



SKP Resources Berhad

Targeting Revenue Recovery in 1QFY14

TP: RM0.65 (+100%)

Last traded: RM0.325

BUY

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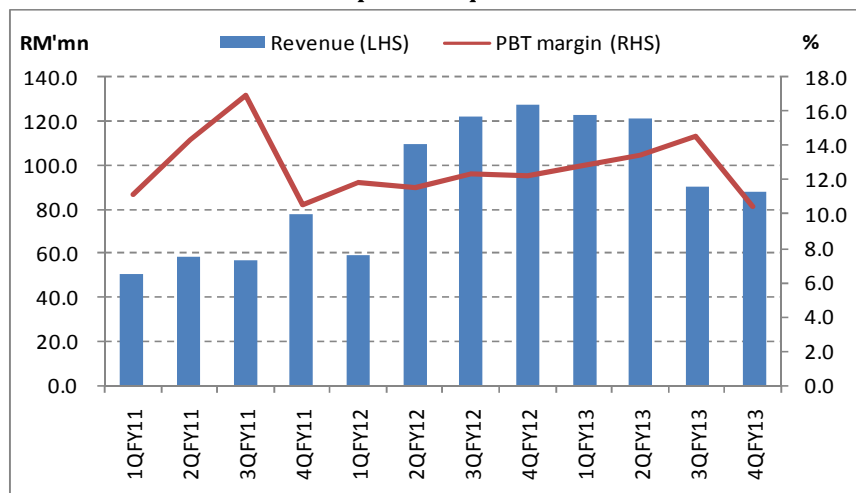
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Arresting the fall in quarterly revenue. In this results season, we expect SKP Resources' (SKP) to demonstrate the sustainability of future earnings by arresting the fall in quarterly revenue, which happened over the past two quarters. Since 2QFY12, SKP has been recording quarterly revenue in excess of RM100mn (see Chart 1) when the group started manufacturing and assembling Dyson Uprights vacuum cleaners. However, the revenue slipped below the RM100mn mark in 3Q and 4QFY13 when Dyson started to unload the excess orders made during 4QFY12 to 1QFY13, 3-6 months ahead of the opening of new outlets in China.

Chart 1: Revenue declined for past two quarters



Source: SKP Resources & TA Research

1QFY14 revenue to recover but margin to decline. As we believe the clearance of excess orders has ended in 4QFY13, we expect SKP's 1QFY14 revenue to recover to above RM100mn/quarter. If not, it would be a blow to our belief about the group's earnings sustainability from manufacture, assemble and sales of Dyson's vacuum cleaners. That being said, we expect PBT margin to be hovering at a range between 10.5-11.0%, down from the average of 12.9% over the past 12 quarters (see Chart 1) as the company would continue facing margin pressure from the implementation of minimum wage policy in Malaysia. In 2014, the impending hike of electricity tariff in Malaysia is expected to dent the group's profit margin further as electricity cost accounts for up to 5% of production cost.

Buffer to cost escalation. To mitigate the impact of cost escalation, the group's total net cash of RM92.5mn (or 10.3sen/share) as at March-13 plays an important role as a buffer to absorb operational noise. Besides that, as we expect the global economy to be on a firmer footing in 2014 and beyond, the expected increase in SKP's sales or production efficiency would help to minimise the impact of rising production cost.

Share Information

Bloomberg Code	SKP MK
Stock Code	7155
Listing	Main Market
Share Cap (mn)	900.0
Market Cap (RMmn)	292.5
Par Value	0.1
52-wk Hi/Lo (RM)	0.395/0.295
12-mth Avg Daily Vol ('000 shrs)	24510
Estimated Free Float (%)	32.5
Beta	0.43

Major Shareholders (%)

Dato' Gan Kim Huat	- 57.5
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)	

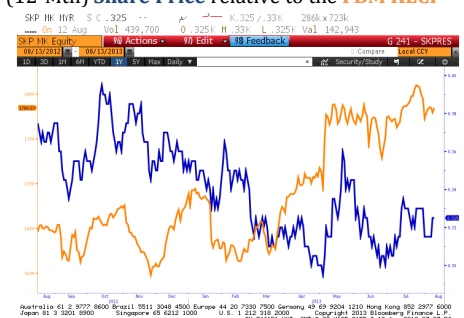
Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	Net Cash	Net Cash
CFPS (sen)	(2.2)	5.4
Price/CFPS (x)	nm	6.0
ROE (%)	22.3	26.4
NTA/Share (RM)	0.2	0.3
Price/NTA (x)	1.3	1.2

Share Performance (%)

Price Change	SKP	FBM KLCI
1 mth	(3.0)	(0.1)
3 mth	(3.0)	(0.2)
6 mth	(4.4)	9.4
12 mth	(13.3)	8.4

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



Source: Bloomberg

Promising 2014. Talking about the increase in SKP's sales, we have highlighted in our previous reports that SKP will strive for additional orders from Dyson. To cope with the increase in business volume, we understand that SKP 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 to manufacture plastic parts and components.

Impact. All in, we are leaving our FY14-15 earnings projections unchanged. We continue to project new capacity to come in end-FY14, fueling future earnings growth. Meanwhile, we expect FY14 PBT margin to decline 1%-pt to 11.7% due to the increase in labour cost.

Valuation. We maintain our target price for SKP at RM0.65/share, based on unchanged 10x CY14 EPS. Currently, the stock is trading at 5.0x 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 3.4x, 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)	11.1	7.9	7.0	6.2	4.7
GDPS* (sen)	1.3	2.0	2.2	2.6	3.5
Div yield (%)	4.1	6.2	6.8	8.0	10.7
ROE (%)	17.6	21.8	20.9	22.3	26.4

* Adjusted for bonus issue

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