



SKP Resources Berhad

No Sign of Abating

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Tan Kam Meng, CFA

+603-2072-1277 ext:1614

kmtan@ta.com.my

www.taonline.com.my

Review

- **In line with expectations.** SKP Resources' (SKP) 1QFY14 net profit came in at 19.5% of our full-year forecast. However, we consider this to be within expectation as we have factored in capacity expansion towards late-FY14.
- **Snapping the fall in revenue.** SKP managed to reverse the drop in revenue with 1QFY14 revenue increased 22.9% QoQ to RM108.3mn. PBT margin surged to 11.2% (10.5% in 4QFY13), contributing to the increase in net profit by 29.6% QoQ to RM9.1mn. According to management, the increases in revenue and profit were due to increased orders from new and existing customers.
- **Affected by minimum wage policy.** YoY, the group's 1QFY14 net profit slipped 22.7% due to the implementation of minimum wage policy in Jan-13. This has resulted in PBT margin to slide from 12.8% in 1QFY13 to 11.2%.
- **Balance sheet still solid.** The group's net cash dropped slightly to RM88.8mn (from RM92.5mn in the preceding quarter) as the trade receivable shot up by 40% to RM105.5mn. Total net asset improved 7% to RM139mn.

Impact

- No change to our FY14-15 earnings projections.

Outlook

- **Promising 2014.** We believe that SKP would secure additional orders from Dyson, thus factoring in capacity expansion in late-FY14. We understand from management that the company is currently negotiating with several land owners for land acquisition for its new plant. In addition, we expect increasing sales to come from customers like Sharp, Panasonic and Sony as well. Specifically, we expect the 2014 FIFA World Cup to boost the demand for consumer electronic like TV, which could possibly mean more business to SKP for manufacture of plastic parts and components
- **Potential dividend yield of 7.7%.** Based on the company's dividend policy of paying out 50% earnings as dividend, we project SKP to frank out 2.6sen/share for FY14, yielding 7.7%. A positive catalyst to share price is the hefty cash level of RM9.9sen/share in the company, which can be paid out as special dividend.

TP: RM0.65(+91.2%)

Last traded: RM0.34

BUY

Share Information

Bloomberg Code	SKP MK
Stock Code	7155
Listing	Main Market
Share Cap (mn)	900.0
Market Cap (RMmn)	306.0
Par Value	0.1
52-wk Hi/Lo (RM)	0.395/0.295
12-mth Avg Daily Vol ('000 shrs)	2793
Estimated Free Float (%)	32.1
Beta	0.52
Major Shareholders (%)	
	Dato' Gan Kim Huat - 57.9
	LTH - 10.0

Forecast Revision

	FY14	FY15
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	47.0	62.8
Consensus	-	-
TA's / Consensus (%)	na	na
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	Net Cash	Net Cash
CFPS (sen)	(2.2)	5.4
Price/CFPS (x)	nm	6.3
ROE (%)	22.3	26.4
NTA/Share (RM)	0.2	0.3
Price/NTA (x)	1.4	1.2

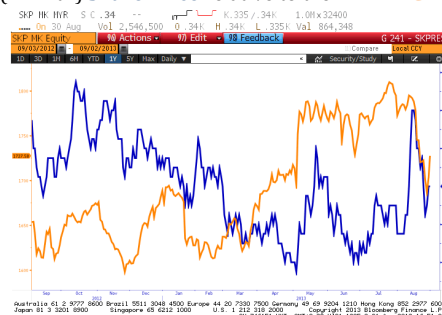
SCORECARD

	% of FY	
vs TA	19.5	Within
vs Consensus	na	na

Share Performance (%)

Price Change	SKP	FBM KLCI
1 mth	7.9	(3.1)
3 mth	(1.4)	(2.4)
6 mth	4.6	5.5
12 mth	(9.3)	4.9

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

- **Maintain Buy.** We maintain our target price at RM0.65/share, based on unchanged 10x CY14 EPS. Currently, the stock is trading at 5.2x CY14 PE multiple, which is undemanding given the promising earnings outlook and balance sheet strength. If we were to reduce the current trading price by the amount of net cash SKP possessed in March-2013, the effective CY14 PE will decline further to only 3.7x, suggesting the stock is undervalued. **Maintain Buy.**

Earnings Summary (RM'mn)

FYE March 31 (RMmn)	FY11	FY12	FY13	FY14F	FY15F
Revenue	257.0	414.8	423.3	535.4	630.5
EBITDA	41.6	58.8	62.5	70.9	96.4
EBITDA margin (%)	16.2	14.2	14.8	13.2	15.3
Pretax profit	31.9	49.6	53.8	62.6	83.7
Net profit	26.2	36.8	39.6	47.0	62.8
Core net profit	26.2	36.8	39.6	47.0	62.8
EPS* (sen)	2.9	4.1	4.7	5.2	7.0
EPS growth (%)	193.7	40.6	13.7	11.9	33.7
PER (x)	11.7	8.3	7.3	6.5	4.9
GDPS* (sen)	1.3	2.0	2.2	2.6	3.5
Div yield (%)	3.9	5.9	6.5	7.7	10.3
ROE (%)	17.6	21.8	20.9	22.3	26.4

* Adjusted for bonus issue

1QFY14 Results Analysis (RMmn)

FYE Mar (RM'mn)	1Q13	4Q13	1Q14	QoQ (%)	YoY (%)	3M13	3M14	YoY (%)
Revenue	122.7	88.1	108.3	22.9	(11.8)	122.7	108.3	(11.8)
Gross profit	19.6	13.1	16.0	22.5	(18.3)	19.6	16.0	(18.3)
EBITDA	17.5	10.8	13.6	26.5	(21.9)	17.5	13.6	(21.9)
Depreciation	(2.2)	(2.2)	(2.1)	(3.4)	(3.5)	(2.2)	(2.1)	(3.5)
Net interest	0.5	0.6	0.6	2.4	31.3	0.5	0.6	31.3
PBT	15.8	9.2	12.2	31.9	(22.8)	15.8	12.2	(22.8)
Taxation	(3.9)	(2.2)	(3.0)	39.5	(23.2)	(3.9)	(3.0)	(23.2)
Net profit	11.8	7.0	9.1	29.6	(22.7)	11.8	9.1	(22.7)
Core Net profit	11.8	7.0	9.1	29.6	(22.7)	11.8	9.1	(22.7)
EPS (sen)	1.3	0.8	1.0	30.8	(22.1)	1.3	1.0	(22.1)
DPS (sen)	0.0	0.9	0.0	(100.0)	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
GP margin (%)	16.0	14.8	14.8	(0.1)	(1.2)	16.0	14.8	(1.2)
EBITDA margin (%)	14.2	12.2	12.6	0.4	(1.6)	14.2	12.6	(1.6)
PBT margin (%)	12.8	10.5	11.2	0.8	(1.6)	12.8	11.2	(1.6)
Net margin (%)	9.6	8.0	8.4	0.4	(1.2)	9.6	8.4	(1.2)
Tax rate (%)	25.0	23.5	24.9	1.3	(0.1)	25.0	24.9	(0.1)

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 Kaladher Govindan – Head of Research