

SLP Resources

Some Bright Spots Amidst a Soft Market

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SLP's FY24F earnings growth will be driven by increased sales of MDO-PE film in Southeast Asia and the introduction of new products in the Japanese market. In response to the current soft market, intensifying competition and lower resin prices, SLP has adjusted down its ASP. We keep our FY23F net profit but cut our FY24F earnings by 4% and maintain our TP of RM0.85 and MARKET PERFORM call.

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

- Some new drivers.** SLP is hopeful for improved sales in FY24 (which is consistent with our assumption) primarily driven by: (i) increased demand for its fully recyclable MDO-PE film in Southeast Asia, and (ii) the introduction of new products in the Japanese market such as tray liners for food packaging in convenience stores. It is hopeful for its utilisation to therefore rise from the current 50% to >55% by mid-2024 (which is still at a distance away from the optimal level of 75%-80%).
- Mono film is gaining traction.** There is a growing interest in its MDO-PE film, known for its sustainable and fully recyclable packaging attributes, as reflected in increased customer enquiries and requests for sample testing from some overseas buyers. Its frequent participation in trade shows such as Propak Vietnam 2023 recently is certainly helping. It also has plans to strengthen the barrier properties (i.e. resistance against light, moisture and oxygen) of its MDO-PE film via collaboration with its material supplier. This will make the film more suitable for food packaging and even enable it to extend the shelf life of the food.
- Price pressure.** In response to the current soft market, intensifying competition and lower resin prices, SLP has adjusted down its ASP. On a brighter note, this has made SLP's products more appealing to its Japanese customers who are struggling to cope with high import costs due to the weak JPY. In FY22, Japan accounted for 31% of SLP's total sales. On a more cautious note, this means SLP will not be able to fully pass on the higher labour and energy costs to its customers.

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.

Forecasts. We maintain our FY23F net profit but reduce FY24F earnings by 4% to account for persistent cost pressure.

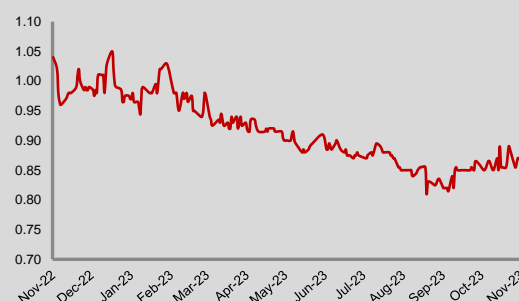
However, we keep our FY23-24 annual dividend forecast of 5.0 sen each, considering the company's strong net cash position of RM81m. Hence, we maintain our DDM-derived TP of RM0.85 (CAPM: 7.9%, TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

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, and (ii) robust cash flows and a strong balance sheet (a net cash position), enabling consistent and generous dividend payments. On the other hand, SLP will not be spared weak demand for plastic packaging amidst a global economic slowdown. Reiterate **MARKET PERFORM**.

MARKET PERFORM ↔

Price: RM0.860
Target Price: RM0.85 ↔

Share Price Performance



KLCI 1,464.68
YTD KLCI chg -2.1%
YTD stock price chg -13.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	272.6
Shares Outstanding	317.0
52-week range (H)	1.07
52-week range (L)	0.81
3-mth avg daily vol	52,154
Free Float	16%
Beta	0.5

Major Shareholders

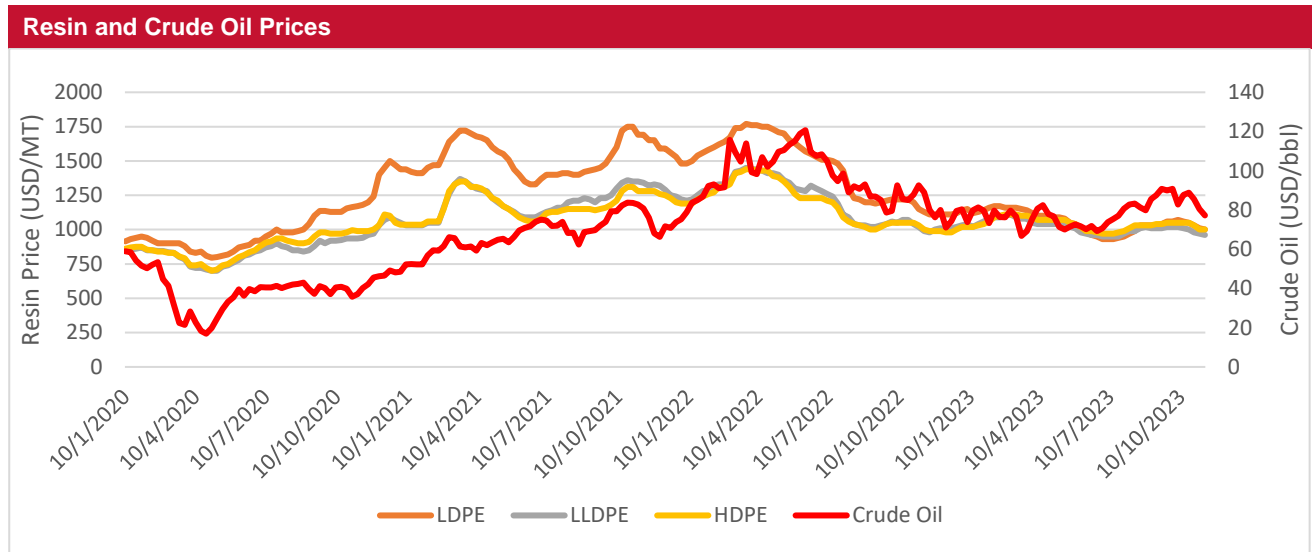
Khoon Tee & Family Sdn Bhd	41.5%
Khaw Seang Chuan	15.0%
Khaw Khoon Tee	9.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	185.7	163.4	174.3
EBIT	24.3	15.5	20.4
PBT	25.5	15.9	20.8
Net Profit (NP)	20.6	12.0	15.6
Core NP*	16.5	12.0	15.6
Consensus (NP)	-	14.5	18.0
Earnings Revision	-	-	-4%
Core EPS (sen)	5.2	3.8	4.9
EPS growth (%)	-5.5	-27.6	30.7
NDPS (sen)	5.5	5.0	5.0
BVPS (RM)	0.57	0.56	0.56
Core PER (x)	16.5	22.8	17.4
PBV (x)	1.4	1.4	1.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.4	5.8	5.8

