

SLP Resources Bhd

Temporary plant closure

Summary

- SLP Resources Bhd's (SLP) has been ordered to close its plant in Kulim, Kedah, until 16th September 2021 after some of its workers tested positive for Covid-19. The Covid-19 cases had been identified at the plant following a routine screening and subsequent targeted screening on its workers, which the company temporarily halted operations from 8.00am on 9th September 2021 to carry out thorough disinfection work.
- The temporary closure is expected to impact sales and production in the current quarter. We foresee the disruption of production to impact approximately 2.0-3.0% of annual production output for FY21f.
- We believe that it is necessary for the temporary closure to take place in order to break the chain of Covid-19 infection and prevent the situation from escalating in SLP's manufacturing plant. As it is, SLP has adopted and will continue all possible and necessary standard operating procedures (SOP) at its operations, premises as well as hostels which include social distancing measures, temperature checks, proper hygiene, PPE usage and regular sanitisation.
- Nevertheless, outlook remains well supported by the improving demand that are expected to remain resilient under the prevailing circumstances. The work-from-home measures has resulted in the pent-up demand for packaging due to change in consumption patterns of consumers with delivery orders on the rise across food & beverage, consumer electronics, healthcare and other essential products.
- We gather that current average selling prices remains favourable for SLP owing to the rise in resin prices. Traditionally, plastic packaging players adopt a cost-pass-through mechanism, though there will be approximately 3 months of time lag. At the same time, the weakening ringgit against the greenback also bodes well for SLP which derived RM39.5m or 45.1% of revenue from overseas in 6MFY21.

Valuation & Recommendation

- We trimmed our earnings forecast by 2.3% and 0.2% to RM24.6m and RM25.1m for FY21f and FY22f respectively; accounting for the temporary production disruption. Despite that, we maintained our **HOLD** recommendation on SLP with an unchanged target price of RM1.03, as we rolled over our valuation metrics to FY22f.
- Our target price is based on the assigned target PER of 13.0x to our FY22f EPS of 7.9 sen. At RM0.96, we note that prospective dividend yields are fairly attractive at 7.3% for both FY21f and FY22f respectively.
- 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

Company update

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HOLD

Share price	RM0.96
Target price	RM1.03
Previous TP	RM1.03
Capital upside	7.2%
Dividend return	7.3%
Total return	14.5%

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)	304.3
52W High/Low	1.07/0.82
Est. Free float	18.9%
Beta (x)	0.7
3-mth avg vol ('000)	217.4
Shariah compliant	Yes

Major shareholders

	%
Khoon Tee & Family SB	40.6
Khaw Seang Chuan	15.8
Khaw Khoon Tee	9.9

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	1.6	-1.0	-2.0
Relative	-3.0	-1.1	-6.5

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	16.5	24.6	25.1
EPS (sen)	5.2	7.8	7.9
P/E (x)	18.5	12.4	12.1

Relative performance chart



offset by export sales denominated in the same currency (close to 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)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	188.1	166.8	147.0	193.9	203.2	Cash	54.2	74.2	74.4	78.9	85.0
EBITDA	32.5	30.5	28.4	37.8	38.6	Receivables	32.0	24.3	29.7	31.9	33.4
EBIT	27.0	24.1	21.6	31.3	31.8	Inventories	41.5	29.5	36.4	36.8	38.6
Net finance income/ (cost)	1.5	1.2	0.9	1.1	1.3	PPE	79.6	71.8	65.4	68.5	71.8
Associates & JV	-	-	-	-	-	Others	1.7	11.8	10.6	10.8	9.8
Profit before tax	28.5	25.3	22.5	32.3	33.0	Assets	209.1	211.6	216.4	226.9	238.6
Tax	(3.1)	(3.8)	(6.0)	(7.8)	(7.9)	Debts	-	-	-	-	-
Net profit	25.4	21.5	16.5	24.6	25.1	Payables	20.5	19.6	25.2	26.0	27.2
Minority interest	-	-	-	-	-	Others	7.4	7.7	9.5	16.7	19.2
Core earnings	25.4	21.5	16.5	24.6	25.1	Liabilities	27.9	27.3	34.6	42.7	46.4
Exceptional items	-	-	-	-	-	Shareholder's equity	180.3	184.3	181.8	184.2	192.2
Reported earnings	25.4	21.5	16.5	24.6	25.1	Minority interest	-	-	-	-	-
						Equity	180.3	184.3	181.8	184.2	192.2
Cash Flow Statement											
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	Valuation & Ratios					
Profit before taxation	28.5	25.3	22.5	32.3	33.0	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Depreciation & amortisation	5.5	6.4	6.8	6.5	6.9	Core EPS (sen)	8.0	6.8	5.2	7.8	7.9
Changes in working capital	(4.4)	(8.5)	11.9	9.1	3.6	P/E (x)	12.0	14.2	18.5	12.4	12.1
Share of JV profits	-	-	-	-	-	DPS (sen)	4.5	5.5	5.2	7.0	7.0
Taxation	(3.1)	(3.8)	(6.0)	(7.8)	(7.9)	Dividend yield	4.7%	5.7%	5.4%	7.3%	7.3%
Others	-	-	-	-	-	BVPS (RM)	0.57	0.58	0.57	0.58	0.61
Operating cash flow	29.4	49.0	21.3	41.2	43.2	P/B (x)	1.7	1.7	1.7	1.7	1.6
Net capex	(23.1)	1.4	(0.4)	(9.7)	(10.2)	EBITDA margin	17.3%	18.3%	19.3%	19.5%	19.0%
Others	-	-	-	-	-	EBIT margin	14.3%	14.5%	14.7%	16.1%	15.6%
Investing cash flow	54.2	20.0	0.3	4.6	6.2	PBT margin	15.1%	15.2%	15.3%	16.7%	16.3%
Changes in borrowings	-	-	-	-	-	PAT margin	13.5%	12.9%	11.2%	12.7%	12.4%
Issuance of shares	-	-	-	-	-	Core PAT margin	13.5%	12.9%	11.2%	12.7%	12.4%
Dividends paid	(14.3)	(17.4)	(17.4)	(22.2)	(22.2)	ROE	14.1%	11.7%	9.1%	13.3%	13.1%
Others	-	-	-	-	-	ROA	12.1%	10.2%	7.6%	10.8%	10.5%
Financing cash flow	34.2	(17.4)	(17.4)	(22.2)	(22.2)	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net cash flow	54.2	20.0	0.3	4.6	6.2						
Forex	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)						
Others	-	-	-	-	-						
Beginning cash	64.8	54.2	74.2	74.4	78.9						
Ending cash	54.2	74.2	74.4	78.9	85.0						