

16 August 2019

## SKP Resources

### Initial Lower Efficiency Could Be A Drag

By **Adrian Kok** | [adrian.kok@kenanga.com.my](mailto:adrian.kok@kenanga.com.my); **Lavis Chong** | [lavis.chong@kenanga.com.my](mailto:lavis.chong@kenanga.com.my)

SKPRES is scheduled to release its 1Q20 results in the last week of August. With minimal new developments, we expect earnings to come in flattish sequentially, around RM20m. Although we expect earnings to pick up from 2Q20, recovery could be slightly softer than anticipated due to initial lower efficiency from newer products. Reduce FY20-21E earnings by 7%/4%. Downgrade to MARKET PERFORM with a lower Target Price of RM1.20.

**Expecting 1Q20 to come in flattish sequentially.** SKPRES is scheduled to release its 1Q20 results towards end of August. With minimal new developments, we expect flattish sequential earnings of around RM20m (vs. RM20.1m in 4Q19), making up 16% of our initial full-year estimate of RM126.5m due to seasonality. Nevertheless, we expect to see earnings picking up from 2Q20 onwards with (i) seasonal production ramp-up ahead of festive seasons, (ii) contributions from its new model variant for one of its conventional electrical appliances (production started in July 2019), and (iii) new lifestyle product (starting in November-2019) from its key customer.

**Initial lower efficiency.** While we expect to see earnings picking up from 2Q20 onwards, we believe the recovery may not be as strong as anticipated earlier owing to: (i) start-up costs for the two new products, and (ii) initial lower efficiency due to production learning curve. From our channel checks, we gathered that one of its closest peers have had such experience during the production of a similar product. However, we reckon the impact should be less severe to SKPRES. The peer, on top of initial lower efficiency (due to learning curve), also incurred additional expenses to perfect its new product and to ramp up production to be on time.

**PCBA line and new model variant have commenced.** The group's first PCBA line has commenced in April, while the new model variant started last month. The PCBA line is expected to enhance net margins by up to 0.5ppt, although the effect is more likely to be felt in FY21 due to initial inefficiency. Having said that, the commencement of the group's PCBA line could pave the way for more contracts given the key customer's emphasis for its contract manufacturers to be vertically integrated. In anticipation of new products, SKPRES has already identified a 2.2-acre land and placed orders for new plastic injection machines. Additionally, with its Johor plant having c.50% floor space availability, the group also has ample capacity to cater for new contracts.

**Reduce FY20-21E earnings by 7%/4% to RM117.8m-RM137.8m** as we trim our slightly bullish FY20-21E sales assumption by 7%/4%.

**Downgrade to MARKET PERFORM (from OUTPERFORM) with a lower Target Price of RM1.20 (previously RM1.40)** based on a lower FY20 PER of 13.0x (vs. peers' average of 13x). Note that among its closest peers, SKPRES pays the highest quantum of dividend (50% payout) translating into decent FY20-21E dividend yield of 4.1-4.8%.

**Risks to our call include:** (i) less aggressive expansion from its key customer which translates to lower-than-expected orders, (ii) higher/lower-than-expected start-up costs, (iii) higher/lower-than-expected input costs, and (iv) single customer concentration risk.

## MARKET PERFORM

Price : RM1.17  
Target Price : RM1.20

### Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	11.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,462.7
Shares Outstanding	1,250.2
52-week range (H)	1.45
52-week range (L)	0.95
3-mth avg daily vol:	605,089
Free Float	62%
Beta	1.1

### Major Shareholders

Beyond Imagination Sdn Bhd	14.4%
Kumpulan Wang Persaraan	14.3%
Gan Kim Huat	9.5%

### Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	1664.9	2080.0	2356.5
EBITDA	140.0	172.9	207.6
PBT	125.2	157.0	183.7
Net Profit (NP)	97.0	117.8	137.8
Consensus (NP)	n.a.	129.4	149.4
Ergn Revision	n.a.	-7%	-4%
EPS (sen)	7.8	9.4	11.0
EPS growth (%)	-24.8	21.5	17.0
NDPS (sen)	4.0	4.8	5.6
BVPS (RM)	0.5	0.5	0.6
PER (x)	15.1	12.4	10.6
PBV (x)	2.5	2.3	2.0
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Dividend Yield (%)	3.4	4.1	4.8



**Income Statement**

FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,943.6	2,095.0	1,664.9	2,080.0	2,356.5
EBITDA	159.2	168.8	140.0	172.9	207.6
Depre & Amor	-20.6	-15.5	-22.1	-21.0	-30.1
Operating Profit	138.7	153.3	117.9	151.9	177.5
Other Income	19.6	28.9	21.0	20.8	23.6
Interest Exp	-0.2	2.9	7.3	5.1	6.2
Associate	0.0	0.0	0.0	0.0	0.0
PBT	138.5	156.2	125.2	157.0	183.7
Taxation	-35.2	-29.6	-28.3	-39.3	-45.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
PATAMI	103.3	126.7	97.0	117.8	137.8
Core PATAMI	103.4	126.7	97.0	117.8	137.8

