

## BP Plastics Holding Berhad

### Signs of margin recovery

#### Summary

- BP Plastics Holding Bhd's (BPPLAS) 2Q22 net profit declined 17.4% YoY to RM12.2m, leading to a 19.3% YoY decrease in 6M22 net profit. Nevertheless, the results came in above expectations, amounting to 66.3% of our full year forecast at RM29.7m and 56.9% of consensus forecast at RM34.6m. Key deviations were mainly due to the higher-than-expected margins in current quarter. Meanwhile, a second interim dividend of 1.5 sen per share, payable on 7<sup>th</sup> October 2022 was declared.
- QoQ, however, core net profit jumped 61.7%, largely arising from a higher revenue backed by a better product mix, as well as better margin driven by a timely pass-through of resin price and freight rates via higher selling price.
- Resin market has been facing downward pressure since late-April, largely due to (i) growing upstream stockpile, (ii) lower monomer cost, and (iii) demand concerns stemming from the continued Covid-19 shutdowns in China. As resin continued to see price erosion in July 2022, we expect the downward trajectory in resin prices to persist, barring any major unforeseen disruption on the supply.
- Production wise, capacity remained strong at 10kMT per month or 120kMT p.a. with 9 Cast Stretch Film machines running at around 60.0% utilisation rate. BPPLAS remained committed to the commissioning of the 10<sup>th</sup> Cast Stretch Film machine by end of FY22 to boost the production capacity to 11kMT per month of 132kMT p.a. In addition, the group intended to acquire two Blown PE films machine by end-FY23 to add 700MT/month to its nameplate capacity.
- The intended investment will be supported by BPPLAS's net cash position stood at RM39.6 as at 2Q22, while net cash per share recorded at 14.1sen.
- Moving forward, we expect demand for plastic packaging to remain robust amid reopening of global economies. Nevertheless, the industry may still face the challenges arising from global economic uncertainties, ongoing conflict between Russia and Ukraine that strains the supply chain, as well as the fluctuating commodities prices. Uncertainties remain with hurricane season right around the corner.

Results Note – 2QFY22

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#### BUY (from HOLD)

Share price	RM1.28
Target price	RM1.93
Previous TP	RM1.47
Capital upside	50.8%
Dividend return	4.3%
Total return	55.1%

#### Company profile

Principally involved in producing primary, secondary and tertiary packaging solutions for various market segment.

#### Stock information

Bursa Code	5100
Bloomberg ticker	BPP MK
Listing market	MAIN
Share issued (m)	281.5
Market Cap (m)	360.3
52W High/Low	2.039/1.16
Est. Free float	23.4
Beta	1.0
3-mth avg vol ('000)	123.2
Shariah compliant	Yes

#### Major shareholders

LG Capital Sdn Bhd	43.2
Tan See Khim	9.5
Lim Chun Yow	9.3

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	8.5	-14.7	4.1
Relative	2.3	-12.4	4.0

#### Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	46.4	36.2	38.8
EPS (sen)	16.5	12.9	13.8
P/E (x)	7.8	10.0	9.3

#### Relative performance chart



#### Quarterly performance

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	108.9	131.9	139.5	5.8	28.1	209.0	271.4	29.9
EBITDA	21.0	11.7	17.9	52.5	(14.6)	35.2	29.7	(15.7)
PBT	18.7	9.2	15.3	66.4	(18.4)	30.6	24.4	(20.2)
PAT	14.8	7.5	12.2	61.7	(17.4)	24.4	19.7	(19.3)
Core PATMI	14.8	7.5	12.2	61.7	(17.4)	24.4	19.7	(19.3)
Reported PATMI	14.8	7.5	12.2	61.7	(17.4)	24.4	19.7	(19.3)
Core EPS (sen)	5.2	2.7	4.3	61.7	(17.4)	8.7	7.0	(19.3)
EBITDA margin (%)	19.3	8.9	12.8			16.8	10.9	
PBT margin (%)	17.2	7.0	10.9			14.7	9.0	
Core PATMI margin (%)	13.6	5.7	8.7			11.7	7.3	

