

27 May 2024

BP Plastics Holding

Cost Pressures Weigh

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BPPLAS's 1QFY24 results disappointed. Its 1QFY24 core net profit was flattish YoY as a 6% top-line growth was negated by higher cost. It is focusing on high-margin products and broadening its products range to counter the rising cost pressure. We cut our FY24-25F earnings forecasts by 15% and 14%, respectively, but maintain our TP of RM1.42. Downgrade to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

BPPLAS's 1QFY24 core net profit of RM7.4m missed expectations, coming in at only 18% and 19% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from higher-than-expected cost pressures and tax rate. It declared DPS of 1.5 sen in 1QFY24 (consistent with 1QFY23), on track to meet our full-year forecast of 6.5 sen.

YoY, its 1QFY24 revenue grew by 6% due to: (i) increased demand from both local and export markets, and (ii) improved orders for its nano stretch film (known for its thinner yet stronger properties). However, its core net profit was flattish due to higher cost.

QoQ, its 1QFY24 top line eased 1% but core net profit fell by 24% due to: (i) increased production costs (e.g. labour and utility), and (ii) nearly doubling of its effective tax rate on lower reinvestment allowance being claimed.

Outlook. Over the immediate term, the demand for plastic packaging will be buoyed by restocking. Beyond this, a more sustained recovery will still depend on the global economic outlook. Malaysia players including BPPLAS, backed by their low cost structure, are also well positioned to gain market shares from their overseas peers.

BPPLAS commissioned two new co-extrusion blown film machines in end-FY23, expanding its total nameplate capacity by 9,600 MT/year or 7% to 147,600 MT/year. These machines could produce multiple plastic products, including sugar bags, flour bags, oil bags, lamination film, shrink film and stretch hood. BPPLAS is focusing on high-margin products (like premium-grade stretch film and value-added blown film) and broadening product offerings to counter the rising labour and electricity costs.

Forecasts. We cut our FY24-25F earnings forecasts by 15% and 14%, respectively, to account for a softer top line but higher cost and effective tax rate.

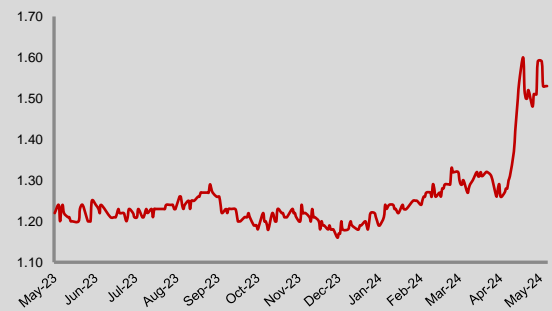
Valuations. However, we maintain our TP of RM1.42 as we roll forward our valuation base year to FY25F (from FY24F) while keeping the ascribed PER unchanged at 10x. Our ascribed PER reflects a discount to the sector's average historical forward PER of 13x, largely to reflect BPPLAS' relatively smaller 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).

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, and (ii) its expansion plans especially production capacity for sustainable packaging products such as nano stretch film, backed by a strong balance sheet that is in a net cash position. However, its valuations are fair after the recent run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

MARKET PERFORM ↓

Price: RM1.53
Target Price: RM1.42 ↔

Share Price Performance



KLCI	1,619.40
YTD KLCI chg	11.3%
YTD stock price chg	28.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK EQUITY
Market Cap (RM m)	430.7
Shares Outstanding	281.5
52-week range (H)	1.63
52-week range (L)	1.16
3-mthavg. daily vol.	191,638
Free Float	23%
Beta	0.8

Major Shareholders

Lg Capital SdnBhd	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	502.4	545.1
EBITDA	51.8	55.0	63.8
PBT	42.6	42.5	49.6
Net Profit (NP)	35.2	34.0	39.7
Core NP	33.5	34.0	39.7
Consensus	-	39.3	45.6
Earnings Revision	-	-15%	-14%
Core EPS (sen)	11.9	12.1	14.1
Core EPS Growth (%)	6.6	1.4	16.9
NDPS (sen)	6.0	6.5	7.0
Core PER (x)	12.9	12.7	10.8
BVPS (RM)	0.9	1.0	1.1
PBV (x)	1.6	1.5	1.4
Net Div. Yield (%)	3.9	4.2	4.6

