PublicInvest Research ***Company Initiation*** — **Thursday, June 30, 2022**

KDN PP17686/03/2013(032117)

BP PLASTIC BERHAD — *Neutral*

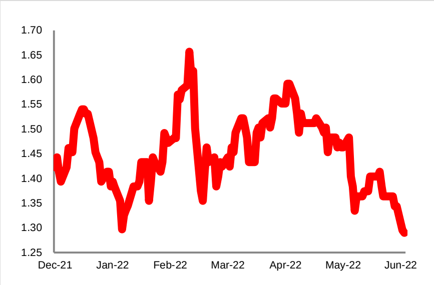
DESCRIPTION

An investment holdings company, via its subsidiaries principally involved in the manufacturing PE films and bags

12-month Target Price	RM1.40
Current Price	RM1.27
Expected Return	10.0%

Market	Main
Sector	Industrial Products
Bursa Code	5100
Bloomberg Ticker	BPP MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	1.05-2.04
3-Month Average Vol ('000)	195.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-6.9	-16.6	-12.6
Relative Returns	-1.2	-7.4	-10.9

KEY STOCK DATA

Market Capitalisation (RMm)	357.5
No. of Shares (m)	281.5

MAJOR SHAREHOLDERS

	%
LG Capital SB	43.2
Tan See Khim	9.5
Lim Chun Yow	9.3
Hey Shiow Hoe	7.8

Denny Oh
T 603 2268 3000
F 603 2268 3014
E research@publicinvestbank.com.my

Steady Growth

BP Plastic Berhad (BPPLAS) is a Polyethylene (PE) plastics films and bag manufacturer. It produces high quality primary, secondary and tertiary packaging solutions for various markets and industries and is one of the top 3 local producers of industrial stretch film in terms of production capacity.

We like BPPLAS for its i) steady growth, ii) superior operational efficiencies, and iii) attractive dividend sustained by its healthy balance sheet. However, despite demand for packaging film remaining strong, rising key material and freight costs are likely to weigh on its profit margin. We are of the view that the gradual adjustment in average selling price (ASP) might not be sufficient to mitigate the surge in production cost due to global supply chain disruptions and uncertainties from the Ukraine-Russia war. We initiate coverage on BPPLAS with a target price of RM1.40 based on P/E multiple of 13x pegged to its FY23F EPS, though with a ***Neutral*** call given limited share price upsides. Prospective dividend yield at 3.9%.

- **Resilient track record.** BPPLAS has registered steady revenue and earnings growth at a CAGR of 6.6% and 7.1% respectively since its listing on Bursa Malaysia in 2005. Despite the challenging economic environment resulting from the COVID-19 pandemic, the Group has managed to deliver commendable financial performance in FY20 and FY21.

- **Superior operational efficiency.** The Group's return on equity (ROE) and return on asset (ROA) stood at 20.0% and 14.7% respectively, compared to its peer average of 14.3% and 8.4%. The solid ROE and ROA are attributed to its cost-rationalization measures, coordinated pricing strategies and continuous upgrade of machinery and equipment. These have enabled the Group to withstand competitive pricing pressures within the industry.

- **Capacity expansion.** The Group deployed RM33.2m of internally generated funds to acquire and upgrade new machinery including a new Cast Stretch Film machine (its 9th), which was successfully commissioned in December 2021. The Group has further allocated approximately RM29.5m of expenditure for a new Cast Stretch Film machine (its 10th) and a new 33KVA sub-station to support the increasing demand for electricity. This is expected to boost the Group's production capacity by 18k MT/year to 138k MT/year. The investments are in line with the Group's strategy to pursue business growth and to continuously re-invest into new technologies for better products and efficiency. The Group is also implementing a new Enterprise Resources Planning (ERP) system to enhance integration of its business process, optimise workflows and improve productivity and efficiency.

