

16 May 2023

## SLP Resources

### Coping with a Slack in Business

By Tan Jia Hui | [jhtan@kenanga.com.my](mailto:jhtan@kenanga.com.my)

SLP guided for no meaningful pick-up in demand in 2QFY23, after a soft 1QFY23. On the other hand, its cost pressures remain unabated, of which it is trying to contain by, among others, minimising unnecessary overtime shifts. On a brighter note, its environmentally-friendly machine direction-oriented polyethylene (MDO-PE) film is gaining traction amongst its customers. We maintain our forecasts, TP of RM1.09 and MARKET PERFORM call.

We came away from a recent engagement with SLP feeling cautious on its outlook. The key takeaways are as follows:

1. There was a YoY slowdown in business in 1QFY23 as manifested in an overall utilisation rate of <50% vs. 54% a year ago. SLP guided for no meaningful pick-up in demand in 2QFY23. However, we expect its overall utilisation to improve to 55%-60% in 2HFY23: (i) as productivity improves from the seasonally low period in 1Q (due to long festive holidays), and (ii) assuming the global economy is poised for a recovery by then.
2. SLP also guided for unabated cost pressures sustaining into 2QFY23. It is stepping efforts to contain costs by minimising unnecessary overtime shifts (especially during festive periods). Also helping, is a slight improvement in utilisation that should bring down per unit cost. In addition, it is installing five automated packaging lines (of which one was completed in 1QFY23 and the remaining four by 3QFY23) that will reduce its dependence on labour which cost is consistently going up.
3. On a brighter note, we understand its MDO-PE film is gaining traction with more enquiries from its customers, both converters and brand owners, while some are already conducting testing on the product. We believe MDO-PE film has tremendous growth potential as it meets the definition of "circular packaging", i.e. commercial packaging materials that are reusable, recyclable or compostable. MDO-PE film is recyclable. SLP is planning to add another machine to produce MDO-PE, in addition to its two existing lines.

**Forecasts.** Maintained.

We maintain our DDM-derived TP of RM1.09 (CAPM: 7%, TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

**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 the period as they gain market shares 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.

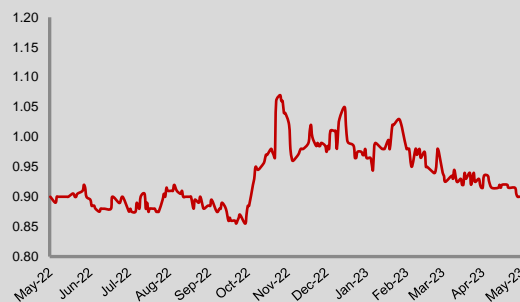
We like SLP for: (i) its product mix that is skewed towards high-margin non-commoditised products such as kangaroo pouch and mono film, and (ii) its strong cash flows and balance sheet (a net cash position), allowing payment of consistent and generous dividends. However, we are concerned over a prolonged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

**Risks to our call:** (i) a surge in resin cost, (ii) a sharp slowdown or recession in the global economy, hurting demand for packaging materials, and (iii) labour shortages.

## MARKET PERFORM ↔

Price: **RM0.90**  
Target Price: **RM1.09** ↔

### Share Price Performance



KLCI 1,417.37  
YTD KLCI chg -5.2%  
YTD stock price chg -9.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK Equity
Market Cap (RM m)	285.3
Shares Outstanding	317.0
52-week range (H)	1.09
52-week range (L)	0.86
3-mth avg daily vol:	27,490
Free Float	16%
Beta	0.6

