

Kumpulan Perangsang Selangor

Global Slowdown, Cost Escalation Bites

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KPS disappointed with a 1QFY23 loss. Its top line was hit by the slowdown in the global consumer electronic sector while its bottom line was crimped by higher labour and energy costs. With no immediate reversal of fortune in sight, we cut our FY23-24F earnings forecasts by 27% and 13%, respectively, reduce our TP by 14% to RM0.60 (from RM0.70) and downgrade our call to UNDERPERFORM from MARKET PERFORM

Below expectations. KPS dipped into a core net loss of RM1m in 1QFY23, vs. our forecast and consensus estimate of a profit for the full year. The key variances against our forecast came from weaker demand and higher cost of inputs including labour, electricity and certain materials.

Results' highlights. YoY, 1QFY23 revenue declined 17% mainly due to weaker performance in its core businesses, manufacturing and licensing segments and lower licensing incomes. The manufacturing segment, in particular, was hit by weak consumer demand and overstocking of inventories at the customers' end. Its bottom line dipped into the red due to higher input costs, particularly labour cost following the recent revision in the Labour Act and electricity following the recent tariff hikes.

Unfavourable outlook for consumer electronics. High inflation and the slowdown in the global economy have weighed down on the demand for KPS's products. It has yet to see a pick-up in orders following China's reopening at the beginning of the year. Not helping either, are the high costs of labour and energy. On a brighter note, its recent acquisition of precision metal component maker MDS Advance Sdn Bhd (MDS) will strengthen its core manufacturing business and increase high-margin products in its portfolio.

Forecasts. We cut our FY23-24F net profit forecasts by 27% and 13%, respectively, to reflect weaker demand and high input costs.

Consequently, we reduce our TP by 14% to RM0.60 (from RM0.70) based on an unchanged 10x FY24F PER, which is in line with 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).

Investment thesis. We turn cautious on KPS given the significant slowdown in the global consumer electronics industry, translating to reduced demand for KPS's EMS service. Amidst weak demand, KPS will struggle to pass on higher cost to its end-customers. Downgrade to **UNDERPERFORM** from **MARKET PERFORM**.

However, we do acknowledge its long-term growth underpinned by capacity and margin expansion, and its role in the supply chain of Customer D, a renowned privately-owned innovator of high-tech consumer electronic appliances.

Risks to our call include: (i) a stronger-than-expected recovery in the consumer electronics sector, (ii) easing of input costs, and (iii) consistent renewal of contracts by key clients.

UNDERPERFORM

Price: RM0.755
Target Price: RM0.60

Expected Capital Gain: -RM0.155 -20.5%
Expected Divd. Yield: +RM0.031 +4.1%
Expected Total Gain: -RM0.124 -16.4%

KLCI Index 1,402.48

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)	405.7
Par value per share (RM)	N.A.
52-week range (H)	0.81
52-week range (L)	0.62
Free Float	27%
Beta	0.8
3-mth avg daily vol	292,013

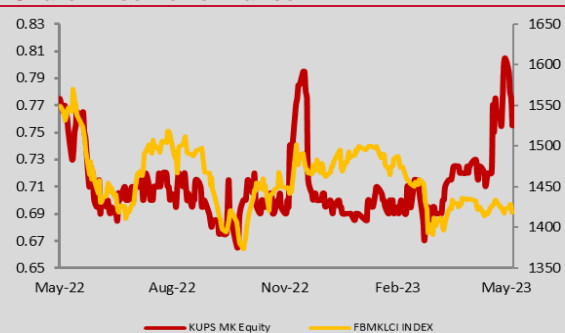
Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1360	1172	1304
EBIT	17	53	61
PBT	118	32	43
Net Profit	74	24	32
Core Net Profit	28	24	32
Consensus (NP)	-	38	44
Earnings Revision (%)	-	-27.3	-13.3
Core EPS (sen)	5.1	4.5	6.0
Core EPS growth (%)	-34.3	-11.9	34.6
NDPS (sen)	6.5	1.8	2.4
BVPS (RM)	2.0	2.1	2.1
PER (x)	14.9	17.0	12.6
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.0	0.0	0.0
Net Div. Yield (%)	8.6	2.4	3.2

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.4%	8.6%	-1.3%
Relative (%)	5.0%	12.4%	7.1%



