

## SLP Resources Bhd

### Playing catch-up towards year end

#### Summary

- SLP Resources Bhd's (SLP) 3QFY22 core net profit jumped 60.3% YoY to RM4.9m, driven by improved sales volume and better product mix. Revenue for the quarter added 30.6% YoY to RM47.2m. A third interim dividend of 1.5 sen per share, payable on 6th January 2023 was declared.
- For 9MFY22, cumulative core net profit fell 3.9% YoY to RM13.3m. The reported core earnings came ahead expectations, accounting to 89.0% of our forecasted core net profit of RM14.9m and 74.3% of consensus forecasted net profit at RM17.8m. The variance is mainly due to better margins from the better product mix sold.
- In 3QFY22, local sales at RM26.2m continues to anchor topline, making up to 55.4% of total revenue, followed by sales to Japan at RM13.4m (32.6% of total revenue), Australia at RM1.9m (4.1%) and other countries at RM3.2m (8.0%). We reckon that the trend may persist as the elevated freight costs may continue to hinder the sales towards overseas.
- Seasonally, local sales will be supported by the higher demand ahead of the year-end festive seasons. We reckon that the export market recovery towards pre-pandemic levels (c. 60.0% of total revenue) may remain challenging for the time being. Meanwhile, the on-going adoption of automation and digitalisation process is expected to see net margins returning to above the low-teens level in FY23f.
- Also, SLP was granted fresh intake of workforce which may provide some alleviation towards the acute labour shortage issue. The group is only operating approximately at 50.0% level over the past 2 quarters. With that in place, we expect plant utilisation rate to see gradual improvement towards 60.0% level in FY23f.
- We note that the softening of resin prices (c. -15.0% YTD) since April 2022 amid the weaker demand, lower feedstock costs and tighter supply stream bodes well for SLP margins. Looking ahead, we expect resin prices to gain some ground (staying above USD1,200/MT) as China looks to ease their strict Covid policy, which may potentially result in the improve demand outlook.

Quarterly performance								
FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	36.2	47.1	47.2	0.4	30.6	123.7	139.8	13.0
EBITDA	5.4	11.3	7.4	(34.8)	36.0	22.2	25.9	16.8
PBT	4.0	9.8	6.4	(34.5)	58.4	18.1	22.0	21.6
PAT	3.1	8.9	4.9	(44.2)	60.3	13.8	18.3	32.8
Core PATMI	3.1	3.8	4.9	29.9	60.3	13.8	13.3	(3.9)
Reported PATMI	3.1	8.9	4.9	(44.2)	60.3	13.8	18.3	32.8
Core EPS (sen)	1.0	1.2	1.6	29.9	60.3	4.4	4.2	(3.9)
EBITDA margin (%)	15.8	14.3	19.9			17.9	18.5	
PBT margin (%)	16.5	15.3	15.5			81.4	15.7	
Core PATMI margin (%)	15.1	11.6	11.8			11.1	13.1	

#### Results Note – 3QFY22

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#### HOLD

Share price	RM1.06
Target price	RM1.10
Previous TP	RM0.92
Capital upside	3.8%
Dividend return	6.1%
Total return	9.9%

#### 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)	336.0
52W High/Low	1.08/0.86
Est. Free float	14.8%
Beta (x)	0.5
3-mth avg vol ('000)	149.4
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 (%)

Hist. return	1M	3M	12M
Absolute	23.3	21.1	12.8
Relative	20.5	26.5	20.1

#### Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	17.7	17.8	23.0
EPS (sen)	5.6	5.6	7.3
P/E (x)	19.0	18.9	14.6

