# Earnings missed expectations

**SLP's 2Q17 revenue increased by 2.5% yoy, but net profit decreased by 23.9% yoy, due to higher raw material costs. The Group's earnings missed both our and consensus estimates. The Group recorded a 1H17 net profit of RM9.7m, which makes up 34.0% of our full year estimates and 26.5% of consensus estimates. We downgrade to HOLD, and reduced our TP from RM2.87 to RM2.62, based on a 26x 2018E PER, for upside potential of 8.6%.**

### 2Q17 net profit decreased by 23.9% yoy

Despite recording a higher revenue of RM43.2m in 2Q17 compared to RM42.2m in 2Q16, SLP's net profit decreased significantly by 23.9% yoy. The higher revenue was attributed to higher domestic sales of flexible plastic packaging (FPP) products in line with higher demand for food packaging products from domestic customers. Nonetheless, the price of resin, a derivative of oil, had increased in tandem with higher oil price. This resulted in the lower 2Q17 EBITDA margin of 14.5% vs 17.3% in 2Q16.

### 2Q17 net profit decreased by 9.6% qoq

The Group's revenue and net profit decreased by 6.0% qoq and 9.6% qoq respectively. Compared to the previous quarter, the decline in revenue was mainly due to lower sales volume from export markets, particularly the Japanese market. Revenue from Japan decreased by 13.3% qoq (1Q17: RM18.6m vs. 2Q17: RM16.1m). SLP faces fierce competition from other plastic manufacturers in Thailand and Vietnam, which resulted in lower sales from Japan.

### Downgrade to HOLD with a lower target price of RM2.62

Higher raw material cost negatively impacted the Group's bottom-line. As we expect oil price to trend higher in the coming quarters, we decrease our earnings by 34%/23% for 2017E/18E. Downgrade to **HOLD** with a lower target price of RM2.62, based on 26x our 2018E EPS, providing 8.6% upside potential. Key risk: a spike in crude-oil prices and slowdown in capacity expansion.

**Earnings & Valuation Summary**

| FYE 31 Dec | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenue (RMm) | 172.4 | 168.7 | 181.1 | 199.2 | 217.4 |
| EBITDA (RMm) | 37.6 | 35.1 | 28.0 | 34.6 | 42.4 |
| Pretax profit (RMm) | 34.8 | 29.3 | 24.3 | 30.6 | 38.2 |
| Net profit (RMm) | 27.2 | 25.4 | 21.1 | 26.6 | 33.2 |
| EPS (sen) | 11.0 | 10.3 | 8.0 | 10.1 | 12.6 |
| PER (x) | 21.9 | 23.4 | 30.1 | 23.9 | 19.2 |
| Core net profit (RMm) | 26.1 | 27.3 | 21.1 | 26.6 | 33.2 |
| Core EPS (sen) | 10.5 | 11.1 | 8.0 | 10.1 | 12.6 |
| Core EPS growth (%) | 114.6 | 4.8 | -27.6 | 25.7 | 24.8 |
| Core PER (x) | 22.8 | 21.8 | 30.1 | 23.9 | 19.2 |
| Net DPS (sen) | 2.5 | 4.5 | 3.5 | 4.4 | 5.5 |
| Dividend Yield (%) | 1.0 | 1.9 | 1.5 | 1.8 | 2.3 |
| EV/EBITDA (x) | 11.9 | 16.1 | 20.1 | 16.3 | 13.0 |
| | | | | | |
| Chg in EPS (%) | | | -34.3 | -23.0 | 0.0 |
| Affin/Consensus (x) | | | 0.6 | 0.6 | - |

