

22 November 2022

BP Plastics Holding

Higher Cost, Weakened Demand

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BPPLAS's 9MFY22 results missed expectations due to escalation in input and labour costs. Expanding amid a slowdown in the global economy, we believe the new capacity in high-margin premium stretch film and blown film products will enable it to capitalise on the next upcycle. We cut our FY22F/FY23F earnings forecasts by 22%/15%, reduce our TP by 15% to RM1.38 (from RM1.63) and downgrade our call to MARKET PERFORM from OUTPERFORM.

Missed expectation. 9MFY22 net profit disappointed at only 62% and 71% of our full-year forecast and full-year consensus estimate, respectively. The key variance against our forecast came from escalation in input and labour costs that it was unable to pass on.

YoY, 9MFY22 revenue grew by 21.7% due to higher sales volume locally and a better product mix (i.e. with more premium stretch film and blown film products). However, net profit contracted 27.4% mainly due to escalation in input and labour cost as mentioned.

QoQ, 3QFY22 revenue declined by 13.5% due to weaker export demand on the back of a slowing global economy. Net profit plunged by 60.6% due to escalation in input and labour cost as mentioned, and weaker cost absorption on reduced sales.

Forecasts. We cut our FY22F net profit by 22% largely to reflect the higher input and labour costs. Meanwhile, we also cut our FY23F net profit by 15% to reflect moderation in utilisation to 60-65% (from 65-70%) and the resulting higher unit cost on the back of weaker export demand on the back of the slowing global economy.

Meanwhile, its on-going expansion plan, i.e. the commissioning of its tenth cast stretch film line in 4QCY22 will raise its total nameplate annual capacity by 18k tonnes to 138k tonnes. It is also buying two co-extrusion (coex) blown film machines for c.RM19m to expand the production of specific blown PE film products such as shrink film, stretch hood, and lamination film. The two machines with a combined rate capacity of 1.2-1.4k tonnes/month will boost its annual blown film capacity to c.46.8k tonnes. The machines are expected to come online around end-FY23 with maiden contributions in FY24.

We like BPPLAS for: (i) its strong foothold in the South East Asia market that is expected to remain resilient despite the global economic downturn, (ii) its strong cash flow and balance sheet (a net cash position) that will enable it to weather a downturn better, and (iii) its long-term capacity expansion in high-margin premium stretch film and blown film products, which will enable it to capitalise on the next upcycle. However, we are concerned over a significant decline in demand in the event of a sharp slowdown or recession in the global economy.

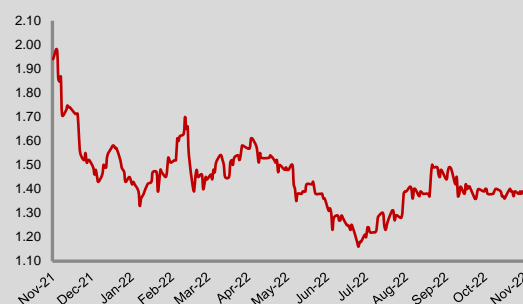
Downgrade to MARKET PERFORM (from OUTPERFORM), with TP of RM1.38 (from RM1.63) based on 9x FY23F PER, at a discount to average historical PER of 13x largely to reflect BPPLAS's relatively smaller market capitalisation and thin share liquidity. There is no adjustment to TP based on its 3-star ESG rating as appraised by us. (Page 4)

Risks to our call include: (i) sustained higher resin cost, (ii) reduced demand for packaging materials in the event of a sharp slowdown in the global economy, and (iii) labour shortages.

MARKET PERFORM ↓

Price: **RM1.38**
Target Price: **RM1.38** ↓

Share Price Performance



KLCI 1,447.96
YTD KLCI chg -7.6%
YTD stock price chg -10.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker BPP MK Equity
Market Cap (RM m) 388.4
Shares Outstanding 281.5
52-week range (H) 2.02
52-week range (L) 1.16
3-mth avg daily vol: 147,675
Free Float 23%
Beta 0.9

Major Shareholders

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

Summary Earnings Table

FY Dec (RMm)	2021A	2022F	2023F
Turnover	447.1	508.9	533.2
EBITDA	67.2	48.3	62.6
PBT	56.8	39.2	53.3
Net Profit (NP)	46.5	31.7	43.2
Core NP	46.4	31.7	43.2
Consensus		35.5	40.4
Earnings Revision		-22%	-15%
Core EPS (sen)	16.5	11.3	15.3
Core EPS growth (%)	57.5	-31.6	36.1
NDPS (sen)	8.0	6.0	8.0
Core PER (x)	8.4	12.2	9.0
BVPS (RM)	0.8	0.9	0.9
PBV (x)	1.7	1.6	1.5
Net Div. Yield (%)	5.8	4.3	5.8

