

06 May 2024

SLP Resources

A Japanese Delight

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SLP's 1QFY24 results beat expectations. Its 1QFY23 core net profit soared 64% on an improved product mix. We expect sustained recovery driven by the export of kitchen bags and garbage bags to Japan. We raise our FY24F and FY25F earnings forecasts by 13% and 12%, respectively, lift our TP by 10% to RM1.16 (from RM1.06) and maintain our OUTPERFORM call.

SLP's 1QFY24 core net profit of RM4.7m beat expectations, coming in at 29% and 28% of our full-year forecast and the consensus full-year estimate, respectively. The key variance against our forecast came largely from stronger-than-expected margins. It declared an interim dividend of 1 sen, on track to meet our full-year forecast of 6 sen.

YoY, its 1QFY24 revenue inched up 1% as higher sales to Japan (+38%) especially for its kitchen bags and garbage bags, more than cushioned weaker sales locally (-11%) and to Australia (-53%). In FY23, Japan, Malaysia and Australia contributed 29%, 65% and 3% of SLP's total sales, respectively.

However, its core net profit surged by a much sharper 64% thanks to: (i) a better product mix, with a greater proportion of higher-margin manufacturing sales vs. low-margin trading of resins, and (ii) improved economies of scale on a higher production volume. In FY23, manufacturing and trading of resins accounted for 62% and 38% of its FY23 total revenue, respectively.

QoQ, its 1QFY24 turnover declined 5% due to softer domestic sales (-13% QoQ), we believe, as certain local players sought to gain market share at the expense of selling prices. Nonetheless, its core net profit more than doubled on improved economies of scale on a higher utilisation rate of about 60% (from 52% in 4QFY23).

Outlook. We expect sustained recovery in demand for its plastic packaging products, especially with a strong offtake from the Japanese market, resulting in higher production, utilisation and hence operational efficiency. A booming tourism industry in Japan on the back of a weak Yen is boosting demand for SLP's kitchen bags and garbage bags in that market.

SLP remains focused on premium products like the MDO-PE film (fully recyclable mono film) to ride on the adoption of sustainable packaging globally. Its new MDO-PE film machine with a production capacity of 230MT/month is on track to come onstream by Oct 2024, boosting its MDO-PE film production capacity by >60% to 600MT/month. By end-2024, we estimate that MDO-PE production capacity will make up about 25% of its total production capacity.

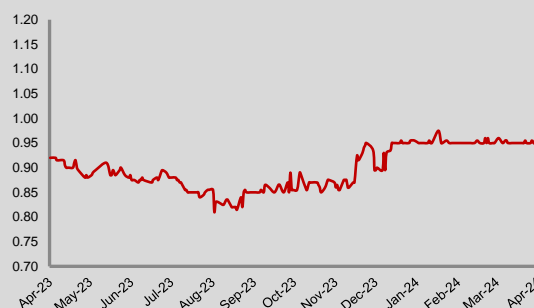
Forecasts. We raise our FY24F and FY25F earnings forecasts by 13% and 12%, respectively, to reflect better margins.

Valuations. Consequently, we raise our DDM-derived TP by 10% to RM1.16 (from RM1.06) as we lift our terminal growth rate assumption to 2.5% (from 2%) to reflect the improved outlook. We maintain our FY24F dividend forecast of 6 sen backed by its strong net cash position of RM87m. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

OUTPERFORM ↔

Price: **RM1.09**
Target Price: **RM1.16** ↑

Share Price Performance



KLCI	1,589.59
YTD KLCI chg	9.3%
YTD stock price chg	21.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SLPR MK EQUITY
Market Cap (RM m)	345.5
Shares Outstanding	317.0
52-week range (H)	1.09
52-week range (L)	0.81
3-mth avg. daily vol.	74,909
Free Float	15%
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)	2023A	2024F	2025F
Turnover	162.3	181.6	210.7
EBIT	12.3	23.8	30.0
PBT	14.2	24.6	29.6
Net Profit	10.6	18.4	22.2
Core Net Profit	10.9	18.4	22.2
Consensus	-	16.7	19.3
Earnings Revision	-	+13%	+12%
Core EPS (sen)	3.4	5.8	7.0
Core EPS Growth (%)	-34.2	69.5	20.4
NDPS (sen)	4.8	6.0	6.0
BVPS (RM)	0.56	0.56	0.57
Core PER (x)	31.8	18.7	15.6
P/BV (x)	1.8	1.8	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.4	5.5	5.5

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Investment case. We like SLP for its: (i) product mix which focuses on high-margin, non-commoditised 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. Reiterate **OUTPERFORM**.

