

14 November 2023

SLP Resources

Bracing Impact of Global Slowdown

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SLP's 9MFY23 results disappointed on weak sales and cost pressure, which also led to a 38% YoY decline in its 9MFY23 core net profit. It is hoping to onboard a new Thai customer specialising in pet food packaging. We cut our FY23-24 earnings by 13-5%, respectively, but keep our 5.0 sen dividend forecast and hence our DDM-based TP of RM0.85. Maintain MARKET PERFORM.

Below expectations. Its 9MFY23 core net profit of RM8.7m missed expectations, coming in at only 64% of our full-year forecast (despite our recent 9% downgrade) and 58% of the full-year consensus estimate. The key variance against our forecast came from the double whammy of lower-than-expected sales and cost pressure.

Results' highlights. YoY, its 9MFY23 turnover declined 14% due to: (i) weaker exports (including Japan and Australia), and (ii) a reduced ASP resulting from lower resin prices and heightened competition. Its core net profit fell by a sharper 38% on reduced margins from higher utility costs and poorer cost absorption from lower plant utilisation.

QoQ, its 3QFY23 revenue grew 11% due to increased sales in the domestic market (+10%) and Japan (+21%). However, its core net profit eased 17% due to a change in product mix towards more low-margin products, higher utility costs and increased wastages from the development of new products.

Outlook. The outlook for the plastic packaging industry is weighed down by the global economic slowdown. As such, we expect a muted 2HCY23 for players despite the 2H traditionally being the peak season.

SLP is stepping up its marketing efforts in Southeast Asia. It is hoping to onboard a new Thai customer specialising in pet food packaging, particularly for its high-margin, fully recyclable MDO-PE film. Additionally, it has garnered significant interest through a regional circular packaging seminar co-hosted with a raw material supplier in Aug 2023, promoting sustainable packaging such as its MDO-PE film. It has received inquiries but it takes time for these to eventually translate to actual sales.

Forecasts. We cut our FY23-24F net profit by 13-5%, respectively, to reflect weaker sales and higher costs.

However, we maintain our FY23-24F annual dividend of 5.0 sen each and hence DDM-derived TP of RM0.85 (CAPM: 7.9%, TG: 2%).

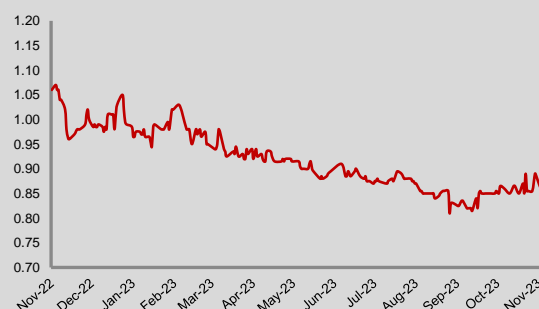
We continue to like SLP for its: (i) product mix which focuses on high-margin, non-commoditized products such as kangaroo pouches and mono films, (ii) robust cash flows and a strong balance sheet (a net cash position), enabling consistent and generous dividend payments. However, we are concerned over an extended slowdown in the global economy which will weigh down on SLP's earnings. Maintain MARKET PERFORM.

Risks to our call include: (i) a prolonged global economic downturn leading to weak consumer demand for plastic packaging, (ii) a sharp rise in resin prices, and (iii) adverse forex fluctuation.

MARKET PERFORM ↔

Price: RM0.870
Target Price: RM0.85 ↔

Share Price Performance



KLCI	1,445.18
YTD KLCI chg	-3.4%
YTD stock price chg	-12.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	275.8
Shares Outstanding	317.0
52-week range (H)	1.07
52-week range (L)	0.81
3-mth avg daily vol	56,927
Free Float	16%
Beta	0.5

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	163.4	174.3
EBIT	24.3	15.5	21.3
PBT	25.5	15.9	21.7
Net Profit	20.6	12.0	16.3
Core Net Profit	16.5	12.0	16.3
Consensus	-	15.1	18.3
Earnings Revision	-	-13%	-5%
Core EPS (sen)	5.2	3.8	5.1
Core EPS growth (%)	-5.5	-27.6	36.2
NDPS (sen)	5.5	5.0	5.0
BVPS (RM)	0.57	0.56	0.56
Core PER (x)	16.7	23.1	16.9
P/BV (x)	1.4	1.5	1.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.3	5.7	5.7



