

04 June 2024

SKP Resources

Turning the Corner

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SKPRES's FY24 results beat expectations. Nonetheless, its FY24 core net profit still fell 31% YoY on lower orders across its product portfolio. It guided for positive outlook driven by improved orders from its existing customers and the potential onboarding of two new customers. We lift our FY25F net profit forecast by 14%, increase our TP by 59% to RM1.35 (from RM0.85) and upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

SKPRES's FY24 net profit of RM96.8m beat our forecast and consensus estimate by 9% and 5%, respectively. The variance against our forecast came largely from better-than-expected loading volume in 4QFY24.

YoY, SKPRES's FY24 revenue declined 25.9% on the back of lower orders across its product portfolio amidst weak consumer sentiment, resulting in a slump in demand for household products. Correspondingly, its core net profit fell 31%.

QoQ, its 4QFY24 revenue inched up 1.3% but core net profit grew by a sharper 5.3% on improved margins from internal cost control initiatives and operational efficiency boost to counter lower loading volumes.

Outlook. SKPRES guided for growth to resume in FY25 on pickup in order from its existing customers (although it is still some distance away from its peak revenue of RM2.5b in FY23 but is certainly on the right track towards the number). Mindful of its customer concentration risk, the group has stepped up its efforts to diversify its customer base. It is in the midst of securing two new potential customers with intentions to begin production towards end-2024. Meanwhile, it will continue to work towards learner and more effective operating structure

Forecasts. We raise our FY25F earnings forecast by 14% and introduce our FY26F number which projects a 15% growth.

Valuations. Consequently, we increase our TP by 59% to **RM1.35** (from RM 0.85) based on a higher 16x (previously 15x) on rolled-forward FY26F EPS. The higher valuation reflects the uptrend in peer's forward mean but we still retain a c.10% discount as the group still lacks customer diversity compared to peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like SKPRES as: (i) a good proxy to an innovative premium consumer electronics brand, (ii) it has an edge over its peers given its vertical integration, and (iii) it employs an effective cost pass-through model. Given that its earnings trajectory has resumed on an upward direction coupled with a rerating across tech names, we upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

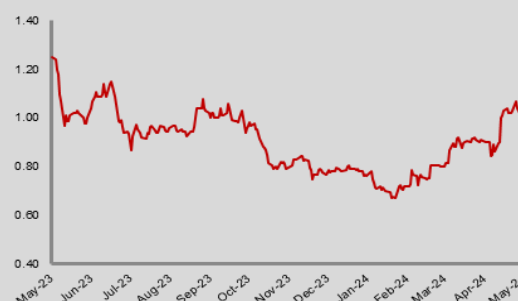
Risks to our call include: (i) new products hitting mass production stage slower-than-expected, (ii) a weaker recovery in its order flow, and (iii) customer concentration risk stays high.

OUTPERFORM ↑

Price: **RM1.09**

Target Price: **RM1.35** ↑

Share Price Performance



KLCI	1,547.6
YTD KLCI chg	6.4%
YTD stock price chg	-10.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,179.6
Shares Outstanding	1,562.4
52-week range (H)	1.70
52-week range (L)	0.66
3-mth avg. daily vol:	3,008,750
Free Float	47.0%
Beta	0.6

Major Shareholders

Beyond Imagination Sdn Bhd	14.2%
EPF	9.0%
KWAP	8.8%

Summary Earnings Table

FYE Mar (RM m)	2024A	2025F	2026F
Turnover	1863.4	2007.6	2258.0
EBITDA	173.1	211.6	232.4
PBT	125.9	149.3	172.2
Net Profit (NP)	96.8	114.7	132.3
Consensus (NP)	-	113.3	145.3
Earnings Revision	-	+14%	NEW
EPS (sen)	6.2	7.3	8.5
EPS Growth (%)	-33.0	18.6	15.3
NDPS (sen)	3.1	3.7	4.2
BVPS (RM)	0.6	0.6	0.7
PER (x)	17.6	14.8	12.9
PBV (x)	1.9	1.8	1.7
Net Gearing (x)	-	(0.1)	(0.1)
Dividend Yield (%)	2.8	3.4	3.9

