

27 November 2023

BP Plastics Holding

Staying Relevant via Product Innovation

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BPPLAS guided for improved YoY and QoQ performance in 4QFY23, and it is hopeful of a better FY24. It is gaining market share overseas, especially in Europe with its nano stretch film, which should improve its product mix and enhance margins. We maintain our forecasts, TP of RM1.23 and MARKET PERFORM call.

We came away from a post-results engagement with BPPLAS feeling reassured of its long-term prospects. The key takeaways are as follows:

- Gaining traction with nano stretch film.** BPPLAS's exports to Europe are rising, led by its higher-margin nano stretch film (thinner film yet better strength and performance). This is mainly driven by: (i) the rising demand for sustainable products, bolstered by positive response at an international fair in Europe held in May 2023, (ii) its cost competitiveness against its overseas peers, and (iii) its superior 67-layer nano stretch film machines, which offer better stretchability and economic efficiency, compared to 33-layer or 55-layer machines of its competitors. It is optimistic about securing more orders from both Europe and the USA. There has been active engagement with its distributors, including testing on product samples. In FY22, 57% of BPPLAS's total sales came from Asia countries, followed by Malaysia (30%) and Others (13%), which include Europe and USA.
- Capacity expansion on track.** Its two new co-extrusion blown film machines are set to be commissioned by end-FY23, following the commissioning of its fifth machine last week and the sixth scheduled for the second half of Dec 2023 (see table on Page 2 for composition of its fleet of machines). These machines will be used to produce films catering to various applications, particularly in F&B packaging (e.g. sugar bags, flour bags, oil bags), lamination film, shrink film, stretch hood, etc. The primary market focus will be on the domestic market.
- Adding printed film.** BPPLAS plans to expand into printed film in FY24 primarily to target the F&B and hygiene sectors. The key rationale for this move is to expand its product portfolio, enabling it to offer an integrated solution to its customers. Printed film also fetches better margins.
- Mitigating energy costs.** Its current in-house solar system (equipped with a 1.1 MW capacity) will lower its energy bill by 2%-3%. With full solar panel being installed across the plant roofs, its generation capacity will increase to 3.5 MW, which will then boost energy savings up to 8%. In addition, this helps BPPLAS to score points in terms of reducing carbon emissions.

Forecasts. Maintained.

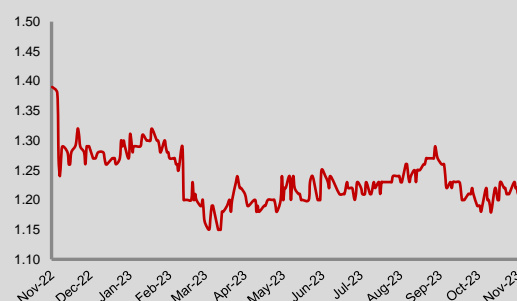
We also maintain our TP of RM1.23 based on 9x FY24F PER, at a discount to the sector's average historical forward PER of 13x, largely to reflect BPPLAS' relatively smaller market capitalisation and thin share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised 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. However, its near-term prospects are weighed down by the global economic slowdown. Maintain **MARKET PERFORM**.

MARKET PERFORM ↔

Price: **RM1.22**
Target Price: **RM1.23** ↔

Share Price Performance



KLCI 1,453.92
YTD KLCI chg -2.8%
YTD stock price chg -3.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK EQUITY
Market Cap (RM m)	343.4
Shares Outstanding	281.5
52-week range (H)	1.33
52-week range (L)	1.15
3-mth avg daily vol:	42,524
Free Float	23%
Beta	0.7

Major Shareholders

Lg Capital SdnBhd	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	31.4	33.2	38.6
Consensus	-	31.8	38.4
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)	10.9	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

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Risks to our call include: (i) volatility in resin prices, (ii) reduced demand for packaging materials due to an extended global economic slowdown, (iii) labour shortages, and (iv) rising input costs.

