

BP Plastics Holding Berhad

Margin compression due to elevated production cost

Summary

- BP Plastics Holding Bhd's (BPPLAS) 1Q22 net profit declined 22.1% YoY to RM7.5m. The results came in below expectations, amounting to 15.6% of our full year forecast at RM48.0m and 15.5% of consensus forecast at RM48.5m. Key deviations were mainly due to the elevated production costs arising from the unexpected Russia-Ukraine conflicts started in February 2022. Meanwhile, a first interim dividend of 1.5 sen per share, payable on 7th July 2022 was declared.
- QoQ, core net profit shrank -36.7% as margins were being hit due to a delay in passing on the elevated resin price and high freight rates, as well as the removal of Imbalance Cost Pass-Through electricity rebates.
- Resin prices have been surging since mid-January 2022 on the back of (i) continued strong demand, (ii) limited supplies along with soaring energy feedstock costs, (iii) supply chain issues as well as (iv) unresolved Ukraine-Russia tension. While the resin prices saw a small drop in the past week, we believe costs will remain elevated given the high energy and transportation costs persist.
- Production wise, capacity remained strong at 10kMT per month or 120kMT p.a. produced by 9 Cast Stretch Film machines. We look forward to the commissioning of the 10th Cast Stretch Film machine by end of FY22 which is expected to boost the production capacity to 11kMT per month or 132kMT p.a. The latest machine installed in December 2021 and the upcoming machine are supplemented with Nano-technology which should enable further product innovation and differentiation.
- BPPLAS's strategic investment plans to re-invest into new technologies are supported by its strong financial position. Net cash position stood at RM66.0m as at 1Q22, while net cash per share recorded at 23.4 sen.
- Moving forward, we believe the plastic packaging demand should remain robust amid Malaysia's transition into endemic phase and reopening of business activities. Nevertheless, challenges remain given the volatile commodity price, supply chain disruptions and labour shortage issues. BPPLAS has been putting effort in recruiting and upskilling the talents, as well as optimising its production costs.

Results Note – 1QFY22

Ng Hui Yee
h yng@msec.com.my
(603) 2201 2100

HOLD (from BUY)

Share price	RM1.50
Target price	RM1.47
Previous TP	RM2.39
Capital upside	-2.0%
Dividend return	2.8%
Total return	0.8%

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)	450.0
52W High/Low	2.039/0.894
Est. Free float	23.4
Beta	1.2
3-mth avg vol ('000)	362.9
Shariah compliant	Yes

Major shareholders

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

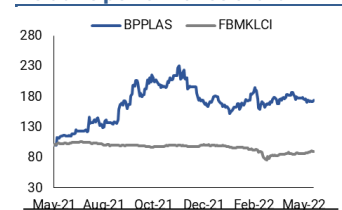
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-6.8	-6.3	66.7
Relative	-3.2	-4.3	69.8

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	46.4	29.7	32.9
EPS (sen)	16.5	10.5	11.7
P/E (x)	9.1	14.2	12.8

Relative performance chart



Quarterly performance	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)	3MFY21	3MFY22	YoY (%)
FYE Dec (RM m)								
Revenue	100.1	124.9	131.9	5.7	31.8	100.1	131.9	31.8
EBITDA	14.2	16.5	11.7	(28.6)	(17.4)	14.2	11.7	(17.4)
PBT	11.9	14.0	9.2	(34.7)	(23.0)	11.9	9.2	(23.0)
PAT	9.7	11.9	7.5	(36.7)	(22.1)	9.7	7.5	(22.1)
Core PATMI	9.7	11.9	7.5	(36.7)	(22.1)	9.7	7.5	(22.1)
Reported PATMI	9.7	11.9	7.5	(36.7)	(22.0)	9.7	7.5	(22.0)
Core EPS (sen)	3.4	4.2	2.7	(36.7)	(22.1)	3.4	2.7	(22.1)
EBITDA margin (%)	14.2	13.2	8.9			14.2	8.9	
PBT margin (%)	11.9	11.2	7.0			11.9	7.0	
Core PATMI margin (%)	9.7	9.5	5.7			9.7	5.7	