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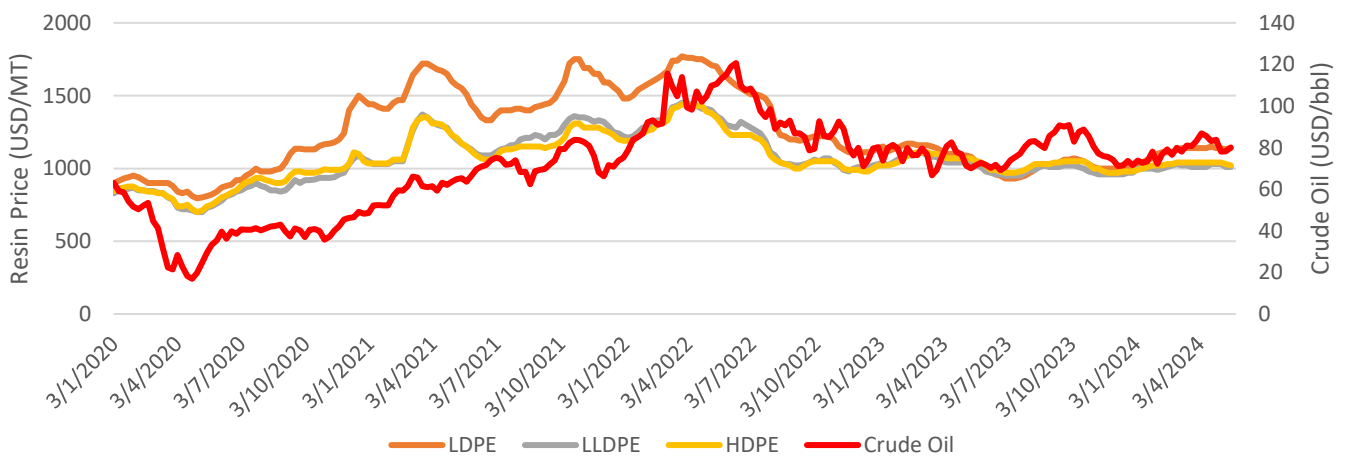
Risks to our call include: (i) volatility in resin prices, (ii) reduced demand for packaging materials due to an extended global economic downturn, and (iii) rise in freight costs.

Results Highlights

FYE Dec (RM m)	1QFY24	4QFY23	QoQ Chg	1QFY23	YoY Chg
Revenue	124.2	124.9	-1%	117.3	6%
Operating Profit	8.8	10.1	-14%	8.6	2%
Exceptional Items	0.2	0.0	989%	0.8	-77%
PBT	10.0	11.2	-11%	10.6	-6%
Taxation	-2.3	-1.4	69%	-2.3	0%
Net Profit	7.6	9.8	-22%	8.3	-8%
Core Net Profit	7.4	9.8	-24%	7.5	0%
Core EPS (sen)	2.6	3.5	-24%	2.7	0%
DPS (sen)	1.5	1.5	0%	1.5	0%
Effective Tax Rate (%)	23.4	12.3		22.0	
PBT Margin (%)	8.0	9.0		9.1	
CNP Margin (%)	6.0	7.9		6.4	

Source: Company, Kenanga Research

Resin and Crude Oil Prices



Source: Bloomberg, 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%	986.1	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	1.28	0.810	-36.7%	660.5	Y	03/2024	5.2	5.1	91.5%	-2.8%	24.5	25.2	2.5	10.4%	1.8	1.4%
BP PLASTICS HOLDINGS BHD	MP	1.53	1.42	-7.2%	430.7	Y	12/2024	12.1	14.1	1.5%	16.8%	12.7	10.8	1.5	12.5%	6.5	4.2%
HPP HOLDINGS BHD	MP	0.360	0.320	-11.1%	139.8	Y	05/2024	0.7	2.2	-69.9%	203.6%	49.9	16.4	1.2	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.780	0.450	-42.3%	419.2	Y	12/2024	4.0	4.7	422.0%	18.7%	19.6	16.5	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	UP	4.44	3.85	-13.3%	6,887.6	Y	07/2024	35.3	36.5	32.1%	3.5%	12.6	12.2	1.7	14.5%	11.0	2.5%
SLP RESOURCES BHD	OP	1.04	1.16	11.5%	329.6	Y	12/2024	5.8	7.0	68.8%	20.7%	17.9	14.9	1.7	9.6%	6.0	5.8%
TECHBOND GROUP BHD	OP	0.450	0.500	11.1%	243.8	Y	06/2024	3.7	4.3	112.8%	14.0%	12.0	10.5	1.2	10.9%	0.8	1.7%
THONG GUAN INDUSTRIES BHD	OP	2.17	2.86	31.8%	869.4	Y	12/2024	25.8	30.0	22.2%	16.6%	8.4	7.2	0.8	10.3%	5.5	2.5%
Sector Aggregate					10,966.7						48.0%	10.3%	12.8	11.6	1.4	11.1%	2.6%

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	★	★	★		
	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.

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