

06 March 2024

SLP Resources

A Safe Bet on Mono Film

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SLP is seeing an uptick in orders, especially for kitchen bag exports to Japan. It expects a pick-up in orders for its machine direction-oriented PE (MDO-PE) film in mid-FY24. We raise our FY24-25F earnings forecasts by 12% and 9%, respectively, lift our TP by 10% to RM1.06 (from RM0.96) and upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

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

- SLP guided for a moderate improvement in business in FY24 driven primarily by: (i) increased exports to Japan and New Zealand, (ii) sustained packaging demand in Malaysia, and (iii) more orders for its MDO-PE film. It has seen a surge in orders especially for kitchen bags since Dec 2023 which they believe is likely to be sustained. In FY23, kitchen bags accounted for 18% of its total revenue. At present, its utilisation stands at 58% (4QFY23: 52%), vs. optimal level of 70%. Meanwhile, we believe the improved topline performance will translate to better margins by virtue of economies of scale that will help to partially mitigate the elevated utility costs.
- SLP is hopeful that it will soon secure another buyer for its fully recyclable MDO-PE film, i.e. a multinational Japanese converter in Thailand. It recently received a positive trial report from the customer, validating that its samples have met stringent qualification requirements (including drop test, seal test, puncture test). SLP is optimistic that it will secure more orders after the Hari Raya break, which will double its mono film plant utilisation rate to 40% from 20% currently. The favourable response to SLP's mono film could be attributed to the trend towards sustainable packaging, driven by among others, more stringent packaging waste regulations in Europe and Vietnam.
- We understand that SLP is planning for RM20m capex in FY24, marking its first major capital investment since FY19. The capex will go to: (i) a new MDO-PE line (with a monthly capacity of 230 MT) (RM10m), which will make SLP one of the mono film giants in the region; and (ii) the acquisition of a new dormitory for foreign workers.

Forecasts. We raise our FY24F and FY25F earnings forecasts by 12% and 9%, respectively, to reflect improving demand and margins.

Valuations. Correspondingly, we lift our DDM-derived TP by 10% to RM1.06 as we revise our FY24-25F annual dividend forecast to 6.0 sen each (from 5.5 sen). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

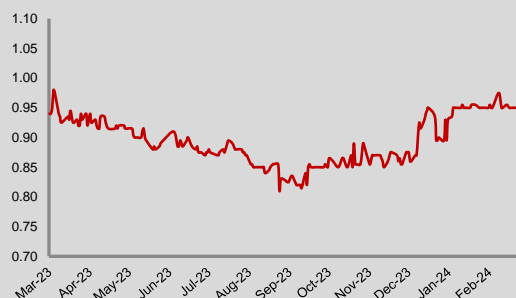
Investment case. We like SLP for its: (i) product mix which focuses on high-margin, non-commoditized products such as kangaroo pouches and mono films, (ii) robust cash flows and a strong balance sheet (a net cash position), enabling consistent and generous dividend payments, and (iii) prominent position in the regional mono film market, driven by its fully recyclable MDO-PE film in response to growing demand for sustainable packaging solutions. Upgrade to **OUTPERFORM** from **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 fluctuations in the foreign exchange market.

OUTPERFORM ↑

Price: **RM0.95**
Target Price: **RM1.06** ↑

Share Price Performance



KLCI 1,536.98
YTD KLCI chg 5.7%
YTD stock price chg 5.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	301.1
Shares Outstanding	317.0
52-week range (H)	0.98
52-week range (L)	0.81
3-mth avg. daily vol.	119,783
Free Float	16%
Beta	0.6

