

BP Plastics Holding

Holding Out for a Recovery

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BPPLAS guided for a slow recovery in sales in 2HFY23 as the global economy remains soft, partially cushioned by restocking by end-users, its shift towards higher-margin products such as premium stretch film and substantive enquiries on its products during a recent international trade fair that may translate to new orders in future. We maintain our forecasts, TP at RM1.23 and MARKET PERFORM call.

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

- BPPLAS guided for a slow recovery in sales in 2HFY23 as the global economy remains soft. This will be partially cushioned by restocking by end users (who have depleted their inventories) and BPPLAS's shift towards higher-margin products such as premium stretch film. Meanwhile, substantive enquiries on its products during a recent international trade fair in Germany may translate to orders from new customers in FY24.
- BPPLAS's margins will continue to come under pressure in 2HFY23 due to higher labour and energy costs. The higher labour cost stems from the upwards adjustment in the minimum wage last year, coupled with the reduction in the maximum weekly working hours to 45 (from 48) pursuant to the amendment of the Employment Act 1955 effective Jan 2023. Meanwhile, the full impact of the electricity tariff hike in Jan 2023 will be felt in 2HFY23 in the absence of an extension to the Green Electricity Tariff (GET) programme which expires in Jun 2023 (based on the latest information).

Recall, under the programme, electricity users are offered an exemption to the Imbalance Cost Pass-Through (ICPT) surcharge of 20 sen/kWh via a subscription charge of 3.7 sen/kWh (resulting in an effective savings of 16.3 sen/kWh). However, this offer to buy renewable energy is capped at 30% of the user's total electricity consumption.
- Meanwhile, its two blown film machines are on track to come online in 3QFY23 and 4QFY23, respectively, to meet the demand for stretch hood and shrink film. The two blown film machines will increase its nameplate capacity by 800 tonnes/month, bringing its total annual nameplate capacity for stretch and blown films to c.148k tonnes.

Forecasts. Maintained.

We maintain our TP of RM1.23 based on 9x FY24F PER, at a discount to the sector's average historical PER of 13x 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 (Page 4).

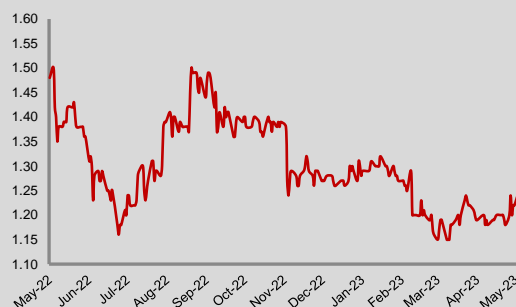
We like BPPLAS for: (i) its strong foothold in the Southeast Asia market which is expected to remain resilient despite the global economic uncertainties, (ii) its strong cash flows and balance sheet (a net cash position) that will enable it to weather downturns better, and (iii) its long-term capacity expansion in high-margin premium stretch film and blown film products, which will enable it to capitalise on the next up cycle. However, its prospects over the immediate term are clouded by a slowdown in the global economy. Maintain **MARKET PERFORM**.

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: RM1.23 ↔

Share Price Performance



KLCI	1,376.08
YTD KLCI chg	-8.0%
YTD stock price chg	-1.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK Equity
Market Cap (RM m)	349.0
Shares Outstanding	281.5
52-week range (H)	1.53
52-week range (L)	1.15
3-mth avg daily vol:	33,152
Free Float	23%
Beta	0.8

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	502.6	510.0	556.9
EBITDA	36.6	52.5	61.8
PBT	36.0	41.5	47.7
Net Profit (NP)	30.5	33.2	38.6
Core NP	31.0	33.2	38.6
Consensus		31.8	38.4
Earnings Revision		-	-
Core EPS (sen)	11.0	11.8	13.7
Core EPS growth (%)	-33.3	7.1	16.4
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	11.1	10.3	8.9
BVPS (RM)	0.9	0.9	1.0
PBV (x)	1.4	1.3	1.2
Net Div Yield (%)	4.5	4.5	4.5

