	6.7%		7.2%		6.5%	6.8%	
Effective tax rate	-24.0%	-23.9%		-23.9%		-23.9%	-23.9%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt 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.				
D&O GREEN TECHNOLOGIES BHD	MP	4.00	3.51	-12.25%	4,949.0	Y	12/2022	8.8	11.3	-1.9%	28.5%	45.6	35.5	5.7	12.8%	1.5	0.4%
GHL SYSTEMS BHD	MP	0.80	0.80	0.00%	907.5	Y	12/2022	2.1	2.7	-16.4%	30.2%	38.8	29.9	1.7	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.66	2.85	7.14%	9,929.3	Y	06/2024	10.2	11.5	-3.2%	12.7%	26.1	23.1	3.9	15.0%	9.7	3.6%
JHM CONSOLIDATION BHD	MP	0.77	0.90	16.88%	426.6	Y	12/2022	3.1	6.7	-37.7%	118.8%	25.2	11.5	1.5	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.46	1.80	23.29%	938.8	Y	12/2022	7.8	8.1	57.9%	4.0%	18.7	18.0	4.0	23.4%	2.0	1.2%
KESM INDUSTRIES BHD	MP	7.09	6.60	-6.91%	305.0	Y	12/2022	2.8	8.6	500.0%	208.3%	254.4	83.3	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.26	1.50	19.05%	574.6	Y	07/2023	2.7	3.5	20.4%	29.0%	46.3	35.8	6.8	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	27.80	25.0	-10.07%	5,529.3	Y	06/2023	118.5	146.4	-28.7%	23.5%	23.5	19.0	2.5	11.3%	35.0	1.3%
P.I.E. INDUSTRIAL BHD	OP	2.61	3.15	20.69%	1,002.3	Y	12/2022	16.6	19.7	6.0%	18.5%	15.7	13.2	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.71	2.10	22.81%	2,671.6	Y	03/2023	11.6	12.4	6.3%	7.7%	14.7	13.8	3.0	21.1%	5.8	3.4%
UNISEM (M) BHD	MP	2.70	2.75	1.85%	4,355.3	Y	12/2022	14.4	15.3	17.7%	6.2%	18.7	17.6	1.9	10.4%	6.0	2.2%
Simple Average								18.0	22.4	47.3%	44.3%	48.0	27.3	3.0	12.9%		1.5%

Source: Bloomberg, 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	★	★	☆
	OVERALL	★	★	★
SPECIFIC	Foreign Worker Welfare	★	★	★
	Supply Chain Auditing	★	★	★
	Waste disposal / pollution control	★	★	☆
	Energy Efficiency	★	★	★
	Work Site Safety	★	★	★
	Digital Transformation	★	★	☆

☆ 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%

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

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