



SKP Resources Berhad

Reduction in Sales Orders

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TP: RM0.49 (+53.1%)

Last traded: RM0.32

BUY

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Review

- SKP Resources reported its 9MFY14 net profit of RM21.8mn. This was below expectations, making up only 66.5% of our estimates.
- The variance was due to lower revenue (-17.3% QoQ) from reduced sales orders. Furthermore, there was a decline in margin (-0.7%-points QoQ) due to a higher proportion of low margin products produced. Compared to a year ago, margin was mainly down (-4.6%-points YoY) due to implementation of the minimum wage policy.
- Elsewhere, the group's balance sheet remains solid with RM98.5mn in cash and bank balances – which translates into 10.9sen/share. Total current assets were 2.7x total liabilities, signifying low liquidity risk.

Impact

- Taking into account the reduced sales orders, we decrease our utilisation rate in FY14/FY15 to 70%/80% respectively. We also decrease our margin assumption by approximately 1% due to the recent electricity tariff hike. Following this, we reduce our FY14/FY15 earnings by approximately 7% to 15%. We now have an FY14/FY15/FY16 earnings estimate of RM28.1mn/RM49.8mn/RM62.6mn.

Outlook

- We forecast additional capacity for the group to kick in by FY15. In line with our assumption, the group reported RM3.2mn for CAPEX in the 3Q FY14. Hence, we believe construction of new facilities are currently in progress. If everything goes as planned, we expect exciting earnings growth of 77.1% in FY15.
- The outlook for FY15 remains optimistic, we believe sales will rise along with a recovery in global economic activities. Particularly, in tandem with the 2014 Fifa World Cup, we expect a boost in demand for consumer electronics such as televisions. This should bode well for the group given its manufacture of plastic parts and components for these products.

Valuation

- Incorporating our new estimates, we reduce our target price to RM0.49/share from RM0.58/share. This is based on an unchanged PER ratio of 10x against CY14 EPS of 4.9sen. We maintain our BUY recommendation on SKP Resources with a potential capital upside of 53.1%. Key buying/selling points for the group: 1) Additional capacity to kick in by FY15 2) Strong net cash position and 3) Declining margin due to implementation of government policies.

Share Information

Bloomberg Code	SKP MK
Stock Code	7155
Listing	Main Market
Share Cap (mn)	900.0
Market Cap (RMmn)	288.0
Par Value	0.1
52-wk Hi/Lo (RM)	0.395/0.295
12-mth Avg Daily Vol ('000 shrs)	2268.6
Estimated Free Float (%)	29.3
Beta	0.76

Major Shareholders (%)

Gan Kim Huat	- 59.2
LTH	- 10.0

Forecast Revision

	FY14	FY15
Forecast Revision (%)	(14.3)	(15.4)
Net profit (RMmn)	28.1	49.8
Consensus	-	-
TA's / Consensus (%)	na	na
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	Net Cash	Net Cash
CFPS (sen)	(2.6)	2.8
Price/CFPS (x)	nm	11.6
ROE (%)	13.7	22.1
NTA/Share (RM)	0.2	0.3
Price/NTA (x)	1.4	1.2

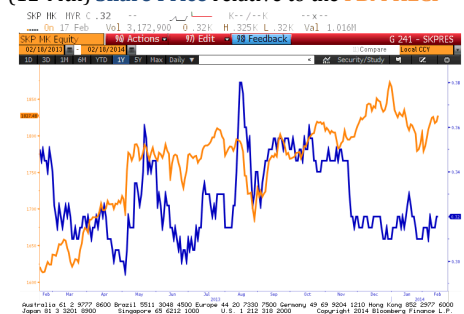
SCORECARD

	% of FY	
vs TA	66.5	Below
vs Consensus	na	na

Share Performance (%)

Price Change	SKP	FBM KLCI
1 mth	3.2	1.3
3 mth	0.0	0.8
6 mth	(5.9)	5.8
12 mth	(5.9)	11.6

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



Source: Bloomberg

Earnings Summary (RM'mn)

FYE March 31 (RMmn)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	414.8	423.3	406.5	593.4	662.0
EBITDA	58.8	62.5	45.8	79.2	95.5
EBITDA margin (%)	14.2	14.8	11.3	13.3	14.4
Pretax profit	49.6	53.8	37.5	66.5	83.5
Net profit	36.8	39.6	28.1	49.8	62.6
Core net profit	36.8	39.6	28.1	49.8	62.6
EPS* (sen)	4.1	4.7	3.1	5.5	7.0
EPS growth (%)	40.6	13.7	(32.9)	77.1	25.6
PER (x)	7.8	6.9	10.2	5.8	4.6
GDPS* (sen)	2.0	2.2	1.6	2.8	3.5
Div yield (%)	6.3	6.9	4.9	8.7	10.9
ROE (%)	21.8	20.9	13.7	22.1	24.7

* Adjusted for bonus issue

3Q FY14 Results Analysis (RMmn)

FYE Mar (RM'mn)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	9M13	9M14	YoY (%)
Revenue	90.5	106.2	87.8	(17.3)	(3.0)	334.4	302.2	(9.6)
Gross profit	17.3	14.5	12.1	(16.8)	(30.0)	57.5	42.6	(25.9)
EBITDA	14.7	11.5	9.1	(20.9)	(38.3)	50.2	34.2	(31.9)
Depreciation	(2.2)	(2.1)	(2.1)	0.7	(3.8)	(6.6)	(6.3)	(4.4)
Net interest	0.6	0.2	0.3	86.0	(42.8)	1.6	1.2	(28.5)
PBT	13.1	9.6	7.3	(23.6)	(44.3)	45.2	29.0	(35.8)
Taxation	(3.4)	(2.3)	(1.9)	(17.1)	(43.7)	(11.7)	(7.2)	(38.1)
Net profit	9.8	7.3	5.4	(25.7)	(44.5)	33.6	21.8	(34.9)
Core Net profit	9.8	7.3	5.4	(25.7)	(44.5)	33.6	21.8	(34.9)
EPS (sen)	1.1	0.8	0.6	(25.9)	(44.4)	3.7	2.4	(34.7)
DPS (sen)	0.0	0.0	0.0	nm	nm	1.3	0.0	nm
				%-pts	%-pts			%-pts
GP margin (%)	19.1	13.7	13.8	0.1	(5.3)	17.2	14.1	(3.1)
EBITDA margin (%)	16.3	10.8	10.3	(0.5)	(5.9)	15.0	11.3	(3.7)
PBT margin (%)	14.5	9.0	8.3	(0.7)	(6.2)	13.5	9.6	(3.9)
Net margin (%)	10.8	6.9	6.2	(0.7)	(4.6)	10.0	7.2	(2.8)
Tax rate (%)	25.7	23.9	25.9	2.0	0.3	25.8	24.8	(1.0)

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