

23 August 2023

BP Plastics Holding

At Mercy of Global Economy

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BPPLAS's 1HFY23 results met expectations. 1HFY23 core net profit dropped 20% YoY due to lower sales locally and exports, coupled with higher labour and utility costs. The outlook for the packaging sector is subdued amidst global economic uncertainty, partially mitigated by demand from restocking. We maintain our forecasts, TP of RM1.23 and MARKET PERFORM call.

Within expectations. 1HFY23 core net profit of RM16.1m met expectations at 48% of our full-year forecast and 51% of the full-year consensus estimate.

Results highlights. YoY, 1HFY23 revenue dropped 16% largely due to lower sales volume in the local market and reduced exports to regional markets, as well as a softer ASP on lower resin cost. Core net profit dropped by a larger 20% largely due to higher labour and utility costs.

On a QoQ basis, 2QFY23 revenue slipped 6% due to soft demand for plastic packaging amidst global economic slowdown. However, core net profit increased 16% thanks to: (i) better product mix with more higher-margin products such as premium-grade stretch films, value-added blown films as well as form-fill-seal (FFS) films, and (ii) lower resin cost.

Outlook. We remain cautious on the market demand for packaging materials in 2HFY23, largely due to the uncertainties surrounding global economic recovery. However, we anticipate that the situation will gradually improve in early FY24 as customers begin replenishing their inventories, which is in line with BPPLAS' guidance. More importantly, underlying demand for various consumer and industrial goods is likely to stay healthy due to packaging requirements especially for transportation and storage purposes. We also understand that BPPLAS' two new blown film machines are on track to be commissioned by end-FY23 and hence is well positioned to capture any potential growth in demand in the future.

Meanwhile, BPPLAS is facing c.30% increase in monthly electricity costs starting from August 2023, after terminating its subscription to the Green Electricity Tariff (GET) program. The reason that the company decided to discontinue is because of higher GET rate of 21.8 sen/kWh (from 3.7 sen/kWh), compared to conventional ICPT surcharge of 17.0 sen/kWh. However, the impact on overall profits is minimal, as electricity costs only account for less than 5% of total costs. The push towards higher margin product mix should further reduce the impact of this increase in GET tariff.

Forecasts. Maintained.

We also keep our TP of RM1.23 based on 9x FY24F PER, at a discount to the sector's average historical forward PER of 13x, largely to reflect BPPLAS' 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).

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

Risks to our call include: (i) a sudden surge in resin prices, (ii) reduced demand for packaging materials due to an extended global economic slowdown, and (iii) labour shortages.

MARKET PERFORM ↔

Price: **RM1.26**
Target Price: **RM1.23** ↔

Share Price Performance



KLCI 1,495.49
YTD KLCI chg -2.9%
YTD stock price chg -0.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK Equity
Market Cap (RM m)	354.7
Shares Outstanding	281.5
52-week range (H)	1.53
52-week range (L)	1.15
3-mth avg daily vol:	37,639
Free Float	23%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FY Dec (RMm)	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	10.7	9.2
BVPS (RM)	0.9	0.9	1.0
PBV (x)	1.4	1.3	1.2
Net Div. Yield (%)	4.5	4.4	4.4

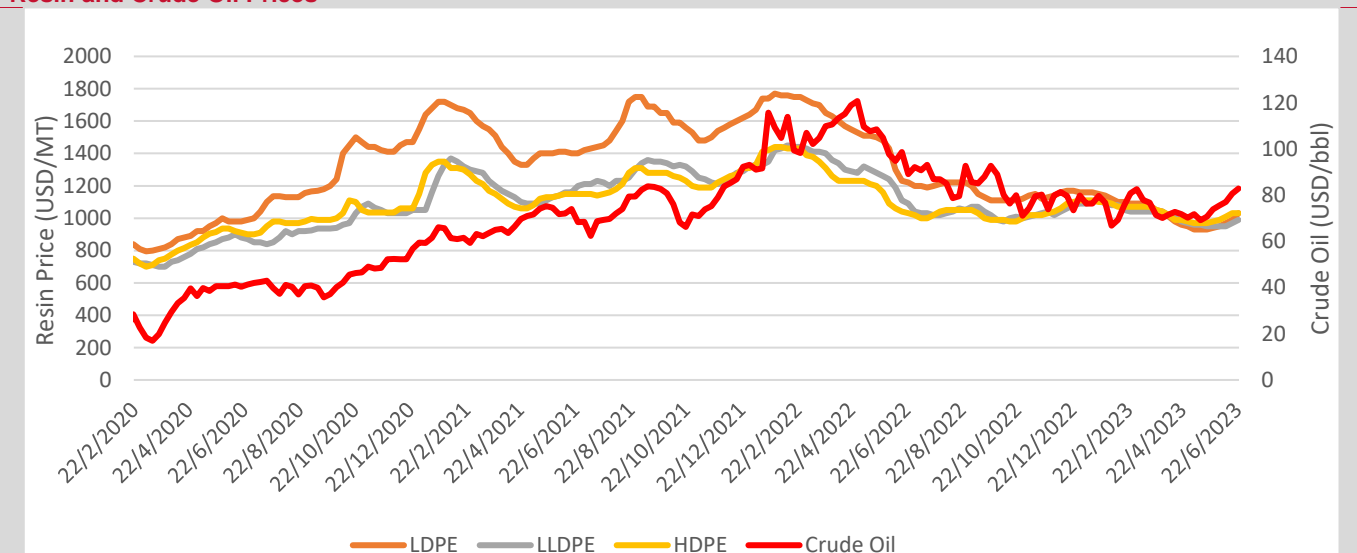
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Results Highlights

