

15 September 2023

BP Plastics Holding

Readies Itself For Next Upturn

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BPPLAS guided for slight improvement in demand in 2HFY23 amidst a challenging global environment. Nevertheless, it is sticking to its strategic expansion plan with emphasis on higher-margin products such as premium stretch film and value-added technical products for blown PE films, which should drive long-term growth trajectory. We maintain our forecasts, TP of RM1.23 and MARKET PERFORM call.

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

- Slight improvement in 2HFY23.** BPPLAS guided for slightly stronger 2HFY23 compared to 1H on higher sales volumes and ASPs. The anticipated increase in sales volume is due to slight improvement in demand, as well as better response for its new premium offerings, including premium stretch films. We believe it is premature to conclude that a sustainable recovery in demand is underway as this pick-up in business could be driven by one-off restocking activities. Nonetheless, the slight improvement in ASPs, driven by an uptick in resin prices, came in handy, helping to absorb the higher electricity cost. At present, its plant utilisation stands at about 50%, which is similar to 50%-60% in FY22.
- Higher-margin products in focus.** It will continue to optimise its product mix, focusing on higher-margin products like premium stretch films and value-added, technical products for blown PE films. Meanwhile, it remains committed to its sustainability initiatives with key focus on downgauging (i.e. making the film thinner), enhancing product recyclability and the use of recycled raw materials.
- Expansion in capacity and product range.** BPPLAS's FY24F top line will be fuelled by a 7% increase in its annual nameplate capacity to 148k MT in FY24F with the commissioning of two new co-extrusion blown film machines with a combined production capacity of 800 MT/month in mid-FY24 (see table on Page 2 for composition of its fleet of machines). In addition, its top line expansion will also be driven by new products such as the stretch hood (commonly used to encase a palletised load or a stack of products, such as building materials and F&B like canned and bottled drinks, to protect the goods, especially from outdoor conditions).
- Operational streamlining is ongoing.** BPPLAS is reorganising its production floor following the acquisition of a new factory (Plant 3) in Dec 2022. The renovation of this new factory is expected to be completed by end-FY23. BPPLAS will use it as warehouse as well as to house certain old machines which will be relocated from Plant 1 and Plant 2, to optimise the overall workflow.

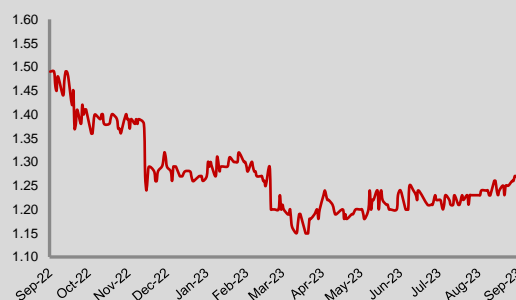
Forecasts. Maintained.

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).

MARKET PERFORM ↔

Price: RM1.28
Target Price: RM1.23 ↔

Share Price Performance



KLCI 1,449.58
YTD KLCI chg -3.1%
YTD stock price chg 1.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker BPP MK EQUITY
Market Cap (RM m) 360.3
Shares Outstanding 281.5
52-week range (H) 1.53
52-week range (L) 1.15
3-mth avg daily vol: 37,599
Free Float 23%
Beta 0.6

Major Shareholders

Lg Capital Sdn Bhd 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	31.0	33.2	38.6
Consensus	-	31.8	38.4
Earnings Revision	-	-	-
Core EPS (sen)	11.0	11.8	13.7
Core EPS growth (%)	-33.3	7.1	16.4
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	11.1	10.7	9.2
BVPS (RM)	0.9	0.9	1.0
PBV (x)	1.4	1.3	1.2
Net Div Yield (%)	4.5	4.4	4.4

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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. Maintain **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.

