

16 January 2018

BP Plastics Holding Berhad

Unexciting Earnings Expectation

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INVESTMENT MERIT

We are bringing a closure to our previous 'Trading Buy' call on BPPLAS as there is no capacity growth in FY17-18, while capacity expansion plans in FY19 is still at its infancy. A weaker USD against the MYR is mildly negative to top-line, while EBIT margins might not fare well due to higher operational and resin costs. NOT RATED with Fair Value of RM1.00 based on FY18E PER of 14.0x.

Expecting additional capacity in FY19. BPPLAS has a total capacity of 68.4k MT p.a. in FY16 with an estimated average utilisation rate of 70%. We expect capacity to remain unchanged in FY17-18 as there is no plan for capacity expansion during this period. However, the Group may acquire new machinery by end of FY18 which would accrete only in FY19. Plans are still at its infancy, but we estimate that the acquisition may increase capacity between 600-700MT/month given that its current machines are capable running at this capacity range.

Weakening of USD does not bode well for top-line. Approximately 79% of sales in FY16 are derived from exports. Notably, 63% of sales are in USD, 11% in SGD, and the remaining 5% in other foreign currencies. We expect MYR to strengthen in FY18 to RM4.10 on average which is a 2% increase from our previous assumption of RM4.20 for FY17 (refer to our report dated 3 Feb 2016, 'Looking Ahead at FY17'). Given that a large portion of revenue (63%) comes from export sales denoted in USD, our sensitivity analysis suggests that a 1.0% decline in forex rates could cause top-line to decline by 0.6%.

Lower EBIT margins than peers. BPPLAS specialises in industrial packaging and manufactures polyethylene films. As such, its closest peers are SCIENTX and TGUAN. YTD, EBIT margin for BPPLAS is at 4%, which is lower compared to peers (TGUAN at 8% EBIT margin, and SCIENTX at 7% EBIT margin). We believe BPPLAS' lower EBIT margin is due to the higher operational and resin cost which could not be passed on completely to its customers to maintain competitive pricing.

Estimate FY17,18-19E CNP of RM13.7,13.5-14.7m. Our previous earnings assumption of RM28.9m for FY17 is lowered down to RM13.7m (-53%). Growth going forward is limited due to the lack of capacity expansion in the near term and unexciting macro fundamentals. However, we believe FY19 may see earnings improvements pending finalisation of the Group's expansion plans. The Group had spent RM5.0m in FY17 to build a new factory and warehouse (BP11), and is allocating capex of c.RM25.0m on new machinery in FY18-19 which can be fully funded by cash due to its strong net cash position. The Group has a dividend policy of at least 40% and had been paying out 6.0-8.0 sen dividend for the past three years. We expect FY18 dividend of 5.7 sen, implying a dividend payout ratio of 80%, which is slightly below its three-year average dividend payout ratio of 88% as we prefer to remain conservative.

NOT RATED with a fair value of RM1.00 (from RM2.15). Post accounting for weaker earnings in FY17-18 from lower forex and margin compressions, we believe BPPLAS is fairly valued. We maintain our Fwd. PER of 14.0x on FY18E EPS of 7.2 sen. We are comfortable with our applied PER which is lower than its industrial packaging peers, TGUAN (15.3x Fwd PER) and SCIENTX (17.4x Fwd PER) in view of their peers' better earnings prospects and stronger EBIT margins. Additionally, with valuation based on FY19E earnings on potential capacity expansion, BPPLAS is still fairly valued, warranting a TP of RM1.10. We may relook the stock if FY19E capacity expansion is greater than our expectations.

	Rating	Fair Value
Last Price	-	RM1.10
Kenanga	Not Rated	RM1.00
Consensus	-	-

Stock Information

Shariah Compliant	Yes
Stock Name	BP PLASTICS HOLDING BHD
CAT Code	5100
Industry	Chemicals
Industry Sub-sector	Chemicals-Plastics
YTD stock price chg	0.00%
Market Cap (RM'm)	206.42
Issued shares (m)	187.65
52-week range (Hi)	1.58
52-week range (Low)	1.08
3-mth avg daily vol:	30,048
Free Float	23.7%
Beta	0.52
Altman's Z-score	6.09

