

31 May 2023

SKP Resources

Prospects for New Orders Dim

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SKPRES's FY23 results met our expectation but disappointed the market. 4QFY23 net profit more than halved QoQ due to lower sales while operating cost remained elevated on an expanded workforce. Its outlook is clouded by consumers globally cutting back on spending on household products. We cut our FY24F net profit by 20%, reduce our TP by 21% to RM0.95 (from RM1.20) and maintain our UNDERPERFORM call.

Within Expectations. FY23 net profit of RM144.5m (-14.1% YoY) met our expectation but fell short of the consensus estimate by 7%.

Results' highlight. YoY, FY23 revenue grew 9%, driven by robust loading volume from its customers for household products coupled with stable demand for its grooming products. However, net profit dipped 14% due to under-utilisation of its expanded workforce in 4QFY23 in anticipation of higher orders that failed to materialise.

QoQ, 4QFY23 revenue fell 32% while its net profit more than halved. In addition to the seasonally softer 4Q due to lower number of working days, it also felt the full brunt of the higher tariffs.

Outlook. SKPRES's prospects are subdued with slowing consumer spending and hence demand for household products amidst the rising interest rate environment. Not helping either is its expanded workforce that will exert pressures on margins. To mitigate the situation, SKPRES is actively pursuing new opportunities from players who intend to relocate to Malaysia pursuant to their China+1 strategy. However, we understand that discussions with prospective clients are still at preliminary stages, and hence will not translate to the bottom line anytime soon. Typically, it takes 6-12 months from customer acquisition to mass production.

Forecasts. We cut our FY24F earnings forecast by 20% and introduce our FY25F numbers.

Consequently, we cut TP by 21% to RM0.95 (from RM1.20) based on an unchanged 15x FY24F PER, in line with its peers' forward mean. 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 are cautious on SKPRES as its prospects for new orders are dim with consumer cutting back on spending on household products amidst high inflation and economic uncertainties. However, we acknowledge that: (i) it is a direct proxy to a fast-growing premium household products brand, (ii) it has better bargaining power vs. its peers as it is vertically integrated, and (iii) it has the ability to maintain margins with the pass-through mechanism in place to mitigate fluctuations in material costs. Maintain **UNDERPERFORM**.

Risks to our call include: (i) new products hitting mass production stage faster-than-expected, (ii) a strong recovery in order flows, and (iii) onboarding of new customers.

UNDERPERFORM ↔

Price: **RM1.02**
Target Price: **RM0.95** ↓

Share Price Performance



KLCI 1,398.5
YTD KLCI chg -6.1%
YTD stock price chg -36.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,593.6
Shares Outstanding	1,562.4
52-week range (H)	1.83
52-week range (L)	0.97
3-mth avg daily vol:	1,518,497
Free Float	55.6%
Beta	0.6

Major Shareholders

Beyond Imagination Sdn Bhd	14.2%
Kumpulan Wang Persaraan	8.4%
Renown Million Sdn Bhd	8.1%

Summary Earnings Table

FYE Mar (RM m)	2023A	2024F	2025F
Turnover	2531.8	2022.0	2129.5
EBITDA	229.0	183.7	198.2
PBT	182.2	124.8	140.4
Net Profit (NP)	144.5	98.9	111.3
Consensus (NP)	-	154.0	193.1
Earnings Revision	-	-20%	NEW
EPS (sen)	9.2	6.3	7.1
EPS growth (%)	-14.2	-31.5	12.5
NDPS (sen)	4.6	3.2	3.6
BVPS (RM)	0.6	0.6	0.6
PER (x)	11.0	16.1	14.3
PBV (x)	1.8	1.8	1.7
Net Gearing (x)	(0.0)	(0.2)	(0.2)
Dividend Yield (%)	4.5	3.1	3.5

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Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	500.0	740.1	-32.4%	580.1	-13.8%	2531.8	2321.4	9.1%
EBIT	22.6	51.3	-55.8%	66.3	-65.9%	184.3	222.6	-17.2%
PBT	21.6	50.6	-57.4%	66.3	-67.5%	182.2	222.4	-18.1%
Taxation	-1.5	-9.9	85.0%	-11.5	87.1%	-37.7	-49.0	23.0%
Net Profit	20.1	40.7	-50.7%	49.7	-59.5%	144.5	168.3	-14.1%
EPS (sen)	1.3	2.6	-50.7%	3.2	-59.5%	9.2	10.8	-14.1%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	4.5%	6.9%		11.4%		7.3%	9.6%	
PBT margin	4.3%	6.8%		11.4%		7.2%	9.6%	
NP margin	4.0%	5.5%		8.6%		5.7%	7.2%	
Effective tax rate	-6.9%	-19.6%		-17.4%		-20.7%	-22.0%	

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	UP	3.62	2.68	-25.97%	4,480.8	Y	12/2023	7.8	10.7	-1.0%	37.9%	46.5	33.7	4.9	10.7%	1.3	0.4%
GHL SYSTEMS BHD	OP	0.820	1.05	28.05%	930.3	Y	12/2023	3.0	3.4	21.3%	12.9%	27.3	24.3	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.46	2.46	0.00%	9,183.0	Y	06/2023	9.0	10.2	-14.1%	13.1%	27.4	24.2	3.6	13.3%	8.6	3.5%
JHM CONSOLIDATION BHD	MP	0.730	0.800	9.59%	439.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.7	12.4	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.40	1.92	37.14%	900.2	Y	12/2023	8.7	9.0	1.1%	3.2%	16.1	15.6	3.2	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	6.92	6.91	-0.14%	297.7	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	558.5	0.8	-1.9%	7.5	1.1%
LGMS BHD	OP	1.02	1.32	29.41%	465.1	Y	12/2022	3.1	5.3	12.7%	70.4%	32.8	19.2	4.8	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	26.90	15.26	-43.27%	5,350.3	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.0	25.4	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.25	1.40	12.00%	2,592.4	Y	12/2023	5.0	6.1	20.4%	22.8%	25.2	20.5	7.9	37.1%	0.3	0.2%
OPPSTAR BHD	MP	1.98	1.82	-8.08%	1,259.7	N	03/2024	4.5	6.1	34.0%	36.3%	44.4	32.6	8.0	19.3%	1.1	0.6%
P.I.E. INDUSTRIAL BHD	OP	3.20	4.05	26.56%	1,228.9	Y	12/2023	22.5	25.3	22.0%	12.5%	14.2	12.6	2.0	14.6%	7.0	2.2%
SKP RESOURCES BHD	UP	1.02	0.950	-6.86%	1,593.6	Y	03/2024	6.3	7.1	-31.6%	12.5%	16.2	14.4	1.8	11.4%	3.2	3.1%
UNISEM (M) BHD	MP	2.99	2.75	-8.03%	4,823.1	Y	12/2023	8.9	13.8	-41.2%	55.7%	19.4	17.4	2.0	5.9%	6.0	2.0%
Simple Average										-26.4%	33.6%	30.4	22.7	3.4	12.9%		1.3%

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	★	★	☆		
SPECIFIC	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★		
	Waste disposal / pollution control	★	★	☆		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
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%

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

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