

22 November 2023

# BP Plastics Holding

## Green Products to Cushion Downturn

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**BPPLAS's 9MFY23 results met expectations. We see an uptick in orders primarily driven by the positive reception of its new premium offerings such as nano stretch film on growing demand for sustainable packaging solutions. These higher-margin products should help to mitigate cost pressures. We maintain our forecasts, TP of RM1.23 and MARKET PERFORM call.**

**Within expectations.** Its 9MFY23 core net profit of RM23.7m met expectations at 71% and 73% of our full-year forecast and the full-year consensus estimate, respectively. BPPLAS declared DPS of 1.5 sen in 3QFY23, which is in line with our expectation, bringing cumulative YTD DPS to 4.5 sen (9MFY22: 4.0 sen).

**Results highlights.** YoY, its 9MFY23 revenue declined 12% primarily due to: (i) reduced ASP in tandem with falling resin cost, and (ii) softening demand for plastics packaging amidst global economic slowdown. Its core net profit dropped by a relatively smaller 5%, buoyed by improved margins arising from a better product mix with a greater proportion of higher-margin products such as nano stretch film.

QoQ, its 3QFY23 revenue increased 6% thanks to: (i) improved orders for its new premium offerings from Europe and US (e.g. nano stretch film), (ii) restocking by customers, and (iii) seasonal factor, i.e. a pickup in demand ahead of the year-end festive season. However, its core net profit slipped 13% due to higher operating costs, particularly utilities. To recall, BPPLAS terminated its subscription to the Green Electricity Tariff (GET) program in August 2023. The decision was prompted by higher GET rate of 21.8 sen/kWh (from 3.7sen/kWh), compared to conventional ICPT surcharge of 17.0 sen/kWh. Hence, we expect there is an approximately 30% increase in monthly electricity costs.

**Outlook.** We remain cautious on the market demand for packaging materials in 2HFY23 despite 2H traditionally being the peak season, due to lingering uncertainties in the global economic recovery.

Nonetheless, we anticipate that BPPLAS is well-positioned to capitalize on the rising demand for sustainable packaging solutions. In line with its commitment to sustainability, the company continues to prioritise initiatives such as: (i) downgauging (i.e. making the film thinner without comprising quality), and (ii) use of recycled raw materials. It is hopeful for increased orders for its latest premium offerings, particularly nano stretch film from both European and US markets on the heels of its participation in an international trade fair in Europe in May 2023.

**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).

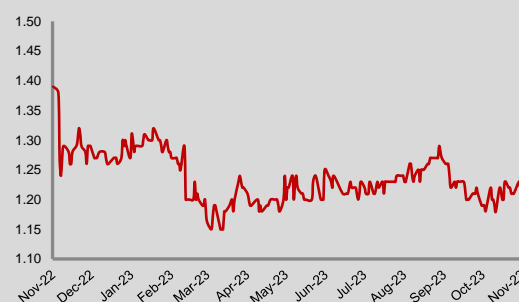
We like BPPLAS for its: (i) strong foothold in the SE Asia market which is expected to remain resilient despite global economic uncertainties, (ii) strong cash flows and balance sheet (a net cash position) that will enable it to weather downturns better, and (iii) long-term capacity expansion in high-margin 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. Reiterate **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: **RM1.24**  
Target Price: **RM1.23** ↔

### Share Price Performance



KLCI 1,463.40  
YTD KLCI chg -2.1%  
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)	1.39
52-week range (L)	1.15
3-mthavg daily vol:	40,208
Free Float	23%
Beta	0.7

### Major Shareholders

Lg Capital Sdn Bhd	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	31.4	33.2	38.6
Consensus	-	32.7	37.1
Earnings Revision	-	-	-
Core EPS (sen)	11.2	11.8	13.7
Core EPS growth (%)	-32.3	5.6	16.4
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	11.1	10.5	9.0
BVPS (RM)	0.9	0.9	1.0
PBV (x)	1.4	1.3	1.2
Net Div. Yield (%)	4.4	4.4	4.4