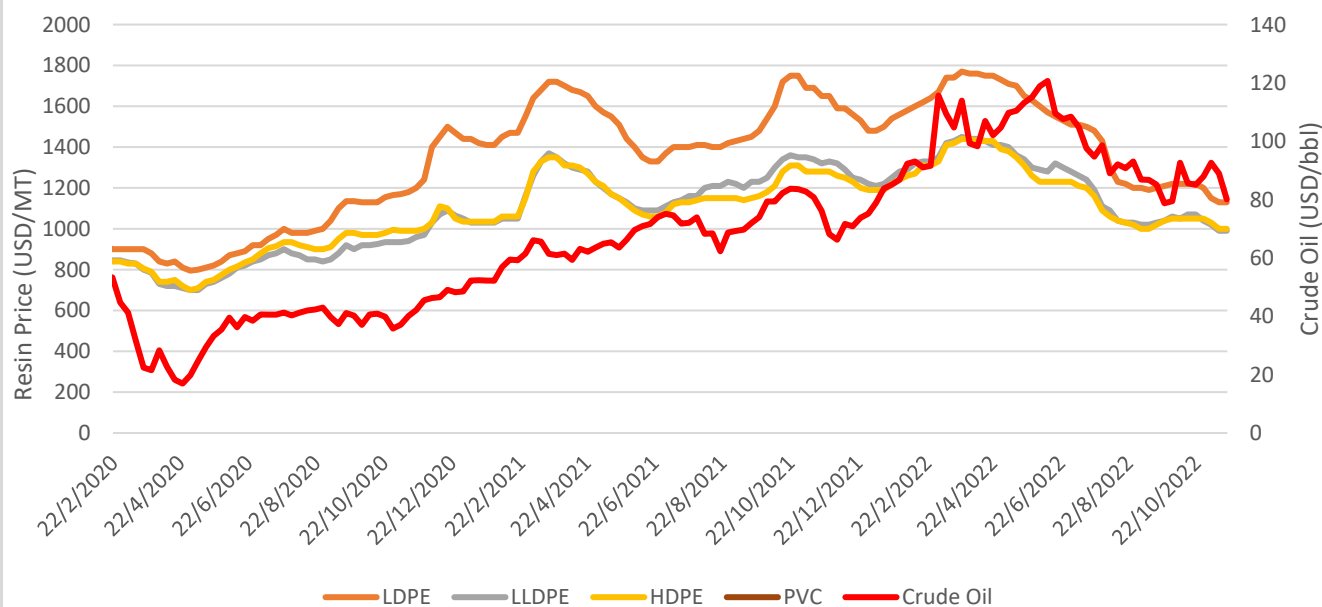
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Results Highlights

FYE Dec (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Revenue	120.7	139.5	-13.5%	113.3	6.6%	392.2	322.3	21.7%
Operating Profit	11.3	14.7	-23.3%	19.0	-40.8%	34.6	63.9	-45.9%
PBT	6.0	15.3	-60.5%	12.1	-50.2%	30.5	42.7	-28.7%
Taxation	-0.7	-3.1	-78.1%	-2.0	-66.2%	-5.4	-8.2	-34.2%
PAT	5.4	12.2	-56.1%	10.1	-47.1%	25.1	34.6	-27.4%
Core Net Profit	5.0	12.7	-60.6%	9.9	-49.6%	25.1	34.5	-27.4%
Core EPS (sen)	1.8	4.5	-60.6%	3.5	-49.6%	6.3	8.8	-28.4%
NDPS (sen)	1.0	1.5		3.0		4	9	
Effective tax rate	11.15	20.12		16.42		17.64	19.13	
PBT margin (%)	4.99	10.94		10.68		7.77	13.26	
Core Net Profit margin (%)	4.14	9.08		8.75		6.39	10.72	

Source: Company, Kenanga Research

Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BOILERMECH HOLDINGS BHD	OP	0.730	0.900	23.29%	376.7	Y	03/2023	4.1	5.6	23.5%	37.6%	17.8	13.0	1.5	8.6%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.38	1.63	18.12%	388.4	Y	12/2022	11.3	15.3	-31.7%	36.3%	12.3	9.0	1.5	13.0%	6.0	4.3%
HIL INDUSTRIES BHD	OP	0.990	1.08	9.09%	328.6	Y	12/2022	8.8	11.5	-2.3%	30.5%	11.3	8.6	0.8	7.2%	2.0	2.0%
HPP HOLDINGS Bhd	OP	0.410	0.460	12.20%	159.3	Y	05/2023	3.5	4.2	63.1%	18.2%	11.6	9.8	1.2	11.2%	2.0	4.9%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.690	0.770	11.59%	370.8	Y	12/2022	6.7	7.7	-13.2%	14.4%	10.3	9.0	0.3	3.4%	2.4	3.5%
SCIENTEX BHD	MP	3.28	3.33	1.52%	5,087.3	Y	07/2023	35.2	36.9	31.9%	4.9%	9.3	8.9	1.6	17.8%	7.4	2.3%
SLP RESOURCES BHD	MP	0.970	0.92	-5.15%	307.5	Y	12/2022	6.2	7.2	11.4%	16.4%	15.8	13.5	1.6	10.4%	5.5	5.7%
THONG GUAN INDUSTRIES BHD	OP	2.48	3.99	60.89%	965.9	Y	12/2022	30.0	36.4	22.2%	21.2%	8.3	6.8	1.1	14.3%	5.5	2.2%
Simple Average								13.2	15.6	13.1%	22.4%	12.1	9.8	1.2	10.7%		3.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	☆
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
	OVERALL	★	★	★
SPECIFIC	Migrant Worker Welfare	★	★	★
	Waste Disposal/Pollution Control	★	★	★
	Work Site Safety	★	★	★
	Usage of Biodegradable Materials	★	★	★
	Supply Chain Auditing	★	★	★
	Energy Efficiency	★	★	★
	OVERALL	★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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