

22 July 2024

## HPP Holdings

### Order Recovery from E&E in Sight

By Nigel Ng / [nigel@kenanga.com.my](mailto:nigel@kenanga.com.my)

HPPHB's FY24 results beat expectations. Nonetheless, its FY24 core net profit fell 56% YoY on weak orders and higher operating costs. Its outlook should improve in FY25, judging from early signs of recovery in terms of orders from the electronic and electrical (E&E) segment. We maintain our forecasts but raise our TP by 22% to RM0.39 (from RM0.32). Maintain **MARKET PERFORM**.

**Above expectations.** Its FY24 core net profit of RM4.1m beat our forecast and consensus estimate by 32% and 25%, respectively. The variance against our forecast came largely from better-than-expected sales volume from the E&E segment in 4QFY24 and lower operating costs.

**YoY,** its FY24 revenue dropped 15%, weighed down by subdued performance from non-corrugated packaging (-30% YoY) and the rigid box (-16% YoY) segments, partially cushioned by corrugated packaging (+19% YoY). We believe its non-corrugated packaging, the largest revenue contributor, suffered from weak orders from the consumer E&E and F&B segments.

Its core net profit plunged by a steeper 56% on higher operating costs due to start-up costs at the new paper pulp moulded packaging business and generally sub-optimum utilisation resulting in loss of economies of scale.

**QoQ,** it returned to the black in 4QFY24 driven by a higher sales volume to the consumer E&E and sheath contraceptive sectors, coupled with an improved product margin mix.

**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. We believe the consumer E&E segment has bottomed out and is showing early signs of recovery.

**Forecasts.** We maintain our FY25F forecasts while introducing FY26F number.

**Valuations.** However, we raise our TP by 22% to RM0.39 (from RM0.32) as we roll forward our valuation base year to FY26F from CY25F, based on an unchanged 13x 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. Maintain **MARKET PERFORM**.

## MARKET PERFORM ↔

<b>Price:</b>	<b>RM0.41</b>	
<b>Target Price:</b>	<b>RM0.39</b>	↑
<b>Expected Capital Gain:</b>	<b>-RM0.02</b>	<b>-4.9%</b>
<b>Expected Divd. Yield:</b>	<b>+RM0.015</b>	<b>+3.7%</b>
<b>Expected Total Gain:</b>	<b>-RM0.005</b>	<b>-1.2%</b>

KLCI Index 1,636.55

### 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)	159.3
Par value per share (RM)	N.A.
52-week range (H)	0.46
52-week range (L)	0.30
Free Float	23%
Beta	0.8
3-mth avg daily vol	309,385

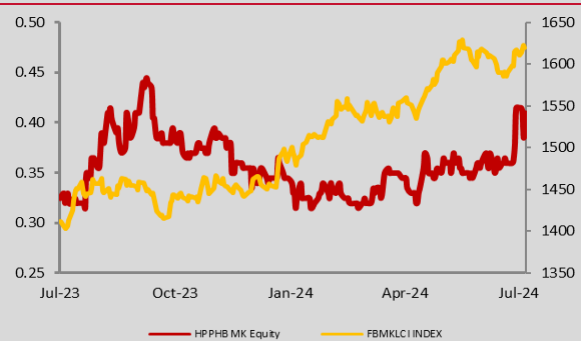
### Major Shareholders

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

### Summary Earnings Table

FY May (RM m)	2024A	2025F	2026F
Turnover	68.9	86.3	100.9
EBIT	5.8	13.5	17.9
PBT	5.1	11.3	15.7
<b>Net Profit</b>	<b>3.8</b>	<b>8.5</b>	<b>11.8</b>
<b>Core Net Profit</b>	<b>4.1</b>	<b>8.5</b>	<b>11.8</b>
Consensus (NP)	-	7.0	7.4
Earnings Revision (%)	-	-	NEW
Core EPS (sen)	1.0	2.2	3.0
Core EPS Growth (%)	-56	108	39
NDPS (sen)	0.5	1.5	1.5
Core PER (x)	38.2	18.4	13.2
BVPS (RM)	0.3	0.3	0.4
PBV (x)	1.3	1.2	1.1
Net Div. Yield (%)	1.3	3.8	3.8

### Share Price Performance



	1 mth	3 mths	12 mths
<b>Absolute (%)</b>	<b>13.9%</b>	<b>24.2%</b>	<b>28.1%</b>
<b>Relative (%)</b>	<b>11.6%</b>	<b>18.5%</b>	<b>11.5%</b>