Valuation & Recommendation

- As the core net profit came in below our expectations, we trimmed our FY22f-FY23f earnings forecast by 38.1% and 33.7% to RM29.7m and RM32.9m, respectively. The earnings forecasts take into account the capacity coming from the 10th Cast Stretch Film machine, as well as the lower margin stemming from the elevated production cost.
- Subsequently, we downgrade BPPLAS to **HOLD** (from **BUY**), with a revised target price of RM1.47. The target price is derived by ascribing a target PER of 14.0x to its FY22f EPS of 10.5 sen.
- Risks to our recommendation include the delicate resin supply chain. Any additional disruptions to the market could further complicate the resin pricing and pressure the group's margin. Besides, the group is exposed to foreign currency risk on transactions denominated in foreign currencies. Any depreciation of MYR may lead to further margin compression.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	331.2	316.6	447.1	470.9	516.9	Cash	45.0	78.0	42.9	50.5	51.4
EBITDA	35.5	48.9	66.0	47.9	52.5	Receivables	38.8	40.8	70.9	59.0	64.8
EBIT	24.7	37.5	55.5	35.8	39.2	Inventories	63.8	84.1	89.2	103.9	114.1
Net finance income/ (cost)	1.6	1.4	1.2	1.3	2.0	PPE	80.4	72.4	89.2	100.9	111.4
Associates & JV	-	-	-	-	-	Others	7.7	12.4	24.1	24.0	23.8
Profit before tax	26.3	38.9	56.8	37.1	41.2	Assets	235.7	287.7	316.4	338.4	365.4
Tax	(5.1)	(9.3)	(10.3)	(7.4)	(8.2)	Debits	-	-	-	-	-
Net profit	21.2	29.6	46.4	29.7	32.9	Payables	34.2	68.6	71.0	75.2	82.5
Minority interest	-	-	-	-	-	Others	10.4	13.3	13.7	13.7	13.7
Core earnings	21.2	29.6	46.4	29.7	32.9	Liabilities	44.6	81.9	84.8	88.9	96.3
Exceptional items	0.0	0.1	-	-	-	Shareholder's equity	98.8	98.8	98.8	98.8	98.8
Reported earnings	21.2	29.6	46.4	29.7	32.9	Minority interest	-	-	-	-	-
						Equity	191.1	205.8	231.6	249.4	269.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	26.3	38.9	56.8	37.1	41.2	Core EPS (sen)	7.5	10.5	16.5	10.5	11.7
Depreciation & amortisation	10.7	11.4	10.4	12.1	13.3	P/E (x)	19.9	14.3	9.1	14.2	12.8
Changes in working capital	(15.3)	12.1	(32.8)	1.3	(8.6)	DPS (sen)	4.0	6.0	9.0	4.2	4.7
Share of JV profits	-	-	-	-	-	Dividend yield	2.7%	3.6%	4.9%	2.8%	3.1%
Taxation	(5.1)	(9.3)	(10.3)	(7.4)	(8.2)	BVPS (RM)	0.68	0.73	0.82	0.89	0.96
Others	0.2	5.6	(0.3)	0.0	(0.0)	P/B (x)	2.2	2.1	1.8	1.7	1.6
Operating cash flow	16.8	58.8	23.8	43.1	37.6	EBITDA margin	10.7%	15.4%	14.8%	10.2%	10.2%
Net capex	(12.2)	(2.5)	(26.6)	(23.6)	(23.6)	EBIT margin	7.5%	11.8%	12.4%	7.6%	7.6%
Others	1.4	(21.5)	18.0	-	-	PBT margin	7.9%	12.3%	12.7%	7.9%	8.0%
Investing cash flow	(10.7)	(23.9)	(8.6)	(23.6)	(23.6)	PAT margin	6.4%	9.3%	10.4%	6.3%	6.4%
Changes in borrowings	-	-	-	-	-	Core PAT margin	6.4%	9.4%	10.4%	6.3%	6.4%
Issuance of shares	-	-	-	-	-	ROE	21.5%	30.0%	47.0%	30.0%	33.3%
Dividends paid	(11.3)	(15.0)	(20.6)	(11.9)	(13.2)	ROA	9.1%	11.3%	15.4%	9.1%	9.4%
Others	-	-	5.6	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(11.3)	(15.0)	(15.0)	(11.9)	(13.2)						
Net cash flow	(5.2)	19.8	0.2	7.6	0.9						
Forex	-	-	-	-	-						
Others	(0.0)	13.3	(35.3)	-	-						
Beginning cash	50.2	45.0	78.0	42.9	50.5						
Ending cash	45.0	78.0	42.9	50.5	51.4						