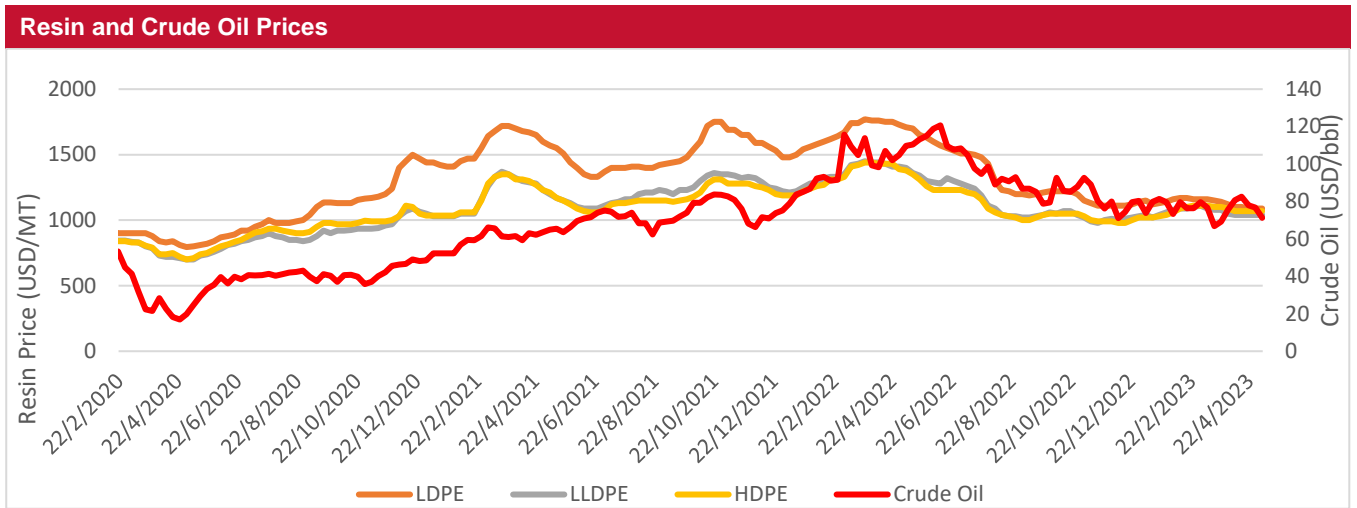
### Major Shareholders

Khoon Tee & Family S	41.5%
KhawSeangChuan	15.0%
KhawKhoon 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	30.0
PBT	25.5	24.2	30.8
<b>Net Profit (NP)</b>	20.6	18.4	23.4
<b>Core NP*</b>	16.2	18.4	23.4
Consensus (NP)	-	19.9	22.6
Earnings Revision	-	-	-
Core EPS (sen)	5.1	5.8	7.4
EPS growth (%)	-7.2	13.5	27.4
NDPS (sen)	5.5	5.5	5.5
BVPS (RM)	0.57	0.57	0.59
Core PER (x)	17.6	15.5	12.2
PBV (x)	1.5	1.5	1.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.1	6.1	6.1

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Source: Bloomberg, Kenanga Research