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	316.6	447.1	469.5	493.0	517.6	13.08%
Operating Profit	37.8	54.5	35.1	37.6	51.9	8.20%
Pre-tax Profit	38.9	56.8	37.3	39.8	54.1	8.59%
Net Profit	29.7	46.5	28.4	30.3	41.1	8.51%
Core Net Profit	29.7	46.5	28.4	30.3	41.1	8.51%
EPS (Sen)	10.5	16.5	10.1	10.7	14.6	8.51%
P/E (x)	9.2	9.3	12.7	11.9	8.8	
DPS (Sen)	5.3	8.0	5.0	5.4	7.3	
Dividend Yield (%)	5.5	5.2	3.9	4.2	5.7	

Source: Company, PublicInvest Research estimates

BPPLAS founded by Lim Chun Yow (MD), Tan See Khim (ED), Hey Shiow Hoe (ED) in 1990 and listed on Bursa since 2005

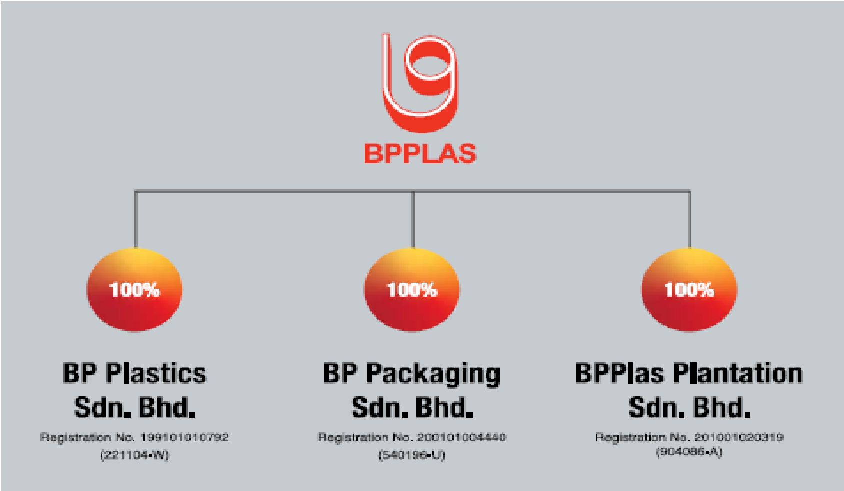
Background

BPPLAS is based in Batu Pahat, Johor, and manufactures a range of Polyethylene (PE) films and bags. The Group was founded in 1990 by three individuals – Lim Chun Yow (MD), Tan See Khim (ED), Hey Shiow Hoe (ED) and has been listed on the Main Market of Bursa Malaysia since 2005.

The Group envisions being the plastics packaging specialist of choice in the Asian continent. It has been serving local and overseas customers in various segments, catering for industrial, commercial, logistic and warehousing usages.

The Group's board consists of 7 members, comprising 3 Executive Directors and 4 Independent Non-executive Directors including the Chairman..

Figure 1: Corporate Structure



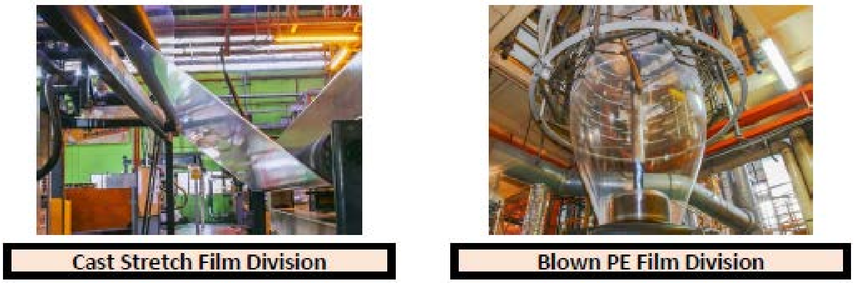
Source: Company

Business Overview

Business categorized into 2 divisions

BPPLAS is a PE film and bag manufacturer with its businesses categorized into two divisions namely (i) Cast stretch film and (ii) Blown PE film.

