



SKP Resources Bhd

“New capacity to spearhead growth”

Bloomberg: SKP MK | Reuters: SKPR.KL | Stock Code: 7155

Main Board
Industrial Products
BUY
TP: RM2.00
Price: RM1.66

Valuation / Recommendation

We recommend a BUY on SKP Resources Bhd with a TP of RM2.00 based on FY24F EPS 13.8 sen and PE of 14.5x in line with its peers' average. We like the stock for its attractive expansion plans and dividend payments. The target price represents a potential return of 20.5% over the current price.

Investment Highlights

Solid track record. SKP Resources is one of Malaysia's largest and quickest-growing integrated contract manufacturer, catering to the E&E, Industrials, Automotive, Food and Beverage Industries. Besides being ranked 46th in the latest Manufacturing Market Insider (MMI)'s Top 50 EMS Providers in 2021, the company was able to achieve stellar results with a 4-year CAGR of 8.8% from FY19 to FY22 despite the COVID-19 pandemic.

The company achieved a record high profit in FY22 due to robust sales and growth diversification across various industry segments namely EMS and non-EMS sectors. Our estimates assume 2H23 to be stronger on the back of higher sales propelled by festive seasons and new product launchings, which is on track to achieve another record year.

Capacity expansion. In FY22, the company invested approximately RM94.39m including the on-going construction of a new multi-storey factory building (Plant 5, site 5) on a 6.4-acre plot of land in Johor Bahru, expected to be fully constructed within March 2023. With the completion of plant 5, this will provide an additional floor space of 650,000 sq. ft. which is 50% more than its existing floor space.

The new plant will house new assembly lines and new printed circuit board assembly facilities to cater for the growth over the next 3 years. The company also completed the acquisition of another new land in Johor Bahru (site 6) in April 2022, which is not far from site 5. The newly acquired site 6 spans 7.9 acres which will be utilised to cater for future growth and expansion.

Experienced management team. The company is headed by Dato' Gan Kim Huat who has over 30 years of experience in plastics injection moulding industry. Collectively, the management team has an average industry experience of more than 10 years, supported by a long-serving technical team to spearhead the business going forward.

Dividends. The company has a minimum dividend pay-out policy of 50%. A final single-tier dividend of 5.55 sen per ordinary share was declared in FY22 which constitute approximately 50% of the Group's profit after tax (PAT).

Risk factors. (1.) Failure to secure orders from customers. (2.) Raw material shortages arising from supply chain disruptions.

INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	1,826.7	2,251.2	2,321.4	2,785.7	3,315.0
EBITDA (RM m)	24.8	206.9	261.8	273.1	322.1
EBITDA Margin (%)	6.8	9.2	11.3	9.8	9.7
Pre-tax Profit (RM m)	96.1	171.3	222.4	230.6	276.2
PATMI	72.1	133.2	173.4	179.9	215.5
EPS (sen)	4.6	8.5	11.1	11.5	13.8
EPS Growth (%)	-	84.7	30.1	3.7	19.8
BV Per Share (sen)	39.1	45.3	52.1	57.9	64.8
PE (x)	36.0	19.5	15.0	14.4	12.0
Dividend Yield (%)	1.8	2.6	3.3	3.5	4.2
Net Gearing (%)	Net	Net	Net	Net	Net
	Cash	Cash	Cash	Cash	Cash
ROA (%)	7.2	12.7	13.8	12.6	13.7
ROE (%)	11.8	18.8	21.3	19.9	21.3

Sources: Mercury Securities, Company

Business Overview

SKP Resources Bhd is an Electronics Manufacturing Services (EMS) provider, principally involved in the manufacturing of plastic components, precision mould making, advance secondary processes, sub-assembly of electronics equipment and full turn-key contract manufacturing. SKP was established in 1994 at Johor and has since grown to become one of Malaysia's largest and fastest-growing integrated contract manufacturers today catering to the E&E, Industrials, Automotive, Food & Beverage Industries.

Stock Return Information

KLCI (pts)	1,477.19
Expected Share Return (%)	20.5
Expected Dividend Yield (%)	4.2
Expected Total Return (%)	24.7

Share Information

Market Cap (RM m)	2,593.5
Issued Shares (m)	1,562.4
52W High (RM)	1.83
52W Low (RM)	1.17
Estimated Free Float (%)	56.5
Beta vs FBM KLCI	0.63
3-month Average Vol. (m)	24.7

Top 3 Shareholders (%)

Beyond Imagination Sdn Bhd	14.42
Kumpulan Wang Persaraan	8.45
RENOWN MILLION Sdn Bhd	8.14

Price Performance	1M	3M	12M
Absolute (%)	1.8	-2.4	5.7
Relative to Index (%)	1.2	-1.0	6.5



