

BP PLASTICS HOLDING

(BPP MK EQUITY, BPPL.KL)

11 Jan 2022

Net cash with good earnings and dividend prospects

UNRATED



AmInvestment Bank

Company report

Lee Ching Poh

ching-poh.lee@ambankgroup.com

03-20362300

Rationale for report: Company update

Price RM1.52
52-week High/Low RM2.04/RM0.89

Key Changes

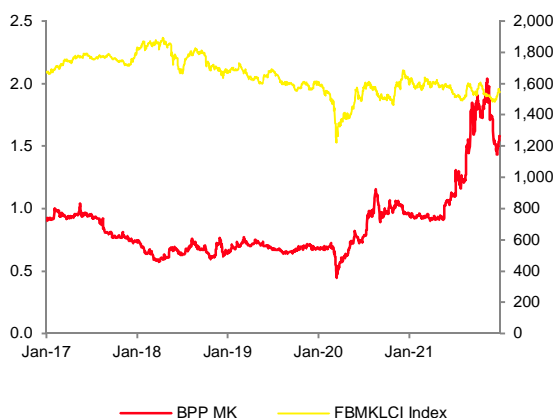
	na	na		
Fair value	na			
EPS	na			
YE to Dec (RM mil)	FY17	FY18	FY19	FY20
Revenue (RM mil)	328.6	333.8	331.2	316.6
Core net profit (RM mil)	12.8	21.4	21.2	29.7
FD Core EPS (sen)	6.8	11.4	11.3	15.8
FD Core EPS growth (%)	(28.2)	66.4	(0.7)	39.9
DPS (sen)	6.0	4.0	6.0	8.0
PE (x)	22.7	13.6	13.7	9.8
EV/EBITDA (x)	10.7	7.8	7.7	5.2
Div yield (%)	2.6	3.9	3.9	5.2
ROE (%)	13.3	15.3	11.4	14.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	187.7
Market Cap (RM mil)	296.5
Book Value (RM/share)	1.15
P/BV (x)	1.4
ROE (%)	14.9
Net Gearing (%)	-
Major Shareholders	LG Capital Sdn Bhd (43.2%) Tan See Khim (9.5%) Lim Chun Yow (9.3%)
Free Float	-
Avg Daily Value (RM mil)	2.2

Price performance

	3mth	6mth	12mth
Absolute (%)	(15.0)	44.8	68.1
Relative (%)	(16.0)	43.3	74.7



Investment Highlights

- **Stock idea.** BP Plastics Holding (BPPlas) is a Johor-based manufacturer that supplies specialty polyethylene (PE) film to diverse sectors such as logistics, warehousing, industrials, consumer and food & beverage (F&B).
- The company is one of the top 3 local producers of industrial stretch film based on production capacity and also a major stretch film exporter to the Asia Pacific region. Following the addition of a cast stretch film machine commissioned in December 2021, BPPlas' monthly installed capacity has increased by 18% to 10,000 metric tonnes currently.
- It registered a steady CAGR bottom-line growth of 14% (Exhibit 2) in FY16–FY20. It has a healthy balance sheet with net cash of RM26mil and zero borrowings as at 9MFY21.
- BPPlas' earnings growth is underpinned by its key products, cast stretch and blown PE films, which made up 75% and 25% of FY20 revenue respectively. Both products carry gross profit margins in the mid-to-high teens.
- Exports account for the majority of revenue in which Asian countries contribute 63% to the group's 9MFY21 total revenue, followed by Malaysia (25%) and other Middle Eastern countries (12%).
- The group has also invested in a 10th cast stretch film machine to raise its monthly capacity by 15% to 11,500 metric tonnes, which is scheduled for completion in 2H2022. Presently, the company has 9 cast stretch film and 21 blown PE film machines.
- BPPlas has consistently rewarded its shareholders with a dividend policy of 40%, which supported a substantive growth trajectory since FY18. In 3QFY21, the company declared a 3 sen dividend, raising 9MFY21 dividend to 9 sen, which already translates to a compelling 6% yield currently. For FY21F, this could be even higher if the group declares 4QFY21 dividends.
- Key risks to the group stem from supply disruptions of raw materials and the fluctuations of resin pricing, workforce restrictions due to Covid-19 and delays in expansion plan.
- Based on consensus earnings, the stock conservatively trades at FY22F PE of 8x, at an unjustified discount of 33% to local and regional stretch film makers' 12x. This is despite the company's higher FY21–23F CAGR sales growth rate of 10% vs. peers' average of 7% (Exhibit 6), better product mix that support higher average selling prices (ASP) and net cash position.