Figure 2: Business Divisions



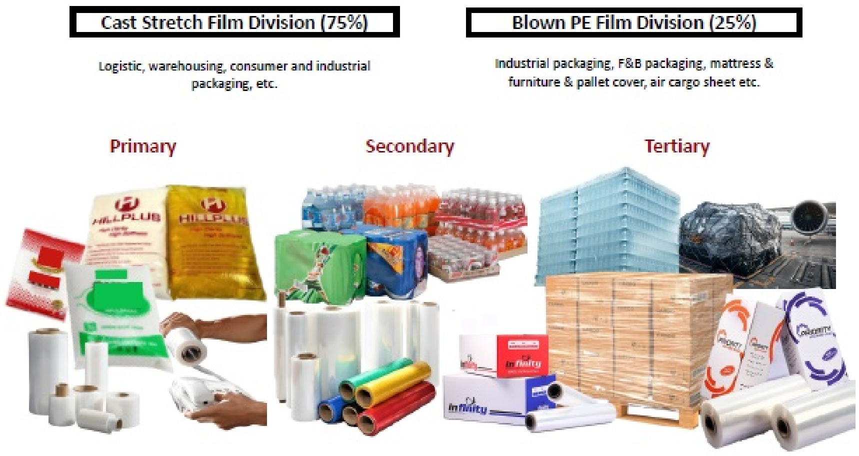
Source: Company

The cast stretch film division focuses on supplying premium and high grade stretch film rolls that provide good puncture, superior holding force and load stability to keep palletized goods sturdy, improving warehousing and logistics efficiency and safety. The Group's stretch film brands are INFINITY©, PRIORITY© and R-Edge™.

The blown PE film division produces customized PE films suitable for use in different applications in various industries meanwhile, including the food and beverage sector. BPPLAS's multi-layer co-extrusion technology enables the Group to produce high quality primary, secondary and tertiary packaging solutions for various market segment needs.

Product types

Figure 3: Product Types



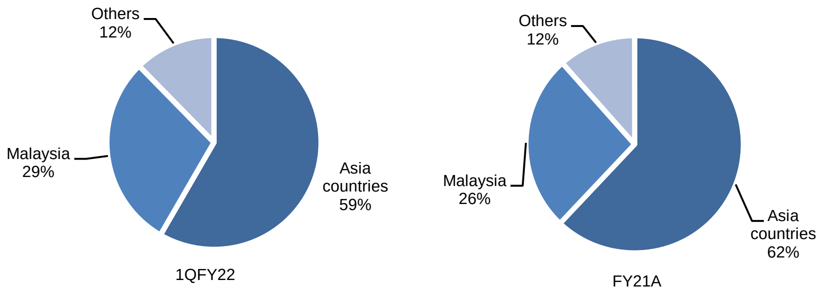
Source: Company, PublicInvest Research

Asia is key market, particularly Japan, Korea, Hong Kong and Taiwan

The Group has established a strong distribution network in the domestic and international markets, with products sold in more than 50 countries across Asia, Middle East, Europe and North America. The Group's key markets in Asia are Japan, Korea, Hong Kong and Taiwan. For the export market, the Group deals with overseas distributors, whereas for the local market, the Group deals directly with end-users. In terms of geographical breakdown, more than 70% of its total revenue is derived from the export market with balance contributed locally (Figure 4). Management intends to further increase its export-based revenue by growing sales in Japan and other Asian countries to reach 80% of its total revenue.

70% of total revenue derived from export market

Figure 4: Geographical Revenue Breakdown, 2021 & 1Q2022



Source: Company, PublicInvest Research

2 manufacturing plants in Batu Pahat, Johor with name plate production capacity of 120k MT/year

BPPLAS has 2 manufacturing plants in Batu Pahat, Johor, with built-up space of more than 360,000 sqft and a combined name plate production capacity of 120,000 MT/year. Currently, the Group has a total workforce of more than 400 people, and more than 90 units of manufacturing equipment.

Figure 5: Manufacturing Plant

Source: Company

Investment Merits

Profitable and has registered steady revenue growth at CAGR of 6.6% since its listing in 2005

- **Resilient track record.** BPPLAS has registered steady revenue and earnings growth at a CAGR of 6.6% and 7.1% respectively since its listing on Bursa Malaysia in 2005. Despite the challenging economic environment resulting from the COVID-19 pandemic, the Group has managed to deliver commendable financial performances in FY20 and FY21, likely the result of heightened stay-at-home consumption spending which exaggerated demand for its products. While expected to ease off, we see demand remaining relatively resilient on the back of overall economic recovery amid steadier consumption expenditure.