FYE Dec (RM m)	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	1H23	1H22	YoY Chg
Revenue	110.2	117.3	-6.1%	139.5	-21.0%	227.5	271.4	-16.2%
Operating Profit	10.4	9.4	9.6%	14.7	-29.5%	19.8	23.3	-15.0%
Profit Before Taxation	12.3	10.6	15.2%	15.3	-19.7%	22.9	24.4	-6.3%
Taxation	-2.4	-2.3	2.4%	-3.1	-22.0%	-4.7	-4.7	0.6%
Net Profit	9.9	8.3	18.8%	12.2	-19.1%	18.2	19.7	-8.0%
Core Net Profit	8.7	7.5	16.3%	12.7	-31.6%	16.1	20.1	-19.6%
Core EPS (sen)	3.1	2.7	16.3%	4.5	-31.6%	5.7	7.1	-19.6%
NDPS (sen)	1.5	1.0		3.0		5.5	8.0	
Effective Tax Rate (%)	19.54	21.98		20.12		20.67	19.25	
PBT Margin (%)	11.12	9.06		10.94		10.06	9.00	
Core Net Profit Margin (%)	7.88	6.36		9.08		7.09	7.39	

Source: Company, Kenanga Research

Resin and Crude Oil Prices



Source: Bloomberg, 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	1.06	1.80	69.8%	1,046.0	Y	05/2024	11.8	13.9	47.1%	23.7%	9.0	7.6	1.6	19.8%	1.0	0.9%
BOILERMECH HOLDINGS BHD	MP	0.915	0.720	-21.3%	472.1	Y	03/2024	4.5	4.4	65.2%	-2.6%	20.3	20.8	1.8	9.0%	1.8	2.0%
BP PLASTICS HOLDINGS BHD	MP	1.26	1.23	-2.4%	354.7	Y	12/2023	11.8	13.7	7.1%	16.3%	10.7	9.2	1.4	13.6%	5.5	4.4%
HPP HOLDINGS BHD	OP	0.405	0.720	77.8%	157.3	Y	05/2024	4.4	5.5	81.7%	27.2%	9.3	7.3	1.1	12.9%	1.5	3.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.710	0.600	-15.5%	378.9	Y	12/2023	4.5	6.0	-11.7%	34.4%	15.8	11.8	0.3	2.2%	1.8	2.5%
SCIENTEX BHD	UP	3.86	2.99	-22.5%	5,987.0	Y	07/2023	30.6	35.5	15.0%	16.0%	12.6	10.9	1.9	15.5%	7.4	1.9%
SLP RESOURCES BHD	MP	0.850	0.900	5.9%	267.8	Y	12/2023	4.8	5.9	-6.8%	23.8%	17.8	14.4	1.4	7.9%	5.5	6.5%
TECHBOND GROUP BHD	OP	0.370	0.450	21.6%	193.2	Y	06/2023	1.9	3.8	-9.8%	98.0%	19.4	9.8	1.2	6.2%	1.0	2.7%
THONG GUAN INDUSTRIES BHD	OP	2.06	3.22	56.3%	815.6	Y	12/2023	26.1	29.3	-8.2%	12.2%	7.9	7.0	0.9	12.6%	5.5	2.7%
Sector Aggregate					9,672.7												3.0%

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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