

08 December 2022

BP Plastics Holding

Feeling the Pinch from Global Slowdown

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BPPLAS is facing a slowdown in demand that is more significant than what we had initially thought, on the back of a slowing global economy. Nonetheless, its expansion plan is progressing as planned with the acquisition of a factory building which will be repurposed as a warehouse as well as to house its new machines. We cut our FY23F earnings by 13%, reduce our TP by 11% to RM1.23 (from RM1.38) and maintain our MARKET PERFORM call.

We came away from a recent engagement with BPPLAS feeling cautious on its near-term outlook. The key takeaways are as follows:

1. BPPLAS guided for moderate sales growth in 1HFY23 on the double-whammy of weakening demand for its products on the back of the slowdown in the global economy and the lingering supply-chain disruptions at its customers' end. The more generic products such as conventional stretch films (that typically makes up 25%-30% of its total stretch film production) will be hit the hardest as producers are generally price takers (more so, amidst a slowdown in demand).
2. On a brighter note, we understand that its margins may improve slightly from 4QFY22 as it has depleted its high-cost resin inventory, and as such, it would be able to start enjoying the softened resin prices.
3. BPPLAS is concluding the acquisition of a factory building on a 4-acre land near its existing plant in Batu Pahat for RM14.9m by Dec 2022. It will be repurposed as warehouse as well as to be used to house its new machines.

Forecasts. While maintaining FY22F net profit, we cut FY23F net profit forecast by 13% to reflect a flattish top line in FY23F (vs. +5%yoy we previously assumed) with a utilisation rate of 60% (vs. 60-65% we previously assumed) on the back of at least a subdued 1HFY23F amidst a slowing global economy. Recall, its utilisation averaged at 70-75% prior to the pandemic.

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 (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.

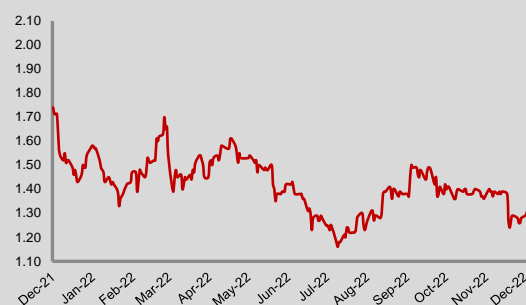
We reduce our TP by 11% to RM1.23 (from RM1.38) based on 9x FY23F PER, at a discount to the sector's average historical forward PER of 13x largely to reflect BPPLAS's relatively smaller market capitalisation and thin share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**.

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

MARKET PERFORM ↔

Price: **RM1.32**
Target Price: **RM1.23** ↓

Share Price Performance



KLCI 1,466.88
YTD KLCI chg -6.4%
YTD stock price chg -14.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK Equity
Market Cap (RM m)	371.6
Shares Outstanding	281.5
52-week range (H)	1.75
52-week range (L)	1.16
3-mth avg daily vol:	142,532
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	521.6
EBITDA	67.2	39.2	58.4
PBT	56.8	39.2	47.4
Net Profit (NP)	46.5	31.7	38.4
Core NP	46.4	31.7	38.4
Consensus		30.1	34.8
Earnings Revision			-13%
Core EPS (sen)	16.5	11.3	13.6
Core EPS growth (%)	57.5	-31.6	20.9
NDPS (sen)	8.0	5.0	5.0
Core PER (x)	7.5	11.7	9.7
BVPS (RM)	0.8	0.9	1.0
PBV (x)	1.5	1.5	1.4
Net Div Yield (%)	6.5	3.8	3.8

