SLP Resources

Global Slowdown Bites

MARKET PERFORM ↔

Price: **RM0.915**

Target Price: **RM1.09 ↔**

By Tan Jia Hui l jhtan@kenanga.com.my

SLP's 1QFY23 results disappointed due to weak exports and higher operating cost. SLP is hopeful for 2HFY23, assuming the global economy is on the mend by then, generating better demand from its key overseas markets, i.e. Japan, Australia and New Zealand. For now, we cut our FY23F and FY24F earnings forecasts by 18% and 6%, respectively, but keep our TP of RM1.09 based on dividend discount (DDM) model, and MARKET PERFORM call.

Below expectations. 1QFY23 results missed expectations at only 15% each of both our full-year forecast and full-year consensus estimate. The key variances against our forecast came from weak exports and higher operating cost, particularly, the more significant impact on staff cost pursuant to the recent amendment to Employment Act that reduces the maximum weekly working hours to 45 (from 48).

Results' highlights. 1QFY23 revenue slipped 12% largely due to softer exports on the slowdown in the global economy. Net profit declined by a larger magnitude of 30% due to higher operating cost, especially staff cost as mentioned.

Outlook. Market researcher Mordor Intelligence projects the global plastic packaging market to grow at a CAGR of 3.5% in 2022-2027. We believe local players could grow at a faster pace during this period by gaining market share from overseas producers that are losing competitiveness due to the rising production cost. However, over the immediate term, this export-dependent sector will not be spared the global economic slowdown.

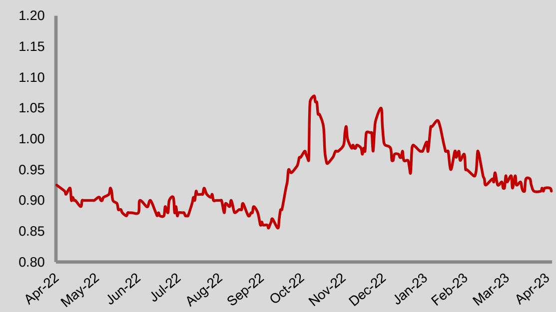
Although SLP is cautious on 1HFY23 amidst the global economic uncertainties, it is hopeful for 2HFY23 assuming the global economy is on the mend by then, resulting in better demand from its key overseas markets, i.e. Japan, Australia and New Zealand.

We cut our FY23-24F earnings forecasts by 18-6%, to reflect softer exports and higher operating cost. However, we maintain our DDM-derived TP of RM1.09 (CAPM: 7%, TG: 2%) as we keep our dividend forecast of 5.5 sen annually. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We like SLP for: (i) its product mix that is skewed towards high-margin non-commoditised products such as kangaroo pouch and mono film, and (ii) its strong cash flows and balance sheet (a net cash position), allowing payment of consistent and generous dividends. However, we are concerned over a prolonged slowdown in the global economy that will hurt SLP's earnings. Maintain **MARKET PERFORM.**

Risks to our call include: (i) a sharp rise in resin cost, (ii) a steep contraction in demand for packaging materials due to a sharp slowdown or recession globally, and (iii) prolonged labour shortages.

Share Price Performance



KLCI	1,431.04
YTD KLCI chg	-4.3%
YTD stock price chg	-7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK
Market Cap (RM m)	290.0
Shares Outstanding	317.0
52-week range (H)	1.09
52-week range (L)	0.86
3-mth avg daily vol:	30,882
Free Float	16%
Beta	0.6