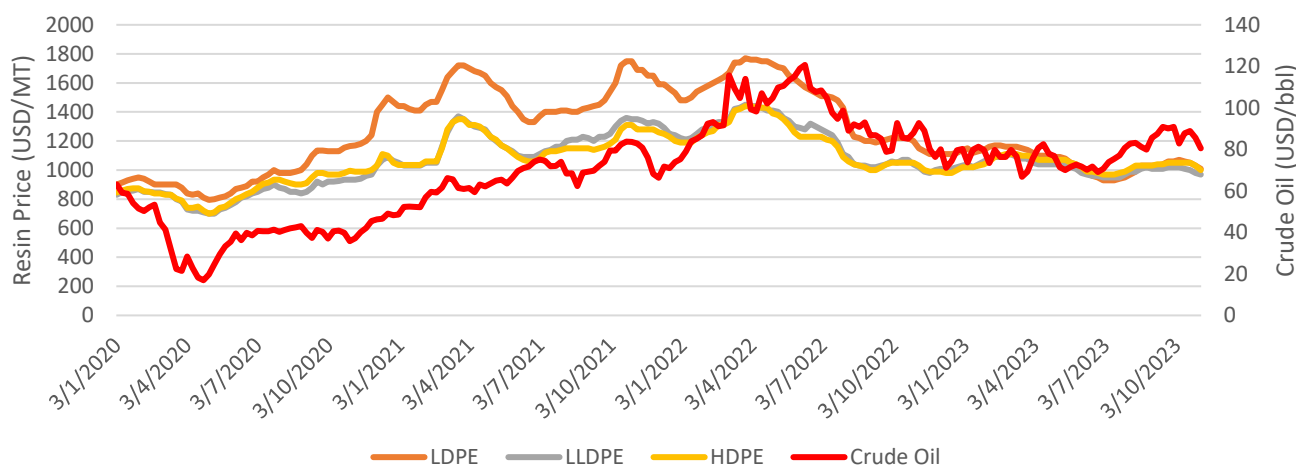
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Results Highlights

FYE 31 Dec (RM m)	3Q23	2Q23	QoQChg	3Q22	YoY Chg	9M23	9M22	YoY Chg
Revenue	41.7	37.6	11%	47.2	-12%	119.6	139.8	-14%
Operating Income	3.1	4.2	-25%	5.7	-46%	10.8	21.2	-49%
Other Income	0.5	0.5	-6%	0.7	-26%	1.5	0.8	83%
Profit Before Taxation	3.6	4.7	-23%	6.4	-44%	12.3	22.0	-44%
Taxation	-0.9	-1.2	-22%	-1.5	-36%	-3.1	-3.7	-15%
Net profit	2.7	3.5	-23%	4.9	-46%	9.2	18.3	-50%
Core Net Profit	2.7	3.2	-17%	5.4	-51%	8.7	14.1	-38%
EPS (sen)	0.8	1.1	-23%	1.6	-46%	2.9	5.8	-50%
Core EPS (sen)	0.8	1.0	-17%	1.7	-51%	2.8	4.4	-38%
Effective Tax Rate (%)	25.9	25.4		22.8		25.4	16.7	
Operating Profit Margin (%)	7.5	11.1		12.2		9.1	15.1	
PBT Margin (%)	8.6	12.4		13.6		10.3	15.7	
Core Net Profit Margin (%)	6.4	8.5		11.5		7.3	10.1	

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	1.13	1.50	32.7%	1,080.2	Y	05/2024	10.0	12.9	44.4%	31.3%	11.3	8.8	1.9	18.3%	1.0	0.9%
BM GREENTECH BHD	MP	0.965	0.720	-25.4%	497.9	Y	03/2024	4.5	4.4	65.2%	-2.6%	21.4	21.9	1.9	9.0%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.21	1.23	1.7%	340.6	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.8	1.3	13.6%	5.5	4.5%
HPP HOLDINGS BHD	OP	0.380	0.720	89.5%	147.6	Y	05/2024	3.7	5.5	52.7%	51.4%	10.4	6.9	1.1	11.0%	1.5	3.9%
KUMPULAN PERANGSANG SELANGOR	UP	0.795	0.510	-35.8%	427.2	Y	12/2023	1.3	5.1	-73.6%	279.2%	59.3	15.6	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.70	3.23	-12.7%	5,738.9	Y	07/2024	35.2	36.5	18.3%	3.6%	10.5	10.1	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.870	0.850	-2.3%	275.8	Y	12/2023	3.8	5.1	-27.3%	35.8%	23.0	16.9	1.5	6.3%	5.0	5.7%
TECHBOND GROUP BHD	OP	0.430	0.450	4.7%	229.5	Y	06/2024	3.8	4.1	-17.9%	9.5%	11.4	10.4	1.3	11.5%	1.5	3.5%
THONG GUAN INDUSTRIES BHD	OP	1.85	3.05	64.9%	730.8	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.0	6.7	0.8	10.2%	4.8	2.6%
Sector Aggregate					9,468.6					24.8%	12.7%	11.2	9.9	1.3	11.5%		2.9%

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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