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KUCHING: The research arm of Kenanga Investment Bank Bhd (Kenanga Research) has downgraded their call on SLP Resources Bhd (SLP) following the release of their first half of financial year 2025 (1HFY25) earnings which disappointed expectations.

In a results note, the analyst guided that the 1HFY25 net profit which fell 31 per cent year on year (y-o-y) to RM5.5 million had only made up 35 per cent of their full-year forecast.

"The shortfall was largely driven by less favourable exchange rate whereby the average Ringgit strengthened faster than expected against the US dollar by around three per cent compared to the preceding quarter," said the research arm.

The performance during the period under review was also dampened by a weaker-than-expected domestic manufacturing segment which is likely caused by competitors shifting their focus away from the export market due to US tariff uncertainties.

Additionally, the research arm also noted that the group's margins were also further burdened by higher operating costs form the higher minimum wage since Feb 2025, but the cost of its raw materials were largely unchanged while there were minor savings from Tenaga Nasional Bhd's (TNB) new tariff rate.

While the 1HFY25 earnings had missed the analyst's expectations, SLP still declared a dividend per share (DPS) of 1.25 sen, bringing its year to date (YTD) total dividend to 2.25 sen, and meet the expectations of Kenanga Research who is forecasting a full-year dividend of 4.8 sen.

Looking ahead, Kenanga Research reckons that the Ringgit will continue to strengthen against the US dollar gradually from the current RM4.23 to an average of RM4.02 by 2026.

This does not bode well for SLP's profit margin as the export sales in its manufacturing segment contribute more than 50 per cent in terms of revenue.

"While Japanese orders on kitchen and garbage bags was steady as buoyant tourism helped support overall demand for packaging, we expect demand for SLP's plastic packaging products in Malaysia to remain challenging on tariff disruption and intensifying competition despite minimal direct impact from US tariffs given that its exports to the US made up less than three per cent of its total revenue," the research arm explained.

For now, the research arm is expecting Japan to remain as SLP's largest export market – accounting for 30 to 40 per cent of its plastic packaging sales. Though it should be noted that SLP is currently trying to recoup sales in Australia and New Zealand (NZ) following a drop in exports as the two countries move away from plastic fashion bags.

"Encouragingly, 2QFY25 exports to NZ has picked up y-o-y, lifting even 1HFY25 exports above that in 1HFY24," the research arm commented.

Despite near-term headwinds of unfavourable forex and intensifying competition, Kenanga Research asserts that the earnings catalyst for SLP is still intact and remains to be the ongoing progress of the player developing new lines of manufacturing for the components of medical-related devices which command better margins.

Though this will be slightly offset by increased operating costs from the newly announced multi-tier levy mechanism (MTLM) for foreign workers that will be implemented from 2026.

In view of a faster-than-expected strengthening of the Malaysian Ringgit and stronger-than-expected impacts from intensifying competition, Kenanga Research has opted lower their call on SLP from 'outperform' to 'market perform' while also cutting their earnings forecast for SLP's FY25 and FY26 by 29 and 13 per cent, respectively.

Subsequently, they also trim target price (TP) from RM1.00 to RM0.89 as well as their dividend forecast for FY25 to FY26 from 4.8 sen and 5.0 sen to 4.25 sen and 4.5 sen, respectively.