## Valuation & Recommendation

- As the core net profit came in above our expectations, we upgraded our FY22f and FY23f earnings forecast by 21.9% to RM36.2m and 17.9% to RM38.8m respectively. The earnings forecasts will take into account the upcoming 10<sup>th</sup> Cast Stretch Film machine, two Blown PE films machine commissioning in FY23, solid demand amid global economic reopening, as well as the improving margin resulted from a better product mix coupled with a lower production cost.
- Subsequently, we upgrade BPPLAS to **BUY** (from **HOLD**), with a revised target price of RM1.93 as we rolled over to FY23f. The target price is derived by ascribing a target PER of 14.0x to its FY23f EPS of 13.8 sen.
- Risks to our recommendation include the potential adverse impact during the Hurricane season. Any disruption on PE supplies may cause upward price pressure in resin market and eventually lower the group's margin. Besides, the group is exposed to foreign currency risk on transactions denominated in currencies such as USD, SGD, and EUR.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	331.2	316.6	447.1	476.3	479.9	Cash	45.0	78.0	42.9	54.0	66.5
EBITDA	35.5	48.9	66.0	56.1	59.8	Receivables	38.8	40.8	70.9	59.7	60.2
EBIT	24.7	37.5	55.5	44.0	46.5	Inventories	63.8	84.1	89.2	103.3	103.1
Net finance income/ (cost)	1.6	1.4	1.2	1.3	2.0	PPE	80.4	72.4	89.2	100.9	111.4
Associates & JV	-	-	-	-	-	Others	7.7	12.4	24.1	24.0	23.8
<b>Profit before tax</b>	<b>26.3</b>	<b>38.9</b>	<b>56.8</b>	<b>45.3</b>	<b>48.5</b>	<b>Assets</b>	<b>235.7</b>	<b>287.7</b>	<b>316.4</b>	<b>341.8</b>	<b>364.9</b>
Tax	(5.1)	(9.3)	(10.3)	(9.1)	(9.7)	Debits	-	-	-	-	-
<b>Net profit</b>	<b>21.2</b>	<b>29.6</b>	<b>46.4</b>	<b>36.2</b>	<b>38.8</b>	Payables	34.2	68.6	71.0	74.7	74.6
Minority interest	-	-	-	-	-	Others	10.4	13.3	13.7	13.7	13.7
<b>Core earnings</b>	<b>21.2</b>	<b>29.6</b>	<b>46.4</b>	<b>36.2</b>	<b>38.8</b>	<b>Liabilities</b>	<b>44.6</b>	<b>81.9</b>	<b>84.8</b>	<b>88.5</b>	<b>88.3</b>
Exceptional items	0.0	0.1	-	-	-	Shareholder's equity	98.8	98.8	98.8	98.8	98.8
Reported earnings	21.2	29.6	46.4	36.2	38.8	Minority interest	-	-	-	-	-
						<b>Equity</b>	<b>191.1</b>	<b>205.8</b>	<b>231.6</b>	<b>253.3</b>	<b>276.6</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	26.3	38.9	56.8	45.3	48.5	Core EPS (sen)	7.5	10.5	16.5	12.9	13.8
Depreciation & amortisation	10.7	11.4	10.4	12.1	13.3	P/E (x)	16.9	12.1	7.7	9.9	9.2
Changes in working capital	(15.3)	12.1	(32.8)	0.9	(0.4)	DPS (sen)	4.0	5.3	8.0	5.1	5.5
Share of JV profits	-	-	-	-	-	Dividend yield	3.1%	4.2%	6.3%	4.1%	4.3%
Taxation	(5.1)	(9.3)	(10.3)	(9.1)	(9.7)	BVPS (RM)	0.68	0.73	0.82	0.90	0.98
Others	0.2	5.6	(0.3)	0.0	(0.0)	P/B (x)	1.9	1.7	1.5	1.4	1.3
<b>Operating cash flow</b>	<b>16.8</b>	<b>58.8</b>	<b>23.8</b>	<b>49.2</b>	<b>51.7</b>	EBITDA margin	10.7%	15.4%	14.8%	11.8%	12.5%
Net capex	(12.2)	(2.5)	(26.6)	(23.6)	(23.6)	EBIT margin	7.5%	11.8%	12.4%	9.2%	9.7%
Others	1.4	(21.5)	18.0	-	-	PBT margin	7.9%	12.3%	12.7%	9.5%	10.1%
<b>Investing cash flow</b>	<b>(10.7)</b>	<b>(23.9)</b>	<b>(8.6)</b>	<b>(23.6)</b>	<b>(23.6)</b>	PAT margin	6.4%	9.3%	10.4%	7.6%	8.1%
Changes in borrowings	-	-	-	-	-	Core PAT margin	6.4%	9.4%	10.4%	7.6%	8.1%
Issuance of shares	-	-	-	-	-	ROE	21.5%	30.0%	47.0%	36.7%	39.3%
Dividends paid	(11.3)	(15.0)	(20.6)	(14.5)	(15.5)	ROA	9.1%	11.3%	15.4%	11.0%	11.0%
Others	-	-	5.6	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
<b>Financing cash flow</b>	<b>(11.3)</b>	<b>(15.0)</b>	<b>(15.0)</b>	<b>(14.5)</b>	<b>(15.5)</b>						
<b>Net cash flow</b>	<b>(5.2)</b>	<b>19.8</b>	<b>0.2</b>	<b>11.1</b>	<b>12.6</b>						
Forex	-	-	-	-	-						
Others	(0.0)	13.3	(35.3)	-	-						
Beginning cash	50.2	45.0	78.0	42.9	54.0						
Ending cash	45.0	78.0	42.9	54.0	66.5						

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