

20 November 2020

Consumer Non-cyclical | Packaging

SKP Resources (SKP MK)

Buy (Maintained)

Superb, Kicky And Prolific Resources; BUY

Target Price (Return): MYR2.28 (+21%)
Price: MYR1.88
Market Cap: USD575m
Avg Daily Turnover (MYR/USD) 7.69m/1.86m

- BUY, new MYR2.28 TP from MYR1.98, 21% upside with c.4% FY22F (Mar) yield.** SKP Resources' 1HFY21 results are above expectations, after booking record earnings in 2QFY21. The stock has risen by 38% YTD, but we believe the uptrend still has legs. Earnings growth prospects are bright, given the solid global demand for its key customer's products – which ensures a robust new contract pipeline. The company is well-positioned to capitalise on the opportunity, in view of its established track record and study balance sheet.
- A record-breaking quarter.** SKP Resources reported 2QFY21 net profit of MYR44.1m (+76.9% YoY) – an all-time high. 1HFY21 net profit of MYR54.1m (+24.7%) met 45% of our and Street full-year forecasts. We deemed the results as above expectations, in anticipation of a sustainable earnings recovery momentum and – as such – a stronger 2HFY21 ahead. Post results, we raise FY21-23F earnings by 5-11%, to be in line with management's latest guidance. We gather new job award prospects from a key customer are robust.
- Results review.** YoY, 1HFY21 sales grew 32.4% to MYR1.1bn following a sharp pick-up in 2QFY21 (+49.2% YoY), on heightened sales orders from a key customer. This – together with the absence of start-up costs, optimised operating efficiency, and the turnaround of its formerly loss-making printed circuit board assembly (PCBA) division – lifted 1HFY21 PBT by 28.2% to MYR71m. 2QFY21 sales rebounded sharply by 82.2% QoQ, after a smooth restart of its production lines post-Movement Control Order. On top of that, sales orders from a key customer have also increased, thanks to a spike in global demand and successful new launches.
- More to look forward to.** 3QFY21F numbers could moderate QoQ from the high base in 2QFY21, due to seasonality. However, this should still imply a respectable improvement YoY, vs 3QFY20. Beyond that, we believe the proliferating work-from-home trend globally will continue to drive demand for its key customer's products. To put things into context, we forecast an overwhelming 64.9% earnings jump in FY21F. Meanwhile, the key customer could call for more product tendering as soon as end-2020, and we believe SKP Resources is in good position to compete for this – in view of its strong track record in recent years. We have built in a new orders assumption of MYR250m for FY22F.
- Our TP rises to MYR2.28 from MYR1.98** correspondingly after the earnings revision, based on an unchanged 18x P/E. We also take opportunity to roll forward the valuation base year to FY22, from CY21.
- Risks to our recommendation** include lower-than-expected job wins and ceding market share to competitors.

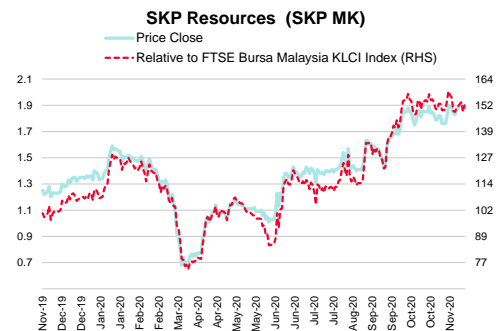
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	38.2	1.6	33.3	69.4	52.8
Relative	38.5	(2.7)	32.8	58.2	54.2
52-wk Price low/high (MYR)				0.67	1.92



