

12 March 2024

BP Plastics Holding

Looking Up

By Teh Kian Yeong | tehy@kenanga.com.my

BPPLAS guided for a sustained recovery underpinned by, among others, a robust air travel market which translates to higher demand for plastic packaging used for transportation and storage purposes. It also expects higher sales for its high-margin thinner gauge stretch film and technical customised blown film. We raise our FY24F and FY25F earnings forecasts by 4% and 3%, respectively, lift our TP by 16% to RM1.42 (from RM1.23) and upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

We came away from a post-results engagement with BPPLAS feeling upbeat on its outlook. The key takeaways are as follows:

- Resilient demand amidst challenges.** BPPLAS guided for the pick-up in demand for plastic package since 2HCY23 to sustain for the rest of FY24 and into FY25, underpinned by, among others, a strong revival in both business and leisure travelling, which translates to higher demand for plastic packaging used for transportation and storage purposes. For FY24, BPPLAS is targeting sales volumes to grow 8%-10% YoY to both domestic and overseas buyers.
- Driven by innovative premium products.** Its topline growth will also be driven by higher sales of premium products including: (i) thinner gauge stretch film (with thicknesses as low as 10 microns for machine rolls and 6 microns for hand rolls) for more sustainable packaging market, and (ii) technical customised blown film, especially from its two co-extrusion blown film machines which were commissioned at the end of FY23.

We believe BPPLAS's nano stretch film has a strong competitive edge in the US and European US markets given the high cost structure, particularly, energy cost of the local producers there.

- Strategic investments for efficiency.** We understand that BPPLAS is planning for c.RM35m capex in FY24, which will go to: (i) new printing and cutting machines (to be commissioned in 2HCY24 to boost margins), (ii) additional solar panels to reduce electricity cost, and (iii) upgrading of the power supply system in the plant.

Forecasts. We raise our FY24 and FY25F earnings forecasts by 4% and 3%, respectively, on the back of better selling product mix and improving margins.

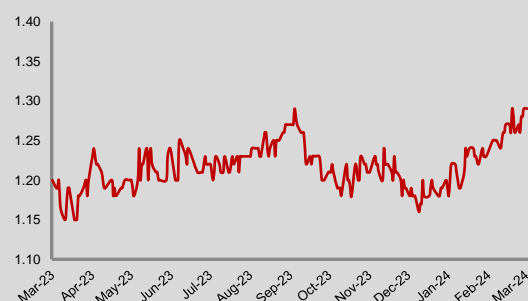
Valuations. Consequently, we lift our TP by 16% to RM1.42 (from RM1.23) and this adjustment is attributed to: (i) increased PE multiple of 10x (from 9x), considering the higher growth potential associated with its high-margin premium stretch film and blown film products, and (ii) updated earnings forecasts for FY24. Our 10x valuation remains at a discount to the sector's average historical forward PER of 13x, largely to reflect BPPLAS's 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).

Investment case. 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. Upgrade to **OUTPERFORM** from **MARKET PERFORM**.

OUTPERFORM ↑

Price: **RM1.29**
Target Price: **RM1.42** ↑

Share Price Performance



KLCI	1,544.71
YTD KLCI chg	6.2%
YTD stock price chg	8.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK EQUITY
Market Cap (RM m)	363.1
Shares Outstanding	281.5
52-week range (H)	1.30
52-week range (L)	1.15
3-mth avg. daily vol.	96,539
Free Float	23%
Beta	0.7

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)	2023A	2024F	2025F
Turnover	469.6	520.5	570.1
EBITDA	51.8	61.4	70.4
PBT	42.6	48.9	56.4
Net Profit (NP)	35.2	40.1	46.3
Core NP	33.5	40.1	46.3
Consensus	-	38.4	44.6
Earnings Revision	-	+4%	+3%
Core EPS (sen)	11.9	14.2	16.4
Core EPS Growth (%)	6.6	19.6	15.5
NDPS (sen)	6.0	6.5	7.0
Core PER (x)	10.6	8.9	7.7
BVPS (RM)	0.9	1.0	1.1
PBV (x)	1.3	1.2	1.1
Net Div Yield (%)	4.8	5.2	5.6

