

BP Plastics Holding Bhd

Specialty plastics packaging manufacturer

- **BP Plastics Holding Bhd (BPPLAS) is a specialty plastics packaging manufacturer backed by high customer retention rate, supplying high quality stretch film and customised PE film for various essential sectors.**
- **Capitalising on the growing demand for plastics packaging film, BPPLAS is in a position to undertake new capacities and technology by commissioning new machines, supported by its strong cash position.**
- **We initiate coverage on BPPLAS with a BUY call and fair value of RM2.43, based on 14.0 P/E pegged to its forward FY21f EPS of 17.3 sen.**

Investment Highlights

- **Vital supporting role to various industries.** We like BPPLAS for its significant role various industries, including F&B, logistics, E&E, as well as other industrial and consumer packaging; it is one of the industries least impacted during any economic downturn. Do note that the Group's bottom line in FY20 grew despite a lower top line, which was impacted by the Covid-19, pandemic.
- **Outperforming its peers.** The Group's current ROE and ROA (trailing twelve months) stood at 33.6% and 12.3% respectively beating its peers at 14.7% and 9.4%. These solid ROE and ROA attributed to its appropriate cost rationalization measures and coordinated pricing strategies implemented. Also, BPPLAS has been paying generous dividend in the past 5 years with an average payout ratio of over 50%.
- **Capacity expansion to address growing demand.** The commissioning of the 9th cast line machine by end-FY21 is expected to boost BPPLAS's production capacity from 102kMT p.a. to 120kMT p.a. The strategy is in line with the increasing demand for plastics packaging moving forward amid reopening of economic activities and improving market sentiments. At this point, 5Y average utilisation rate stood at 73%.

Financial highlights

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	333.8	331.2	316.6	355.4	400.2
EBITDA	33.2	35.5	49.0	50.9	57.2
PATMI - Core	21.4	21.2	29.7	32.5	35.8
PATMI - Reported	21.4	21.2	29.7	32.5	35.8
Revenue growth (%)	1.6%	-0.8%	-4.4%	12.3%	12.6%
Core PATMI growth (%)	75.6%	-0.7%	40.1%	9.5%	9.9%
Core EPS (sen)	11.4	11.3	15.8	17.3	19.1
P/E (x)	17.1	17.3	12.3	11.2	10.2
DPS (sen)	6.0	6.0	8.0	6.9	7.6
Dividend yield (%)	3.1%	3.1%	4.1%	3.6%	3.9%
P/B (x)	2.0	1.9	1.8	1.6	1.5
ROE (%)	21.6%	21.5%	30.1%	32.9%	36.2%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Company & M+ Online

Initiation Coverage

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BUY

Share price	RM1.95
Target price	RM2.43
Previous TP	-
Capital upside	24.6%
Dividend return	3.5%
Total return	28.2%

Company profile

Principally involved in producing primary, secondary and tertiary packaging solutions for various market segment.

Stock information

Bursa Code	5100
Bloomberg ticker	BPP MK
Listing market	MAIN
Share issued (m)	300.0
Market Cap (m)	585.0
52W High/Low	2.01 / 1.29
Est. Free float	23.4
Beta	0.7
3-mth avg vol ('000)	681.9
Shariah compliant	Yes

Major shareholders

	%
LG Capital Sdn Bhd	43.2
Tan See Khim	9.5
Lim Chun Yow	9.3

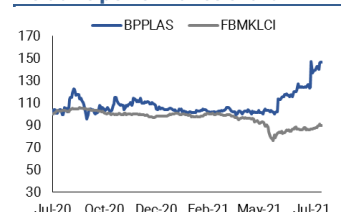
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	17.5	42.2	41.2
Absolute	20.3	51.6	47.3
Relative			

