

SLP Resources Bhd

Back on track

Summary

- SLP Resources Bhd (SLP) saw its operations returned to full force in recent months as the company ramp up their production to fulfil the backlog orders. Although the recovery is on the cards, we think that production has yet to reach pre-Covid-19 levels as demand remain relatively sluggish, particularly from Europe that is remain beleaguered by the continuous rising new daily cases. Nevertheless, the worst could be over for SLP as days of recovery are set to shape up in FY21f.
- Moving forward, SLP will focus on production of garbage and kitchen bags for the Asia Pacific region, premised to the rising demand in line with the increase in global population growth. At the same time, demand for packaging materials are expected to remain solid due to the change in the consumer trends that are opting for take away/delivery as oppose to the traditional dining out as a measure to minimize human contact.
- At the same time, we note that demand from Australia and New Zealand for retail packaging (shopping bags) have returned to pre-Covid-19 level. This bodes well, although contribution from the aforementioned countries historically makes up less than 10.0% of total revenue.
- On the supply side, we note that resin prices have soared above US\$1,100 per tonne, from the low of US\$800 per tonne registered in May 2020. The higher prices underscored the recovery in demand for plastic packing raw materials and we think that the trend will remain firm throughout 4Q2020.
- In the meantime, the US Dollar averaging at USD/MYR 4.23 YTD bodes well for SLP with majority of the sales are exported to overseas, mainly to Japan and Australia. The prevailing weak local currency may sustain SLP margins which provide some cushion to impact from the weaker top line performance.

Valuation & Recommendation

- We made no changes to our earnings forecast, pending the release of 3QFY20 results tentatively in early-November 2020. Hence, we maintained our **SELL** recommendation on SLP with an unchanged target price of RM0.80. Our target price is based on an unchanged target PER of 13.0x to our FY21f EPS of 6.2 sen. While the assigned PER is slightly higher than its closest peer; Thong Guan Industries Bhd, we think is justifiable due to SLP's superior double-digit margins and proven track record.
- We reckon that SLP is well equipped to weather the current downturn, backed by solid balance sheet with net cash of RM76.5m as of 2QFY20, translating to net cash per share of RM0.24. Prospective dividends are also fairly attractive at 3.3% and 5.5% for FY20f and FY21f respectively.
- Risks to our recommendation include the volatility in the global resin prices which

Company Update

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SELL

Share price	RM0.93
Target price	RM0.80
Previous TP	RM0.80
Capital upside	-13.9%
Dividend return	5.4%
Total return	-8.6%

Company profile

Manufacturing of plastic packaging and trading polymers and related products

Stock information

Bursa Code	7248
Bloomberg ticker	SLPR MK
Listing market	Main
Share issued (m)	317.0
Market Cap (m)	294.8
52W High/Low	1.31/0.69
Est. Free float	19.2%
3-mth avg vol ('000)	454.2
Shariah compliant	Yes

Major shareholders

	%
Khoo Tee & Family SB	40.6
Khaw Seang Chuan	15.5
Khaw Khoo Tee	9.9

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-1.1	4.5	-26.8
Absolute	-0.9	10.9	-23.5
Relative			

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	21.2	16.6	19.5
EPS (sen)	6.7	5.2	6.2
P/E (x)	13.9	17.7	15.1

Relative performance chart



affect production costs and margins. Foreign exchange fluctuation risk; although net forex exposure in U.S. Dollars is capped to about 5.0% as raw material costs and is largely offset by export sales denominated in the same currency (more than 50.0% of total export revenue).

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	180.1	188.1	166.8	131.0	151.2	Cash	64.8	54.2	74.2	77.5	86.6
EBITDA	28.1	32.5	30.4	24.6	28.0	Receivables	39.4	32.0	24.3	24.1	27.7
EBIT	23.4	27.0	24.1	18.3	21.6	Inventories	27.1	41.5	29.5	30.6	28.7
Net finance income/ (cost)	1.0	1.5	1.2	1.2	1.4	PPE	62.1	79.6	71.8	69.7	68.9
Associates & JV	-	-	-	-	-	Others	0.8	1.7	11.8	11.6	11.7
Profit before tax	24.4	28.5	25.3	19.6	23.0	Assets	194.2	209.1	211.6	213.5	223.6
Tax	(5.2)	(3.1)	(4.1)	(2.9)	(3.4)	Debts	-	-	-	-	-
Net profit	19.2	25.4	21.2	16.6	19.5	Payables	17.2	20.5	14.8	12.8	15.2
Minority interest	-	-	-	-	-	Others	8.7	7.4	12.7	9.5	13.6
Core earnings	19.2	25.4	21.2	16.6	19.5	Liabilities	25.9	27.9	27.6	22.3	28.8
Exceptional items	-	-	-	-	-	Shareholder's equity	168.3	181.3	184.0	191.2	194.8
Reported earnings	19.2	25.4	21.2	16.6	19.5	Minority interest	-	-	-	-	-
						Equity	168.3	181.3	184.0	191.2	194.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	24.4	28.5	25.3	19.6	23.0	Core EPS (sen)	6.1	8.0	6.7	5.2	6.2
Depreciation & amortisation	4.7	5.5	6.3	6.3	6.4	P/E (x)	15.3	11.6	13.9	17.7	15.1
Changes in working capital	11.8	(4.4)	(12.9)	(3.1)	7.4	DPS (sen)	4.5	4.5	5.5	4.0	5.0
Share of JV profits	-	-	-	-	-	Dividend yield	4.8%	4.8%	5.9%	4.3%	5.4%
Taxation	(5.2)	(3.1)	(4.1)	(2.9)	(3.4)	BVPS (RM)	0.53	0.57	0.58	0.60	0.61
Others	-	-	-	-	-	P/B (x)	1.8	1.6	1.6	1.5	1.5
Operating cash flow	20.4	29.4	49.0	23.6	32.0	EBITDA margin	15.6%	17.3%	18.2%	18.8%	18.5%
Net capex	(8.4)	(21.6)	(9.4)	(7.9)	(9.1)	EBIT margin	13.0%	14.3%	14.5%	14.0%	14.3%
Others	-	-	-	-	-	PBT margin	13.5%	15.1%	15.2%	14.9%	15.2%
Investing cash flow	35.6	(10.4)	20.2	3.3	9.1	PAT margin	10.7%	13.5%	12.7%	12.7%	12.9%
Changes in borrowings	(1.1)	-	-	-	-	Core PAT margin	10.7%	13.5%	12.7%	12.7%	12.9%
Issuance of shares	38.6	-	-	-	-	ROE	11.4%	14.0%	11.5%	8.7%	10.0%
Dividends paid	(12.2)	(14.3)	(17.4)	(12.7)	(15.8)	ROA	9.9%	12.1%	10.0%	7.8%	8.7%
Others	-	-	-	-	-	Net gearing	-	-	-	-	-
Financing cash flow	26.5	(14.3)	(17.4)	(12.7)	(15.8)						
Net cash flow	35.6	(10.4)	20.2	3.3	9.1						
Forex	0.0	(0.1)	(0.2)	-	-						
Others	-	-	-	-	-						
Beginning cash	29.1	64.8	54.2	74.2	77.5						
Ending cash	64.8	54.2	74.2	77.5	86.6						