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	1,654	1,827	2,285	2,696	2,912
Recurring net profit (MYRm)	97	76	125	159	172
Recurring net profit growth (%)	(29.0)	(21.6)	64.9	27.2	8.2
Recurring P/E (x)	24.32	31.03	18.82	14.80	13.68
P/B (x)	4.0	3.8	3.5	3.2	3.0
P/CF (x)	14.76	41.63	23.75	16.62	13.37
Dividend Yield (%)	2.0	1.6	3.2	4.1	4.4
EV/EBITDA (x)	15.10	17.70	11.97	9.41	8.54
Return on average equity (%)	16.9	12.6	19.6	22.8	22.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	Recurring EPS	0.08	0.06	0.10	0.13	0.14
Consumer Non-cyclical	DPS	0.04	0.03	0.06	0.08	0.08
SKP Resources	BVPS	0.47	0.49	0.53	0.58	0.64
SKP MK	Return on average equity (%)	16.9	12.6	19.6	22.8	22.6
Buy						
	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Valuation basis	Recurring P/E (x)	24.32	31.03	18.82	14.80	13.68
P/E	P/B (x)	4.0	3.8	3.5	3.2	3.0
	FCF Yield (%)	5.5	(0.8)	1.7	4.7	6.2
Key drivers	Dividend Yield (%)	2.0	1.6	3.2	4.1	4.4
i. New job wins;	EV/EBITDA (x)	15.10	17.70	11.97	9.41	8.54
ii. Market share gains.	EV/EBIT (x)	17.93	23.12	14.14	10.86	9.83
	Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Key risks	Total turnover	1,654	1,827	2,285	2,696	2,912
i. Delay in setting up new production lines;	Gross profit	191	188	247	297	320
ii. Loss of key customers.	EBITDA	139	121	182	229	247
	Depreciation and amortisation	(22)	(28)	(28)	(31)	(32)
	Operating profit	117	93	154	198	214
Company Profile	Net interest	7	6	6	5	6
SKP Resources manufactures plastic parts and components, as well as precision and engineering plastic parts. It also has operations in precision mold-making, and in designing and modifying molds.	Pre-tax profit	125	99	160	204	220
	Taxation	(29)	(25)	(36)	(46)	(50)
	Reported net profit	97	76	125	159	172
	Recurring net profit	97	76	125	159	172
	Cash flow (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Change in working capital	49	(36)	(48)	(43)	(23)
	Cash flow from operations	159	56	99	141	176
	Capex	(29)	(76)	(60)	(30)	(30)
	Cash flow from investing activities	(119)	(1)	(60)	(30)	(30)
	Dividends paid	(63)	(48)	(75)	(95)	(103)
	Cash flow from financing activities	(63)	(50)	(69)	(90)	(97)
	Cash at beginning of period	63	40	46	16	37
	Net change in cash	(23)	5	(30)	21	49
	Ending balance cash	40	46	16	37	85
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	248	181	151	173	221
	Tangible fixed assets	203	233	265	265	262
	Total investments	0	23	23	23	23
	Total assets	873	992	1,104	1,224	1,322
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	284	378	440	497	526
	Total equity	589	614	664	727	796
	Total liabilities & equity	873	992	1,104	1,224	1,322
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	(21.5)	10.4	25.1	18.0	8.0
	Recurrent EPS growth (%)	(29.0)	(21.6)	64.9	27.2	8.2
	Gross margin (%)	11.5	10.3	10.8	11.0	11.0
	Operating EBITDA margin (%)	8.4	6.6	8.0	8.5	8.5
	Net profit margin (%)	5.8	4.1	5.5	5.9	5.9
	Dividend payout ratio (%)	49.7	50.0	60.0	60.0	60.0
	Capex/sales (%)	1.8	4.2	2.6	1.1	1.0
	Interest cover (x)	9,024	409	43,972		

Source: Company data, RHB

Results At a Glance

Figure 1 : SKP Resources' quarterly results review

FYE 31 Mar (MYRm)	2QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue	486.9	398.5	726.3	49.2	82.2	849.4	1,124.9	32.4	Increase in orders from a key customer.
EBIT	30.3	12.2	57.3	89.4	368.6	52.0	69.5	33.7	
<i>EBIT Margin (%)</i>	6.2	3.1	7.9	27.0	4.8	6.1	6.2	0.1	
Interest expense	0.0	0.1	(0.1)			0.0	(0.0)		
Interest income	1.6	1.0	0.6			3.4	1.6		
Other operating income	1.5	1.1	2.1			3.2	3.2		
EI	0.0	0.0	0.0			0.0	0.0		
Pretax profit	31.9	13.2	57.8	81.3	337.7	55.4	71.0	28.2	Higher volume, better efficiency, absence of start-up costs, and turnaround in loss-making PCBA division.
<i>Pretax Margin (%)</i>	6.5	3.3	8.0	1.4	4.6	6.5	6.3	(0.2)	
Tax	(7.3)	(3.2)	(13.7)			(12.7)	(16.9)		
<i>Effective tax rate (%)</i>	23.0	24.0	23.8	3.3	(0.2)	23.0	23.8	0.8	
Net Profit	24.9	10.0	44.1	76.9	339.2	43.4	54.1	24.7	
Core Profit	24.9	10.0	44.1	76.9	339.2	43.4	54.1	24.7	At 45% of our and Street full-year estimates.
<i>Net Margin (%)</i>	5.1	2.5	6.1	1.0	3.5	5.1	4.8	-0.3	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-07	Buy	1.98	1.49
2020-06-08	Buy	1.53	1.03
2020-01-17	Buy	1.75	1.55
2019-12-02	Buy	1.42	1.23
2019-08-30	Neutral	1.10	1.09
2019-06-03	Neutral	1.20	1.28
2019-02-27	Neutral	1.28	1.31
2018-11-30	Buy	1.50	1.13
2018-08-27	Buy	1.76	1.20
2018-05-31	Buy	2.04	1.50

Source: RHB, Bloomberg

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