12 March 2024

Risks to our call include: (i) volatility in resin prices, (ii) reduced demand for packaging materials due to an extended global economic slowdown, and (iii) rise in freight costs.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	447.1	502.6	469.6	520.5	570.1	Growth (%)					
EBITDA	64.9	45.4	51.8	61.4	70.4	Revenue	41.2	12.4	-6.6	10.8	9.5
Depreciation	-10.4	-11.6	-13.7	-12.6	-14.0	EBITDA	28.9	-30.0	14.1	18.5	14.6
PBT	56.8	36.0	42.6	48.9	56.4	Pre-tax Income	45.9	-36.6	18.4	14.6	15.5
Taxation	-10.3	-5.5	-7.4	-8.8	-10.2	Core Net Profit	57.5	-32.3	6.6	19.6	15.5
Core Net Profit	46.4	31.4	33.5	40.1	46.3						
						Profitability (%)					
Balance Sheet						EBITDA Margin	14.5	9.0	11.0	11.8	12.4
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	PBT Margin	12.7	7.2	9.1	9.4	9.9
Fixed Assets	89.2	120.1	125.6	143.4	159.8	Net Margin	10.4	6.1	7.5	7.7	8.1
Other FA	6.1	6.0	12.5	12.2	11.8	Effective Tax Rate	18.2	15.2	17.3	18.0	18.0
Inventories	89.2	69.3	88.5	66.8	73.1	ROE	20.1	12.8	12.7	14.1	15.0
Receivables	70.9	47.6	48.4	49.2	53.9	ROA	14.7	10.3	9.8	11.4	12.3
Other CA	51.5	30.2	51.5	33.3	33.3						
Cash	9.5	33.4	16.8	46.5	44.6	DuPont Analysis					
Total Assets	316.4	306.6	343.4	351.4	376.6	Net margin (%)	10.4	6.1	7.5	7.7	8.1
						Assets Turnover (x)	1.4	1.6	1.4	1.5	1.5
Payables	71.0	48.7	65.1	46.9	51.4	Leverage Factor (x)	1.4	1.2	1.3	1.2	1.2
Other LT liability	11.4	12.6	14.0	19.2	15.6	ROE (%)	20.1	12.8	12.7	14.1	15.0
Net Assets	231.6	245.3	263.6	284.6	308.9						
						Valuations					
Share Capital	231.6	245.3	263.6	285.4	311.9	Core EPS (sen)	16.5	11.2	11.9	14.2	16.4
S. Equity	231.6	245.3	263.6	284.6	308.9	DPS (sen)	8.0	5.5	6.0	6.5	7.0
						BVPS (RM)	0.8	0.9	0.9	1.0	1.1
Cashflow Statement						Core PER (x)	7.8	11.6	10.8	9.1	7.8
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	N. Div. Yield (%)	6.2	4.3	4.7	5.0	5.4
Operating CF	23.8	59.9	45.7	46.5	44.6	PBV (x)	1.6	1.5	1.4	1.3	1.2
Investing CF	-8.6	-39.8	-46.7	-30.0	-30.0						
Financing CF	-15.0	-14.1	-15.5	-18.3	-19.7						

Source: Kenanga Research

12 March 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.03	1.50	45.6%	994.1	Y	05/2024	9.4	11.2	35.7%	21.3%	10.9	9.2	1.7	16.6%	1.0	1.0%
BM GREENTECH BHD	UP	0.945	0.810	-14.3%	487.6	Y	03/2024	5.2	5.1	91.5%	-2.8%	18.1	18.6	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	OP	1.29	1.42	10.1%	363.1	Y	12/2024	14.2	16.4	19.7%	15.5%	9.1	7.8	1.3	14.6%	6.5	5.0%
HPP HOLDINGS BHD	OP	0.320	0.640	100.0%	124.3	Y	05/2024	2.7	4.9	14.0%	81.1%	11.7	6.5	1.0	8.4%	1.5	4.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.750	0.450	-40.0%	403.0	Y	12/2024	4.0	4.7	422.0%	18.7%	18.8	15.9	0.4	2.0%	2.0	2.7%
SCIENTEX BHD	MP	3.86	3.75	-2.8%	5,987.9	Y	07/2024	35.2	36.5	31.7%	3.6%	11.0	10.6	1.5	14.4%	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	0.400	0.450	12.5%	214.2	Y	06/2024	3.8	4.1	112.8%	9.5%	10.6	9.7	1.2	11.5%	1.5	3.8%
THONG GUAN INDUSTRIES BHD	OP	1.83	2.86	56.3%	727.1	Y	12/2024	25.8	30.0	22.2%	16.6%	7.1	6.1	0.7	10.3%	5.5	3.0%
Sector Aggregate					9,602.4					51.6%	9.1%	10.9	10.0	1.2	11.4%		3.5%

Source: Kenanga Research

This section is intentionally left blank

12 March 2024

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	★	★	★		
	Digitalisation & Innovation	★	★	★	☆	
	Effluent & Waste Management	★	★	★		
	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%

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

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

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 E-mail: research@kenanga.com.my