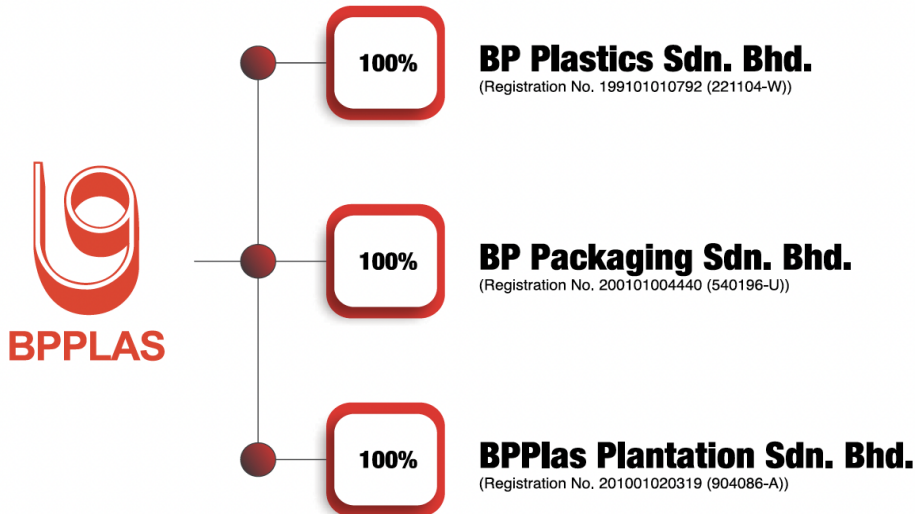
Earnings snapshot

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	29.7	32.5	35.8
EPS (sen)	15.8	17.3	19.1
P/E (x)	12.3	11.2	10.2

