

24 November 2022

BP Plastics Holding Berhad

Bracing for More Challenging Times

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Post briefing, we expect BPPLAS to continue facing challenges on its sales growth due to the slowdown in the global economy and prolonged supply chain issue, which is hurting bottomline with higher production costs. BPPLAS's expansion plan is on track with its 10th cast stretch film machine and two coex blown film machines. We reiterate our MARKET PERFORM call with an unchanged TP of RM1.38.

The key takeaways from BPPLAS's post-results briefing yesterday are as follows:

- BPPLAS expects moderate sales growth in 1HFY23 mainly due to weaker demand on the back of a slowdown in the global economy while the operations of its customers are still facing supply chain disruptions. We are keeping our projection of a 5% sales growth in FY23 with a moderate utilisation of 60-65% (as compared to 70-75% prior to the pandemic).
- BPPLAS's expansion plans are on track. Firstly, its 10th cast stretch film machine will come online in Dec 2022. Recall, with a nameplate capacity of 1.5k tonnes/month, it will boost its overall annual nameplate capacity by 13% to 138k tonnes. Secondly, the two co-extrusion blown film machines will come online by end-FY23. Recall, the two machines with a combined rate capacity of 1.2-1.4k tonnes/month shall boost its annual blown film capacity to c.46.8ktonnes.
- BPPLAS is acquiring a 4-acre industrial land with factory building near to its current plant in Batu Pahat for RM14.9m. It will renovate the facility to be used as a warehouse as well as to house new machines.
- BPPLAS confirmed our observations that its weak 3QFY22 performance was due to inventory (resin) acquired at high cost during 2QFY22. Resin prices have since softened. Not helping either was the higher wage bill on the arrival of new workers in July 2022.

Forecasts. Maintained.

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.

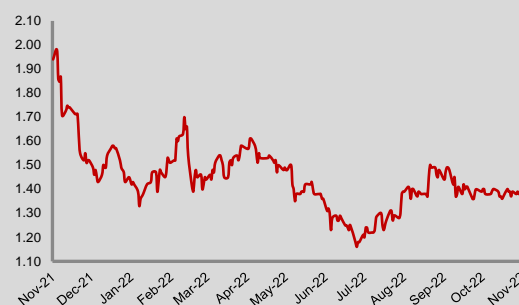
Maintain MARKET PERFORM with unchanged TP of RM1.38 based on 9x FY23F PER, at a discount to average historical PER of 13x largely to reflect BPPLAS's relatively smaller market capitalisation and thin share liquidity. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see 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: **RM1.24**
Target Price: **RM1.38** ↔

Share Price Performance



KLCI 1,443.50
YTD KLCI chg -7.9%
YTD stock price chg -19.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK Equity
Market Cap (RM m)	349.0
Shares Outstanding	281.5
52-week range (H)	1.97
52-week range (L)	1.16
3-mth avg daily vol:	143,496
Free Float	23%
Beta	0.9

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	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		30.1	37.4
Earnings Revision		-	-
Core EPS (sen)	16.5	11.3	15.3
Core EPS growth (%)	57.5	-31.6	36.1
NDPS (sen)	8.0	5.0	5.0
Core PER (x)	7.5	11.0	8.1
BVPS (RM)	0.8	0.9	1.0
PBV (x)	1.5	1.4	1.3
Net Div Yield (%)	6.5	4.0	4.0

