

4QFY14 RESULTS UPDATE

12 March 2015

SLP Resources Berhad

Price : RM0.70

Market Capitalization : RM173.1 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

Bursa / Bloomberg Code: 7248 / SLPR MK
Stock is Shariah-compliant.

SLP: 4QFY14 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY14	3QFY14	% chg	4QFY13	% chg	FY14	FY13	% chg
Turnover	40.4	44.2	-8.5%	41.2	-2.1%	174.4	161.8	7.8%
Operating profit	4.5	4.1	9.4%	3.1	42.9%	15.0	14.4	3.8%
Finance costs	(0.0)	(0.0)		(0.0)		(0.1)	(0.1)	
Pre-tax profit	4.5	4.1	9.4%	3.1	42.6%	15.0	14.5	3.5%
Tax	(0.5)	(0.9)		(0.9)		(2.8)	(3.2)	
Net profit	4.0	3.1	27.0%	2.3	76.9%	12.2	11.2	8.2%
EPS (sen) - basic	1.6	1.3	26.8%	0.9	76.9%	4.9	4.5	8.1%
Op. profit margin	11.0%	9.2%		7.6%		8.6%	8.9%	
Pre-tax margin	11.0%	9.2%		7.6%		8.6%	8.9%	
Net profit margin	9.9%	7.1%		5.5%		7.0%	6.9%	
Net Assets/share (RM)	0.39							

4QFY14 Results Review

- A stronger-than-expected 4QFY14 net profit of RM4.0 mln brought SLP's FY14 net profit to RM12.2 mln which accounted for 118% of our estimate. The variance was largely due to lower-than-expected effective tax rate in 4QFY14.
- The Group registered a healthy 7.8% y-o-y growth in its FY14 revenue, lifted by encouraging export sales growth to Japan and Australia. Sales to Japan were up 31.6% y-o-y, followed by Australia (19% y-o-y). Sales to Europe were down 13.1% y-o-y but the impact is negligible due to its small base. Local revenue, meanwhile, was down a marginal 1.3% y-o-y.

Y-oY changes	Current Quarter			Year-To-Date		
	4QFY14	4QFY13	% Chg	FY14	FY13	% Chg
Revenue						
Malaysia	17.2	24.6	-30.0%	94.2	95.4	-1.3%
Japan	16.0	10.2	57.1%	53.6	40.8	31.6%
European countries	2.3	1.9	21.0%	6.0	6.9	-13.1%
Australia	2.4	2.3	4.7%	10.1	8.5	19.0%
Other countries	2.6	2.4	9.3%	10.5	10.3	2.1%
Group	40.4	41.2	-2.1%	174.4	161.8	7.8%

- Despite the 7.8% y-o-y increase in FY14 turnover, PBT only expanded by 3.5% y-o-y with management citing higher raw materials cost in the first 10 months of FY14, coupled with higher electricity expenses snipped off some profit margin. Fortunately, lower effective tax rate due to reinvestment allowances enjoyed by a subsidiary of SLP lifted the Group's net profit back up by 8.2% y-o-y, offsetting the drop in PBT margin.

- Moving forward, we reiterate our positive outlook for the Group in FY15. Earnings growth catalysts include i) capacity expansion plans in place for the current year; ii) prevailing low crude oil price; and iii) strengthening of USD and JPY against Ringgit. To recap, SLP is installing 6 new production lines in FY15 and this would double the revenue from polyethylene (PE)-based thin-gauge plastic packaging materials to about 30% from 16% currently. Management is confident the additional capacity would be taken up by its clients from Japan, New Zealand and Australia.
- Meanwhile, the plunge in oil price to sub-USD50/barrel is good news for the Group as this translates into cheaper resin price. Recall that resins, a by-product of petroleum, are a key raw material component at SLP. As for the weak Ringgit, SLP stands to benefit from forex gains as it derives more than 40% of its revenue in USD and JPY. We are already seeing the positive impact from cheaper resin price and weak Ringgit in the 4QFY14 results where its operating profit margin expanded to 11.0% vs. 9.2% in 3QFY14 and 7.6% in 4QFY13.
- With these factors in mind, we raise our FY15 net profit estimate by 20% to RM16.5 mln. On balance sheet strength, the Group is lean with a net cash/share of 4.1 sen, backed by BV/share of 39 sen as at end-December 2014.
- As anticipated, the board declared a 2nd interim single-tier dividend of 1.0 for the quarter under review, bringing total dividend for FY14 to 2.0 sen.

Recommendation

We reiterate our **Buy** recommendation on SLP with a higher fair value of **81 sen** (from 66 sen). We derive our fair value by ascribing a target PER multiple of 12x against our revised FY15 earnings. We continue to like SLP for its earnings growth prospects, hands-on management and focus on innovations. Moderating factors, however, include its rather small market capitalization as well as illiquid trading volume.

Per Share Data				P&L Summary				
FYE Dec	FY13	FY14	FY15f	FYE Dec (RM mln)	FY12	FY13	FY14	FY15f
Book Value (RM)	0.37	0.39	0.44	Revenue	151.2	161.8	174.4	211.4
Cash Flow (sen)	6.6	6.6	8.7	Operating profit	12.7	14.5	15.0	20.7
Earnings (sen)	4.5	4.9	6.7	Net Int Exp	(0.1)	(0.1)	(0.1)	(0.1)
Net Dividend (sen)	2.0	2.0	2.0	Pre-tax Profit	12.7	14.5	15.0	20.6
Payout Ratio (%)	44.0%	40.7%	30.0%	Eff. Tax Rate	25.6%	22.4%	18.8%	20.0%
PER (x)	15.4	14.2	10.5	Net Profit	9.4	11.2	12.2	16.5
P/Cash Flow (x)	10.6	10.6	8.0	Op. Profit Margin (%)	8.4%	9.0%	8.6%	9.8%
P/Book Value (x)	1.9	1.8	1.6	Pre-tax Margin (%)	8.4%	8.9%	8.6%	9.8%
Dividend Yield (%)	2.9%	2.9%	2.9%	Net Margin (%)	6.2%	6.9%	7.0%	7.8%
ROE (%)	12.1%	12.6%	15.3%					
Net gearing (x)	net cash	net cash	net cash					

SLP's last 12-month share price chart



Source: Bloomberg

Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

DISCLAIMER

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial advice regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/cmdf-bursa-research-scheme-cbrs>

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