Relative performance chart



Company Background

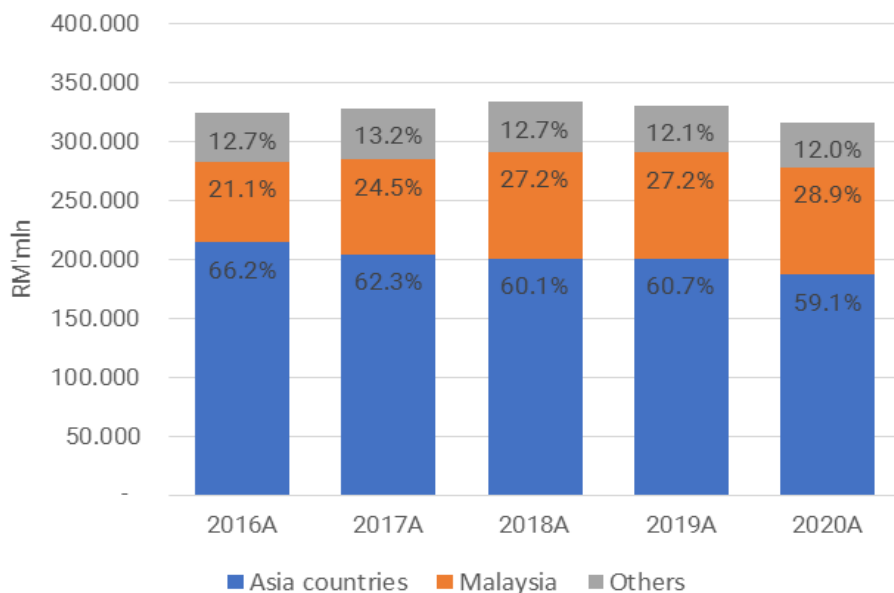


Source: Company

- **More than 30 years of experience in the plastics packaging industry.** BPPLAS's origins can be traced back to 1990 when the business started off as a partnership, supplying polyethylene (PE) bags to the garment and textile industries. A year later, BP Plastics Sdn. Bhd. was established to take over the entire operations. With the relentless efforts in product innovation and market expansion, it has led to the listing of BP Plastics Holding Bhd in 2005 on the Main Board of Bursa Malaysia.
- **Continuous investment in new technology and capacity.** BPPLAS has transformed from a simple mono-layer extrusion to multi-layer machinery to produce high quality Primary, Secondary and Tertiary packaging products for its clients. The Group has expanded its production capacity, occupying 10 blocks of factory premises at two manufacturing locations in Batu Pahat with a combined land size of 15.5 ac. To date, BPPLAS runs more than 80 units of production machineries with a capacity of 8.5k metric tons (MTs) per month.
- **Diverse range of high-quality products.** Continuous product innovation coupled with well-equipped factory allows BPPLAS to produce a wide range of packaging products to cater for different market segmentation needs. These include stretch film, which is designed to provide superior holding force to keep palletized goods sturdy, as well as the customised PE packaging films, which help to improve food production output and to keep food hygiene.
- **Efforts in market expansion.** Leveraging on its wide range of products, BPPLAS serves customers across various industries such as packaging, F&B, building materials/construction, logistics, rubber, furniture, electrical and electronic (E&E) and others. Up till 2020, it has built a customer base of over 680 companies in more than 54 countries worldwide, with major strategic business partners located predominantly in Asia, Australasia and ASEAN countries. Over the past 5 years, export market has contributed more than 70% to BPPLAS's revenue.

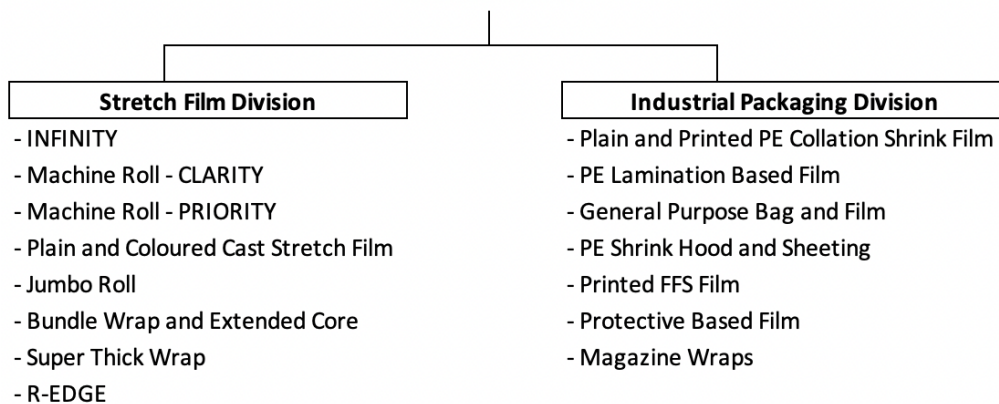
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BPPLAS's revenue in FY16-FY20



Source: Company, M+ Online

Business Model



Source: Company & M+ Online

- Stretch Film Division.** Stretch film is a fully recyclable packaging film solution to secure load rigidity. BPPLAS runs 8 Cast Stretch Film machines, focusing on supplying the higher margin premium grade stretch films, which include Machine Roll Cast Stretch Films and High-Quality Thin Gauge "Infinity" Hand Roll Films that offer superior holding force during transportation and warehousing activities.

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- **Industrial Packaging Division** is also known as PE Film division. BPPLAS focuses on growing the business in blown PE products with customized printing, which can garner higher margins. For instance, the Group supplies high quantities of small individual PE based Form-Fill-Sell packaging with customised printing for the food and beverage industry to keep food fresh and hygienic.