BPPLAS's Fleet of Machines		
Type	In Operation	Under Installation
Stretch Film	10 cast stretch film machines (including 2 nano stretch film machines commissioned in Dec 2021 and Dec 2022 respectively)	None
Blown Film	5 co-extrusion blown film machines (including 1 commissioned in Nov 2023), with many small older machines	1 co-extrusion blown film machines (to be commissioned in Dec 2023)
Total Capacity	142,800 MT	4,800 MT

Source: Companies, Kenanga Research

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	31.4	33.2	38.6	Profitability (%)					
Balance Sheet						EBITDA Margin	12.2	12.7	7.3	10.3	11.1
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	PBT Margin	12.3	12.7	7.2	8.1	8.6
Fixed Assets	72.4	89.2	120.1	162.8	206.7	Net Margin	9.4	10.4	6.1	6.5	6.9
Other FA	6.3	6.1	6.0	6.1	6.3	Effective Tax Rate	23.8	18.2	15.2	20.0	19.0
Inventories	84.1	89.2	69.3	65.4	71.2	ROE	14.3	20.1	12.6	12.7	12.9
Receivables	40.8	70.9	47.6	48.3	52.7	ROA	10.2	14.7	10.1	10.1	10.4
Other CA	62.8	51.5	30.2	10.9	0.0	DuPont Analysis					
Cash	21.2	9.5	33.4	36.4	35.7	Net margin (%)	9.4	10.4	6.1	6.5	6.9
Total Assets	287.7	316.4	306.6	329.8	372.6	Assets Turnover (x)	1.1	1.4	1.6	1.5	1.5
Payables	68.6	71.0	48.7	46.0	50.0	Leverage Factor (x)	1.4	1.4	1.2	1.3	1.2
Other LT liability	9.9	11.4	12.6	21.6	14.0	ROE (%)	14.3	20.1	12.6	12.7	12.9
Net Assets	205.8	231.6	245.3	262.3	299.0	Valuations					
Share Capital	205.8	231.6	245.3	263.0	286.1	Core EPS (sen)	10.5	16.5	11.2	11.8	13.7
S. Equity	205.8	231.6	245.3	262.3	299.0	DPS (sen)	4.0	8.0	5.5	5.5	5.5
Cashflow Statement						BVPS (RM)	0.7	0.8	0.9	0.9	1.0
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	Core PER (x)	11.6	7.4	10.9	10.3	8.9
Operating CF	58.8	23.8	59.9	36.4	35.7	N. Div. Yield (%)	3.3	6.6	4.5	4.5	4.5
Investing CF	-4.7	-8.6	-39.8	-31.8	-30.0	PBV (x)	1.7	1.5	1.4	1.3	1.2
Financing CF	-15.0	-15.0	-14.1	-15.5	-15.5						

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	1.15	1.50	30.4%	1,098.8	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	0.950	0.810	-14.7%	490.2	Y	03/2024	5.2	5.1	91.5%	-2.8%	18.2	18.7	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.22	1.23	0.8%	343.4	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.9	1.3	13.1%	5.5	4.5%
HPP HOLDINGS BHD	OP	0.375	0.720	92.0%	145.7	Y	05/2024	3.7	5.5	52.7%	51.4%	10.3	6.8	1.1	11.0%	1.5	4.0%
KUMPULAN PERANGSANG SELANGOR	UP	0.790	0.510	-35.4%	424.5	Y	12/2023	1.3	5.1	-73.6%	279.2%	59.0	15.6	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.61	3.23	-10.5%	5,599.3	Y	07/2024	35.2	36.5	18.3%	3.6%	10.3	9.9	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.875	0.850	-2.9%	277.3	Y	12/2023	3.8	4.9	-27.3%	30.0%	23.1	17.8	1.5	6.3%	5.0	5.7%
TECHBOND GROUP BHD	OP	0.440	0.450	2.3%	235.4	Y	06/2024	3.8	4.1	112.8%	9.5%	11.6	10.6	1.3	11.5%	1.5	3.4%
THONG GUAN INDUSTRIES BHD	OP	1.90	3.05	60.5%	750.8	Y	12/2023	21.9	27.9	-21.9%	27.3%	8.7	6.8	0.8	9.7%	2.3	1.2%
Sector Aggregate					9,365.6					24.7%	13.3%	11.1	9.8	1.3	11.5%		2.7%

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	★	★	★
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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