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	4 co-extrusion blown film machines, with many small older machines	2 co-extrusion blown film machines (to be commissioned by end-FY23)
Total Capacity	138,000 MT	9,600 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	31.0	33.2	38.6						
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	EBITDA Margin	12.2	12.7	7.3	10.3	11.1
Fixed Assets	72.4	89.2	120.1	162.8	206.7	PBT Margin	12.3	12.7	7.2	8.1	8.6
Other FA	6.3	6.1	6.0	6.1	6.3	Net Margin	9.4	10.4	6.1	6.5	6.9
Inventories	84.1	89.2	69.3	65.4	71.2	Effective Tax Rate	23.8	18.2	15.2	20.0	19.0
Receivables	40.8	70.9	47.6	48.3	52.7	ROE	14.3	20.1	12.6	12.7	12.9
Other CA	62.8	51.5	30.2	10.9	0.0	ROA	10.2	14.7	10.1	10.1	10.4
Cash	21.2	9.5	33.4	36.4	35.7						
Total Assets	287.7	316.4	306.6	329.8	372.6	DuPont Analysis					
Payables	68.6	71.0	48.7	46.0	50.0	Net margin (%)	9.4	10.4	6.1	6.5	6.9
Other LT liability	9.9	11.4	12.6	21.6	14.0	Assets Turnover (x)	1.1	1.4	1.6	1.5	1.5
Net Assets	205.8	231.6	245.3	262.3	299.0	Leverage Factor (x)	1.4	1.4	1.2	1.3	1.2
Share Capital	205.8	231.6	245.3	263.0	286.1	ROE (%)	14.3	20.1	12.6	12.7	12.9
S. Equity	205.8	231.6	245.3	262.3	299.0	Valuations					
Cashflow Statement						Core EPS (sen)	10.5	16.5	11.0	11.8	13.7
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	NDPS (sen)	4.0	4.0	8.0	5.5	5.5
Operating CF	58.8	23.8	59.9	36.4	35.7	BV/share (RM)	0.7	0.8	0.9	0.9	1.0
Investing CF	-4.7	-8.6	-39.8	-31.8	-30.0	Core PER (x)	12.0	7.6	11.4	10.7	9.2
Financing CF	-15.0	-15.0	-14.1	-15.5	-15.5	Net Div. Yield	3.2	6.3	4.4	4.4	4.4
						PBV (x)	1.7	1.5	1.4	1.3	1.2

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	1.07	1.80	68.2%	1,018.2	Y	05/2024	11.8	13.9	47.1%	23.7%	9.0	7.7	1.6	19.8%	1.0	0.9%
BOILERMECH HOLDINGS BHD	MP	0.945	0.720	-23.8%	487.6	Y	03/2024	4.5	4.4	65.2%	-2.6%	20.9	21.5	1.8	9.0%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.28	1.23	-3.9%	360.3	Y	12/2023	11.8	13.7	7.1%	16.3%	10.9	9.3	1.4	13.6%	5.5	4.3%
HPP HOLDINGS BHD	OP	0.410	0.720	75.6%	159.3	Y	05/2024	4.4	5.5	81.7%	27.2%	9.4	7.4	1.1	12.9%	1.5	3.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.710	0.510	-28.2%	381.5	Y	12/2023	1.3	5.1	-73.6%	279.2%	53.0	14.0	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.65	2.99	-18.1%	5,661.4	Y	07/2023	30.6	35.5	15.0%	16.0%	11.9	10.3	1.8	15.5%	7.4	2.0%
SLP RESOURCES BHD	MP	0.820	0.900	9.8%	259.9	Y	12/2023	4.8	5.9	-6.8%	23.8%	17.2	13.9	1.4	7.9%	5.5	6.7%
TECHBOND GROUP BHD	OP	0.425	0.450	5.9%	225.0	Y	06/2024	3.8	4.1	112.8%	9.5%	11.2	10.3	1.3	11.5%	1.5	3.5%
THONG GUAN INDUSTRIES BHD	OP	2.00	3.05	52.5%	788.2	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.7	7.2	0.9	10.2%	4.8	2.4%
Sector Aggregate					9,341.4					25.5%	19.7%	11.8	9.9	1.4	11.6%		2.8%

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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