

BP Plastics Holding Berhad

Demand uptick, capacity expansion on horizon

Summary

- BP Plastics Holding Bhd's (BPPLAS) 3Q21 net profit advanced 30.5% YoY to RM10.1m, bringing a significant 54.0% increase in 9M21 net profit vs. 9M20. The results came in above expectations, amounting to 88.3% of our previous full year consensus of RM39.2m. Key drivers include stronger demand and higher average selling price (ASP) in Malaysia and other Asia countries, coupled with a better product mix. Meanwhile, an interim dividend of 2.0 sen per share and a special dividend of 1.0 sen per share, both payable on 6th January 2022, were declared.
- QoQ, BPPLAS's net profit declined 31.5% to RM10.1m despite a higher revenue, mainly due to higher raw material costs and global supply chain disruptions. YoY wise, despite having MCO3.0, BPPLAS's net profit increased 30.5% YoY to RM10.1m due to improved demand and higher ASP, as well as the lower effective tax rate.
- BPPLAS remained committed to focus on product innovation and facilities upgrade to support capacity expansion, backed by a strong financial position (net cash position at RM84.4m in 3Q21, net cash per share of 45.0 sen).
- BPPLAS is seeking to further improve its product mix by increasing the production of premium grade hand rolls and machine rolls. The latter will see production expansion upon commissioning of the 9th and 10th Cast Stretch Film machine in 4Q21 and FY22 respectively. The group targets a production capacity of 11kMT per month or 132kMT p.a. following the commissioning of both machines.
- Cost wise, the resin market has plateaued a little bit amid growing supply as producers sought to move excess material while traders and resellers also unwound positions. Whereas growing supply is wiping away the premium built on resin price earlier this year, the price erosion may be gradual as resin supplies may remain tight through the winter and into 2022. Hence, negotiating power to pass through the cost inflation by raising ASP will be crucial for BPPLAS.
- Moving forward, we reckon a sustained and growing demand for plastic packaging products amid reopening of economic activities on both local and global front may bode well for BPPLAS. Meanwhile, the group has resumed 100% operating capacity since end of September 2021.

Results Note

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BUY

Share price	RM2.97
Target price	RM3.38
Previous TP	RM3.06
Capital upside	13.8%
Dividend return	3.3%
Total return	17.1%

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)	891.0
52W High/Low	3.07/1.336
Est. Free float	22.1
Beta	1.0
3-mth avg vol ('000)	1283.1
Shariah compliant	Yes

Major shareholders

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

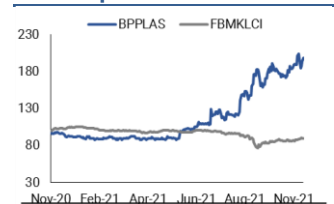
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	14.2	39.4	88.7
Relative	18.8	38.9	97.5

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	29.7	43.8	45.3
EPS (sen)	15.8	23.3	24.1
P/E (x)	18.8	12.7	12.3

Relative performance chart



Quarterly performance								
FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	73.8	108.9	113.3	4.0	53.5	231.7	322.3	39.1
EBITDA	13.0	21.0	14.4	(31.6)	10.8	37.7	49.5	31.6
PBT	10.5	18.7	12.1	(35.3)	15.7	30.1	42.7	42.0
PAT	7.8	14.8	10.1	(31.5)	30.5	22.4	34.6	54.0
Core PATMI	7.8	14.8	10.1	(31.5)	30.5	22.4	34.6	54.0
Reported PATMI	7.8	14.8	10.1	(31.5)	30.5	22.4	34.6	54.0
Core EPS (sen)	4.1	7.9	5.4	(31.5)	30.5	12.0	18.4	54.0
EBITDA margin (%)	17.5	19.3	12.7			16.3	15.4	
PBT margin (%)	14.2	17.2	10.7			13.0	13.3	
Core PATMI margin (%)	10.5	13.6	8.9			9.7	10.7	

Valuation & Recommendation

- Given the stronger-than-expected results, we raised our earnings forecast by 11.7% and 10.5% to RM43.8m and RM45.3m for FY21f and FY22f respectively, taking into account of the better product mix, capacity expansion following the commission of 9th and 10th Cast Stretch Film machine, as well as lower effective tax rate due to the availability of Reinvestment Allowance. Meanwhile, we believe the demand for plastic packaging products should remain robust amid economy reopening.
- We maintained our **BUY** recommendation on BPPLAS, with a revised target price of RM3.38 after rolling over our valuation metrics to FY22f. The target price is derived by ascribing a target PER of 14.0x to its FY22f EPS of 24.1 sen.
- Risks to our recommendation include the unrelenting Covid-19 cases which may slow the economy recovery. Besides, the plastic packaging players continue to face ongoing volatility in the resin market ahead of the winter season.