Solid operational efficiency with ROE and ROA higher than its peers

- **Superior operational efficiency.** The Group's ROE and ROA stood at 20.0% and 14.7% respectively, compared to peer average of 14.3% and 8.4%. The solid ROE and ROA are attributed to its cost-rationalization measures, coordinated pricing strategies and continuous upgrade of machinery and equipment. These have enabled the Group to withstand competitive pricing pressures within the industry.

Commissioning of the 10th cast line machine expected to be operational by 1Q23, expected to boost production capacity from 120k MT/year to 138k MT/year

- **Capacity expansion.** The Group deployed RM33.2m of internally generated funds to acquire and upgrade new machinery including a new Cast Stretch Film machine (its 9th), which was successfully commissioned in December 2021. The Group has further allocated approximately RM29.5m of expenditure for a new Cast Stretch Film machine (its 10th) and a new 33KVA sub-station to support the increasing demand for electricity. This is expected to boost the Group's production capacity by 18k MT/year to 138k MT/year. The investments are in line with the Group's strategy to pursue business growth and to continuously re-invest into new technologies for better products and efficiency. The Group is also implementing a new Enterprise Resources Planning (ERP) system to enhance integration of its business process, optimise workflows and improve productivity and efficiency.

Industry Outlook

Global PE films market projected to reach USD79.2bn by 2032, with sales growing at a CAGR of 4.3%.

According to Future Market Insights, the global PE films market is projected to reach USD79.2bn by 2032, with sales growing at a CAGR of 4.3% over the forecast period. The growth is mainly driven by rising end-user demand from the fast-moving consumer good (FMCG) sector, particularly the packaged food industry. PE films offer benefits such as convenience, food safety and better quality to consumers and the food service sector.

While demand for PE packaging film is expected to remain strong following the revival of hospitality and tourism industries with countries transitioning to the endemic phase of managing Covid-19, we remain wary on PE film manufacturers' profit margins going forward. We are of the view that gradual adjustments in average selling prices (ASP) might not be sufficient to mitigate the impact of the surge in commodity prices due to rising crude oil prices caused by global supply chain disruptions and uncertainties from the Ukraine-Russia war.

Financial Highlights

Revenue grew at 6.6%

Revenue has generally been on an uptrend since its IPO in 2005, registering a CAGR of 6.6% for the period between FY05 and FY21. This is driven mainly by increasing demand, capacity expansion, better product mix and strengthening of its diversified customer portfolio built over the years. Moving forward, we expect BPPLAS to continue growing its revenue based on its tried-and-tested formula, and conservatively estimating a 5% growth over our forecast period, FY22F-FY24F.

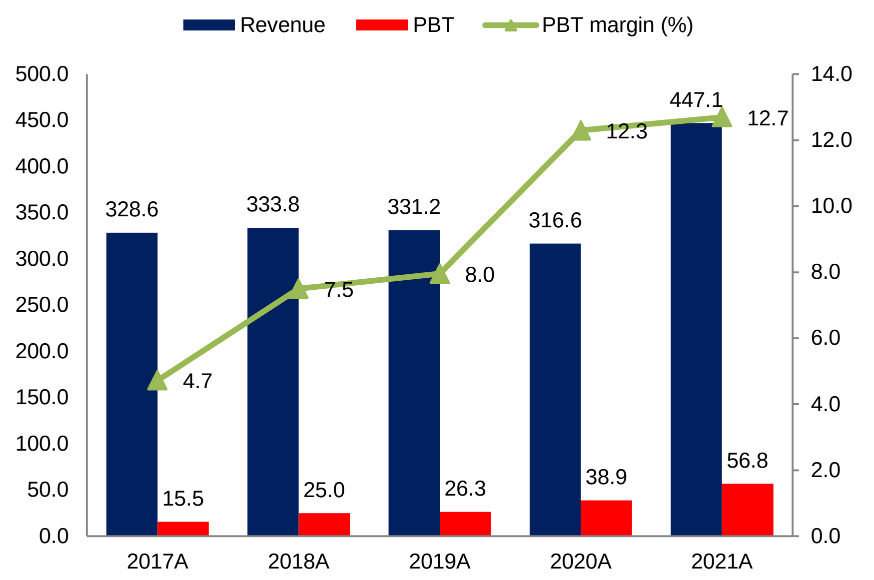
PBT grew at 7.1%

Earnings. Pre-tax profit (PBT) grew at a CAGR of 7.1% for the period between FY05 and FY21 meanwhile, marginally higher than revenue. This is attributed to the Group's efforts in cost rationalization measures, coordinated pricing strategies and continuous upgrade of machinery and equipment.