12 June 2023

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	316.6	447.1	502.6	510.0	556.9	Growth (%)					
EBITDA	38.8	56.8	36.6	52.5	61.8	Revenue	-4.4	41.2	12.4	1.5	9.2
Depreciation	-11.4	-10.4	-11.6	-11.1	-14.1	EBITDA	48.3	46.4	-35.5	43.4	17.7
PBT	38.9	56.8	36.0	41.5	47.7	Pre-tax Income	47.7	45.9	-36.6	15.2	14.9
Taxation	-9.3	-10.3	-5.5	-8.3	-9.1	Core Net Profit	41.0	57.5	-33.3	7.1	16.4
Core Net Profit	29.5	46.4	31.0	33.2	38.6						
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	EBITDA Margin	12.2	12.7	7.3	10.3	11.1
Fixed Assets	72.4	89.2	120.1	162.8	206.7	PBT Margin	12.3	12.7	7.2	8.1	8.6
Other FA	6.3	6.1	6.0	6.1	6.3	Net Margin	9.4	10.4	6.1	6.5	6.9
Inventories	84.1	89.2	69.3	65.4	71.2	Effective Tax Rate	23.8	18.2	15.2	20.0	19.0
Receivables	40.8	70.9	47.6	48.3	52.7	ROE	14.3	20.1	12.6	12.7	12.9
Other CA	62.8	51.5	30.2	10.9	0.0	ROA	10.2	14.7	10.1	10.1	10.4
Cash	21.2	9.5	33.4	36.4	35.7	DuPont Analysis					
Total Assets	287.7	316.4	306.6	329.8	372.6	Net margin (%)	9.4	10.4	6.1	6.5	6.9
Payables	68.6	71.0	48.7	46.0	50.0	Assets Turnover	1.1	1.4	1.6	1.5	1.5
Other LT liability	9.9	11.4	12.6	21.6	14.0	Leverage Factor	1.4	1.4	1.2	1.3	1.2
Net Assets	205.8	231.6	245.3	262.3	299.0	ROE (%)	14.3	20.1	12.6	12.7	12.9
Share Capital	205.8	231.6	245.3	263.0	286.1	Valuations					
S. Equity	205.8	231.6	245.3	262.3	299.0	Core EPS (sen)	10.5	16.5	11.0	11.8	13.7
Cashflow Statement						NDPS (sen)	4.0	4.0	8.0	5.5	5.5
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	BV/share (RM)	0.7	0.8	0.9	0.9	1.0
Operating CF	58.8	23.8	59.9	36.4	35.7	Core PER (x)	11.7	7.5	11.2	10.4	9.0
Investing CF	-4.7	-8.6	-39.8	-31.8	-30.0	Net Div. Yield	3.3	6.5	4.5	4.5	4.5
Financing CF	-15.0	-15.0	-14.1	-15.5	-15.5	PBV (x)	1.7	1.5	1.4	1.3	1.2

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. (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																	
ANCOM NYLEX BHD	OP	0.985	1.80	82.7%		Y	05/2023	8.0	12.0	38.5%	50.1%	12.3	8.2	1.8	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	MP	0.700	0.720	2.9%	361.2	Y	03/2024	4.5	4.4	65.2%	-2.6%	15.5	15.9	1.4	9.0%	1.8	2.6%
BP PLASTICS HOLDINGS BHD	OP	1.24	1.63	31.5%	349.0	Y	12/2023	11.8	13.7	7.1%	16.3%	10.5	9.0	1.4	13.6%	5.5	4.4%
HIL INDUSTRIES BHD	UP	1.00	0.780	-22.0%	331.9	Y	12/2023	9.2	10.1	28.0%	9.5%	10.8	9.9	0.8	6.9%	2.0	2.0%
HPP HOLDINGS BHD	OP	0.285	0.440	54.4%	110.7	Y	05/2023	2.3	3.5	8.3%	47.3%	12.2	8.3	0.9	7.4%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.685	0.600	-12.4%	368.1	Y	12/2023	4.5	6.0	-11.7%	34.4%	15.3	11.4	0.3	2.2%	1.8	2.6%
SCIENTEX BHD	UP	3.23	2.99	-7.4%	5,009.9	Y	07/2023	30.6	35.5	15.0%	16.0%	10.5	9.1	1.5	15.5%	7.4	2.3%
SLP RESOURCES BHD	MP	0.910	1.09	19.8%	288.4	Y	12/2023	5.8	7.0	13.6%	20.7%	15.7	13.0	1.5	9.8%	5.5	6.0%
TECHBOND GROUP BHD	OP	0.380	0.450	18.4%	201.2	Y	06/2023	1.9	3.8	-9.8%	98.0%	19.9	10.1	1.2	6.2%	1.0	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.20	3.22	46.4%	861.5	Y	12/2023	26.1	29.3	-8.2%	12.2%	8.4	7.5	1.0	12.6%	5.5	2.5%
Simple Average					8,802.1					21.8%	19.9%	11.0	9.2	1.2	11.2%		3.2%

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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