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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 fluctuations in the foreign exchange market.



Source: Bloomberg, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	147.0	168.9	185.7	163.4	174.3	Growth (%)					
EBITDA	28.4	28.9	30.7	21.7	26.0	Revenue	-11.9	14.9	9.9	-12.0	6.7
Depr & Amort	-6.7	-6.1	-6.2	-6.2	-5.6	EBITDA	-7.0	1.6	6.4	-29.2	19.5
EBIT	21.6	22.6	24.3	15.5	20.4	EBIT	-10.7	4.7	7.6	-36.2	31.6
Finance Income	0.9	0.7	1.2	0.5	0.5	Pre-tax Income	-11.1	3.6	9.6	-37.5	30.7
PBT	22.5	23.3	25.5	15.9	20.8	PAT	-23.4	7.6	16.1	-41.9	30.7
Taxation	-6.0	-5.6	-5.0	-4.0	-5.2	Core Net Profit	-25.3	8.9	-5.5	-27.6	30.7
PAT	16.5	17.7	20.6	12.0	15.6	Profitability (%)					
Core Net Profit	16.1	17.5	16.5	12.0	15.6	EBITDA Margin	19.3	17.1	16.5	13.3	14.9
						EBIT Margin	14.7	13.4	13.1	9.5	11.7
						PBT Margin	15.3	13.8	13.7	9.8	12.0
						Net Margin	10.9	10.3	8.9	7.3	9.0
						Effective Tax Rate	26.8	23.9	19.4	25.0	25.0
						ROE	8.8	9.4	8.6	6.3	8.3
						ROA	7.4	8.1	7.2	5.3	7.0
						DuPont Analysis					
						Net Margin (%)	10.9	10.3	8.9	7.3	9.0
						Assets Turnover (x)	0.7	0.8	0.8	0.7	0.8
						Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
						ROE (%)	8.8	9.4	8.6	6.3	8.3
						Leverage					
						Debt/Asset (x)	0.01	0.00	0.00	0.01	0.01
						Debt/Equity (x)	0.01	0.00	0.00	0.01	0.01
						Net Debt/(Cash)	-74.4	-77.2	-83.4	-92.1	-90.5
						Net Debt/Equity (x)	-0.40	-0.41	-0.43	-0.47	-0.46
						Valuations					
						Core EPS (sen)	5.1	5.5	5.2	3.8	4.9
						DPS (sen)	5.50	5.50	5.50	5.00	5.00
						BVPS (RM)	0.6	0.6	0.6	0.6	0.6
						Core PER (x)	15.6	17.1	15.7	16.6	22.9
						N. Div. Yield (%)	6.4	6.4	6.4	5.8	5.8
						PBV (x)	1.5	1.5	1.4	1.4	1.4

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.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.16	1.50	29.3%	1,108.6	Y	05/2024	10.0	12.9	44.4%	31.3%	11.6	9.0	1.9	18.3%	1.0	0.9%
BM GREENTECH BHD	MP	0.995	0.720	-27.6%	513.4	Y	03/2024	4.5	4.4	65.2%	-2.6%	22.0	22.6	1.9	9.0%	1.8	1.8%
BP PLASTICS HOLDINGS BHD	MP	1.22	1.23	0.8%	343.4	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.9	1.3	13.6%	5.5	4.5%
HPP HOLDINGS BHD	OP	0.385	0.720	87.0%	149.5	Y	05/2024	3.7	5.5	52.7%	51.4%	10.5	7.0	1.1	11.0%	1.5	3.9%
KUMPULAN PERANGSANG SELANGOR	UP	0.770	0.510	-33.8%	413.8	Y	12/2023	1.3	5.1	-73.6%	279.2%	57.5	15.2	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.66	3.23	-11.7%	5,676.9	Y	07/2024	35.2	36.5	18.3%	3.6%	10.4	10.0	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.860	0.850	-1.2%	272.6	Y	12/2023	3.8	4.9	-27.3%	30.0%	22.7	17.5	1.4	6.3%	5.0	5.8%
TECHBOND GROUP BHD	OP	0.445	0.450	1.1%	237.5	Y	06/2024	3.8	4.1	112.8%	9.5%	11.8	10.8	1.3	11.5%	1.5	3.4%
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					9,446.6					24.8%	12.7%	11.1	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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