Source: Bloomberg

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RESULTS (RM m) FY Mar	2Q23	1Q23	qoq %	2Q22	yoy %	Comments
Revenue	291.3	245.9	18.5	180.7	61.2	
Profit From Operations	69.8	52.4	33.2	28.6	144.1	
Investment related income	0.1	0.1	0	0.1	0	
Finance cost	(6.4)	(6.2)	3.2	(6.3)	1.6	
Profit before tax	63.4	46.3	36.9	22.4	183.1	
Taxation	(23.9)	(15.1)	58.3	(8.7)	174.7	
Profit after tax	39.6	31.2	26.9	13.7	189.1	
Minority interest	(1.1)	(0.4)	175	(0.6)	83.3	
PATMI	39.6	31.2	26.9	13.7	189.1	
EPS (sen)	11.3	8.7	29.4	4.02	180.6	

Sources: Mercury Securities, Company

Peers' Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Aurelius	A TECH MK	1.91	684.1	20.1	15.9	9.5	12.0	25.5%	26.3%	5.1	4.5
V.S. Industry	VSI MK	0.93	3,549.8	14.9	13.0	6.2	7.1	41.9%	14.5%	1.5	1.5
PIE	PIE MK	2.65	1,017.7	14.7	12.9	18.0	20.5	12.5%	13.9%	1.7	1.5
Average				17.5	14.5						

Sources : Mercury Securities, Company



PROFIT & LOSS (RM m) FY Mar	FY20A	FY21A	FY22A	FY23F	FY24F
Net Revenue	1826.7	2251.2	2321.4	2785.7	3315.0
Gross Profit	186.3	267.1	324.8	353.4	422.4
Other Operating Income	9.6	12.4	21.1	25.1	29.8
EBIT	96.4	171.6	222.6	230.6	276.2
Administrative Expenses	99.0	103.8	117.3	140.7	167.4
Profit from operations	89.7	168.6	220.5	228.1	273.3
Interest Income	6.7	3.0	2.1	2.5	3.0
Interest Expense	0.2	0.3	0.2	0.0	0.0
Profit Before Tax	96.1	171.3	222.4	230.6	276.2
Exceptional Items	-	-	-	-	-
Taxation	24.0	38.1	49.0	50.7	60.8
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	72.1	133.2	173.4	179.9	215.5
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	72.1	133.2	173.4	179.9	215.5
BALANCE SHEET (RM m) FY Mar	FY20A	FY21A	FY22A	FY23F	FY24F
Cash & Equivalents	55.3	56.6	51.3	81.2	128.9
Trade & Other Receivables	358.7	338.3	533.2	575.7	619.5
Inventories	164.1	221.5	254.7	338.7	382.8
Other Current Assets	139.9	128.4	50.1	39.6	29.6
Current Assets	718.1	744.8	889.2	1035.2	1160.8
Property, Plant & Equipment	248.5	267.3	290.0	312.0	331.0
Other Non-Current Assets	36.1	36.7	73.0	76.5	80.2
Non-Current Assets	284.6	304.0	363.0	388.4	411.1
Trade & Other Payables	349.5	288.9	375.7	434.4	495.0
Other Current Liabilities	21.1	35.9	40.9	48.1	53.4
Current Liabilities	370.5	324.8	416.7	482.5	548.3
Other Non-Current Liabilities	20.9	16.1	21.0	19.4	18.4
Non-current Liabilities	20.9	16.1	21.0	19.4	18.4
Share Capital	296.1	296.1	296.1	296.1	296.1
Retained Profits	411.7	508.3	615.0	704.9	812.6
Other Equity	-96.6	-96.6	-96.6	-96.6	-96.6
Total Equity	611.2	707.8	814.5	904.4	1012.2
CASH FLOW (RM m) FY Mar	FY20A	FY21A	FY22A	FY23F	FY24F
Profit before tax (PBT)	96.1	171.3	222.4	230.6	276.2
Depreciation of PPE	28.4	35.3	39.2	42.6	45.9
Other operating cash flow	-4.8	6.7	-4.7	4.7	4.2
Changes in working capital	-19.9	-99.9	-159.4	-67.3	-27.4
Interest paid	-0.2	-0.3	-0.2	-0.2	-0.2
Tax paid	-27.5	-31.4	-47.0	-50.7	-60.8
Operating cash flow	72.1	81.9	50.4	159.7	238.1
Purchases of PPE	-79.5	-46.5	-57.5	-60.0	-60.0
Other investing cash flow	77.9	10.4	70.8	10.0	10.3
Investing cash flow	-1.6	-36.2	13.3	-50.0	-49.7
Dividends paid	-48.1	-36.6	-66.7	-89.9	-107.7
Other financing cash flow	-3.4	-2.1	-3.0	-3.0	-3.0
Financing cash flow	-51.5	-38.7	-69.8	-93.0	-110.8

Sources : Mercury Securities, Company

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