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	331.2	316.6	447.1	508.9	533.2	Growth (%)					
EBITDA	37.1	50.3	67.2	48.3	62.6	Revenue	-0.8	-4.4	41.2	13.8	4.8
Depreciation	-10.7	-11.4	-10.4	-9.1	-9.3	EBITDA	8.2	35.8	33.6	-28.2	29.6
PBT	26.3	38.9	56.8	39.2	53.3	EBIT	5.3	47.7	45.9	-31.0	36.1
Taxation	-5.1	-9.3	-10.3	-7.4	-10.1	Pre-tax Income	-5.2	41.0	57.5	-31.6	36.1
Core Net Profit	20.9	29.5	46.4	31.7	43.2	Core Net Profit	-0.8	-4.4	41.2	13.8	4.8
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	EBITDA Margin	11.2	15.9	15.0	9.5	11.7
Fixed Assets	80.4	72.4	89.2	90.9	101.8	PBT Margin	8.0	12.3	12.7	7.7	10.0
Other FA	6.5	6.3	6.1	6.0	5.8	Net Margin	6.4	9.4	10.4	6.2	8.1
Inventories	63.8	84.1	89.2	115.4	123.0	Effective Tax Rate	19.5	23.8	18.2	19.0	19.0
Receivables	38.8	40.8	70.9	68.7	75.1	ROE	10.9	14.3	20.1	12.7	15.5
Other CA	38.7	62.8	51.5	14.6	10.9	ROA	8.9	10.2	14.7	9.2	11.2
Cash	7.4	21.2	9.5	47.9	68.0	DuPont Analysis					
Total Assets	235.7	287.7	316.4	343.4	384.6	Net margin (%)	6.4	9.4	10.4	6.2	8.1
Payables	34.2	68.6	71.0	84.3	96.3	Assets Turnover	1.4	1.1	1.4	1.5	1.4
Other LT liability	10.4	9.9	11.4	9.9	9.9	Leverage Factor	1.2	1.4	1.4	1.4	1.4
Net Assets	191.1	205.8	231.6	249.3	278.4	ROE (%)	10.9	14.3	20.1	12.7	15.5
Share Capital	191.1	205.8	231.6	249.3	278.4	Valuations					
S. Equity	191.1	205.8	231.6	249.3	278.4	Core EPS (sen)	7.4	10.5	16.5	11.3	15.3
Cashflow Statement						NDPS (sen)	4.0	4.0	4.0	8.0	5.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	BV/share (RM)	0.7	0.7	0.8	0.9	1.0
Operating CF	16.8	58.8	23.8	47.9	68.0	Core PER (x)	16.7	11.8	7.5	11.0	8.1
Investing CF	-10.7	-4.7	-8.6	-10.6	-20.0	Net Div. Yield	3.2	3.2	6.5	4.0	4.0
Financing CF	-11.3	-15.0	-15.0	-14.1	-14.1	PBV (x)	1.8	1.7	1.5	1.4	1.3

Source: Kenanga Research

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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. 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	0.740	0.900	21.62%	381.8	Y	03/2023	4.1	5.6	23.5%	37.6%	18.0	13.2	1.5	8.6%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.24	1.63	31.45%	349.0	Y	12/2022	11.3	15.3	-31.7%	36.3%	11.0	8.1	1.4	13.0%	6.0	4.8%
HIL INDUSTRIES BHD	OP	1.03	1.13	9.71%	341.9	Y	12/2022	8.8	11.8	-2.3%	34.6%	11.7	8.7	0.8	7.2%	2.0	1.9%
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	0.695	0.770	10.79%	373.5	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	3.23	3.33	3.10%	5,009.7	Y	07/2023	35.2	36.9	31.9%	4.9%	9.2	8.8	1.5	17.8%	7.4	2.3%
SLP RESOURCES BHD	MP	0.980	0.92	-6.12%	310.6	Y	12/2022	6.2	7.2	11.4%	16.4%	15.9	13.7	1.6	10.4%	5.5	5.6%
THONG GUAN INDUSTRIES BHD	OP	2.39	3.99	66.95%	932.7	Y	12/2022	30.0	36.4	22.2%	21.2%	8.0	6.6	1.1	14.3%	5.5	2.3%
Simple Average								13.2	15.6	13.1%	23.0%	12.0	9.7	1.2	10.7%		3.5%

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	★	★	★

☆ 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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