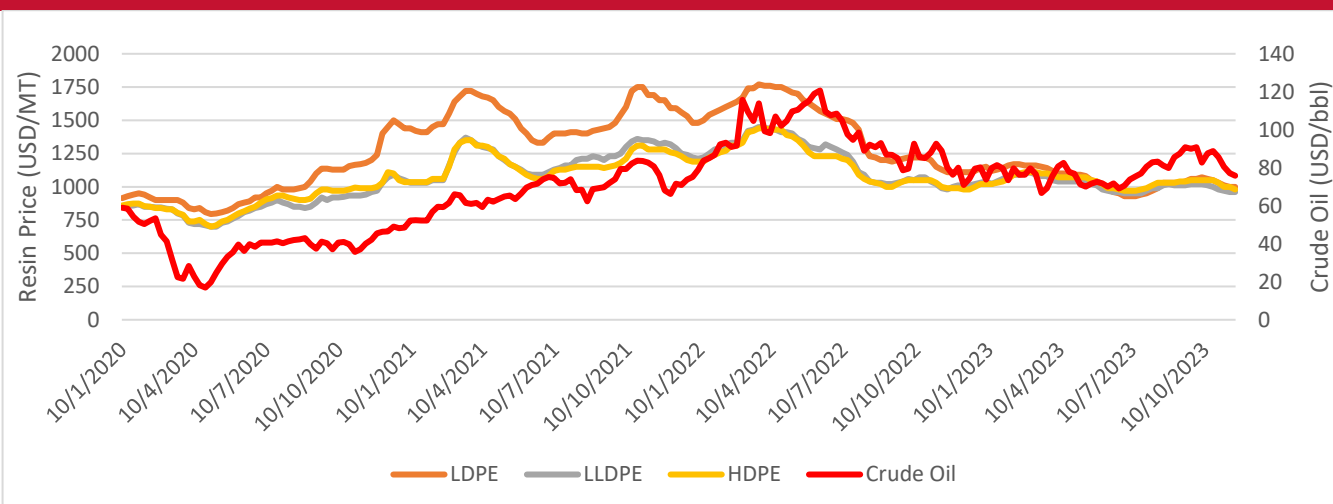
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### Results Highlights

FYE Dec (RM m)	3Q23	2Q23	QoQChg	3Q22	YoY Chg	9M23	9M22	YoY Chg
Revenue	117.2	110.2	6%	120.7	-3%	344.7	392.2	-12%
Operating Profit	7.8	10.4	-24%	11.3	-30%	27.6	34.6	-20%
Profit Before Taxation	8.5	12.3	-30%	6.0	42%	31.4	30.5	3%
Taxation	-1.3	-2.4	-47%	-0.7	90%	-6.0	-5.4	12%
<b>Net Profit</b>	<b>7.3</b>	<b>9.9</b>	<b>-26%</b>	<b>5.4</b>	<b>36%</b>	<b>25.4</b>	<b>25.1</b>	<b>1%</b>
<b>Core Net Profit</b>	<b>7.6</b>	<b>8.7</b>	<b>-13%</b>	<b>4.8</b>	<b>58%</b>	<b>23.7</b>	<b>24.9</b>	<b>-5%</b>
Core EPS (sen)	2.7	3.1	-13%	1.7	58%	8.4	8.8	-5%
NDPS (sen)	1.5	1.5	0%	1.0	50%	4.5	4.0	13%
Effective Tax Rate (%)	15.0	19.5		11.2		19.1	17.6	
PBT Margin (%)	7.3	11.1		5.0		9.1	7.8	
Core Net Profit Margin (%)	6.5	7.9		4.0		6.9	6.3	

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.				
<b>Stocks Under Coverage</b>																	
ANCOM NYLEX BHD	OP	1.15	1.50	30.4%	1,098.9	Y	05/2024	10.0	12.9	44.4%	31.3%	11.5	8.9	1.9	18.3%	1.0	0.9%
BM GREENTECH BHD	UP	0.980	0.830	-15.3%	505.7	Y	03/2024	5.2	5.1	91.5%	-2.8%	18.7	19.3	1.9	10.4%	1.8	1.8%
BP PLASTICS HOLDINGS BHD	MP	1.24	1.23	-0.8%	349.0	Y	12/2023	11.8	13.7	7.1%	16.3%	10.5	9.0	1.3	13.1%	5.5	4.4%
HPP HOLDINGS BHD	OP	0.385	0.720	87.0%	149.5	Y	05/2024	3.7	5.5	52.7%	51.4%	10.5	7.0	1.1	11.0%	1.5	3.9%
KUMPULAN PERANGSANG SELANGOR	UP	0.805	0.510	-36.6%	432.6	Y	12/2023	1.3	5.1	-73.6%	279.2%	60.1	15.8	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.67	3.23	-12.0%	5,692.4	Y	07/2024	35.2	36.5	18.3%	3.6%	10.4	10.1	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.860	0.850	-1.2%	272.6	Y	12/2023	3.8	4.9	-27.3%	30.0%	22.7	17.5	1.4	6.3%	5.0	5.8%
TECHBOND GROUP BHD	OP	0.455	0.450	-1.1%	243.4	Y	06/2024	3.8	4.1	112.8%	9.5%	12.0	11.0	1.4	11.5%	1.5	3.3%
THONG GUAN INDUSTRIES BHD	OP	1.98	3.05	54.0%	782.2	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.6	7.1	0.8	10.2%	4.8	2.4%
<b>Sector Aggregate</b>					<b>9,526.3</b>					<b>25.3%</b>	<b>12.6%</b>	<b>11.2</b>	<b>9.9</b>	<b>1.3</b>	<b>11.5%</b>		<b>2.8%</b>

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	★	★	★
	Migrant Worker Welfare	★	★	★
SPECIFIC	Waste Disposal/Pollution Control	★	★	★
	Work Site Safety	★	★	★
	Usage of Biodegradable Materials	★	★	★
	Supply Chain Auditing	★	★	★
	Energy Efficiency	★	★	★
<b>OVERALL</b>		★	★	★

☆ 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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