26 May 2023

Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	275.0	322.1	-14.6%	329.2	-16.5%	275.0	329.2	-16.5%
COGS	-219.9	-251.2	-12.5%	-260.2	-15.5%	-219.9	-260.2	-15.5%
Gross Profit	55.2	70.9	-22.2%	69.0	-20.1%	55.2	69.0	-20.1%
Other Income	21.9	28.1	-21.9%	14.4	52.0%	21.9	14.4	52.0%
Other Expenses	-65.1	-168.3	-61.3%	-50.1	30.0%	-65.1	-50.1	30.0%
EBIT	12.0	-69.3	-117.3%	33.3	-64.1%	12.0	33.3	-64.1%
Finance Costs	-6.9	-6.5	5.7%	-5.2	31.5%	-6.9	-5.2	31.5%
Share of Profit of Associates	1.4	131.6	-99.0%	-4.2	-132.5%	1.4	-4.2	-132.5%
PBT	6.5	55.8	-88.4%	23.9	-73.0%	6.5	23.9	-73.0%
Taxation	-3.5	-7.4	-52.5%	-7.5	-53.0%	-3.5	-7.5	-53.0%
MI	-2.9	-1.6	80.9%	-6.1	-52.2%	-2.9	-6.1	-52.2%
Net profit	0.0	46.7	-99.9%	10.3	-99.7%	0.0	10.3	-99.7%
Core Net Profit	-1.3	3.4	-136.7%	9.5	-113.3%	-1.3	9.5	-113.3%
Gross Margin	20.1%	22.0%		21.0%		20.1%	21.0%	
EBIT margin	4.4%	-21.5%		10.1%		4.4%	10.1%	
PBT margin	2.3%	17.3%		7.3%		2.3%	7.3%	
Net margin	0.0%	14.5%		3.1%		0.0%	3.1%	
Core net margin	-0.5%	1.1%		2.9%		-0.5%	2.9%	
Effective tax rate	-54.6%	-13.3%		-31.4%		-54.6%	-31.4%	

Source: Company, Kenanga Research

Revenue Segments								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Manufacturing	227.5	269.2	-15.5%	271.0	-16.1%	227.5	271.0	-16.1%
Trading	36.0	40.0	-10.2%	34.7	3.8%	36.0	34.7	3.8%
Licensing	9.5	10.0	-5.2%	21.3	-55.5%	9.5	21.3	-55.5%
Infrastructure	-	0.5	-100.0%	-	N.A.	-	-	N.A.
Investment Holding	0.5	0.6	-6.4%	-	N.A.	0.5	-	N.A.
Property Investment	2.1	2.3	-8.5%	2.2	-6.5%	2.1	2.2	-6.5%
PBT								
Manufacturing	9.3	2.3	304.7%	11.9	-21.3%	9.3	11.9	-21.3%
Trading	2.2	1.3	72.8%	2.4	-7.9%	2.2	2.4	-7.9%
Licensing	4.2	6.3	-33.4%	16.6	-74.8%	4.2	16.6	-74.8%
Infrastructure	0.1	130.6	-99.9%	-5.3	-102.7%	0.1	-5.3	-102.7%
Investment Holding	-10.9	-82.6	-86.8%	-3.2	239.5%	-10.9	-3.2	239.5%
Property Investment	0.5	-2.8	-116.4%	0.7	-31.6%	0.5	0.7	-31.6%
PBT margins								
Manufacturing	4.1%	0.9%		4.4%		4.1%	4.4%	
Trading	6.0%	3.1%		6.8%		6.0%	6.8%	
Licensing	44.1%	62.8%		77.8%		44.1%	77.8%	
Infrastructure	N.A.	25703.0%		N.A.		N.A.	N.A.	
Property Investment	-2014.6%	-14316.6%		N.A.		-2014.6%	N.A.	

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																	
ANCOM NYLEX BHD	OP	1.00	1.80	80.00%	935.0	Y	05/2023	8.0	12.0	38.5%	50.1%	12.5	8.3	1.8	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	OP	0.670	0.700	4.48%	345.7	Y	03/2024	4.5	4.4	65.2%	-2.6%	14.8	15.2	1.3	9.0%	1.8	2.7%
BP PLASTICS HOLDINGS BHD	OP	1.24	1.63	31.45%	349.0	Y	12/2023	13.6	15.1	23.9%	10.7%	9.1	8.2	1.4	15.8%	5.5	4.4%
HIL INDUSTRIES BHD	UP	1.01	0.810	-19.80%	335.3	Y	12/2023	10.2	11.5	46.1%	12.7%	9.9	8.8	0.8	7.8%	2.0	2.0%
HPP HOLDINGS BHD	OP	0.285	0.440	54.39%	110.7	Y	05/2023	2.3	3.5	8.3%	47.3%	12.2	8.3	0.9	7.4%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR	UP	0.755	0.600	-20.53%	405.7	Y	12/2023	4.5	6.0	-11.7%	34.4%	16.8	12.5	0.4	2.2%	1.8	2.4%
SCIENTEX BHD	UP	3.36	2.99	-11.01%	5,211.6	Y	07/2023	30.6	35.5	15.0%	16.0%	11.0	9.5	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.885	1.09	23.16%	280.5	Y	12/2023	5.8	7.0	13.6%	20.7%	15.2	12.6	1.5	9.8%	5.5	6.2%
TECHBOND GROUP BHD	OP	0.385	0.450	16.88%	203.8	Y	06/2023	1.9	3.8	-9.8%	98.0%	20.2	10.2	1.2	6.2%	1.0	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.23	3.22	44.39%	873.2	Y	12/2023	26.1	29.3	-8.2%	12.2%	8.5	7.6	1.0	12.6%	5.5	2.5%
Sector Aggregate					9,050.6					23.2%	19.7%	11.2	9.4	1.3	11.3%		3.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★	☆	
	Digitalisation & Innovation	★	★	★		
	Material/Resource Management	★	★	★		
	Supply Chain 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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