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Results Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	458.8	453.1	1.3%	483.3	-5.1%	1863.4	2515.0	-25.9%
EBIT	31.7	30.8	2.9%	17.6	79.9%	127.2	179.2	-29.1%
Interest Expense	0.9	-0.7	218.5%	-1.1	181.0%	-1.3	1.7	-173.0%
EI	0.0	0.0				0.0	0.0	
PBT	32.5	30.0	8.3%	16.5	96.6%	125.9	177.2	-28.9%
Taxation	-7.9	-6.6	-19.0%	-0.4	-1747.1%	-29.1	-36.7	20.5%
Net Profit	24.7	23.4	5.3%	16.1	53.1%	96.8	140.5	-31.1%
EPS (sen)	1.6	1.5	5.3%	1.0	53.1%	6.2	9.0	-31.1%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	6.9%	6.8%		3.6%		6.8%	7.1%	
PBT margin	7.1%	6.6%		3.4%		6.8%	7.0%	
NP margin	5.4%	5.2%		3.3%		5.2%	5.6%	
Effective tax rate	-24.1%	-22.0%		-2.6%		-23.1%	-20.7%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt 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.
D&O GREEN TECHNOLOGIES BHD	MP	3.68	3.60	-2.2%	4,557.5	Y	12/2024	8.5	12.0	133.7%	41.6%	43.5	30.7	4.6	10.8%	1.4	0.4%
GHL SYSTEMS BHD	AO	1.06	1.08	1.9%	1,210.0	Y	12/2024	2.4	2.8	-3.5%	15.8%	44.4	38.4	2.2	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.25	4.00	23.1%	12,232.2	Y	06/2024	9.4	11.8	8.6%	25.8%	34.5	27.4	4.6	13.4%	8.9	2.7%
JHM CONSOLIDATION BHD	MP	0.620	0.610	-1.6%	375.7	Y	12/2023	3.3	4.1	40.0%	21.7%	18.6	15.2	1.1	6.2%	0.5	0.8%
KELINGTON GROUP BHD	OP	3.15	4.10	30.2%	2,108.6	Y	12/2024	16.1	19.4	1.0%	20.5%	19.5	16.2	4.9	27.7%	4.5	1.4%
KESM INDUSTRIES BHD	MP	6.18	7.04	13.9%	265.8	Y	07/2024	4.0	8.1	-65.1%	102.8%	154.2	76.0	0.7	0.5%	0.0	0.0%
LGMS BHD	OP	1.41	1.90	34.8%	643.0	Y	12/2024	4.6	6.3	88.4%	37.0%	30.5	22.3	6.2	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	37.10	46.84	26.3%	7,380.3	Y	06/2024	74.5	138.0	141.8%	85.2%	49.8	26.9	3.5	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.85	2.06	11.4%	3,836.8	Y	12/2024	6.3	8.3	114.8%	30.8%	29.3	22.4	7.2	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.40	1.70	21.4%	896.4	Y	03/2024	5.7	6.5	165.0%	15.4%	24.7	21.4	5.1	22.4%	1.4	1.0%
P.I.E. INDUSTRIAL BHD	OP	5.92	6.75	14.0%	2,273.5	Y	12/2024	22.2	28.7	15.7%	29.3%	26.7	20.6	3.4	13.4%	7.0	1.2%
SKP RESOURCES BHD	OP	1.09	1.35	23.9%	1,703.0	Y	03/2024	7.3	8.5	18.5%	15.3%	14.9	12.8	1.8	12.4%	3.7	3.4%
UNISEM (M) BHD	MP	4.10	3.70	-9.8%	6,613.6	Y	12/2024	10.2	12.7	100.1%	24.9%	40.3	32.3	2.7	6.8%	6.0	1.5%
Simple Average										44.1%	32.8%	33.7	25.4	3.7	13.5%		1.1%

Source: Bloomberg, 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	★	★	☆
	OVERALL	★	★	★
SPECIFIC	Foreign Worker Welfare	★	★	★
	Supply Chain Auditing	★	★	★
	Waste disposal / pollution control	★	★	☆
	Energy Efficiency	★	★	★
	Work Site Safety	★	★	★
	Digital Transformation	★	★	☆

☆ 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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