Major Shareholders

LG Capital Sdn Bhd	43.2%
Chun Yow Lim	8.9%
See Khim Tan	8.9%

Financials

FYE Dec (RM'm)	2017E	2018E	2019E
Revenue	342.7	338.4	354.3
EBITDA	24.8	25.3	27.3
PBT	17.6	17.2	18.6
Net Profit (NP)	13.7	13.5	14.9
EPS (sen)	7.3	7.2	7.9
BV/Share (RM)	0.9	0.9	0.9
PER	15.1	15.3	13.9
Price/BV (x)	1.2	1.2	1.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	5.8	5.7	6.3
Dividend Yield (%)	5.3	5.2	5.8

Quarterly Financial Data (RM'm)

	1Q17	2Q17	3Q17
Revenue	84.3	73.8	84.9
Revenue Growth	4.4%	-12.5%	15.0%
PBT	5.0	2.2	3.6
PBT Margin	6.0%	2.9%	4.2%
Net Profit	3.6	1.6	4.3
Net Margin	4.3%	2.2%	5.0%
EPS (sen)	1.93	0.87	2.27
EPS Growth	-5.9%	-54.9%	160.9%

Peers Comparisons

	PER (1 yr fwd)	Div. Yld (%)	Mkt Cap (RM'm)
SCIENTX	13.0	2.3%	4,256.6
TGUAN	12.6	3.4%	557.4
Average	12.8	2.9%	
BPPLAS	15.3	5.2%	206.4
FBMKLCI	16.4	3.3%	1.1t

Daily Charting – BP Plastics Holding Berhad



Comment:

Overall, BPPLAS's technical picture is bearish with major SMAs in a "Death Cross" and thinly traded volumes. Although the MACD is indicating that selling pressure has diminished, the share price has yet to signal a recovery. Look to sell into strength close to the RM1.20 (R1) or RM1.27 (R2) resistance levels. Support levels to be cognisant of are RM1.08 (S1) and RM1.00 (S2) below.

About the stock:

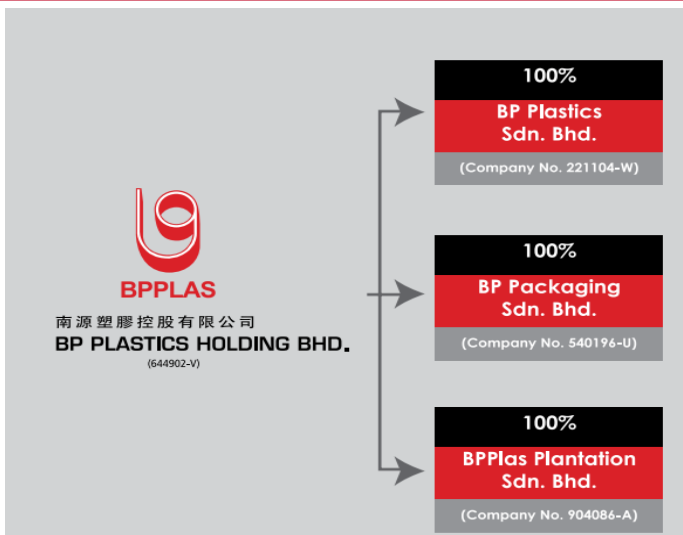
Name : BP Plastics Holding Berhad
 Bursa Code : BPPLAS
 CAT Code : 5100

Key Support & Resistance level

Resistance : RM1.20 (R1) RM1.27 (R2)
 Support : RM1.00 (S1) RM0.88 (S2)
 Outlook : Neutral

Source: Kenanga Research

CORPORATE STRUCTURE



Note: BP Packaging Sdn Bhd and BPPlas Plantation Sdn. Bhd are currently dormant.

Source: Company

BUSINESS OVERVIEW

BP Plastics (BPPLAS) was established 27 years ago and was listed on the Main Board of Bursa Malaysia on 23 February 2005. BPPLAS is a polyethylene film manufacturer, supplying Cast Stretch and Blown Film, as well as other polyethylene packaging films and bags. The cast stretch films are used as packaging material to secure and protect palletised goods during transportation while the blown films are customised and tailor-made technical packaging films to cater for fast production and efficient packaging line.

BUSINESS SEGMENTS

- BPPLAS focuses on plastic manufacturing and specialises in polyethylene films, which are used for industrial packaging.
- 79% of sales in FY16 came from exports while the remainder are sold in Malaysia.

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