Financial Highlights

All items in (RM m) unless otherwise stated

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	420.3	428.6	Cash	50.2	45.0	78.0	65.3	92.1
EBITDA	33.2	35.5	49.0	63.9	68.2	Receivables	42.3	38.8	40.8	52.2	53.2
EBIT	24.0	24.8	37.6	53.0	56.4	Inventories	47.5	63.8	84.1	81.6	83.2
Net finance income/ (cost)	1.1	1.6	1.4	1.4	1.4	PPE	84.3	80.4	72.4	86.6	85.6
Associates & JV	-	-	-	-	-	Others	3.5	7.7	12.4	12.2	12.0
Profit before tax	25.0	26.3	39.0	54.4	57.8	Assets	227.8	235.7	287.7	297.9	326.1
Tax	(3.7)	(5.1)	(9.3)	(10.6)	(12.5)	Debts	-	-	-	-	-
Net profit	21.4	21.2	29.7	43.8	45.3	Payables	36.6	34.2	68.6	52.5	53.5
Minority interest	-	-	-	-	-	Others	10.0	10.4	13.3	13.3	13.3
Core earnings	21.4	21.2	29.7	43.8	45.3	Liabilities	46.6	44.6	81.9	65.8	66.9
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	43.8	45.3	Minority interest	-	-	-	-	-
						Equity	181.2	191.1	205.8	232.0	259.2
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	54.4	57.8	Core EPS (sen)	11.4	11.3	15.8	23.3	24.1
Depreciation & amortisation	9.2	10.7	11.4	10.9	11.8	Diluted EPS (sen)	6.7	6.6	9.3	13.7	14.2
Changes in working capital	7.3	(15.3)	12.1	(24.9)	(1.6)	P/E (x)	26.1	26.3	18.8	12.7	12.3
Share of JV profits	-	-	-	-	-	DPS (sen)	6.0	6.0	8.0	9.3	9.7
Taxation	(3.7)	(5.1)	(9.3)	(10.6)	(12.5)	Dividend yield	2.0%	2.0%	2.7%	3.1%	3.3%
Others	(0.9)	0.2	5.5	(0.0)	-	BVPS (RM)	0.97	1.02	1.10	1.24	1.38
Operating cash flow	36.9	16.8	58.8	29.8	55.5	P/B (x)	3.1	2.9	2.7	2.4	2.2
Net capex	(23.7)	(12.2)	(2.5)	(25.0)	(10.6)	EBITDA margin	9.9%	10.7%	15.5%	15.2%	15.9%
Others	(0.7)	1.4	-	-	-	EBIT margin	7.2%	7.5%	11.9%	12.6%	13.2%
Investing cash flow	(24.5)	(10.7)	(4.7)	(25.0)	(10.6)	PBT margin	7.5%	8.0%	12.3%	12.9%	13.5%
Changes in borrowings	-	-	-	-	-	PAT margin	6.4%	6.4%	9.4%	10.4%	10.6%
Issuance of shares	-	-	-	-	-	Core PAT margin	6.4%	6.4%	9.4%	10.4%	10.6%
Dividends paid	(11.3)	(11.3)	(15.0)	(17.5)	(18.1)	ROE	21.6%	21.5%	30.1%	44.3%	45.9%
Others	3.8	-	-	-	-	ROA	9.5%	9.1%	11.4%	14.9%	14.5%
Financing cash flow	(7.5)	(11.3)	(15.0)	(17.5)	(18.1)	Net gearing	CASH	CASH	CASH	CASH	CASH
Net cash flow	5.0	(5.2)	39.1	(12.7)	26.8						
Forex	-	-	-	-	-						
Others	(0.0)	(0.0)	(6.0)	-	-						
Beginning cash	45.2	50.2	45.0	78.0	65.3						
Ending cash	50.2	45.0	78.0	65.3	92.1						