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<b>Income Statement</b>						<b>Financial Data &amp; Ratios</b>					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	147.0	168.9	185.7	189.3	211.2	<b>Growth (%)</b>					
EBITDA	28.4	28.9	30.7	29.9	34.6	Revenue	-11.9	14.9	9.9	1.9	11.6
Depre& Amort	-6.7	-6.1	-6.2	-6.5	-4.6	EBITDA	-7.0	1.6	6.4	-2.6	15.8
EBIT	21.6	22.6	24.3	23.4	30.0	EBIT	-10.7	4.7	7.6	-3.8	28.5
Finance Income	0.9	0.7	1.2	0.8	0.8	Pre-tax Income	-11.1	3.6	9.6	-5.2	27.4
PBT	22.5	23.3	25.5	24.2	30.8	PAT	-23.4	7.6	16.1	-10.6	27.4
Taxation	-6.0	-5.6	-5.0	-5.8	-7.4	Core Net Profit	-25.3	8.8	-7.2	13.5	27.4
PAT	16.5	17.7	20.6	18.4	23.4	<b>Profitability (%)</b>					
Core Net Profit	16.1	17.5	16.2	18.4	23.4	EBITDA Margin	15.1	15.3	16.3	15.9	18.4
						EBIT Margin	11.5	12.0	12.9	12.4	16.0
<b>Balance Sheet</b>						PBT Margin	12.0	12.4	13.6	12.9	16.4
<b>FY Dec (RM m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	Net Margin	8.5	9.3	8.6	9.8	12.5
Fixed Assets	65.4	61.9	59.4	56.9	52.3	Effective Tax	21.1	19.6	17.4	20.4	26.0
Other investment	0.0	0.0	0.0	0.0	0.0	ROE	8.8	9.4	8.4	9.5	11.7
Other FA	10.0	9.4	9.8	15.3	16.3	ROA	7.4	8.1	7.1	7.8	9.6
Inventories	36.4	35.5	45.1	42.2	45.5	<b>DuPont Analysis</b>					
Receivables	29.7	31.3	31.4	34.6	37.2	Net Margin (%)	8.5	9.3	8.6	9.8	12.5
Other CA	0.6	0.4	0.3	0.0	0.0	Assets Turnover (x)	0.7	0.8	0.8	0.8	0.9
Cash	74.4	77.2	83.4	87.6	92.4	Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
<b>Total Assets</b>	<b>216.4</b>	<b>216.6</b>	<b>229.3</b>	<b>236.6</b>	<b>243.7</b>	ROE (%)	8.8	9.4	8.4	9.5	11.7
Payables	25.2	21.5	20.8	27.8	29.3	<b>Leverage</b>					
ST Borrowings	1.2	0.4	0.7	0.0	0.0	Debt/Asset (x)	0.00	0.00	0.00	0.00	0.00
Other ST Liability	26.5	21.9	31.4	38.2	41.7	Debt/Equity (x)	0.00	0.00	0.00	0.00	0.00
LT Borrowings	0.0	0.0	0.0	0.0	0.0	Net Debt/(Cash)	-74.4	-77.2	-83.4	-87.6	-92.4
Other LT liability	8.2	9.4	9.8	9.6	7.2	Net Debt/Equity (x)	-0.40	-0.41	-0.43	-0.45	-0.46
<b>Net Assets</b>	<b>181.8</b>	<b>185.3</b>	<b>193.1</b>	<b>194.0</b>	<b>201.0</b>	<b>Valuations</b>					
Shr. Equity	113.7	113.7	113.7	113.7	114.7	Core EPS (sen)	5.1	5.5	5.1	5.8	7.4
Reserves	68.1	71.6	79.4	80.3	86.3	DPS (sen)	5.50	5.50	5.50	5.50	5.50
<b>Total Equity</b>	<b>181.8</b>	<b>185.3</b>	<b>193.1</b>	<b>194.0</b>	<b>201.0</b>	BVPS (RM)	0.6	0.6	0.6	0.6	0.6
						Core PER (x)	15.6	17.8	16.3	17.6	15.5
<b>Cashflow Statement</b>						N. Div. Yield (%)	6.1	6.1	6.1	6.1	6.1
<b>FY Dec (RM m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	PBV (x)	1.6	1.5	1.5	1.5	1.4
Operating CF	17.7	18.1	15.1	31.6	25.3						
Investing CF	0.0	-1.0	-4.0	-4.0	-3.0						
Financing CF	-17.4	-17.4	-17.4	-17.4	-17.4						

Source: 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.
<b>Stocks Under Coverage</b>																	
ANCOM NYLEX BHD	OP	1.01	1.80	78.22%	944.1	Y	05/2023	8.0	12.0	38.5%	50.1%	12.6	8.4	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	0.285	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	MP	0.760	0.700	-7.89%	408.4	Y	12/2023	6.2	7.0	19.1%	13.0%	12.3	10.9	0.4	3.1%	2.5	3.3%
SCIENTEX BHD	UP	3.32	2.99	-9.94%	5,149.5	Y	07/2023	30.6	35.5	15.0%	16.0%	10.8	9.3	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.900	1.09	21.11%	285.3	Y	12/2023	5.8	7.0	13.6%	20.7%	15.5	12.9	1.5	9.8%	5.5	6.1%
TECHBOND GROUP BHD	OP	0.395	0.450	13.92%	209.1	Y	06/2023	1.9	3.8	-9.8%	98.0%	20.7	10.5	1.3	6.2%	1.0	2.5%
THONG GUAN INDUSTRIES BHD	OP	2.24	3.28	46.43%	877.0	Y	12/2023	30.3	35.3	4.7%	16.4%	7.4	6.4	1.0	14.4%	5.5	2.5%
<b>Sector Aggregate</b>					8,995.9					24.4%	21.1%	11.0	9.1	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		★	★	
<b>OVERALL</b>		★	★	★

☆ 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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

