

BP Plastics Holding Berhad

Weakened demand, higher production cost hamper margins

Summary

- BP Plastics Holding Bhd's (BPPLAS) 3Q22 core net profit tumbled 47.1% YoY to RM5.4m, leading to a 27.4% decline in 9M22 core net profit. The results came in below expectations, amounting to 69.3% of our previous full year forecast at RM36.2m and 70.7% of consensus forecast at RM35.5m. Key deviations were mainly due to the higher-than-expected production cost in current quarter. Meanwhile, a third interim dividend of 1.0 sen per share, payable on 12th January 2023 was declared.
- YoY, core net profit saw a significant drop as a surge in production cost outpaced the higher revenue arising from a higher ASP and an elevated resin price environment. This has led to a slump in the core net profit margin from 8.9% to 4.4%. Demand remained flattish YoY.
- QoQ, core net profit plummeted 56.1%, primarily due to lower revenue amid weakened demand arising from global economic uncertainties in the current quarter. Meanwhile, ASP decreased QoQ as negative effect from declining resin prices kicked in.
- Resin continued to see price erosion in 3Q22, largely due to the overhang resin supply in the market as well as the overall lackluster demand amid uncertain global economic condition. We expect price consolidation to continue in the resin market before producers clearing out inventory overhang to rebalance supply and demand.
- Production wise, capacity remained at 10kMT per month or 120kMT p.a. with 9 Cast Stretch Film machines running. Utilisation rate, however, witnessed a decline from around 60.0% to 50.0-55.0% due to softened demand. Nevertheless, BPPLAS remained committed to the commissioning of the 10th Cast Stretch Film machine by end-FY22 and two Blown PE films machine by end-FY23 to capture demand upon market recovery. The intended investment will be backed by BPPLAS's net cash position stood at RM55.3m as at 3Q22; net cash per share recorded at 19.7 sen.
- Moving forward, we expect operating environment to remain challenging for BPPLAS due to elevated global inflation, protracted military conflict in Ukraine that continue straining the supply chain, and economic slowdown in China amid stricter Covid-19 measures. Demand for plastic packaging is expected to remain weak.

Results Note – 3QFY22

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HOLD (from BUY)

Share price	RM1.38
Target price	RM1.32
Previous TP	RM1.93
Capital upside	-4.3%
Dividend return	2.8%
Total return	-1.6%

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)	388.4
52W High/Low	2.019/1.16
Est. Free float	23.4
Beta	0.9
3-mth avg vol ('000)	132.9
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	0.0	-2.1	-30.0
Relative	-0.1	0.5	-26.2

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	46.4	30.5	26.4
EPS (sen)	16.5	10.8	9.4
P/E (x)	8.4	12.7	14.7

Relative performance chart



Quarterly performance

FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	113.3	139.5	120.7	(13.5)	6.6	322.3	392.2	21.7
EBITDA	14.4	17.9	8.7	(51.5)	(39.4)	49.6	38.4	(22.6)
PBT	12.1	15.3	6.0	(60.5)	(50.2)	42.7	30.5	(28.7)
PAT	10.1	12.2	5.4	(56.1)	(47.1)	34.6	25.1	(27.4)
Core PATMI	10.1	12.2	5.4	(56.1)	(47.1)	34.6	25.1	(27.4)
Reported PATMI	10.1	12.2	5.4	(56.1)	(47.1)	34.6	25.1	(27.4)
Core EPS (sen)	3.6	4.3	1.9	(56.1)	(47.1)	12.3	8.9	(27.4)
EBITDA margin (%)	12.7	12.8	7.2			15.4	9.8	
PBT margin (%)	10.7	10.9	5.0			13.3	7.8	
Core PATMI margin (%)	8.9	8.7	4.4			10.7	6.4	

