

25 April 2023

HPP Holdings Berhad

Not Spared Slowdown, Brighter FY24

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HPPHB's 9MFY23 results disappointed due to weak sales in its consumer electronics segment, partially mitigated by improved operating efficiency and lower raw material cost. We cut our FY23F and FY24F earnings by 27% and 16%, respectively, (but still expect YoY improvement in FY24 underpinned by the recovery in the global economy). We lower our TP by 17% to RM0.44 (from RM0.53) but maintain our OUTPERFORM call.

Missed expectations. 9MFY23 core net profit of RM6.2m came in below expectations at only 50% and 45% of our full-year forecast and 45% of full-year consensus estimate, respectively. The key variance against our forecast came from weak sales in the consumer electronics segment.

Results' highlights. YoY, 9MFY23 revenue declined by 4% mainly due to weaker sales at its corrugated packaging segment and rigid box segment (which supply mainly to customers in the consumer electronics space). However, 9MFY23 core net profit jumped 26%, we believe, on improved operating efficiency.

QoQ, 3QFY23 core net profit almost quadrupled despite a 21% drop in turnover, we believe, due to the decline in raw material cost and better cost efficiency.

Outlook. We foresee a more promising FY24 for HPPHB on: (i) a recovery in demand in the consumer electronics space in line with the recovery in the global economy, (ii) sustained growth in demand from its customers in sheath contraceptives, F&B and pharmaceutical segments, and (iii) maiden contributions from its paper pulp moulding segment - a new product with a ready market, i.e. HPPHB's existing customers.

Recall, HPPHB acquired a factory with an area of c.20.6k sq ft for RM7.7m for the new business (paper pulp moulded segment) which will commence production in 2HCY23 (delayed from 2QFY23) with two lines. We expect this paper pulp moulded segment to contribute to the bottom line from FY24.

Forecasts and TP. We cut FY23F/FY24F earnings by 27%/16%, to reflect softer demand from its customers in the consumer electronics segment on slowing global economy. Customers in the consumer electronics segment typically contribute to more than 50% of its total turnover.

Correspondingly, we reduce our TP by 17% to RM0.44 (from RM0.53) based on 13x FY24F PER, at a premium to the average historical forward PER of 10x for the manufacturing sector largely to reflect HPPHB's solid client base with prestigious names such as Customer D that speaks volume for its proven product and service quality. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like HPPHB for: (i) the strong long-term growth prospects of its end-users, i.e. the consumer electronics, sheath contraceptives, F&B and pharmaceutical segments, (ii) its globally recognised G7 Master ColourSpace certification that enables it to carve itself a strong footing in the supply chain of MNCs, providing design, multicolour and high-resolution offset or flexographic printing solutions, and (iii) its strong customer base including Customer D. Maintain **OUTPERFORM**.

OUTPERFORM ↔

Price: RM0.30
Target Price: RM0.44 ↓

Expected Capital Gain: RM0.14 +46.7%
Expected Divd. Yield: RM0.01 +5.0%
Expected Total Gain: RM0.16 +51.7%

KLCI Index 1,422.11

Stock Information

Bloomberg Ticker	HPPHB MK Equity
Bursa Code	0228
Listing Market	ACE Market
Shariah Compliant	Yes
Shares Outstanding	388.4
Market Cap (RM m)	116.5
Par value per share (RM)	N.A
52-week range (H)	0.53
52-week range (L)	0.28
Free Float	22%
Beta	0.8
3-mth avg daily vol	493,256