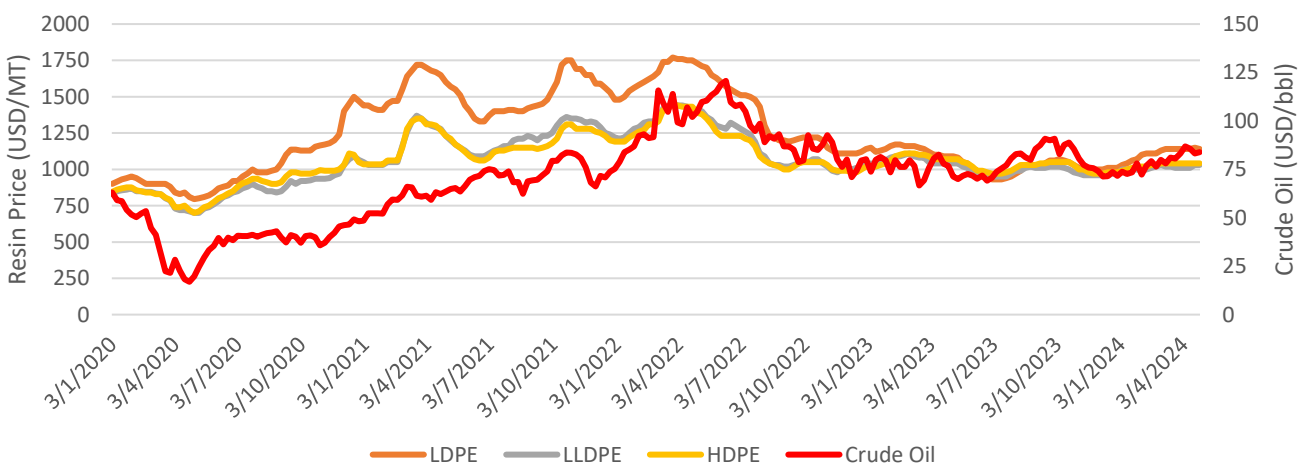
Risks to our call include: (i) an extended slowdown in the global economy, dampening consumer demand for plastic packaging, (ii) a sharp rise in resin prices, and (iii) adverse fluctuations in the foreign exchange market.

Results Highlights

FYE Dec (RM m)	1QFY24	4QFY23	QoQ Chg	1QFY23	YoY Chg
Revenue	40.8	42.8	-5%	40.3	1%
EBIT	6.0	1.4	318%	3.5	69%
Finance income	0.5	0.5	4%	0.5	4%
PBT	6.5	1.9	238%	4.0	61%
Taxation	-1.6	-0.5	214%	-1.0	55%
Net profit	4.9	1.4	246%	3.0	63%
Core net profit	4.7	2.1	121%	2.9	64%
EPS (sen)	1.6	0.4	246%	1.0	63%
Core EPS (sen)	1.5	0.7	121%	0.9	64%
Effective tax rate (%)	24.0	25.9		25.0	
EBIT margin (%)	14.7	3.3		8.8	
PBT margin (%)	15.9	4.5		10.0	
Core net profit margin (%)	11.6	5.0		7.2	

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) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.01	1.50	48.5%	969.0	Y	05/2024	8.5	11.2	20.5%	36.7%	11.9	9.0	1.6	14.9%	1.0	1.0%
BM GREENTECH BHD	UP	1.24	0.810	-34.7%	639.8	Y	03/2024	5.2	5.1	91.5%	-2.8%	23.7	24.4	2.4	10.4%	1.8	1.5%
BP PLASTICS HOLDINGS BHD	OP	1.54	1.42	-7.8%	433.5	Y	12/2024	14.2	16.4	19.7%	15.5%	10.8	9.4	1.5	14.6%	6.5	4.2%
HPP HOLDINGS BHD	MP	0.350	0.320	-8.6%	136.0	Y	05/2024	0.7	2.2	-69.9%	203.6%	48.6	16.0	1.1	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.760	0.450	-40.8%	408.4	Y	12/2024	4.0	4.7	422.0%	18.7%	19.1	16.1	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	MP	4.20	3.68	-12.4%	6,515.3	Y	07/2024	35.3	36.5	32.1%	3.5%	11.9	11.5	1.6	14.5%	11.0	2.6%
SLP RESOURCES BHD	OP	1.09	1.16	6.4%	345.5	Y	12/2024	5.8	7.0	68.8%	20.7%	18.8	15.6	1.8	9.6%	6.0	5.5%
TECHBOND GROUP BHD	OP	0.455	0.500	9.9%	243.9	Y	06/2024	3.7	4.3	112.8%	14.0%	12.1	10.6	1.2	10.9%	0.8	1.6%
THONG GUAN INDUSTRIES BHD	OP	2.12	2.86	34.9%	848.1	Y	12/2024	25.8	30.0	22.2%	16.6%	8.2	7.1	0.8	10.3%	5.5	2.6%
Sector Aggregate					10,539.5					49.1%	10.3%	12.2	11.1	1.4	11.2%		2.6%

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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