

28 August 2024

BP Plastics Holding

Cost Concerns Priced In

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BPPLAS's 1HFY24 results met our expectations. Despite an 8% revenue growth, its 1HFY24 core net profit eased 1% YoY as rising operating costs more than offset the increase in sales volume for plastic packaging. While market demand remains sluggish, the company is focusing on expanding its product range with an emphasis on higher-margin products to mitigate cost pressures which should flow into 2025 earnings. While maintaining our forecast and TP of RM1.42, our call is upgraded to **OUTPERFORM** (from **MARKET PERFORM**) following recent price weakness.

BPPLAS's 1HFY24 core net profit of RM15.9m met expectations at 47% of our full-year forecast but a miss at 44% on full-year consensus estimate. It also declared DPS of 1.5 sen in 2QFY24 (consistent with 2QFY23), on track to meet our full-year forecast of 6.5 sen.

YoY, its 1HFY24 top line rose by 8% fueled primarily by stronger exports, especially to Asian countries (+11%). However, its core net profit dipped marginally by 1% due to higher production costs, such as utilities and depreciation, but also the absence of exchange gain in 1HFY23. To recap, BPPLAS terminated its subscription to the Green Electricity Tariff (GET) program in Aug 2023. The decision was prompted by higher GET rate of 21.8 sen/kWh (from 3.7 sen/kWh), compared to conventional ICPT surcharge of 17.0 sen/kWh in 2HCY23. At present, the GET rate stands at 20 sen/kWh, which remains above the current ICPT surcharge of 16 sen/kWh.

QoQ, its 2QFY24 turnover declined 3% due to reduced local demand and fewer orders from outside Asia. Demand within Asian countries remained resilient (+4% QoQ). Nevertheless, its core net profit improved 14%, thanks to lower effective tax rate from reinvestment allowance claimed.

Outlook. The demand for plastic packaging is expected to remain flat in the near term, due to slow global economic recovery and relatively low resin prices, leading to a lack of urgency to stock up among buyers. However, we believe BPPLAS could grow its sales with the launch of: (i) new stretch hood product (successfully tested in 1HCY24), and (ii) new blown film packaging film product for the F&B sector, which is on track to come online in 4QCY24. These higher-margin products, along with premium-grade stretch film, should help cushion the impact of rising costs and would likely form >30% of sales mix over the next few years. In addition, Malaysian players including BPPLAS, backed by lower cost structure, are also well positioned to gain market shares in the global market from their overseas peers.

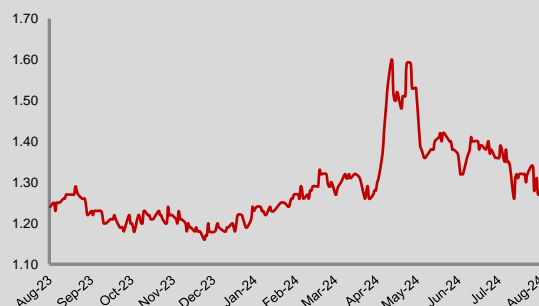
Forecasts. Maintained.

Valuations. We also keep our TP of RM1.42 based on 10x FY25F 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).

OUTPERFORM ↑

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

Share Price Performance



KLCI	1,652.29
YTD KLCI chg	13.6%
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)	1.63
52-week range (L)	1.16
3-mth avg. daily vol.	85,145
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

FYE 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	-	35.9	39.9
Earnings Revision	-	-	-
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)	10.8	10.7	9.1
BVPS (RM)	0.9	1.0	1.1
PBV (x)	1.4	1.3	1.2
Net Div. Yield (%)	4.7	5.0	5.4

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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. A potential re-rating catalyst could be the favourable market reception of its new high-margin products such as stretch hood and new blown film packaging film product, both coming in from 2HFY24. We see potential value emerging given the recent price weakness. Hence, we upgrade the stock to **OUTPERFORM** from **MARKET PERFORM**.