#### Relative performance chart



## Valuation & Recommendation

- Given that the reported earnings came above of our expectations, we raised our earnings forecast by 19.6% and 3.5% to RM17.8m and RM23.0m for FY22f and FY23f respectively, to account for the better margins.
- We maintained our **HOLD** recommendation on SLP, but with a higher target price of RM1.10 (from RM0.92). Our target price is based on the assigned target PER of 15.0x to FY23f EPS of 7.3 sen. At current share price of RM1.06, prospective dividend yields at 5.7% and 6.1% in FY22f and FY23f is also 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)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
<b>Revenue</b>	166.8	147.0	168.9	191.3	202.9	Cash	74.2	74.4	77.2	82.1	87.2
EBITDA	29.4	27.5	28.1	34.7	34.7	Receivables	24.3	29.7	31.3	32.7	32.0
EBIT	23.0	20.6	21.8	28.5	28.6	Inventories	29.5	36.4	35.5	34.2	36.2
Net finance income/ (cost)	1.2	0.9	0.7	0.6	0.8	PPE	71.8	65.4	61.9	61.5	61.4
Associates & JV	-	-	-	-	-	Others	11.8	10.6	9.8	10.8	11.8
<b>Profit before tax</b>	<b>25.3</b>	<b>22.5</b>	<b>23.3</b>	<b>29.8</b>	<b>30.1</b>	<b>Assets</b>	<b>211.6</b>	<b>216.4</b>	<b>216.6</b>	<b>221.2</b>	<b>228.6</b>
Tax	(3.8)	(6.0)	(5.6)	(7.0)	(7.1)	Debts	-	-	-	-	-
<b>Net profit</b>	<b>21.5</b>	<b>16.5</b>	<b>17.7</b>	<b>22.8</b>	<b>23.0</b>	Payables	19.6	20.4	16.7	17.1	18.1
Minority interest	-	-	-	-	-	Others	7.7	14.2	14.2	14.6	18.5
<b>Core earnings</b>	<b>21.5</b>	<b>16.5</b>	<b>17.7</b>	<b>17.8</b>	<b>23.0</b>	<b>Liabilities</b>	<b>27.3</b>	<b>34.6</b>	<b>30.9</b>	<b>31.7</b>	<b>36.7</b>
Exceptional items	-	-	-	5.0	-	Shareholder's equity	184.3	181.8	185.7	189.5	191.9
Reported earnings	21.5	16.5	17.7	22.8	23.0	Minority interest	-	-	-	-	-
						<b>Equity</b>	<b>184.3</b>	<b>181.8</b>	<b>185.7</b>	<b>189.5</b>	<b>191.9</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	25.3	22.5	23.3	29.8	30.1	Core EPS (sen)	6.8	5.2	5.6	5.6	7.3
Depreciation & amortisation	6.4	6.8	6.3	6.2	6.1	P/E (x)	15.6	20.4	19.0	18.9	14.6
Changes in working capital	(8.5)	7.2	(2.2)	3.1	0.9	DPS (sen)	5.5	5.5	5.5	6.0	6.5
Share of JV profits	-	-	-	-	-	Dividend yield	5.2%	5.2%	5.2%	5.7%	6.1%
Taxation	(3.8)	(6.0)	(5.6)	(7.0)	(7.1)	BVPS (RM)	0.58	0.57	0.59	0.60	0.61
Others	-	-	-	-	-	P/B (x)	1.8	1.8	1.8	1.8	1.8
<b>Operating cash flow</b>	<b>49.0</b>	<b>21.3</b>	<b>25.0</b>	<b>35.8</b>	<b>37.8</b>	EBITDA margin	17.6%	18.7%	16.6%	18.2%	17.1%
Net capex	1.4	(0.4)	(2.9)	(5.7)	(6.1)	EBIT margin	13.8%	14.0%	12.9%	14.9%	14.1%
Others	-	-	-	-	-	PBT margin	15.2%	15.3%	13.8%	15.6%	14.8%
<b>Investing cash flow</b>	<b>20.0</b>	<b>0.3</b>	<b>2.6</b>	<b>4.7</b>	<b>4.9</b>	PAT margin	12.9%	11.2%	10.5%	11.9%	11.4%
Changes in borrowings	-	-	-	-	-	Core PAT margin	12.9%	11.2%	10.5%	9.3%	11.4%
Issuance of shares	-	-	-	-	-	ROE	11.7%	9.1%	9.5%	9.4%	12.0%
Dividends paid	(17.4)	(17.4)	(17.4)	(19.0)	(20.6)	ROA	10.2%	7.6%	8.2%	8.1%	10.1%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Financing cash flow</b>	<b>(17.4)</b>	<b>(17.4)</b>	<b>(17.4)</b>	<b>(19.0)</b>	<b>(20.6)</b>						
<b>Net cash flow</b>	<b>20.0</b>	<b>0.3</b>	<b>2.6</b>	<b>4.7</b>	<b>4.9</b>						
Forex	(0.1)	(0.1)	0.2	0.2	0.2						
Others	-	-	-	-	-						
Beginning cash	54.2	74.2	74.4	77.2	82.1						
Ending cash	74.2	74.4	77.2	82.1	87.2						