Investment Idea

BP Plastics Holding Bhd

Value unwrapping

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★★★★☆ **BUY**

Price: **RM1.54**
Target price: **RM2.28**

We are sanguine on the prospect of BP Plastics Holding Bhd (BPPLAS) as a prominent Polyethylene (PE) film player and see demand to pick up from the resumption of global and regional trade activities from 2H2021 amid on-going capacity expansion. The stretch film maker is currently trading at undemanding valuation of FY22 PER 8x further supported by projected attractive dividend yield of 5.8%. Solid balance sheet with zero borrowings. BUY with target price of RM2.28 based on 11.5x FY22 PER as per the 5-year average valuation.

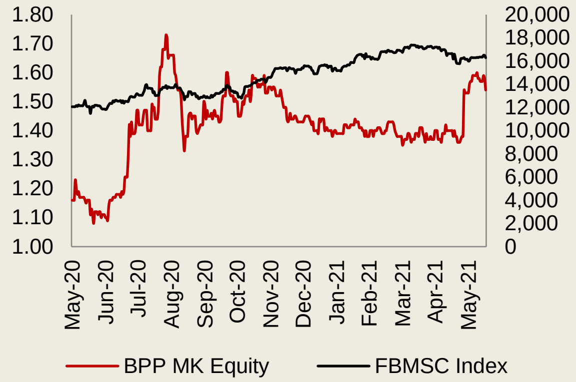
Established in 1990, BBPLAS is now one of the largest PE film makers in Asia, supplying cast stretch film and industrial packaging films and bags to over 54 countries. About 76% of the sales are export driven supplying to countries across Asia, Middle East, Europe and North American region. We expect the order for stretch films and industrial bags to pick up due to anticipated global trade recovery in 2H2021 of which the company is currently experiencing especially from Japan.

Based in Johor, BPPLAS has a combined production capacity of 8,500 metric tons per month and the company is looking to add capacity by deploying new 9th cast stretch film machine (to be commissioned by end FY21) from most of the capex spending of RM35.6m. 75% of the sales are derived from stretch films and 25% are from blown PE films. Presently, approximately 40% of the stretch film are premium products (thin gauge film), commanding 20% - 30% higher selling price than the conventional films. We expect the proportion of premium film to conventional film to increase with the new cast stretch film line in place. For blown film division, due to highly customized specification to fit for different industrial purposes (eg: form-fill-seal for cooking oil, lamination base film), it garners higher margin though volume is lower when compared to stretch film.

The plastics packaging industry in Malaysia has over the years undergone consolidation. In effect, the elimination of competition has enabled BPPLAS and other industry player like TGUAN to gain access to new clients where previously was not possible, which is an added advantage. BPPLAS average dividend payout ratio is attractive at 58.3% over the past 5 years, translating to a projected yield of 5.8%. Its zero borrowings and cash position of RM76.1m would comfortably fund future CAPEX requirements. All in, we forecast EPS growth of 13% for FY21 and 11% for FY22 respectively. BPPLAS is an attractive value proposition given its undemanding valuation and decent dividend yield.

Technically Speaking

Resistance level	RM1.63
Support level	RM1.35



KLCI	1,578.3
YTD FBM KLCI change	3.0%
YTD FBM SC Index change	+4.7%
YTD stock price change	+6.2%

Stock Information

Market Cap (RM'm)	289.0
Issued Shares (m)	187.7
52-week range (H)	1.76
52-week range (L)	1.08

Major Shareholders

LG Capital Sdn Bhd	43.2%
Tan See Kim	9.5%
Lim Chun Yow	9.3%
Hey Shiow Hoe	7.8%

Summary Earnings Table

FY Dec (RM'm)	2019A	2020A	2021F	2022F
Revenue	331.2	316.6	386.4	428.4
EBIT	26.3	38.9	42.5	47.1
Pretax profit	26.3	38.9	42.5	47.1
Net profit	**21.2**	**29.7**	**33.6**	**37.2**
Core Net Profit	**21.5**	**29.6**	**33.6**	**37.2**
Consensus	-	-	-	-
EPS (sen)	11.5	15.8	17.9	19.8
EPS growth (%)	0.5%	37.9%	13.3%	10.9%
DPS (sen)	6.0	8.0	9.0	10.0
PER (x)	13.4	9.8	8.6	7.8
BV/Share (RM)	1.02	1.10	1.18	1.28
ROE (%)	11.2%	14.4%	15.7%	16.1%
Div. Yield (%)	3.9%	5.2%	5.8%	6.4%

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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