

16 August 2022

BP Plastics Holding Berhad

Strong Growth in FY23

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BPPLAS's 1HFY22 results met our expectations but beat consensus estimates. We roll forward our valuation base year to FY23F to better reflect its growth potential. Over the immediate term, its growth will be driven by the commissioning of its tenth cast stretch film line in 4QCY22. It has also earmarked two coex blown film lines to strengthen the production of food packaging and shipping and logistics packaging film. Our TP is raised by 24% to RM1.63 (from RM1.31) based on 9x FY23F PER. Upgrade to **OUTPERFORM** from **MARKET PERFORM**.

Within expectations. 1HFY22 core profit of RM20.1m came within our forecast at 49% of our full-year forecast but beat market expectations at 58% of the full-year consensus estimates.

1HFY22 topline grew by 29.9% lifted by: (i) higher sales volume underpinned by new capacity, i.e. the commissioning of its ninth cast stretch film line; and (ii) higher ASPs (in tandem with higher cost of input resin). However, 1HFY22 net profit contracted 18.5% as it could not immediately pass on the higher resin cost, coupled with a higher wage bill (due to the hike in the minimum wage) and higher freight cost on prolonged global supply chain disruptions. QoQ, 2QFY22 net profit rose by 71.6% due to cost pass-through by higher ASP, and better products mix.

Forecasts. Maintained.

Outlook. BPPLAS's topline has thus far been spared the demand and labour issues (that have affected some of its peers), as manifested in its stable utilisation rate at an average of 65-70%. Over the immediate term, its growth will be driven by the commissioning of its tenth cast stretch film line in 4QCY22 (and it is confident that the line will be fully utilized within FY23). It has also earmarked coex blown film lines to strengthen the production of food packaging and shipping and logistics packaging film.

Meanwhile, its ASPs are likely to be sticky to the downside despite resin prices having softened c.10-12% YTD, resulting in better margins, albeit temporarily.

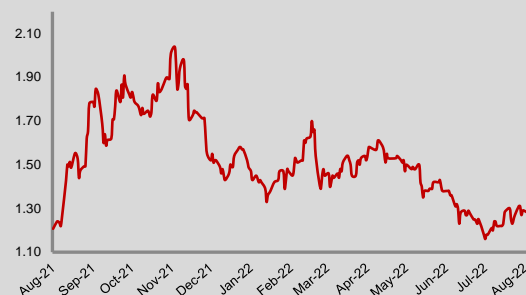
We roll forward our valuation base year to FY23F to better reflect its growth potential driven by: (i) capacity expansion which increase premium products capacity that fetch better margins, and (ii) sustainable demand. Our TP is raised by 24% to RM1.63 (from RM1.31) based on 9x FY23F PER, at a slight discount to peers' average forward PER of 9.3x largely to reflect BPPLAS's relatively smaller market cap and thin share liquidity. There is no adjustment to our TP based on its 3-star ESG rating as appraised by us. Upgrade rating to **OUTPERFORM** from **MARKET PERFORM**.

Risks to our call include: (i) sustained higher resin cost, (ii) recovery in demand for packaging materials from the pandemic cut short by a global recession, and (iii) prolonged labour shortages.

OUTPERFORM

Price: **RM1.28**
Target Price: **RM1.63** 

Share Price Performance



KLCI	1,504.01
YTD KLCI chg	-4.1%
YTD stock price chg	-16.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK Equity
Market Cap (RM m)	360.3
Shares Outstanding	281.5
52-week range (H)	2.04
52-week range (L)	1.16
3-mth avg daily vol:	128,207
Free Float	23%
Beta	1.0

Major Shareholders

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

Summary Earnings Table

FY Dec (RMm)	2021A	2022F	2023F
Turnover	447.1	508.9	548.7
EBITDA	67.2	59.5	72.4
PBT	56.8	50.4	63.1
Net Profit (NP)	46.5	40.8	51.1
Core NP	46.4	40.8	51.1
Consensus		34.6	40.7
Earnings Revision		-	-
Core EPS (sen)	16.5	14.5	18.2
Core EPS growth (%)	57.5	-12.1	25.2
NDPS (sen)	8.0	6.0	8.0
Core PER (x)	7.8	8.8	7.0
BVPS (RM)	0.8	0.9	1.0
PBV (x)	1.6	1.4	1.3
Net Div Yield (%)	6.3	4.7	6.3

16 August 2022

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	139.5	131.9	5.8%	108.9	28.1%	271.4	209.0	29.9%
Operating Profit	14.7	8.6	70.6%	18.1	-18.8%	23.4	29.7	-21.0%
PBT	15.3	9.2	66.4%	18.7	-18.4%	24.4	30.6	-20.2%
Taxation	-3.1	-1.6	88.2%	-3.9	-22.1%	-4.7	-6.2	-24.0%
PAT	12.2	7.5	61.7%	14.8	-17.4%	19.7	24.4	-19.3%
Core Net Profit	12.7	7.4	71.4%	14.8	-14.3%	20.1	24.6	-18.5%
Core EPS (sen)	4.5	2.6	71.4%	5.3	-14.3%	7.1	8.7	-18.5%
NDPS (sen)	1.5	1.5		2		3	4	
Effective tax rate	20.12	17.79		21.06		19.25	20.20	
PBT margin (%)	10.94	6.95		17.17		9.00	14.65	
Core Net Profit margin (%)	9.08	5.61		13.57		7.39	11.78	

Source: Company, Kenanga Research

16 August 2022

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																	
BOILERMECH HOLDINGS BHD	OP	0.780	0.900	15.38%	402.5	Y	03/2023	4.1	5.6	23.5%	37.6%	19.0	13.9	1.6	8.6%	180.0	2.2%
BP PLASTICS HOLDINGS BHD	OP	1.28	1.63	13.28%	360.3	Y	12/2022	14.5	18.2	-12.1%	25.2%	8.8	7.1	1.4	16.8%	6.0	4.7%
SCIENTEX BHD	MP	3.45	3.33	-3.48%	5,350.9	Y	07/2022	24.8	35.7	-13.4%	44.0%	13.9	9.7	1.7	12.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.910	0.920	1.10%	288.4	Y	12/2022	5.5	6.6	0.0%	18.9%	16.5	13.9	1.5	9.3%	5.5	6.0%
THONG GUAN INDUSTRIES BHD	OP	2.45	3.90	59.18%	945.0	Y	12/2022	30.0	36.4	22.2%	21.2%	8.2	6.7	1.1	14.3%	5.5	2.2%
Simple Average								15.8	20.5	4.0%	29.4%	13.3	10.3	1.5	12.3%		3.48%

Source: Kenanga Research

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16 August 2022

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:

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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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