

## SLP Resources Bhd

### Margins under pressured

#### Summary

- SLP Resources Bhd's (SLP) 4QFY22 core net profit fell 42.3% YoY to RM2.3m, dragged down by lower plant utilisation rate, coupled with unfavourable foreign exchange movement. Revenue for the quarter, however, rose marginally by 1.5% YoY to RM45.9m. A fourth interim dividend of 1.5 sen per share, payable on 13th April 2023 was declared.
- For FY22, cumulative core net profit slipped 12.4% YoY to RM15.5m. While topline was largely in line, the reported core earnings came in below expectations, accounting to 87.1% of our forecasted core net profit of RM17.8m and 83.9% of consensus forecasted net profit at RM18.5m. The variance is mainly due to weaker margins arising from the higher operational cost.
- Local sales in 4QFY22 at RM29.6m continues to anchor topline, making up to 64.5% of total revenue, followed by sales to Japan at RM12.6m (27.8% of total revenue), Australia at RM2.4m (5.3% of total revenue) and other countries at RM3.2m (2.8% of total revenue). With the easing of container shortages and tapering of freight costs, we reckon that SLP may step up their efforts to shore up their export sales. Still, we expect local sales to remain as the key contributor in FY23f.
- We reckon that SLP will attempt to raise their production utilisation rate towards pre-pandemic level (>70%) on a gradual manner. We have imputed an assumption of utilisation at 60.0% for FY23f. The move will be supported by the better demand outlook, coupled with the easing of acute labour shortage issue.
- Softening of resin prices to approximately USD1,000/MT in recent months bodes well for SLP margins. Looking ahead, we expect resin prices to gain some ground (trading towards USD1,200/MT) on potentially improve demand outlook following the re-opening of China borders and elevated crude oil prices.
- In bid to reduce the reliance of manpower, SLP remains committed to adopt automation and digitalisation process. Despite the digitalization efforts and softer resin prices, we opined that net margins recovery may be capped by the upward adjustment of electricity tariff under the Imbalance Cost Pass Through (ICPT) mechanism over a 6-month period from January 2023 till June 2023.

Quarterly performance								
FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	45.2	47.2	45.9	(2.8)	1.5	168.9	185.7	9.9
EBITDA	6.6	7.4	4.8	(35.1)	(27.9)	28.8	30.7	6.5
PBT	5.2	6.4	3.6	(44.4)	(31.9)	23.3	25.5	9.6
PAT	3.9	4.9	2.3	(54.0)	(42.3)	17.7	20.6	16.1
Core PATMI	3.9	4.9	2.3	(54.0)	(42.3)	17.7	15.5	(12.4)
Reported PATMI	3.9	4.9	2.3	(54.0)	(42.3)	17.7	20.6	16.1
Core EPS (sen)	1.2	1.6	0.7	(54.0)	(42.3)	5.6	4.9	(12.4)
EBITDA margin (%)	14.6	15.6	10.4			17.1	16.5	
PBT margin (%)	11.6	13.6	7.8			80.9	13.7	
Core PATMI margin (%)	8.7	10.5	4.9			10.5	11.1	

#### Results Note – 4QFY22

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#### HOLD

Share price	RM0.965
Target price	RM0.94
Previous TP	RM1.10
Capital upside	-2.6%
Dividend return	6.2%
Total return	3.6%

#### 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)	305.9
52W High/Low	1.09/0.86
Est. Free float	14.8%
Beta (x)	0.6
3-mth avg vol ('000)	85.4
Shariah compliant	Yes

#### Major shareholders

	%
Khoon Tee & Family SB	41.5
Khaw Seang Chuan	15.0
Khaw Khoon Tee	9.9

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-5.4	-1.0	7.8
Absolute	1.2	0.5	0.1
Relative			

#### Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	15.5	19.8	22.1
EPS (sen)	4.9	6.2	7.0
P/E (x)	19.7	15.4	13.8

#### Relative performance chart



## Valuation & Recommendation

- Given that the reported earnings came below expectations, we trimmed our earnings forecast by 14.0% and 10.4% to RM19.8m and RM22.1m for FY23f and FY24f respectively, to account for the weaker margins.
- We maintained our **HOLD** recommendation on SLP, but with a lower target price of RM0.94. Our target price is based on the assigned target PER of 15.0x to revised FY23f EPS of 6.2 sen. At current share price of RM0.965, we note that prospective dividend yields at 6.2% for both FY23f and FY24f is fairly decent.
- Risks to our recommendation include the volatility in the global resin prices which affect production costs and margins. Foreign exchange fluctuation risk; although net forex exposure in USD is capped to about 5.0% as raw material costs is largely offset by export sales denominated in the same currency (close to 50.0% of total export revenue).