BACKGROUND

□ **Top 3 local industrial stretch film producers**










Established in Batu Pahat, Johor in 1990, BP Plastics Holding has emerged as one of the top 3 local producers of industrial stretch film based on production capacity. It is also known as a specialty polyethylene (PE) film and bag manufacturer in the Asia-Pacific region.

BPPlas has 2 production facilities, both located at Batu Pahat, Johor with a combined name plate production capacity of 10,000 metric tonnes per month. The company employs over 400 staff and operates more than 90 units of manufacturing equipment.

BPPlas has two main products division, namely cast stretch and blown PE film (Exhibit 1). The former is supplied to the logistics and warehousing sectors which require premium and high grade stretch film rolls that provide good puncture, superior holding force and load stability to keep palletised goods sturdy. Its stretch film brands include INFINITY®, R-Edge™ (for hand roll) and PRIORITY® (for machine roll).

Blown PE film is mainly catered for industrial and F&B packaging in which the products are customised for different applications.

EXHIBIT 1: BPPLAS PRODUCTS

<p>Cast Stretch Films</p>	 <p>Hand Roll</p>	 <p>Machine Roll</p>
<p>Blown PE Films</p>	 <p>Jumbo Roll</p>  <p>Bundle Wrap</p>	 <p>Coloured Stretch Film</p>
	 <p>Form-Fill Seal</p>	 <p>Printed Collation Shrink Film</p>
	 <p>Lamination Base Film</p>	 <p>Protective Base Film</p>

Source: Company

FINANCIAL HIGHLIGHTS

Resilient track record riding on tailwinds

BPPlas has been profitable since its listing on Bursa Malaysia's Main Market in 2005. The company registered a steady CAGR bottom-line growth of 14% in FY16–FY20.

Moving forward, we expect stronger sales growth underpinned by: (i) robust growth in the logistics and warehousing industry driven by rising e-commerce popularity (which leads to potentially higher demand for its key product cast stretch films); and (ii) growing demand for PE plastic film and bag packaging in food and essential products. Based on consensus, the company's FY21F earnings could improve by 55% YoY to RM46mil while FY22F earnings grow by 15% RM53mil (Exhibit 2).

To recap, the company recorded RM35mil in 9MFY21's net profit, already attaining 75% of consensus' FY21F forecast (vs. 69%–76% for the 9M over the past 2 years).

We understand that 3QFY21 earnings dropped 32% QoQ on higher raw material input costs amid global supply chain disruptions and stringent lockdown measures in Malaysia. However, we think the weaker quarter can be easily offset by a rebound in 4QFY21 sales as the year-end festive season usually underpins stronger consumer spending.

Broad clientele base and expansion plan

The company is an export-oriented and well-established packaging player in the industry with more than 15 years' experience. It has a broad clientele in various sectors in different countries, mainly the Asian markets (Exhibit 3). The key export markets are Japan, South Korea and Taiwan.

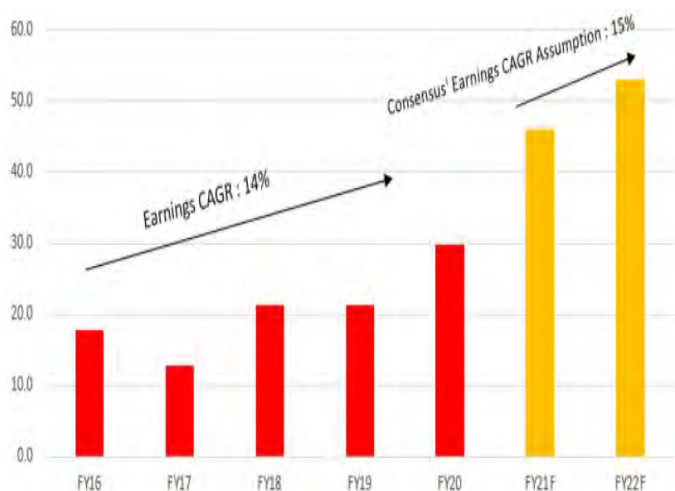
Post-expansion plan in 2H2022, we expect a 15% increase in monthly PE film production to 11,500 metric tonnes per month to fulfil a growing demand from its existing and new customers.

Completed 2-for-1 bonus issue and a 5-for-1 free warrants issue

Separately, BPPlas has completed a 2-for-1 bonus issue and a 5-for-1 free warrants issue with an exercise price of RM2.45.