*Source: Company, Affin Hwang forecasts, Bloomberg*

## Results Note

# SLP Resources

SLPR MK; SLP
Listing Market: Main
Sector: Plastic Manufacturing

### RM2.41 @ 4 August 2017

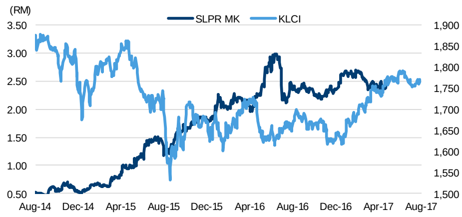
KLCI: 1774.53

### HOLD (downgrade)

Upside: 8.6%

### Price Target: RM2.62

Previous Target: RM2.87




### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | -1.6% | -8.7% | -19.7% |
| Rel to KLCI | -2.3% | -9.5% | -25.1% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 264.1 |
| Mkt cap (RMm)/(US$m) | 636.6/148.8 |
| Avg daily vol - 3mth (m) | 0.0 |
| 52-wk range (RM) | 2.0-3.0 |
| Est free float | 28.5% |
| BV per share (RM) | 0.53 |
| P/BV (x) | 4.53 |
| Net (cash)/ debt (RMm) | 27.1 |
| Derivatives | NA |
| Shariah Compliant | Yes |
| Beta | 0.63 |

### Key Shareholders

| | |
|---|---|
| Khoon Tee's Family | 37.5% |
| Seang Chuan Khaw | 14.5% |
| Khoon Tee Khaw | 9.9% |

*Source: Affin, Bloomberg*

Koh Sin Yee
(603) 2146 7536
sinyee.koh@affinhwang.com

www.bursamids.com

**Fig 1: Results Comparison**

| FYE Dec (RMm) | 2QFY17 | QoQ % chg | YoY % chg | 1H17 | YoY % chg | 2Q Comments |
|---|---|---|---|---|---|---|
| Revenue | 43.2 | -6.0 | 2.5 | 89.2 | 2.7 | 2Q revenue was up 2.5% yoy to RM43.2m. Both revenue from Malaysia and Japan increased by 8.6% yoy and 4.0% respectively.<br><br>The higher revenue is due to higher domestic sales of flexible plastic packaging (FPP) products in line with higher demand for food packaging products from domestic customers. |
| Op costs | 37.0 | -2.8 | 6.0 | 75.0 | 7.1 | Increase in costs is mainly due to higher costs of raw materials mainly caused by higher ASP of plastic resin. |
| EBITDA | 6.3 | -21.3 | -14.1 | 14.2 | -15.5 | 2Q EBITDA decreased by 14.1% yoy, mainly attributable to higher raw material costs. |
| *EBITDA margin (ppts)* | *14.5* | *-2.8* | *-2.8* | *16.0* | *-3.4* | |
| Depn and amort | (1.2) | -1.0 | 18.8 | -2.4 | 16.7 | |
| EBIT | 5.1 | -24.9 | -19.3 | 11.9 | -19.9 | |
| Int expense | 0.1 | 27.8 | 305.9 | 0.1 | 223.7 | |
| Associates | 0.0 | na | na | 0.0 | na | |
| FX gain (loss) | (0.3) | -166.4 | -121.6 | 0.2 | -109.5 | FX loss due to unfavorable conversion of selling prices in US$ for the Group's export sales. 60% of the Group's revenue is denominated in US$. |
| EI | 0.4 | -172.0 | -159.1 | -0.1 | -126.8 | |
| Pretax profit | 5.2 | -24.2 | -29.1 | 12.0 | -11.2 | Despite higher revenue, pretax profit decreased by 24.2% qoq and 29.1% yoy due to higher raw material costs. |
| Core pretax profit | 4.8 | -34.6 | -39.3 | 12.2 | -6.5 | |
| Tax | (0.6) | -67.2 | -54.1 | -2.3 | -3.8 | |
| *Tax rate (%)* | *11.0* | *-14.4* | *-6.0* | *19.2* | *1.5* | |
| MI | 0.0 | na | na | 0.0 | na | |
| Net profit | 4.6 | -9.6 | -23.9 | 9.7 | -12.8 | Net profit missed both our and consensus estimates. |
| EPS (sen) | 1.9 | -9.2 | -23.7 | 3.9 | -12.9 | |
| Core net profit | 4.2 | -24.5 | -36.6 | 9.9 | -7.1 | |

*Source: Affin Hwang, Company*

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com