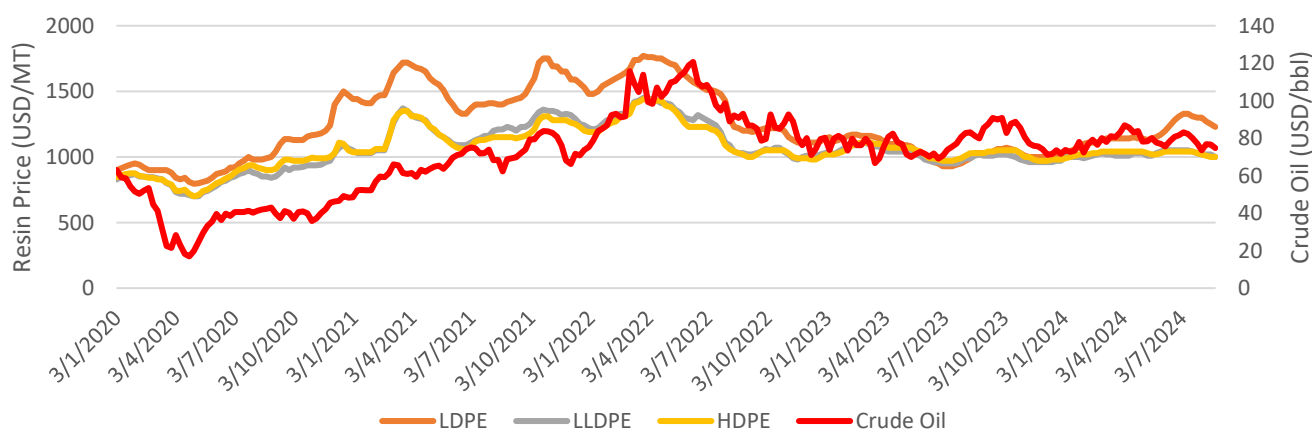
Risks to our call include: (i) reduced demand for packaging materials due to an extended global economic downturn, (ii) rise in freight costs, and (iii) adverse fluctuations in the foreign exchange market.

Results Highlights

FYE Dec (RM m)	2QFY24	1QFY24	QoQ Chg	2QFY23	YoY Chg	1HFY24	1HFY23	YoY Chg
Revenue	120.9	124.2	-3%	110.2	10%	245.1	227.5	8%
Operating Profit	8.7	8.8	-1%	9.2	-5%	17.4	17.8	-2%
Exceptional Items	0.1	0.2	-43%	1.2	-91%	0.3	2.0	-85%
PBT	9.8	10.0	-1%	12.3	-20%	19.8	22.9	-14%
Taxation	-1.2	-2.3	-47%	-2.4	-48%	-3.6	-4.7	-25%
Net Profit	8.6	7.6	13%	9.9	-13%	16.2	18.2	-11%
Core Net Profit	8.5	7.4	14%	8.7	-2%	15.9	16.1	-1%
Core EPS (sen)	3.0	2.6	14%	3.1	-2%	5.7	5.7	-1%
DPS (sen)	1.5	1.5	0%	1.5	0%	3.0	3.0	0%
Effective Tax Rate (%)	12.6	23.4		19.5		18.0	20.7	
PBT Margin (%)	8.1	8.0		11.1		8.1	10.1	
CNP Margin (%)	7.0	6.0		7.9		6.5	7.1	

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.00	1.50	50.0%	933.9	Y	05/2025	11.0	12.5	41.9%	13.5%	9.1	8.0	1.4	16.9%	2.0	2.0%
BM GREENTECH BHD	UP	1.76	1.30	-26.1%	908.2	Y	03/2025	8.0	9.0	22.3%	13.1%	22.1	19.5	3.4	15.8%	1.8	1.0%
BP PLASTICS HOLDINGS BHD	OP	1.29	1.42	10.1%	363.1	Y	12/2024	12.1	14.1	1.5%	16.8%	10.7	9.1	1.3	12.5%	6.5	5.0%
HPP HOLDINGS BHD	MP	0.385	0.290	-24.7%	149.5	Y	05/2025	2.2	3.0	107.3%	38.8%	17.6	12.7	1.2	6.8%	1.5	3.9%
KUMPULAN PERANGSANG SELANGOR	UP	0.705	0.450	-36.2%	378.9	Y	12/2024	2.0	4.4	158.5%	125.5%	35.7	15.9	0.4	1.0%	2.0	2.8%
SCIENTEX BHD	UP	4.20	4.00	-4.8%	6,515.3	Y	07/2024	35.3	36.6	32.2%	3.6%	11.9	11.5	1.7	14.5%	12.0	2.9%
SLP RESOURCES BHD	OP	0.895	1.05	17.3%	283.7	Y	12/2024	5.2	5.9	50.5%	13.4%	17.3	15.3	1.5	8.6%	5.0	5.6%
TECHBOND GROUP BHD	OP	0.440	0.540	22.7%	271.3	Y	06/2025	4.3	5.3	34.9%	23.2%	10.3	8.4	1.2	12.4%	1.3	2.8%
THONG GUAN INDUSTRIES BHD	OP	1.71	2.80	63.7%	686.8	Y	12/2024	21.9	25.4	8.1%	15.8%	7.8	6.7	0.7	9.1%	5.5	3.2%
Sector aggregate					10,490.6					47.0%	9.6%	11.9	10.8	1.3	11.3%		3.3%

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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