Major Shareholders

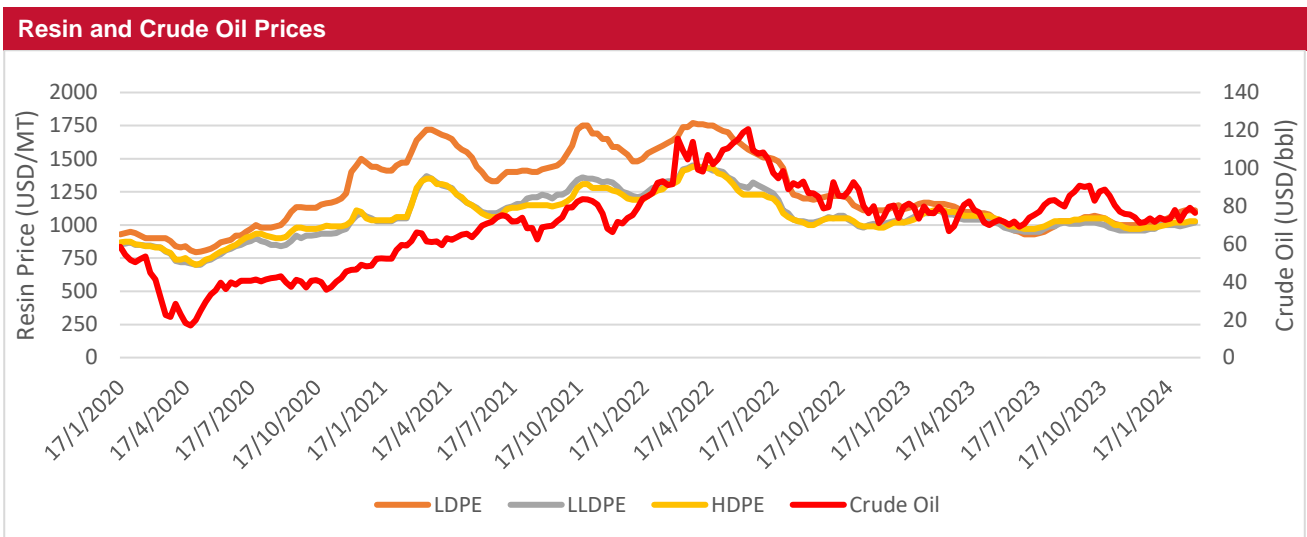
Khoon Tee & Family Sdn Bhd	41.5%
Khaw Seang Chuan	15.0%
Khaw Khoon Tee	9.9%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	162.3	193.3	223.8
EBIT	12.3	21.0	25.7
PBT	14.2	21.9	26.5
Net Profit (NP)	10.6	16.4	19.9
Core NP	10.9	16.4	19.9
Consensus (NP)	-	16.2	18.9
Earnings Revision	-	+12%	+9%
Core EPS (sen)	3.4	5.2	6.3
EPS Growth (%)	-34.2	50.7	21.1
NDPS (sen)	4.8	6.0	6.0
BVPS (RM)	0.56	0.55	0.55
Core PER (x)	27.7	18.4	15.2
PBV (x)	1.6	1.6	1.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	5.0	6.3	6.3



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Source: Bloomberg, Kenanga Research

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2024F
Revenue	168.9	185.7	162.3	193.3	223.8
EBITDA	28.9	30.7	5.8	26.8	32.7
Depr& Amort	-6.1	-6.2	6.5	-5.8	-7.0
EBIT	22.6	24.3	12.3	21.0	25.7
Finance Income	0.7	1.2	2.0	0.8	0.8
PBT	23.3	25.5	14.2	21.9	26.5
Taxation	-5.6	-5.0	-3.6	-5.5	-6.6
Net Profit	17.7	20.6	10.6	16.4	19.9
Core Net Profit	17.5	16.5	10.9	16.4	19.9

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2024F
Fixed Assets	61.9	59.4	55.9	67.5	60.6
Other investment	0.0	0.0	0.0	0.0	0.0
Other FA	9.4	9.8	10.0	10.0	10.0
Inventories	35.5	45.1	42.7	44.6	52.8
Receivables	31.3	31.4	26.8	34.8	39.9
Other CA	0.4	0.3	0.1	0.1	1.0
Cash	77.2	83.4	84.3	69.4	63.7
Total Assets	216.6	229.3	219.9	226.4	227.9
Payables	21.5	20.8	14.6	24.5	28.1
ST Borrowings	0.4	0.7	0.9	0.9	0.9
Other ST Liability	21.9	31.4	23.5	31.0	29.0
LT Borrowings	0.0	0.0	0.0	0.0	0.0
Other LT liability	9.4	9.8	9.3	9.3	9.3
Net Assets	185.3	193.1	191.1	189.0	189.7
Shr. Equity	113.7	113.7	113.7	113.7	113.7
Reserves	71.6	79.4	77.4	74.8	75.6
Total Equity	185.3	193.1	191.1	188.5	189.3