Likely to face margin compression moving forward due to surge in resin price and freight cost

Margins to normalize however. While demand is expected to remain strong, margins are likely to normalize over our forecast period FY22-24F. The Group's gross profit (GP) margins were on an uptrend, improving from 4.7% in FY17 to 12.7% in FY21A (Figure 6), boosted by elevated ASPs and lower resin prices. However, gradual adjustment in ASP might not be sufficient to mitigate the surge in production cost due to global supply chain disruptions and uncertainties from the Ukraine-Russia war. We therefore expect GP margin to normalize to its historical average of 8.6%.

Figure 6: Revenue, PBT and PBT Margin

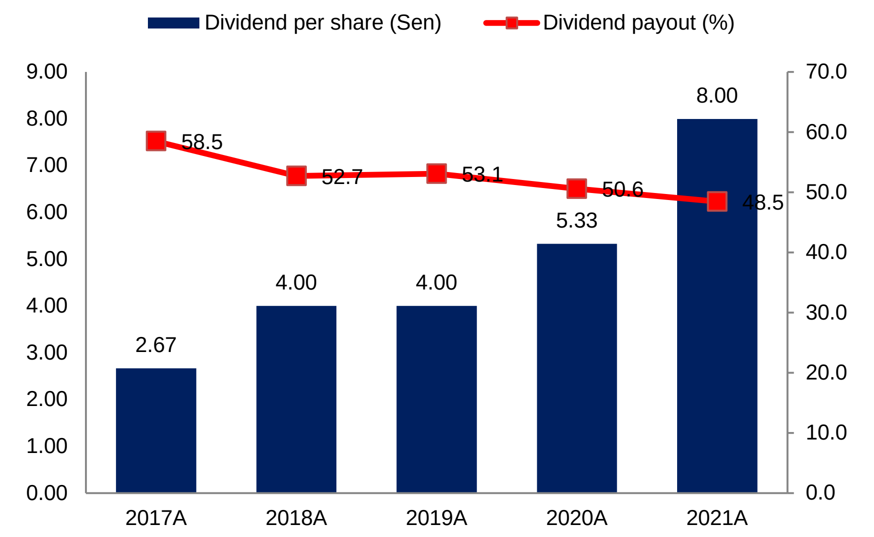


Source: Company, PublicInvest Research

5-year average dividend payout ratio of 52.7%

Dividend. The Group has consistently declared and paid dividends to reward its shareholders over the past 5 years, with an average payout ratio of 52.7%, slightly higher than its dividend policy of distributing a minimum 40% of profit after tax to shareholders. Based on our estimate, the prospective net yield for FY22 is about 3.9%. The Group has no borrowings with a cash balance of RM66m as at 31 March 2022.

Figure 7: Dividend Per Share and Payout Ratio (%)



Source: Company, PublicInvest Research

Investment Risks

Fluctuation in prices of resin may adversely impact the Group's profitability

Fluctuation in prices of raw material. The fluctuations in the prices of its raw material – resin could affect the group's profitability. The Group has been successfully minimising the impact through the gradual raising of its ASP. However, there is no assurance that the Group is able to consistently pass on the increase in production cost in a timely manner. TO note, the Group recorded an increase in production cost in 1Q2022 which has resulted in lower GP margin as compared to previous quarters.

Competition from existing competitors and potential new entrants

Competition. The barrier to entry is generally high due to high initial capital for purchase of raw materials and the setting-up of facilities. Nevertheless the Group faces competition from existing competitors and potential new market entrants in the Asian continent.

The Group exposed to credit risk however had no ad any material adverse effect on its financial performance

Credit risk. The Group is exposed to credit risks arising from its trade receivable which may arise from events and circumstances beyond its control. In the event of significant delays or default in payment by its customers, the Group will have to provide for impairment losses on trade receivables which may adversely affect the Group's financial performance. While there have been instances of writing off of bad debts, it has not had any material adverse effects on its financial performance. However, there is no assurance that the Group will not encounter significant impairment losses on its trade receivable in the future.

