

BP Plastics Holding

Niche Products to Cushion Slowdown

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BPPLAS's FY23 results met expectations. Its FY23 core net profit rose 7% driven by an improved product mix. It is cushioning the slowdown in the plastic packing sector by stepping up the production of premium stretch film and value-added blown film. We maintain our FY24F net profit forecasts, TP of RM1.23 and MARKET PERFORM call.

Within expectations. BPPLAS's FY23 core net profit of RM33.5m met expectations. It declared a DPS of 1.5 sen in 4QFY23, bringing FY23 dividend to 6.0 sen which exceeded our expectation by 9%.

YoY, its FY23 revenue declined by 7% due primarily to: (i) reduced ASPs in tandem with lower resin cost and intense market competition, and (ii) weaker demand for plastic packaging amidst a global economic slowdown. Similarly, its FY23 core net profit grew by 7% underpinned by a better product mix, improved cost and operational efficiency via automation and the installation of solar panels.

QoQ, its 4QFY23 revenue also expanded by 7% driven by: (i) restocking by customers, and (ii) improved orders for the thinner gauge nano stretch film, which is considered a sustainable packaging solution. Its core net profit grew by a sharper 30%, thanks to an improved product mix with more higher-margin offering such as premium-grade stretch film (which is thinner but with stronger properties and higher stretchability) and value-added customised and printed blown film.

Outlook. We believe a more sustainable recovery in plastic packaging demand still hinges on stronger global economic rebound. Over the short term, the demand could be driven by restocking by end-users. We are also mindful of rising freight cost and potential disruptions to freight schedules if the Red Sea crisis escalates or is prolonged.

BPPLAS commissioned two new co-extrusion blown film machines in end-FY23, expanding its total nameplate capacity by 9,600 MT/year or 7% to 147,600 MT/year. These machines could produce multiple plastic products, including sugar bags, flour bags, oil bags, lamination film, shrink film and stretch hood. BPPLAS is also stepping up its efforts to improve its product mix by focusing on higher-margin products such as premium-grade stretch film and value-added blown film, which could help to mitigate cost pressures from increased labour and electricity costs.

Forecasts. We keep our FY24F earnings forecast and introduce our FY25F numbers.

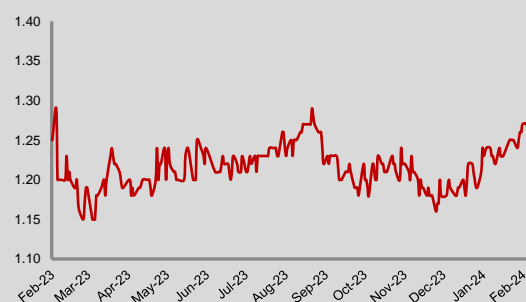
Valuations. We also keep our TP of RM1.23 based on 9x FY24F PER, at a discount to the sector's average historical forward PER of 13x, largely to reflect BPPLAS' relatively smaller market capitalization, and thin share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. 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 may be weighed down by the global economic slowdown. Maintain **MARKET PERFORM**.

MARKET PERFORM ↔

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

Share Price Performance



KLCI	1,558.80
YTD KLCI chg	7.2%
YTD stock price chg	5.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK EQUITY
Market Cap (RM m)	354.7
Shares Outstanding	281.5
52-week range (H)	1.30
52-week range (L)	1.15
3-mth avg. daily vol.	104,356
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)	2023A	2024F	2025F
Turnover	469.6	520.5	570.1
EBITDA	51.8	59.6	68.7
PBT	42.6	47.0	54.7
Net Profit (NP)	35.2	38.6	44.9
Core NP	33.5	38.6	44.9
Consensus	-	39.4	44.5
Earnings Revision	-	-	NEW
Core EPS (sen)	11.9	13.7	15.9
Core EPS Growth (%)	6.6	15.1	16.3
NDPS (sen)	6.0	6.5	7.0
Core PER (x)	10.6	9.2	7.9
BVPS (RM)	0.9	1.0	1.1
PBV (x)	1.3	1.2	1.1
Net Div. Yield (%)	4.8	5.2	5.6