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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	521.6	Growth (%)					
EBITDA	26.1	38.8	56.8	39.2	58.4	Revenue	-0.8	-4.4	41.2	13.8	2.5
Depreciation	-10.7	-11.4	-10.4	-9.1	-11.1	EBITDA	2.0	48.3	46.4	-31.0	49.1
PBT	26.3	38.9	56.8	39.2	47.4	Pre-tax Income	5.3	47.7	45.9	-31.0	20.9
Taxation	-5.1	-9.3	-10.3	-7.4	-9.0	Core Net Profit	-5.2	41.0	57.5	-31.6	20.9
Core Net Profit	20.9	29.5	46.4	31.7	38.4						
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	EBITDA Margin	7.9	12.2	12.7	7.7	11.2
Fixed Assets	80.4	72.4	89.2	108.7	139.6	PBT Margin	8.0	12.3	12.7	7.7	9.1
Other FA	6.5	6.3	6.1	6.3	6.5	Net Margin	6.4	9.4	10.4	6.2	7.4
Inventories	63.8	84.1	89.2	115.4	118.6	Effective Tax Rate	19.5	23.8	18.2	19.0	19.0
Receivables	38.8	40.8	70.9	68.7	73.5	ROE	10.9	14.3	20.1	12.7	13.2
Other CA	38.7	62.8	51.5	17.6	10.9	ROA	8.9	10.2	14.7	9.2	9.8
Cash	7.4	21.2	9.5	29.7	44.4	DuPont Analysis					
Total Assets	235.7	287.7	316.4	346.4	393.4	Net margin (%)	6.4	9.4	10.4	6.2	7.4
Payables	34.2	68.6	71.0	84.3	92.8	Assets Turnover	1.4	1.1	1.4	1.5	1.3
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	290.6	ROE (%)	10.9	14.3	20.1	12.7	13.2
Share Capital	191.1	205.8	231.6	249.3	273.6	Valuations					
S. Equity	191.1	205.8	231.6	249.3	290.6	Core EPS (sen)	7.4	10.5	16.5	11.3	13.6
Cashflow Statement						NDPS (sen)	4.0	4.0	8.0	5.0	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	29.7	44.4	Core PER (x)	17.8	12.6	8.0	11.7	9.7
Investing CF	-10.7	-4.7	-8.6	-10.6	-20.0	Net Div. Yield	3.0	3.0	6.1	3.8	3.8
Financing CF	-11.3	-15.0	-15.0	-14.1	-14.1	PBV (x)	1.9	1.8	1.6	1.5	1.4

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	0.780	0.830	6.41%	402.5	Y	03/2023	3.5	5.2	7.6%	45.9%	0.2	0.2	1.5	7.1%	1.8	2.3%
BP PLASTICS HOLDINGS BHD	OP	1.32	1.63	23.48%	371.6	Y	12/2022	11.3	13.6	-31.7%	21.1%	11.7	9.7	1.5	13.0%	6.0	4.5%
HIL INDUSTRIES BHD	OP	1.14	1.13	-0.88%	378.4	Y	12/2022	8.8	11.8	-2.3%	34.6%	13.0	9.6	0.9	7.2%	2.0	1.8%
HPP HOLDINGS Bhd	OP	0.430	0.460	6.98%	167.0	Y	05/2023	3.5	4.2	63.1%	18.2%	12.2	10.3	1.3	11.2%	2.0	4.7%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.780	0.850	8.97%	419.2	Y	12/2022	6.7	8.5	-13.2%	26.9%	11.6	9.2	0.4	3.4%	6.5	8.3%
SCIENTEX BHD	MP	3.36	3.33	-0.89%	5,211.4	Y	07/2023	35.2	36.9	31.9%	4.9%	9.6	9.1	1.6	17.8%	7.4	2.2%
SLP RESOURCES BHD	MP	0.985	0.92	-6.60%	312.2	Y	12/2022	6.2	7.2	11.4%	16.4%	16.0	13.8	1.6	10.4%	5.5	5.6%
THONG GUAN INDUSTRIES BHD	OP	2.39	3.99	66.95%	932.7	Y	12/2022	28.6	36.4	16.5%	27.1%	8.4	6.6	1.1	13.6%	5.5	2.3%
Simple Average								13.0	15.5	10.4%	24.4%	10.3	8.5	1.2	10.5%		4.0%

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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Published by:

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