Production may be affected due to shortage of workers

Labour issues. The increase in minimum wage and labour shortage issue has led to higher production costs and delays in its production schedule. To mitigate the risk, the Group has been consistently making investments to automate its production processes to reduce dependence on workers. However, there can be no assurance that the Group's production may not be affected due to temporary shortage of workers.

Valuations

We like BPPLAS for its i) steady growth, ii) superior operational efficiencies, and iii) attractive dividend sustained by solid balance sheet. While the Group's revenue is expected to trend higher on the back of capacity expansion and elevated ASP supported by robust demand for packaging film, the surge in production cost mainly due to rising material and freight cost is likely to weigh on its profit margin moving forward.

Peer comparison

Table 1: Peers Comparison

	PE Ratio	Dividend Yield (%)	Net Gearing (%)	Return On Asset (ROA) (%)	Return on Equity (ROE) (%)	Pretax Margin (%)
Scientex Bhd	12.4	2.7	32.7	8.3	14.6	16.4
Thong Guan Industries Bhd	8.9	1.5	-11.7	8.6	13.4	10.3
SCGM Bhd	14.3	3.0	35.5	9.8	15.5	15.1
SLP Resources Bhd	17.2	6.2	-42.5	7.4	8.7	13.8
Weighted average	**12.3**	**2.7**	**24.1**	**8.4**	**14.3**	**13.9**
BPPLAS	8.1	4.7	-12.9	15.3	19.9	12.7

Source: Bloomberg, PublicInvest Research

Initiate coverage on BPPLAS with a Neutral rating and TP of RM1.40

We initiate coverage on BPPLAS with a target price of RM1.40 based on P/E multiple of 13x pegged to its FY23F EPS, though with a ***Neutral*** call given limited share price upsides. Prospective dividend yield is at 3.9%.

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	316.6	447.1	469.5	493.0	517.6
Operating Profit	37.8	54.5	35.1	37.6	51.9
Other gains/(losses)	1.1	2.3	2.2	2.2	2.2
Pre-tax Profit	38.9	56.8	37.3	39.8	54.1
Income Tax	-9.3	-10.3	-9.0	-9.6	-13.0
Effective Tax Rate (%)	-23.8	-18.2	-24.0	-24.0	-24.0
Minorities	--	--	--	--	--
Net Profit	**29.7**	**46.5**	**28.4**	**30.3**	**41.1**
Growth					
Revenue (%)	-4.4	41.2	5.0	5.0	5.0
Operating Profit (%)	12.0	12.2	7.5	7.6	10.0
Net Profit (%)	9.4	10.4	6.0	6.1	7.9

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Property, Plant & Equipment	72.4	89.2	114.7	109.0	103.5
Cash and Cash Equivalents	84.1	60.9	38.9	49.8	63.7
Trade and Other Receivables	40.8	70.9	74.6	77.8	81.1
Other Assets	90.4	95.4	100.0	104.0	108.1
Total Assets	**287.7**	**316.4**	**328.3**	**340.6**	**356.4**
Trade and Other Payables	68.6	71.0	74.6	72.7	64.8
Borrowings	--	--	--	--	--
Other Liabilities	3.4	2.3	4.2	--	--
Total Liabilities	**81.9**	**84.8**	**78.8**	**72.7**	**64.8**
Shareholders' Equity & Minority	205.8	231.6	249.5	267.9	291.7
Total Equity and Liabilities	**287.7**	**316.4**	**328.3**	**340.6**	**356.4**

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	0.73	0.82	0.89	0.95	1.04
NTA Per Share	0.73	0.82	0.89	0.95	1.04
EPS (Sen)	10.54	16.51	10.08	10.75	14.61
DPS (Sen)	5.33	8.00	5.04	5.37	7.31
Payout Ratio (%)	50.6	48.5	50.0	50.0	50.0
ROA (%)	10.3	14.7	9.1	9.0	11.1
ROE (%)	14.4	20.1	11.9	11.5	13.6

Source: Company Prospectus, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company (ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

This report has been prepared by PIVB pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

Published and printed by:
PUBLIC INVESTMENT BANK BERHAD (20027-W)
26th Floor, Menara Public Bank 2
78, Jalan Raja Chulan,
50200 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014