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	147.0	168.9	185.7	209.0	223.0	Cash	74.4	77.2	83.4	89.4	97.9
EBITDA	28.4	28.9	30.7	29.3	31.8	Receivables	29.7	31.3	31.4	32.9	35.1
EBIT	21.6	22.6	24.3	23.3	25.9	Inventories	36.4	35.5	45.1	46.7	49.8
Net finance income/ (cost)	0.9	0.7	1.2	1.4	1.7	PPE	65.4	61.9	59.4	58.7	58.4
Associates & JV	-	-	-	-	-	Others	10.6	9.8	10.0	11.0	13.1
Profit before tax	22.5	23.3	25.5	24.8	27.6	Assets	216.4	216.6	229.3	238.7	255.4
Tax	(6.0)	(5.6)	(5.0)	(5.0)	(5.5)	Debts	-	-	-	-	1.0
Net profit	16.5	17.7	20.6	19.8	22.1	Payables	20.4	16.7	20.8	21.0	21.2
Minority interest	-	-	-	-	-	Others	14.2	14.2	15.4	23.8	37.7
Core earnings	16.5	17.7	15.5	19.8	22.1	Liabilities	34.6	30.9	36.2	44.8	59.9
Exceptional items	-	-	5.1	-	-	Shareholder's equity	181.8	185.7	193.1	193.9	195.5
Reported earnings	16.5	17.7	20.6	19.8	22.1	Minority interest	-	-	-	-	-
						Equity	181.8	185.7	193.1	193.9	195.5
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	22.5	23.3	25.5	24.8	27.6	Core EPS (sen)	5.2	5.6	4.9	6.2	7.0
Depreciation & amortisation	6.8	6.3	6.4	5.9	5.9	P/E (x)	18.6	17.3	19.7	15.4	13.8
Changes in working capital	7.2	(2.2)	5.0	3.1	3.2	DPS (sen)	5.5	5.5	6.0	6.0	6.5
Share of JV profits	-	-	-	-	-	Dividend yield	5.7%	5.7%	6.2%	6.2%	6.7%
Taxation	(6.0)	(5.6)	(5.0)	(5.0)	(5.5)	BVPS (RM)	0.57	0.59	0.61	0.61	0.62
Others	-	-	-	-	-	P/B (x)	1.7	1.6	1.6	1.6	1.6
Operating cash flow	21.3	24.6	20.2	32.6	37.3	EBITDA margin	19.3%	17.1%	16.5%	14.0%	14.3%
Net capex	(0.4)	(2.9)	(3.9)	(5.2)	(5.6)	EBIT margin	14.7%	13.4%	13.1%	11.2%	11.6%
Others	-	-	-	-	-	PBT margin	15.3%	13.8%	13.7%	11.8%	12.4%
Investing cash flow	0.3	2.2	5.0	4.8	7.3	PAT margin	11.2%	10.5%	11.1%	9.5%	9.9%
Changes in borrowings	-	-	-	-	-	Core PAT margin	11.2%	10.5%	8.4%	9.5%	9.9%
Issuance of shares	-	-	-	-	-	ROE	9.1%	9.5%	8.0%	10.2%	11.3%
Dividends paid	(17.4)	(17.4)	(17.4)	(19.0)	(20.6)	ROA	7.6%	8.2%	6.8%	8.3%	8.7%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Financing cash flow	(17.4)	(17.4)	(17.4)	(19.0)	(20.6)						
Net cash flow	0.3	2.2	5.0	4.8	7.3						
Forex	(0.1)	0.6	1.2	1.2	1.2						
Others	-	-	-	-	-						
Beginning cash	74.2	74.4	77.2	83.4	89.4						
Ending cash	74.4	77.2	83.4	89.4	97.9						

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