

22 April 2024

HPP Holdings

Slips into the Red in 3QFY23

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HPPHB's 9MFY24 results disappointed as it slipped into the red in 3QFY23 due to weak orders and higher input cost. While HPPHB is not short of earnings drivers, it needs to demonstrate more consistent profitability. We cut our FY24-25F net profit forecasts by 74% and 56%, respectively, and halve our TP to RM0.32 (from RM0.64). Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

Its 9MFY24 core net profit of RM1.7m disappointed, coming in at only 16% and 15% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from a loss in the 3Q due to weaker sales and margins.

YoY, HPPHB's 9MFY24 revenue fell 18% dragged down largely by weaker sales volumes and ASPs from the non-corrugated packaging (-29% YoY) and rigid box segments (-29% YoY) for its customers in the consumer electronics, sheath contraceptives and F&B segments, while we believe sales to customers in pharmaceutical space improved. Its 9MFY24 core net profit plunged by a steeper 72% on higher labour cost and, a sub-optimal utilisation rate resulting in loss of economies of scale.

QoQ, it dipped into the red in 3QFY24 on lower sales and higher input cost.

Outlook. HPPHB is not short of earnings drivers such as: (i) generally higher paper product prices globally of late that should lift its ASPs, (ii) the introduction of its new high-margin recyclable paper pulp moulded packaging products, and (iii) a pick-up in orders, particularly from clients in the E&E segment on restocking and new product launches. However, investors' sentiment on the stock will not improve unless it starts to show more consistent profitability.

Forecasts. We cut our FY24-25F earnings forecasts by 74% and 56%, respectively, to reflect lower demand for its non-corrugated packaging products and higher input cost.

Valuations. Consequently, we halve our TP to RM0.32 (from RM0.64) based on 13x CY25F PER, at a premium to the average historical forward PER of 10x for the manufacturing sector largely to reflect HPPHB's niche strength in high-quality box printing, and a strong client base comprising prestigious multi-nationals. 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 continue to like HPPHB for: (i) its globally recognised G7 Master Colourspace certification that enables it to establish a strong footing in the supply chain of MNCs, providing design, multi-colour and high-resolution offset or flexographic printing solutions, (ii) its strong customer base including Customer D, and (iii) its new recyclable paper pulp moulded packaging products, a substitute to Styrofoam packaging products, that comply with stringent EU environmental standards and are not subject to hefty environmental taxes imposed on Styrofoam packaging products in various countries. However, these could only become more meaningful if HPPHB could deliver more consistent profits. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

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

MARKET PERFORM ↓

Price:	RM0.33	
Target Price:	RM0.32	↓
Expected Capital Gain:	-RM0.01	-3.0%
Expected Divd. Yield:	+RM0.015	+4.5%
Expected Total Gain:	+RM0.005	+1.5%

KLCI Index 1,547.57

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)	128.2
Par value per share (RM)	N.A.
52-week range (H)	0.46
52-week range (L)	0.28
Free Float	23%
Beta	0.8
3-mth avg daily vol	115,977

Major Shareholders

Aurora Meadow Sdn Bhd	51.7%
Ang Poh Geok	6.8%
Kok Hon Seng	6.1%

Summary Earnings Table

FY May (RM m)	2023A	2024F	2025F
Turnover	80.8	68.7	86.3
EBIT	13.3	5.3	13.5
PBT	12.9	3.7	11.3
Net Profit	9.3	2.8	8.5
Core Net Profit	9.3	2.8	8.5
Consensus (NP)	-	11.0	15.6
Earnings Revision (%)	-	-73.9	-55.9
Core EPS (sen)	2.4	0.7	2.2
Core EPS Growth (%)	10	-70	205
NDPS (sen)	1.5	0.5	1.5
Core PER (x)	13.2	46.2	15.1
BVPS (RM)	0.3	0.3	0.3
PBV (x)	1.0	1.1	1.0
Net Div. Yield (%)	4.8	1.5	4.5

