

30 August 2019

SKP Resources

1Q20 Missed Expectations

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1Q20 NP missed our/consensus estimates, at 16%/14% of full-year forecasts due to slower uptake for its conventional electrical appliances. The absence of dividends was expected. Trim FY20-21E NP by 4% after reducing sales assumptions, also by 4%. Maintain MARKET PERFORM with a lower Target Price of RM1.15.

1Q20 missed expectations. 1Q20 Net Profit (NP) of RM18.5m (-10% QoQ; -29% YoY) missed expectations, making up 16%/14% of our/consensus estimates. The negative deviation is due to: (i) slower uptake for its conventional electrical appliances due to its key customer shifting to evolutionary model. Absence of dividend was as expected.

Results highlight. YoY, 3M20 NP fell (-29%) to RM18.5m, alongside (i) a decline in revenue (-16%) on lower contributions from its conventional electrical appliances due to a key customer's shift to evolutionary model, and (ii) higher staff cost incurred to prepare for new products, which eroded EBIT margin (-1.5ppt) to 6.0%. QoQ, despite a slight increase (+2%) in revenue, 1Q20 NP declined (-10%) mainly attributed to: (i) higher effective tax rate (+6.4ppt) of 23.0%, and (ii) lower interest income.

PCBA line a silver lining. As we understand, the group's first PCBA line has commenced in April, while we believe additional PCBA lines could begin in Sep and Nov 2019. The PCBA lines are 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, we believe 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.

Trim FY20-21E NP by 4% to RM112.5-132.4m as we reduced FY20-21E sales assumptions, also by 4%.

Maintain MARKET PERFORM with a lower Target Price of RM1.15 (previously RM1.20) based on an unchanged 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) higher/lower-than-expected orders from its customers, (ii) higher/lower input costs, and (iii) single customer concentration risk.

MARKET PERFORM ↔

Price : RM1.09
Target Price : RM1.15 ↓

Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	3.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SKP MK Equity
Market Cap (RM m)	1,362.7
Shares Outstanding	1,250.2
52-week range (H)	1.45
52-week range (L)	0.95
3-mth avg daily vol:	634,410
Free Float	62%
Beta	1.1

Major Shareholders

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

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	1664.9	1980.0	2259.0
EBITDA	140.0	165.9	199.5
PBT	125.2	150.0	175.6
Net Profit (NP)	97.0	112.5	131.7
Consensus (NP)	n.a.	127.6	148.4
Erg Revision (%)	n.a.	-4%	-4%
EPS (sen)	7.8	9.0	10.5
EPS growth (%)	-24.8	16.0	17.1
NDPS (sen)	3.8	4.5	5.3
BVPS (RM)	0.5	0.5	0.6
PER (x)	14.1	12.1	10.3
PBV (x)	2.3	2.1	1.9
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Dividend Yield (%)	3.5	4.1	4.8

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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Mar (RM'm)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	362.5	357.1	1.5%	430.5	-15.8%	362.5	430.5	-15.8%
EBIT	21.7	21.5	1.0%	32.1	-32.3%	21.7	32.1	-32.3%
PBT	23.5	24.1	-2.2%	33.5	-29.7%	23.5	33.5	-29.7%
Taxation	-5.4	-4.0	-35.8%	-7.7	29.9%	-5.4	-7.7	29.9%
Net Profit	18.5	20.4	-9.5%	25.8	-28.5%	18.5	25.8	-28.5%
EPS (sen)	1.5	1.6	-9.2%	2.1	-28.5%	1.5	2.1	-28.5%
NDPS (sen)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	6.0%	6.0%		7.5%		6.0%	7.5%	
PBT margin	6.5%	6.7%		7.8%		6.5%	7.8%	
NP margin	5.1%	5.7%		6.0%		5.1%	6.0%	
Effective tax rate	-23.0%	-16.6%		-23.1%		-23.0%	-23.1%	

Source: Kenanga Research

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Peers Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
D&O GREEN TECHNOLOGIES BHD	0.500	555.0	Y	12/2019	3.7%	10.5%	22.2%	21.8%	18.9	16.5	14.5	1.8	1.8	10.6%	2.2%	0.625	OP
KESM INDUSTRIES BHD	6.75	290.3	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.4	25.2	14.5	0.8	0.8	3.2%	2.7%	8.70	OP
MALAYSIAN PACIFIC INDUSTRIES	8.44	1,678.7	N	06/2020	5.0%	5.0%	25.4%	4.6%	12.5	10.0	9.5	1.5	1.5	11.8%	3.9%	12.10	OP
PIE INDUSTRIAL BHD	1.11	426.3	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	10.1	10.9	9.4	1.0	1.0	9.1%	4.5%	1.20	MP
SKP RESOURCES BHD	1.09	1,362.7	Y	03/2020	18.9%	14.1%	16.0%	17.1%	14.1	12.1	10.3	2.3	2.1	18.2%	4.1%	1.15	MP
UNISEM (M) BERHAD	1.92	1,396.0	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	14.6	19.8	15.0	1.0	1.0	4.9%	3.1%	2.05	MP

Source: Bloomberg, Kenanga Research

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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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