Stretch Film Division & Industrial Packaging Division



Stretch Film Division



Industrial Packaging Division

Source: Company & M+ Online

Outlook

- **Additional capacity with new machine.** In FY20, BPPLAS runs more than 80 units of production machineries, with a production capacity of 8.5kMT per month or 102kMT p.a. Sparing 20% of the total available capacity for maintenance and repairs, the average annual utilization rate in FY16-FY20 for BPPLAS's machine stood at over 73%. By end of FY21, the production capacity is expected to increase to 10kMT per month or 120kMT p.a. with the commissioning of the 9th cast line machine.
- **In position in new technology adoption.** BPPLAS intends to reinvest into high-end innovative machines that can produce thin and sophisticated film for high-speed packaging, which allows the Group to offer wider range of products to serve more market segmentation needs, thereby expanding its customer base. BPPLAS's capex strategy is supported by its net cash position (RM76.1m in 1QFY21, net cash per share of 40.6 sen).
- **Remain focus on higher margin products.** Among the wide range of product offerings, BPPLAS focuses on supplying differentiated superior quality cast stretch films such as Infinity Machine Roll, as well as value-added customized blown PE film with printing to F&B and various industrial sectors. Both provide better margin for the Group. The use of high-end machine allows the Group greater flexibility in innovating higher value-added products.
- **Average selling prices (ASP) remain high.** During Covid-19 pandemic period, resin prices that amounted to over 60% of BPPLAS's cost have been soaring on the back of supply shortages and shipping disruptions. Nevertheless, the negotiating power in hand due to robust demand for plastics packaging products allows the Group to pass on the hikes in resin costs to clients by raising ASP. It is expected that BPPLAS will continue to benefit from the situation, as any normalization in ASP will likely be on a gradual basis.

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Financials

- BPPLAS's FY18 core net profit surged by 75.6% YoY after focusing on further streamlining its product mix, developing higher value-added product lines, and complementing by large volume bulk orders of general products. After a lower core net profit registered in FY19 due to higher effective tax rate, BPPLAS showed a strong return to growth in its core net profit of 40.1% YoY in FY20 by improving its strategies to focus further on its premium stretch film products.
- For FY21f-22f, we expect bottomline to be higher, climbing 9.5%-9.9% YoY to RM32.5m-RM35.8m, respectively, underpinned by (i) higher ASP of plastics packaging products amid the increasing demand globally and (ii) BPPLAS's capacity expansion after commissioning the 9th cast line machine by end-FY21. Also, BPPLAS is reinvesting into high-end innovative machine, which may improve its product mix, eventually increasing margins.

Valuations

- At RM1.95, BPPLAS is trading at P/E of 11.2x and 10.2x for FY21f and FY22f, respectively. We assigned a P/E of 14.0x to FY21f EPS of 17.3 sen, arriving a fair value of RM2.43. The assigned target P/E represents a slight discount of 20% to the average P/E of plastics companies listed on Bursa Malaysia.

Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	P/E (x)		Gross DY (%)	ROE (%)	ROA (%)
					FY21f	FY22f			
BP Plastics Holding Bhd	Main	Dec	1.950	365.9	11.2	10.2	3.6	33.6	12.3
Thong Guan Industries Bhd	Main	Dec	2.540	962.2	11.6	10.4	3.1	21.7	14.5
Daibochi Bhd	Main	Jul	2.260	739.9	14.1	11.3	1.8	18.9	10.0
Tomyapak Holdings Bhd	Main	Dec	0.510	219.9	34.9	28.2	-	4.1	2.8
SCGM Bhd	Main	Apr	2.430	465.3	12.8	12.8	3.1	18.7	11.1
SLP Resources Bhd	Main	Dec	0.955	302.7	14.0	13.5	5.6	9.9	8.6
Avg ex-BP Plastics Holding Bhd					17.5	15.2	3.39	14.7	9.4

Source: Company & M+ Online

Investment risks

- **Fluctuation in resin prices.** Resin prices accounted over 60% of BPPLAS's total production cost. Any supply disruption, global container shortage or higher freight cost may drive resin price higher and it will pose challenges for the Group, if the increased cost is unable to be completely passed through to its customers.
- **Resurgence of Covid-19 may disrupt demand.** Given more than 70% of BPPLAS's revenue is generated from export sales, the resurgence of Covid-19 could lead to imposition of lockdowns in major markets in Europe, America and Asia Pacific, which may disrupt the demand plastics packaging products.
- **Unresolved trade tensions between US and China.** Prolonged conflicts between China and US may trigger volatility in commodity prices, affecting global economic growth, which may cause sluggish demand for packaging film, eventually.