**Balance Sheet**

FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	180.4	184.7	186.8	205.8	235.7
Intangible Assets	16.7	16.3	15.9	15.9	15.9
Other FA	1.8	1.8	1.8	1.8	1.8
Inventories	160.8	119.7	93.6	118.5	133.5
Receivables	567.2	395.8	333.4	393.0	445.2
Other CA	80.3	124.4	217.4	217.4	217.4
Cash	45.8	63.1	40.2	38.5	44.5
<b>Total Assets</b>	<b>1,053.1</b>	<b>905.8</b>	<b>889.1</b>	<b>990.8</b>	<b>1,094.0</b>
Payables	505.0	333.6	281.2	330.3	372.1
ST Borrowings	66.1	0.1	0.1	0.1	0.1
Other ST Liability	0.9	0.4	0.0	-5.1	-11.3
LT Borrowings	7.4	0.3	0.2	0.2	0.2
Other LT Liability	18.1	14.5	17.1	17.1	17.1
<b>Net Assets</b>	<b>455.6</b>	<b>557.0</b>	<b>590.6</b>	<b>648.3</b>	<b>715.8</b>
Shr. Equity	455.6	557.0	590.6	648.3	715.8
Mnrt. Interest	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>455.6</b>	<b>557.0</b>	<b>590.6</b>	<b>648.3</b>	<b>715.8</b>

**Cashflow Statement**

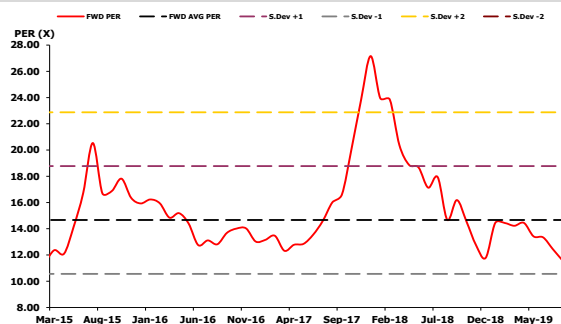
FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	32.5	185.5	147.6	98.3	136.3
Investing CF	-63.3	-67.3	-107.0	-40.0	-60.0
Financing CF	30.4	-100.2	-63.5	-60.1	-70.3

Source: Kenanga Research

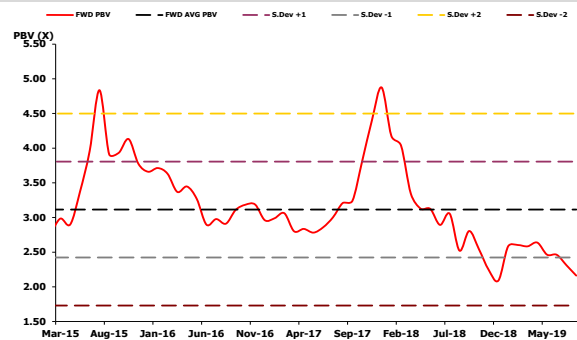
**Financial Data & Ratios**

FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
<b>Growth (%)</b>					
Turnover	91.4	7.8	-20.5	24.9	13.3
EBITDA	30.5	6.0	-17.0	23.5	20.0
Operating Profit	34.8	10.6	-23.1	28.8	16.8
PBT	36.6	12.8	-19.9	25.4	17.0
Adj Net Profit	26.7	22.5	-23.5	21.5	17.0
<b>Profitability (%)</b>					
EBITDA Margin	8.2	8.1	8.4	8.3	8.8
Operating Margin	7.1	7.3	7.1	7.3	7.5
PBT Margin	7.1	7.5	7.5	7.5	7.8
Core Net Margin	5.3	6.0	5.8	5.7	5.8
Effective Tax Rate	25.4	18.9	22.6	22.6	22.6
ROA	9.8	14.0	10.9	11.9	12.6
ROE	22.7	22.7	16.4	18.2	19.2
<b>DuPont Analysis</b>					
Net Margin (%)	5.3	6.0	5.8	5.7	5.8
Assets Turnover (x)	1.8	2.3	1.9	2.1	2.2
Leverage Factor (x)	2.3	1.6	1.5	1.5	1.5
ROE (%)	22.7	22.7	16.4	18.2	19.2
<b>Leverage</b>					
Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.2	0.0	0.0	0.0	0.0
Net Cash/(Debt)	27.7	-62.7	-40.0	-38.2	-44.2
Net Debt/Equity (x)	0.1	-0.1	-0.1	-0.1	-0.1
<b>Valuations</b>					
Core EPS (sen)	8.7	10.3	7.8	9.4	11.0
DPS (sen)	4.2	5.3	4.0	4.8	5.6
BVPS (RM)	0.4	0.5	0.5	0.5	0.6
PER (x)	13.5	11.3	15.1	12.4	10.6
Div. Yield (%)	3.5	4.5	3.4	4.1	4.8
P/BV (x)	3.1	2.6	2.5	2.3	2.0
EV/EBITDA (x)	8.8	8.1	10.2	8.2	6.8

**Fwd PER Band**



**Fwd PBV Band**



Source: Bloomberg, Kenanga Research

16 August 2019

## Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BERHAD	0.550	610.5	Y	12/2019	3.7%	10.5%	8.6%	20.8%	16.9	16.6	14.7	2.0	2.0	11.6%	2.0%	0.675	OP
KESM INDUSTRIES BERHAD	7.00	301.1	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.7	26.2	15.0	0.8	0.8	3.2%	2.6%	8.70	OP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	8.40	1,670.7	N	06/2019	8.1%	5.3%	16.0%	5.8%	9.8	8.4	8.0	1.5	1.4	13.6%	3.7%	12.10	OP
P.I.E. INDUSTRIAL BERHAD	1.09	418.6	Y	12/2019	5.5%	7.3%	-4.0%	11.9%	9.9	10.3	9.2	1.0	0.9	9.4%	4.6%	1.25	MP
SKP RESOURCES BHD	1.17	1,462.7	Y	03/2020	24.9%	13.3%	21.5%	17.0%	15.1	12.4	10.6	2.5	2.3	19.0%	4.1%	1.20	MP
UNISEM (M) BERHAD	2.03	1,476.0	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	15.5	20.9	15.9	1.0	1.0	4.9%	3.0%	2.05	MP

Source: Kenanga Research

16 August 2019

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