22 July 2024

**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.

### Results Highlights

FYE May (RM m)	4QFY24	3QFY24	QoQ Chg	4QFY23	YoY Chg	FY24	FY23	YoY Chg
Revenue	18.0	14.4	25%	18.8	-4%	68.9	80.8	-15%
EBIT	2.1	-0.4	702%	3.8	-45%	5.8	13.3	-56%
PBT	1.9	-0.6	440%	3.7	-48%	5.1	12.9	-60%
Taxation	0.4	-0.2	277%	-0.6	163%	-1.3	-3.6	-64%
<b>Net Profit</b>	<b>2.3</b>	<b>-0.8</b>	<b>395%</b>	<b>3.1</b>	<b>-26%</b>	<b>3.8</b>	<b>9.2</b>	<b>-59%</b>
<b>Core Net Profit</b>	<b>2.3</b>	<b>-0.6</b>	<b>476%</b>	<b>3.1</b>	<b>-24%</b>	<b>4.1</b>	<b>9.2</b>	<b>-56%</b>
Effective Tax Rate (%)	-20.0	-38.6		16.4		25.2	27.8	
Operating Margin (%)	11.8	-2.4		20.3		8.4	16.5	
PBT Margin (%)	10.6	-3.9		19.7		7.4	15.9	
Core Net Profit Margin (%)	13.0	-4.3		16.5		5.9	11.4	

Source: Bursa, Company, Kenanga Research

### Segmental Breakdown

FYE May (RM m)	4QFY24	3QFY24	QoQ Chg	4QFY23	YoY Chg	FY24	FY23	YoY Chg
<b>Revenue</b>								
Corrugated Packaging	4.7	4.0	18%	3.0	58%	18.9	15.9	19%
Non-corrugated Packaging	8.5	7.2	17%	12.2	-31%	34.8	49.5	-30%
Rigid Box	2.9	1.8	66%	2.2	33%	8.9	10.6	-16%
Paper Pulp Moulded Packaging	0.5	0.3	58%	0.0	N.A.	0.9	0.0	N.A.
Others	1.4	1.1	28%	1.4	-1%	5.4	4.7	15%

Source: Bursa, Company, Kenanga Research

22 July 2024

### 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.				
<b>Stocks Under Coverage</b>																	
ANCOM NYLEX BHD	OP	1.07	1.50	40.2%	1,011.1	Y	05/2025	11.0	12.5	41.9%	13.5%	9.7	8.6	1.5	16.9%	2.0	1.9%
BM GREENTECH BHD	UP	2.11	1.30	-38.4%	1,088.8	Y	03/2025	8.6	9.0	32.1%	4.7%	24.5	23.4	4.0	17.1%	1.8	0.9%
BP PLASTICS HOLDINGS BHD	MP	1.38	1.42	2.9%	388.4	Y	12/2024	12.1	14.1	1.5%	16.8%	11.4	9.8	1.4	12.5%	6.5	4.7%
HPP HOLDINGS BHD	MP	0.410	0.390	-4.9%	159.3	Y	05/2025	2.2	3.0	107.3%	38.8%	18.7	13.5	1.2	6.8%	1.5	3.7%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.775	0.450	-41.9%	416.5	Y	12/2024	2.0	4.4	158.5%	125.5%	39.3	17.4	0.4	1.0%	2.0	2.6%
SCIENTEX BHD	UP	4.27	4.00	-6.3%	6,623.9	Y	07/2024	35.3	36.6	32.2%	3.6%	12.1	11.7	1.7	14.5%	12.0	2.8%
SLP RESOURCES BHD	OP	0.950	1.16	22.1%	301.1	Y	12/2024	5.8	7.0	68.8%	20.7%	16.4	13.6	1.6	9.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.520	0.500	-3.8%	303.2	Y	06/2024	3.7	4.3	112.8%	14.0%	13.9	12.2	1.4	10.9%	1.3	2.4%
THONG GUAN INDUSTRIES BHD	OP	1.93	2.86	48.2%	775.2	Y	12/2024	25.5	29.8	22.1%	16.6%	7.6	6.5	0.7	10.3%	5.5	2.8%
<b>Sector Aggregate</b>					<b>11,067.4</b>					<b>51.2%</b>	<b>9.3%</b>	<b>12.3</b>	<b>11.3</b>	<b>1.4</b>	<b>11.5%</b>		<b>3.1%</b>

Source: Kenanga Research

22 July 2024

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★			
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★	★	
	Effluent/Waste Management	★	★			
	Digitalisation & Innovation	★	★			
	Material/Resource Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ 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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Published by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

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