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Stock Digest

Monday, 26 Jul, 2021

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Financial Highlights

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	333.8	331.2	316.6	355.4	400.2	Cash	50.2	45.0	78.0	73.7	89.2
EBITDA	33.2	35.5	49.0	50.9	57.2	Receivables	42.3	38.8	40.8	44.1	49.7
EBIT	24.0	24.8	37.6	38.7	44.1	Inventories	47.5	63.8	84.1	70.7	79.6
Net finance income/ (cost)	1.1	1.6	1.4	1.4	1.4	PPE	84.3	80.4	72.4	85.4	83.0
Associates & JV	-	-	-	-	-	Others	3.5	7.7	12.4	12.2	12.0
Profit before tax	25.0	26.3	39.0	40.2	45.5	Assets	227.8	235.7	287.7	286.1	313.5
Tax	(3.7)	(5.1)	(9.3)	(7.6)	(9.7)	Debits	-	-	-	-	-
Net profit	21.4	21.2	29.7	32.5	35.8	Payables	36.6	34.2	68.6	47.4	53.4
Minority interest	-	-	-	-	-	Others	10.0	10.4	13.3	13.3	13.3
Core earnings	21.4	21.2	29.7	32.5	35.8	Liabilities	46.6	44.6	81.9	60.8	66.8
Exceptional items	-	0.0	0.1	-	-	Shareholder's equity	98.8	98.8	98.8	98.8	98.8
Reported earnings	21.4	21.2	29.7	32.5	35.8	Minority interest	-	-	-	-	-
						Equity	181.2	191.1	205.8	225.3	246.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	25.0	26.3	39.0	40.2	45.5	Core EPS (sen)	11.4	11.3	15.8	17.3	19.1
Depreciation & amortisation	9.2	10.7	11.4	12.2	13.2	P/E (x)	17.1	17.3	12.3	11.2	10.2
Changes in working capital	7.3	(15.3)	12.1	(11.1)	(8.5)	DPS (sen)	6.0	6.0	8.0	6.9	7.6
Share of JV profits	-	-	-	-	-	Dividend yield	3.1%	3.1%	4.1%	3.6%	3.9%
Taxation	(3.7)	(5.1)	(9.3)	(7.6)	(9.7)	BVPS (RM)	0.97	1.02	1.10	1.20	1.32
Others	(0.9)	0.2	5.5	(0.0)	0.0	P/B (x)	2.0	1.9	1.8	1.6	1.5
Operating cash flow	36.9	16.8	58.8	33.6	40.4	EBITDA margin	9.9%	10.7%	15.5%	14.3%	14.3%
Net capex	(23.7)	(12.2)	(2.5)	(25.0)	(10.6)	EBIT margin	7.2%	7.5%	11.9%	10.9%	11.0%
Others	(0.7)	1.4	-	-	-	PBT margin	7.5%	8.0%	12.3%	11.3%	11.4%
Investing cash flow	(24.5)	(10.7)	(4.7)	(25.0)	(10.6)	PAT margin	6.4%	6.4%	9.4%	9.2%	8.9%
Changes in borrowings	-	-	-	-	-	Core PAT margin	6.4%	6.4%	9.4%	9.2%	8.9%
Issuance of shares	-	-	-	-	-	ROE	21.6%	21.5%	30.1%	32.9%	36.2%
Dividends paid	(11.3)	(11.3)	(15.0)	(13.0)	(14.3)	ROA	9.5%	9.1%	11.4%	11.3%	11.9%
Others	3.8	-	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(7.5)	(11.3)	(15.0)	(13.0)	(14.3)						
Net cash flow	5.0	(5.2)	39.1	(4.4)	15.5						
Forex	-	-	-	-	-						
Others	(0.0)	(0.0)	(6.0)	-	-						
Beginning cash	45.2	50.2	45.0	78.0	73.7						
Ending cash	50.2	45.0	78.0	73.7	89.2						

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