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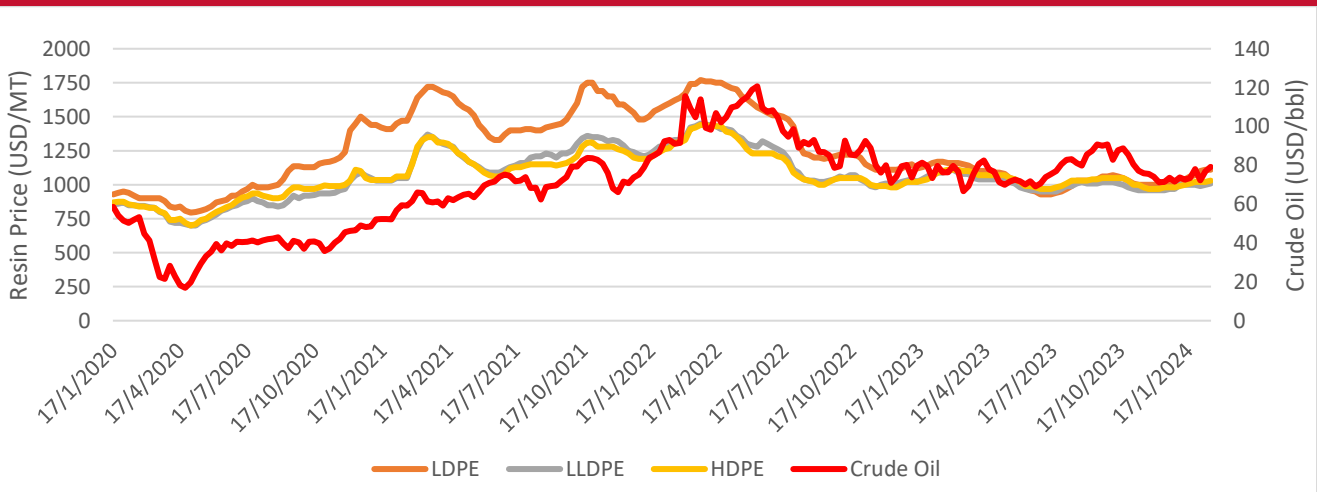
Risks to our call include: (i) a sudden surge in resin prices, (ii) reduced demand for packaging materials amidst an extended global economic downturn, and (iii) a rise in freight costs.

Results Highlights

FYE Dec (RM m)	4Q FY23	3Q FY23	QoQ Chg	4Q FY22	YoY Chg	FY23	FY22	YoY Chg
Revenue	124.9	117.2	7%	110.4	13%	469.6	502.6	-7%
Operating profit	10.1	7.8	29%	4.8	>100%	37.8	39.4	-4%
PBT	11.2	8.5	31%	5.5	>100%	42.6	36.0	18%
Taxation	-1.4	-1.3	8%	-0.1	>100%	-7.4	-5.5	35%
Net profit	9.8	7.3	35%	5.5	80%	35.2	30.5	15%
Core net profit	9.8	7.6	30%	6.5	50%	33.5	31.4	7%
Core EPS (sen)	3.5	2.7	30%	2.3	50%	11.9	11.2	7%
NDPS (sen)	1.5	1.5	0%	1.5	0%	6.0	5.5	9%
Effective tax rate (%)	12.3	15.0		1.7		17.3	15.2	
PBT margin (%)	9.0	7.3		5.0		9.1	7.2	
Core net profit margin (%)	7.9	6.5		5.9		7.1	6.3	

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	1.08	1.50	38.9%	1,031.7	Y	05/2024	9.4	11.2	35.7%	21.3%	11.5	9.6	1.8	16.6%	1.0	0.9%
BM GREENTECH BHD	UP	0.930	0.810	-12.9%	479.9	Y	03/2024	5.2	5.1	91.5%	-2.8%	17.8	18.3	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.26	1.23	-2.4%	354.7	Y	12/2023	13.7	16.0	15.2%	16.3%	9.2	7.9	1.2	14.1%	6.5	5.2%
HPP HOLDINGS BHD	OP	0.325	0.640	96.9%	126.2	Y	05/2024	2.7	4.9	14.0%	81.1%	11.9	6.6	1.0	8.4%	1.5	4.6%
KUMPULAN PERANGSANG SELANGOR	UP	0.765	0.450	-41.2%	411.1	Y	12/2024	4.0	4.7	422.0%	18.7%	19.2	16.2	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	MP	3.91	3.63	-7.2%	6,065.5	Y	07/2024	35.2	36.5	31.7%	3.6%	11.1	10.7	1.5	14.4%	11.0	2.8%
SLP RESOURCES BHD	MP	0.950	0.960	1.1%	301.1	Y	12/2024	4.6	5.8	34.9%	25.9%	20.5	16.3	1.6	7.7%	5.5	5.8%
TECHBOND GROUP BHD	OP	0.405	0.450	11.1%	216.8	Y	06/2024	3.8	4.1	112.8%	9.5%	10.7	9.8	1.2	11.5%	1.5	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.91	2.86	49.7%	758.6	Y	12/2023	21.8	25.8	-21.9%	18.4%	8.8	7.4	0.8	9.7%	2.3	1.2%
Sector Aggregate					9,745.6					41.8%	9.2%	11.3	10.4	1.3	11.3%		3.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	☆	
	Effluent & Waste Management	★	★	★		
	Resource Management	★	★	★		
	Supply Chain Management	★	★	★		
	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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