

27 November 2024

BP Plastics Holding

Forex impacting bottom line

By Khoo Teng Chuan | khootc@kenanga.com.my

BPPLAS's 9MFY24 profit missed our expectations. Margins were squeezed in 3QFY24 due to the running down of higher-cost resin inventory bought during less favourable MYR exchange rate. Despite 7% revenue growth, 9MFY24 core net profit decreased 7%YoY as rising operating costs offset the increase in export sales. Looking ahead the company is focusing on expanding its product range into higher-margin products to mitigate cost pressures which should flow more into FY25 earnings. Maintain our forecast and TP of RM1.42 and OUTPERFORM call.

Forex Impact. BPPLAS's 9MFY24 revenue of RM370m was in line with our expectations but reported net profit missed Kenanga and consensus estimate. However, after adjusting for unfavourable currency impact, 9MFY24 core net profit of RM22m was broadly within expectations at 65% of our full-year forecast and 59% on full-year consensus estimate. The key variance against our forecast came largely from higher-than-expected production cost pressure due to unfavourable forex impact but also higher utilities and depreciation charges from recent expansion. A DPS of 1.5 sen was declared in 3QFY24 (consistent with 3QFY23), on track to meet our full year forecast of 6.5 sen.

3QFY24 turnover rose by 3% QoQ and 6% YoY on better local demand (+2% QoQ) and exports beyond Asia (+33% QoQ) while Asian demand (excluding Malaysia) dipped 2% QoQ. However, due to the running down of older, more costly resin bought when the MYR was weaker, 3Q production cost was elevated while the firmer MYR was already reflected in exports prices. Accordingly, its core net profit decreased -28% QoQ and -20% YoY.

Outlook. The demand for plastic packaging is expected to grow slowly in the near term, due to modest global economic recovery. Relatively low resin prices, which translate to low plastic packaging ASP, also causes a lack of urgency for buyers to stock up. However, we believe BPPLAS could see better orders with the launch of: (i) a new stretch hood product after having successfully tested it in 1HCY24, and (ii) a 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 films, 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.

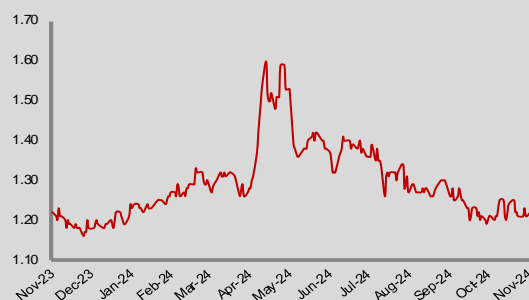
Forecasts. Maintained.

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: **RM1.21**
Target Price: **RM1.42** ↔

Share Price Performance



KLCI 1,603.15
YTD KLCI chg 10.2%
YTD stock price chg 1.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPP MK EQUITY
Market Cap (RM m)	340.6
Shares Outstanding	281.5
52-week range (H)	1.63
52-week range (L)	1.16
3-mth avg. daily vol.	34,467
Free Float	23%
Beta	0.9

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	-	37.2	43.4
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. Maintain **OUTPERFORM**.

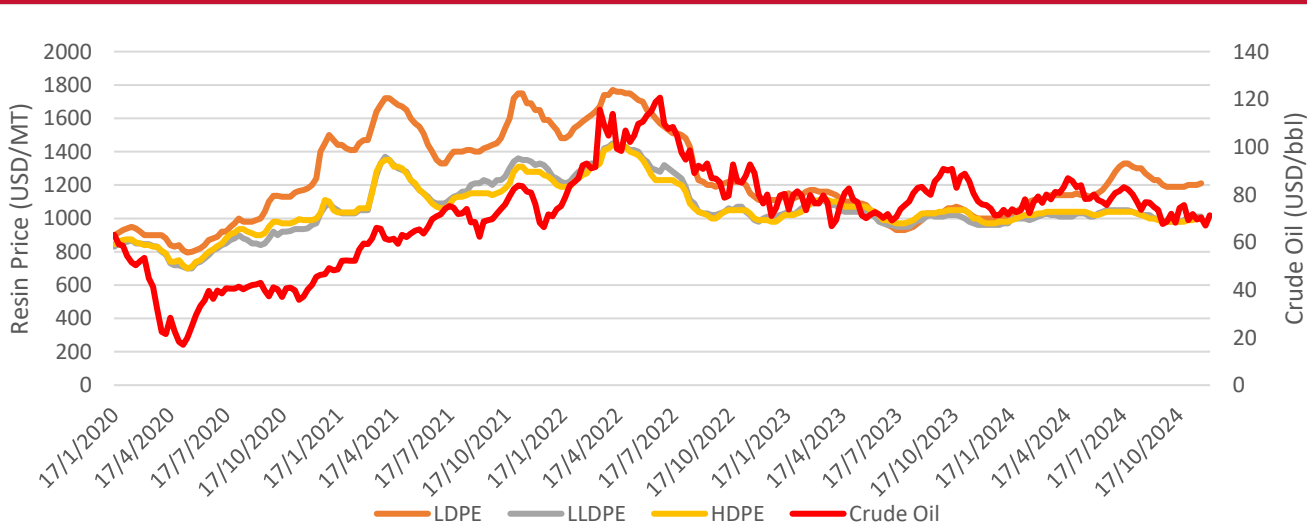
Risks to our call include: (i) reduced demand for packaging materials due to an extended global economic downturn, (ii) rise in freight costs, and (iii) adverse fluctuations in the foreign exchange market.