Valuation & Recommendation

- As the core net profit came in below our expectations, we downgraded our FY22f and FY23f earnings forecast by 15.7% to RM30.5m and 32.0% to RM26.4m respectively. The earnings forecasts will take into account the softer global demand for plastic packaging products, declined margin resulted from lower ASP and rising production cost, as well as the commissioning of the 10th Cast Stretch Film machine and two Blown PE films machine in FY22 and FY23 respectively.
- Subsequently, we downgrade BPPLAS to **HOLD** (from **BUY**), with a revised target price of RM1.32. The target price is derived by ascribing a target PER of 14.0x to its FY23f EPS of 9.4 sen.
- Risks to our recommendation include a potential time lag effect of the cost pass-through mechanism. Any delay in passing through the rising production cost in an inflationary environment may hamper 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	50.0	55.7
EBITDA	35.5	48.9	66.0	49.0	45.4	Receivables	38.8	40.8	70.9	59.7	60.2
EBIT	24.7	37.5	55.5	36.9	31.1	Inventories	63.8	84.1	89.2	105.1	106.8
Net finance income/ (cost)	1.6	1.4	1.2	1.3	2.0	PPE	80.4	72.4	89.2	100.9	110.3
Associates & JV	-	-	-	-	-	Others	7.7	12.4	24.1	24.0	23.8
Profit before tax	26.3	38.9	56.8	38.1	33.1	Assets	235.7	287.7	316.4	339.7	356.8
Tax	(5.1)	(9.3)	(10.3)	(7.6)	(6.6)	Debts	-	-	-	-	-
Net profit	21.2	29.6	46.4	30.5	26.4	Payables	34.2	68.6	71.0	76.1	77.3
Minority interest	-	-	-	-	-	Others	10.4	13.3	13.7	13.7	13.7
Core earnings	21.2	29.6	46.4	30.5	26.4	Liabilities	44.6	81.9	84.8	89.8	91.0
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	30.5	26.4	Minority interest	-	-	-	-	-
						Equity	191.1	205.8	231.6	249.9	265.8
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	38.1	33.1	Core EPS (sen)	7.5	10.5	16.5	10.8	9.4
Depreciation & amortisation	10.7	11.4	10.4	12.1	14.3	P/E (x)	18.3	13.1	8.4	12.7	14.7
Changes in working capital	(15.3)	12.1	(32.8)	0.3	(0.9)	DPS (sen)	4.0	5.3	8.0	4.3	3.8
Share of JV profits	-	-	-	-	-	Dividend yield	2.9%	3.9%	5.8%	3.1%	2.7%
Taxation	(5.1)	(9.3)	(10.3)	(7.6)	(6.6)	BVPS (RM)	0.68	0.73	0.82	0.89	0.94
Others	0.2	5.6	(0.3)	0.0	0.0	P/B (x)	2.0	1.9	1.7	1.6	1.5
Operating cash flow	16.8	58.8	23.8	42.9	39.8	EBITDA margin	10.7%	15.4%	14.8%	10.3%	9.5%
Net capex	(12.2)	(2.5)	(26.6)	(23.6)	(23.6)	EBIT margin	7.5%	11.8%	12.4%	7.7%	6.5%
Others	1.4	(21.5)	18.0	-	-	PBT margin	7.9%	12.3%	12.7%	8.0%	6.9%
Investing cash flow	(10.7)	(23.9)	(8.6)	(23.6)	(23.6)	PAT margin	6.4%	9.3%	10.4%	6.4%	5.5%
Changes in borrowings	-	-	-	-	-	Core PAT margin	6.4%	9.4%	10.4%	6.4%	5.5%
Issuance of shares	-	-	-	-	-	ROE	21.5%	30.0%	47.0%	30.9%	26.8%
Dividends paid	(11.3)	(15.0)	(20.6)	(12.2)	(10.6)	ROA	9.1%	11.3%	15.4%	9.3%	7.6%
Others	-	-	5.6	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(11.3)	(15.0)	(15.0)	(12.2)	(10.6)						
Net cash flow	(5.2)	19.8	0.2	7.1	5.7						
Forex	-	-	-	-	-						
Others	(0.0)	13.3	(35.3)	-	-						
Beginning cash	50.2	45.0	78.0	42.9	50.0						
Ending cash	45.0	78.0	42.9	50.0	55.7						