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2024F
Operating CF	19.6	16.3	15.4	24.0	18.3
Investing CF	0.0	6.1	1.5	-20.0	-5.0
Financing CF	-17.4	-17.4	-16.6	-19.0	-19.0

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2024F
Growth (%)					
Revenue	14.9	9.9	-12.6	19.1	15.8
EBITDA	1.6	6.4	-81.2	365.7	21.8
EBIT	4.7	7.6	-49.5	71.4	22.3
PBT	3.6	9.6	-44.3	53.6	21.1
Net Profit	7.6	16.1	-48.5	54.6	21.1
Core Net Profit	8.9	-5.5	-34.2	50.7	21.1
Profitability (%)					
EBITDA Margin	17.1	16.5	3.5	13.9	14.6
EBIT Margin	13.4	13.1	7.6	10.9	11.5
PBT Margin	13.8	13.7	8.8	11.3	11.8
Net Margin	10.3	8.9	6.7	8.5	8.9
Effective Tax Rate	23.9	19.4	25.5	25.0	25.0
ROE	9.4	8.6	5.7	8.7	10.5
ROA	8.1	7.2	4.9	7.2	8.7
DuPont Analysis					
Net Margin (%)	10.3	8.9	6.7	8.5	8.9
Assets Turnover (x)	0.8	0.8	0.7	0.9	1.0
Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
ROE (%)	9.4	8.6	5.7	8.7	10.5
Leverage					
Debt/Asset (x)	0.00	0.00	0.00	0.00	0.00
Debt/Equity (x)	0.00	0.00	0.00	0.00	0.00
Net Debt/(Cash)	-77.2	-83.4	-84.3	-69.4	-63.7
Net Debt/Equity (x)	-0.41	-0.43	-0.44	-0.36	-0.33
Valuations					
Core EPS (sen)	5.5	5.2	3.4	5.2	6.3
DPS (sen)	5.50	5.50	4.75	6.00	6.00
BVPS (RM)	0.6	0.6	0.6	0.6	0.6
Core PER (x)	17.2	18.2	27.7	18.4	15.2
N. Div. Yield (%)	5.8	5.8	5.0	6.3	6.3
PBV (x)	1.6	1.6	1.6	1.6	1.6

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.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																			
ANCOM NYLEX BHD	OP	1.04	1.50	44.2%	1,002.7	Y	05/2024	9.4	11.2	35.7%	21.3%	11.0	9.3	1.7	16.6%	1.0	10.4%	1.8	1.9%
BM GREENTECH BHD	UP	0.930	0.810	-12.9%	479.9	Y	03/2024	5.2	5.1	91.5%	-2.8%	17.8	18.3	1.8	10.4%	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.26	1.23	-2.4%	354.7	Y	12/2024	13.7	16.0	15.2%	16.3%	9.2	7.9	1.2	14.1%	6.5	14.1%	6.5	5.2%
HPP HOLDINGS BHD	OP	0.320	0.640	100.0%	124.3	Y	05/2024	2.7	4.9	14.0%	81.1%	11.7	6.5	1.0	8.4%	1.5	8.4%	1.5	4.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.735	0.450	-38.8%	395.0	Y	12/2024	4.0	4.7	422.0%	18.7%	18.5	15.6	0.4	2.0%	2.0	2.0%	2.0	2.7%
SCIENTEX BHD	MP	3.78	3.63	-4.0%	5,863.8	Y	07/2024	35.2	36.5	31.7%	3.6%	10.7	10.4	1.5	14.4%	11.0	14.4%	11.0	2.9%
SLP RESOURCES BHD	OP	0.950	1.06	11.6%	301.1	Y	12/2024	5.2	6.3	50.5%	21.3%	18.4	15.1	1.6	8.6%	6.0	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.410	0.450	9.8%	219.5	Y	06/2024	3.8	4.1	112.8%	9.5%	10.9	9.9	1.2	11.5%	1.5	11.5%	1.5	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.87	2.86	52.9%	742.7	Y	12/2024	25.8	30.0	22.2%	16.6%	7.3	6.2	0.7	10.3%	5.5	10.3%	5.5	2.9%
Sector Aggregate					9,483.7					51.4%	9.2%	10.8	9.9	1.2	11.3%				3.5%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★			
	Resource Management	★	★	★		
	Supply Chain Management	★	★	★		
	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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