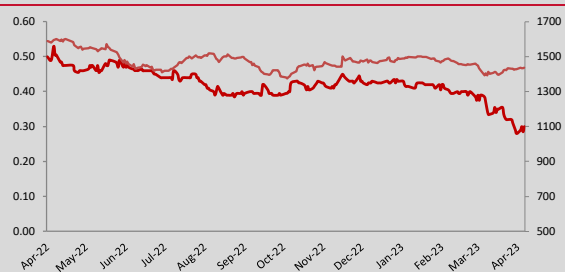
Major Shareholders

Aurora Meadow Sdn Bhd	51.7%
Ang Poh Geok	6.7%
Kok Hon Seng	6.0%

Summary Earnings Table

FY May (RM m)	2022A	2023F	2024F
Turnover	85.8	80.3	114.5
EBIT	12.1	12.4	18.2
PBT	11.5	11.8	17.6
Core Net Profit	8.5	9.1	13.4
Consensus (NP)	-	13.1	15.3
Earnings Revision (%)	-	-27	-16
Core EPS (sen)	2.2	2.3	3.4
Core EPS growth (%)	-50	8	47
NDPS (sen)	1.5	1.5	1.5
Core PER (x)	13.9	12.8	8.7
BVPS (RM)	0.3	0.3	0.4
PBV (x)	1.0	0.9	0.8
Net Div. Yield (%)	5.0	5.0	5.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-10.4%	-27.7%	-40.0%
Relative (%)	-11.6%	-22.8%	-29.9%

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Risks to our call include: (i) a slow recovery in the global consumer electronics sector, (ii) the volatility in the cost of inputs particularly paper pulp, and (iii) high customer concentration in the consumer electronics segment.

Results Highlights								
FYE May (RM m)	3QFY23	2QFY23	QoQChg	3QFY22	YoYChg	9MFY23	9MFY22	YoY Chg
Revenue	16.7	21.3	-21%	20.9	-20%	62.0	64.7	-4%
EBIT	2.2	1.3	67%	2.4	-9%	9.5	7.4	29%
PBT	2.1	1.2	74%	2.3	-9%	9.2	7.0	32%
Taxation	-0.6	-0.9	-32%	-0.6	4%	-3.0	-1.9	57%
Net Profit	1.6	0.3	347%	1.7	-9%	6.1	5.0	22%
Core Net Profit	1.6	0.4	263%	1.7	-5%	6.2	4.9	26%
NDPS (sen)	0.00	0.75	N.M.	0.0	N.M.	0.75	0.75	0%
Effective tax rate (%)	29.0	73.8		25.4		32.4	27.1	
Operating margin (%)	13.0	6.1		11.4		15.3	11.4	
PBT Margin (%)	12.3	5.5		10.8		14.8	10.7	
Core Net Profit Margin (%)	9.7	2.1		8.2		9.9	7.6	

Source: Company, 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	1.80	66.67%	1,008.5	Y	05/2023	8.0	12.0	38.5%	50.1%	13.5	9.0	2.0	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	UP	0.705	0.700	-0.71%	363.8	Y	03/2023	2.3	4.3	-31.2%	89.7%	31.1	16.4	1.4	4.6%	1.8	2.6%
BP PLASTICS HOLDINGS BHD	OP	1.19	1.63	36.97%	335.0	Y	12/2023	13.6	15.1	23.9%	10.7%	8.7	7.9	1.3	15.8%	5.5	4.6%
HIL INDUSTRIES BHD	UP	0.950	0.810	-14.74%	315.3	Y	12/2023	10.2	11.5	46.1%	12.7%	9.3	8.3	0.7	7.8%	2.0	2.1%
HPP HOLDINGS BHD	OP	0.300	0.440	46.67%	116.5	Y	05/2023	2.3	3.5	8.3%	47.3%	12.8	8.7	0.9	7.4%	2.0	6.7%
KUMPULAN PERANGSANG SELANGOR BHD	MP	0.725	0.700	-3.45%	389.6	Y	12/2023	6.2	7.0	19.1%	13.0%	11.8	10.4	0.4	3.1%	2.5	3.4%
SCIENTEX BHD	UP	3.40	2.99	-12.06%	5,273.6	Y	07/2023	30.6	35.5	15.0%	16.0%	11.1	9.6	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.915	1.09	19.13%	290.0	Y	12/2023	6.8	7.4	33.3%	8.8%	13.4	12.3	1.5	11.5%	5.5	6.0%
TECHBOND GROUP BHD	OP	0.400	0.450	12.50%	211.8	Y	06/2023	1.9	3.8	-9.8%	98.0%	21.0	10.6	1.3	6.2%	1.0	2.5%
THONG GUAN INDUSTRIES BHD	OP	2.26	3.28	45.13%	884.8	Y	12/2023	30.3	35.3	4.7%	16.4%	7.5	6.4	1.0	14.4%	5.5	2.4%
SECTOR AGGREGATE					9,188.9												

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	★	★	★
	Effluent/Waste Management	★	★	
	Digitalisation & Innovation	★	★	
	Material/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%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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