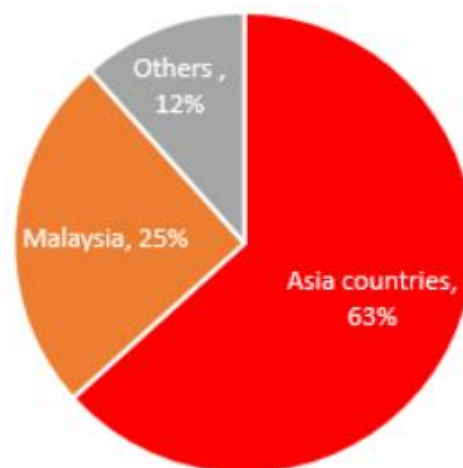
Besides rewarding existing shareholders, we believe the corporate exercise could enhance stock liquidity with wider equity participation. Upon the conversion of warrants to BPPlas shares, the company may be able to generate additional funds of up to RM92mil (41% of shareholders' funds) for business expansion, capital expenditure and working capital.

EXHIBIT 2: HISTORICAL EARNINGS GROWTH AND CONSENSUS' FORECAST



Source: Company, AmlInvestment Bank Bhd, Bloomberg

EXHIBIT 3: 9MFY21 REVENUE BREAKDOWN BY GEOGRAPHICAL AREA



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 4: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY20	2QFY21	3QFY21	QoQ %	YoY %	9MFY20	9MFY21	YTD %
Revenue	73.8	108.9	113.3	4.0	53.5	231.7	322.3	39.1
COGS	(58.2)	(83.7)	(94.3)	12.7	62.0	(187.1)	(258.5)	38.1
Operating Profit (EBIT)	10.2	17.8	10.9	(38.6)	7.3	27.5	40.0	45.4
Interest expense	0.0	0.0	0.0	nm.	nm.	0.0	0.0	nm.
Profit Before Tax	10.5	18.7	12.1	(35.3)	15.7	30.1	42.7	42.0
Tax ation	(2.7)	(3.9)	(2.0)	(49.6)	(26.5)	(7.6)	(8.2)	6.9
Profit After Tax	7.8	14.8	10.1	(31.5)	30.5	22.4	34.6	54.0
Core EPS - sen	4.1	7.9	5.4	(31.5)	30.5	12.0	18.4	54.0
EBIT margin	13.8%	16.4%	9.7%			11.9%	12.4%	
Tax Rate	25.9%	21.1%	16.4%			25.4%	19.1%	
Core Net Profit margin	10.5%	13.6%	8.9%			9.7%	10.7%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 5: SWOT ANALYSIS

Strengths

Well-established packaging player in the industry with more than 15 years' experience

Strong earnings track record with continuous growth

Healthy balance sheet with zero borrowings

Consistently reward shareholders with excellent dividend payout

Broad clientele base in various sectors in different countries, mainly the Asian markets

Opportunities

PE Packaging is 100% recyclable – Continue on research and innovations to develop and supply sustainable packaging

Blown PE Films – Value-added products of special quality and customised films for F&B and various industrial sectors

Cast stretch films – Differentiate high quality and premium stretch films to ensure safety and secure palletising in warehousing and transportation

Weaknesses

Relatively small player compared to Scientex and Thong Guan Industries

Threats

Global container shortage, port congestion lead to high freight costs

Supply disruption and labour shortage

Forex volatility

Source: Company, AmInvestment Bank Bhd

EXHIBIT 6: PEER COMPARISON

Name	Country	Mkt Cap (RM'mil)	PE (x)			EV/EBITDA (x)			Revenue (RM'mil)		CAGR
			FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21/22F	FY23/24F	
Scientex	Malaysia	7,100	16.1	14.8	12.8	12.4	10.7	9.6	4.3B	4.9B	7%
Thong Guan	Malaysia	1,040	11.3	10.2	7.3	6.7	5.9	4.4	1.2B	1.7B	22%
BP Plastics	Malaysia	497	9.8	8.3	5.2	5.2	4.5	2.0	427.4M	516.1M	10%
Nan Ya Plastics Corp	Taiwan	105,000	8.5	10.5	12.4	7.6	10.1	10.7	60.8B	59.7B	-1%
Formosa Plastics Corp	Taiwan	102,000	9.5	10.9	11.7	8.9	11.5	13.4	41.8B	37.8B	-5%
		215,637	11.0	10.9	9.9	8.2	8.5	8.0			6.7