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.5%	-2.9%	10.0%
Relative (%)	-2.3%	-6.7%	1.4%

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Results Highlights

FYE May (RM m)	3QFY24	2QFY24	QoQ Chg	3QFY23	YoY Chg	9MFY24	9MFY23	YoY Chg
Revenue	14.4	17.6	-19%	16.7	-14%	51.0	62.0	-18%
EBIT	-0.4	0.7	-149%	2.2	-116%	3.7	9.5	-61%
PBT	-0.6	0.5	-203%	2.1	-127%	3.2	9.2	-65%
Taxation	-0.2	-0.5	-59%	-0.6	-64%	-1.7	-3.0	-44%
Net Profit	-0.8	0.0	-4950%	1.6	-150%	1.5	6.1	-75%
Core Net Profit	-0.6	0.1	-1120%	1.6	-138%	1.7	6.2	-72%
Effective Tax Rate (%)	-38.6	97.0		29.0		52.3	32.4	
Operating Margin (%)	-2.4	4.1		13.0		7.3	15.3	
PBT Margin (%)	-3.9	3.1		12.3		6.3	14.8	
Core Net Profit Margin (%)	-4.3	0.3		9.7		3.4	9.9	

Source: Bursa, Company, Kenanga Research

Segmental Breakdown

FYE May (RM m)	3QFY24	2QFY24	QoQ Chg	3QFY23	YoY Chg	9MFY24	9MFY23	YoY Chg
Revenue								
Corrugated Packaging	4.0	5.7	-30%	2.7	46%	14.2	13.0	10%
Non-corrugated Packaging	7.2	7.8	-7%	11.1	-35%	26.3	37.3	-29%
Rigid Box	1.8	2.4	-26%	1.9	-5%	6.0	8.4	-29%
Paper Pulp Moulded Packaging	0.3	0.1	199%	0.0	N.A.	0.4	0.0	N.A.
Others	1.1	1.6	-35%	1.0	6%	4.0	3.3	22%

Source: Bursa, 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.				
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.03	1.50	45.6%	989.7	Y	05/2024	8.5	11.2	20.5%	36.7%	12.1	9.2	1.7	14.9%	1.0	1.0%
BM GREENTECH BHD	UP	1.04	0.810	-22.1%	536.6	Y	03/2024	5.2	5.1	91.5%	-2.8%	19.9	20.5	2.0	10.4%	1.8	1.7%
BP PLASTICS HOLDINGS BHD	OP	1.26	1.42	12.7%	354.7	Y	12/2024	14.2	16.4	19.7%	15.5%	8.8	7.7	1.2	14.6%	6.5	5.2%
HPP HOLDINGS BHD	MP	0.330	0.320	-3.0%	128.2	Y	05/2024	0.7	2.2	-69.9%	203.6%	45.8	15.1	1.1	2.3%	0.5	1.5%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.720	0.450	-37.5%	386.9	Y	12/2024	4.0	4.7	422.0%	18.7%	18.1	15.2	0.4	2.0%	2.0	2.8%
SCIENTEX BHD	MP	3.97	3.68	-7.3%	6,158.5	Y	07/2024	35.3	36.5	32.1%	3.5%	11.2	10.9	1.6	14.5%	11.0	2.8%
SLP RESOURCES BHD	OP	0.950	1.06	11.6%	301.1	Y	12/2024	5.2	6.3	50.5%	21.3%	18.4	15.1	1.6	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.415	0.500	20.5%	222.3	Y	06/2024	3.7	4.3	112.8%	14.0%	11.1	9.7	1.1	10.9%	0.8	1.8%
THONG GUAN INDUSTRIES BHD	OP	1.91	2.86	49.7%	763.6	Y	12/2024	25.8	30.0	22.2%	16.6%	7.4	6.4	0.7	10.3%	5.5	2.9%
Sector Aggregate					9,841.7					48.7%	10.3%	11.4	10.4	1.3	11.1%		2.9%

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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