Results Highlights

FYE Dec (RM m)	3Q24	2Q24	QoQ Chg	3Q23	YoY Chg	9M24	9M23	YoY Chg
Revenue	125.0	120.9	3%	117.2	7%	370.1	344.7	7%
Operating Profit	4.9	8.7	-44%	8.1	-40%	22.3	25.9	-14%
Exceptional Items	-5.3	0.1	-4905%	-0.3	1604%	-5.0	1.7	-394%
PBT	0.5	9.8	-94%	8.5	-94%	20.3	31.4	-35%
Taxation	0.2	-1.2	-115%	-1.3	-114%	-3.4	-6.0	-44%
Net Profit	0.7	8.6	-92%	7.3	-90%	16.9	25.4	-33%
Core Net Profit	6.1	8.5	-28%	7.6	-20%	22.0	23.7	-7%
Core EPS (sen)	2.2	3.0	-28%	2.7	-20%	7.8	8.4	-7%
DPS (sen)	1.5	1.5	0%	1.5	0%	4.5	4.5	0%
Effective Tax Rate (%)	-32.8	12.6		15.0		16.7	19.1	
PBT Margin (%)	0.4	8.1		7.3		5.5	9.1	
CNP Margin (%)	4.9	7.0		6.5		5.9	6.9	

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.	2-Yr.	1-Yr.	2-Yr.	1-Yr.	2-Yr.					1-Yr.	2-Yr.
								Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.					Fwd.	Fwd.
Stocks Under Coverage																			
ANCOM NYLEX BHD	OP	1.02	1.50	47.1%	1,165.3	Y	05/2025	11.0	12.5	41.9%	13.5%	9.3	8.2	1.4	16.9%	2.0	2.0%		
BM GREENTECH BHD	UP	1.90	1.36	-28.4%	1,306.8	Y	03/2025	8.0	9.0	22.3%	13.1%	23.9	21.1	3.6	15.8%	1.8	0.9%		
BP PLASTICS HOLDINGS BHD	OP	1.21	1.42	17.4%	340.6	Y	12/2024	12.1	14.1	1.5%	16.8%	10.0	8.6	1.2	12.5%	6.5	5.4%		
HPP HOLDINGS BHD	UP	0.430	0.390	-9.3%	167.1	Y	05/2025	2.2	3.0	107.3%	38.8%	19.6	14.2	1.3	6.8%	1.5	3.5%		
KUMPULAN PERANGSANG SELANGOR	UP	0.665	0.450	-32.3%	357.4	Y	12/2024	2.0	4.4	158.5%	125.5%	33.7	15.0	0.3	1.0%	2.0	3.0%		
SCIENTEX BHD	MP	4.57	4.15	-9.2%	7,112.1	Y	07/2025	37.5	40.5	8.1%	7.9%	12.2	11.3	1.6	13.9%	13.0	2.8%		
SLP RESOURCES BHD	OP	0.870	1.00	14.9%	275.8	Y	12/2024	4.8	5.4	39.4%	12.5%	18.1	16.1	1.4	8.0%	4.8	5.5%		
TECHBOND GROUP BHD	OP	0.375	0.540	44.0%	256.5	Y	06/2025	4.3	5.3	34.9%	23.2%	8.8	7.1	1.0	12.4%	1.3	3.3%		
THONG GUAN INDUSTRIES BHD	OP	1.54	2.58	67.5%	618.5	Y	12/2024	20.8	23.4	2.5%	12.7%	7.4	6.6	0.6	8.6%	5.5	3.6%		
Sector aggregate					11,600.0					25.8%	11.7%	12.7	11.4	1.4	11.0%		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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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