Source: Bloomberg, AmlInvestment Bank Bhd

EXHIBIT 7: ESG RATING

Overall	★	★	★		
Waste management	★	★	★	★	
Energy efficiency	★	★	★	★	
Employee health and safety	★	★			
Corporate social responsibility	★	★	★	★	
Strategic direction	★	★	★		
Gender diversity	★				
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 8: PB BAND CHART



EXHIBIT 9: PE BAND CHART

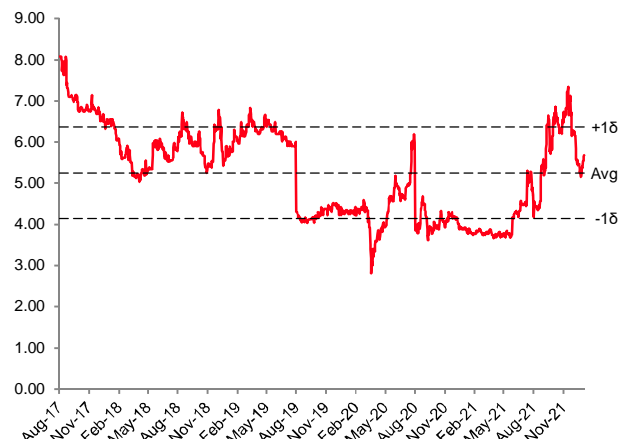


EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Revenue	324.4	328.6	333.8	331.2	316.6
EBITDA	31.5	25.2	34.2	37.0	50.3
Depreciation/Amortisation	8.6	9.6	9.2	10.7	11.4
Operating income (EBIT)	22.9	15.5	25.0	26.3	38.9
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	22.9	15.5	25.0	26.3	38.9
Taxation	(5.0)	(2.7)	(3.7)	(5.1)	(9.3)
Minority interests	0.0	0.0	0.0	0.0	0.0
Net profit	17.9	12.8	21.4	21.2	29.7
Core net profit	17.9	12.8	21.4	21.2	29.7
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
PPE	75.1	68.9	84.3	80.4	72.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	1.0	6.5	6.3
Total non-current assets	75.1	68.9	85.3	86.9	78.7
Cash & equivalent	26.0	22.0	22.6	7.4	27.2
Inventories	72.7	63.1	47.5	63.8	84.1
Trade receivables	48.0	43.8	42.3	38.8	40.8
Other current assets	19.8	25.0	30.0	38.7	56.8
Total current assets	166.5	153.8	142.5	148.8	209.0
Trade payables	0.0	0.0	0.0	0.0	0.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	66.2	46.4	36.6	34.2	72.0
Total current liabilities	66.2	46.4	36.6	34.2	72.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	9.6	9.0	10.0	10.4	9.9
Total long-term liabilities	9.6	9.0	10.0	10.4	9.9
Shareholders' funds	165.8	167.4	181.2	191.2	205.8
Minority interests & perpetual bond	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	0.93	0.94	1.02	1.07	1.15
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Pretax profit	22.9	15.5	25.0	26.3	38.9
Depreciation/Amortisation	(8.6)	(9.6)	(9.2)	(10.7)	(11.4)
Net change in working capital	0.0	0.0	3.1	(15.0)	10.2
Others	0.0	0.0	8.9	5.4	9.6
Cash flow from operations	14.2	0.0	36.9	16.8	58.8
Capital expenditure	0.0	0.0	(25.7)	(12.3)	(3.2)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	1.9	0.9	1.1	(18.6)	(102.6)
Cash flow from investing	1.9	0.9	(24.5)	(10.7)	(4.7)
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(16.9)	(11.3)	(7.5)	(11.3)	(15.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	(16.9)	(11.3)	(7.5)	(11.3)	(15.0)
Net cash flow	(0.8)	(10.4)	5.0	(5.2)	39.1
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	60.2	45.0	45.3	50.3	45.1
Net cash/(debt) c/f	59.5	34.7	50.3	45.1	84.2
Key Ratios (YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Revenue growth (%)	14.4	1.3	1.6	(0.8)	(4.4)
EBITDA growth (%)	(11.0)	(20.2)	36.0	8.2	35.8
Pretax margin (%)	7.1	4.7	7.5	8.0	12.3
Net profit margin (%)	5.5	3.9	6.4	6.4	9.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.9	17.3	14.7	19.5	23.8
Dividend pay out (%)	(94.5)	(87.7)	35.1	53.1	50.6
Receivable turnover (days)	50.6	51.0	47.1	44.7	45.9
Inventory turnover (days)	63.5	75.4	60.4	61.3	85.3
Payable turnover (days)	0.0	0.0	0.0	0.0	0.0

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.