Major Shareholders

Khoon Tee & Family Sdn Bhd	41.5%
Khaw Seang Chuan	15.0%
Khaw Khoon Tee	9.9%

Summary Earnings Table

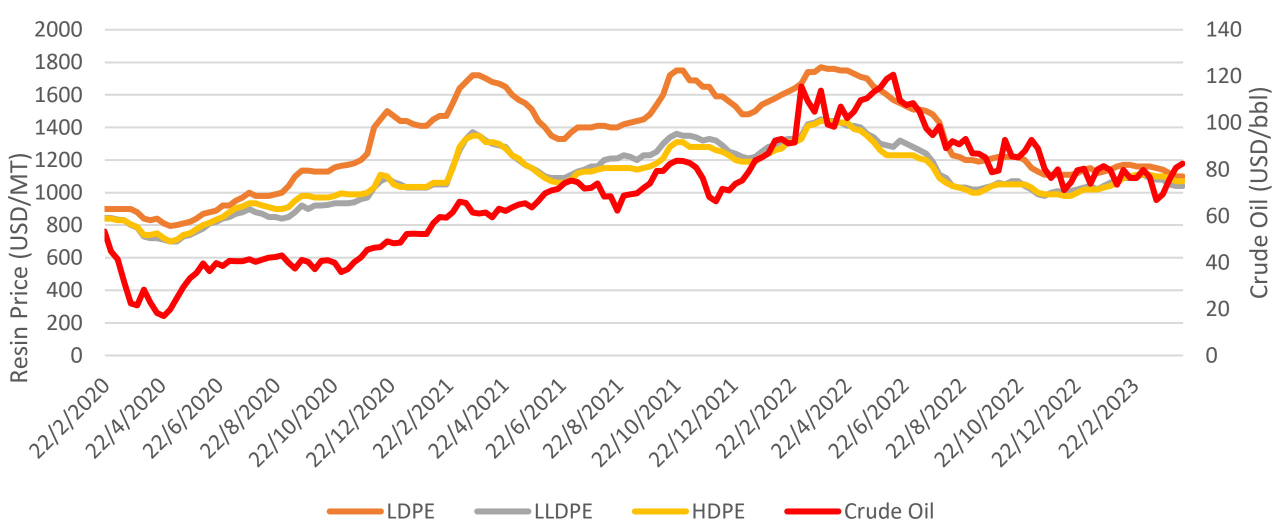
FY Dec (RM m)	2022A	2023F	2024F
Turnover	185.7	189.3	211.2
EBIT	24.3	23.4	28.4
PBT	25.5	24.2	29.2
Net Profit	20.6	18.4	22.2
Core Net Profit	16.2	18.4	22.2
Consensus	-	21.0	23.0
Earnings Revision	-	-18%	-6%
Core EPS (sen)	5.1	5.8	7.0
Core EPS growth (%)	-7.2	13.5	20.6
NDPS (sen)	5.5	5.5	5.5
BVPS (RM)	0.57	0.57	0.59
Core PER (x)	17.9	15.8	13.1
P/BV (x)	1.5	1.5	1.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.0	6.0	6.0

Results Highlights

FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg
Revenue	40.3	46.0	-12.5%	45.5	-11.5%
Operating Income	3.5	3.1	13.1%	5.7	-38.1%
Other Income	0.5	0.4	15.2%	0.1	494.0%
Profit Before Taxation	4.0	3.6	13.3%	5.8	-30.5%
Taxation	-1.0	-1.3	-21.8%	-1.3	-22.1%
Profit After Taxation	3.0	2.3	33.3%	4.5	-32.9%
Core Net profit	3.2	2.1	51.2%	4.5	-29.6%
EPS (sen)	1.0	0.7	33.3%	1.4	-32.9%
Core EPS (sen)	1.0	1.0	0.0%	1.5	-33.3%
Effective tax rate (%)	25.0	36.2		22.3	
Operating profit margin (%)	8.8	6.8		12.6	
PBT margin (%)	10.0	7.7		12.8	
Core net profit margin (%)	7.9	4.6		9.9	

Source: Company, Kenanga Research

Resin and Crude Oil Prices



Source: Bloomberg, 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	1.03	1.80	74.76%	961.8	Y	05/2023	8.0	12.0	38.5%	50.1%	12.9	8.6	1.9	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	UP	0.695	0.700	0.72%	358.6	Y	03/2023	2.3	4.3	-31.2%	89.7%	30.7	16.2	1.4	4.6%	1.8	2.6%
BP PLASTICS HOLDINGS BHD	OP	1.20	1.63	35.83%	337.8	Y	12/2023	13.6	15.1	23.9%	10.7%	8.8	7.9	1.3	15.8%	5.5	4.6%
HIL INDUSTRIES BHD	UP	0.950	0.810	-14.74%	315.3	Y	12/2023	10.2	11.5	46.1%	12.7%	9.3	8.3	0.7	7.8%	2.0	2.1%
HPP HOLDINGS BHD	OP	0.305	0.440	44.26%	118.5	Y	05/2023	2.3	3.5	8.3%	47.3%	13.0	8.8	0.9	7.4%	2.0	6.6%
KUMPULAN PERANGSANG SELANGOR	MP	0.720	0.700	-2.78%	386.9	Y	12/2023	6.2	7.0	19.1%	13.0%	11.7	10.3	0.4	3.1%	2.5	3.5%
SCIENTEX BHD	UP	3.39	2.99	-11.80%	5,258.1	Y	07/2023	30.6	35.5	15.0%	16.0%	11.1	9.5	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.920	1.09	18.48%	290.0	Y	12/2023	5.8	7.0	13.6%	20.7%	15.9	13.1	1.5	9.8%	5.5	6.0%
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	2.27	3.28	44.49%	888.7	Y	12/2023	30.3	35.3	4.7%	16.4%	7.5	6.4	1.0	14.4%	5.5	2.4%
Sector Aggregate					**9,119.6**					**24.4%**	**21.1%**	**11.1**	**9.2**	**1.3**	**11.5%**		**3.3%**

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	★	★	★		
	Supply Chain Auditing	★	★	★		
	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%

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

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my