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In the wake of a turbulent 4Q2008, which was marked by a sharp fall in demand for plastic products and volatile raw material prices, BP Plastics Holding Bhd (BPP) is now sensing a good opportunity to buy up equipment and machinery at a bargain.

Armed with cash reserves of about RM42 million as at March 31, attention has now shifted to adding value to the company through R&D and investment in equipment with the aim of increasing its margins.

“Destocking by industries was a major concern in 4Q2008 when we lost customers. In response, we scaled down inventory and continued to improve on cost efficiency and productivity to stay slimmer while waiting to seize the opportunity for the next turnaround. Being in a much better position now, we hope to take advantage of the current situation to be able to achieve a higher margin this year, closer to the 7% to 8% level, from around 5% last year,” BPP’s CEO Lim Chun Yaw tells *The Edge*.

BPP is one of Malaysia’s leading polyethylene (PE) films producers. Its expertise lies in producing multi-layer cast stretch films, which is widely used to protect palletised goods during warehousing and transport. It also manufactures blown PE and bags for industrial and commercial packaging.

The strain from the slowdown in demand is reflected in its 4Q2008 results,

which saw net profit dipping 52.5% to RM1.98 million from RM4.18 million in the same period last year. Revenue dipped 32.5% to RM38.3 million from RM56.7 million, mainly due to lower selling prices as resin cost eased.

In tandem with the lower cost of raw material, the selling price has softened to RM5 per kg from RM6 to RM7 previously. However, Lim says demand in general has improved, and he expects the pick-up in orders to continue for the next six months.

BPP operates more than 80 units of manufacturing machinery, backed by a workforce of around 350 staff. It has two production plants in Sri Gading Industrial Estate in Batu Pahat, Johor which has a combined annual capacity of 60,000 tonnes.

Capacity utilisation is about 60% to 75% currently, which is an improvement of around 20% from 4Q2008, but still off the normal rate of 70% to 85% at its peak last year.

‘The country’s industry-based economy, which accounts for almost a third of the economy, cannot be changed overnight. Opportunities for the plastic packaging industry is enormous, with the expansion of the Asean free trade area by 2010’ — Lim

Despite being the smallest in terms of sales, BPP managed to rake in a respectable margin of around 7%, with sales of RM233.49 million and pre-tax profit of RM16 million for FY2008 ended Dec 31.

In comparison, its peer, Thong Guan Industries Bhd, has a turnover of RM564.56 million and pre-tax profit of RM3.79 million, translating to a gross margin of less than 1%, while Scientex Packaging Film Sdn Bhd recorded RM334.56 million in revenue and RM57.61 million in pre-tax profit, giving it a gross margin of 17.2%. However, Scientex’s performance is the consolidated result at group level of its packaging and plastic divisions.

BPP forecasts its plastic film business to grow at 1.5 to 2 times the growth rate of the national GDP over the next few years. It currently has a customer base of around 600 to 700, with 60% of its products exported to over 25 countries.

Lim sees the impending free trade agreement among Asean members as a bright spot for industries in the region. He believes that Malaysia will remain a major manufacturing base in the foreseeable future, despite the stated intention of the government to turn the country into a leading services hub in the region.

“The country’s industry-based economy, which accounts for almost a third of the economy, cannot be changed overnight. Opportunities for the plastic packaging industry is enormous, with the expansion of the Asean free trade area by 2010,” says Lim.

“Recent signings of Asean multilateral agreements with Australia and New Zealand will create a market worth US\$2.3 trillion (RM8 trillion) from a population of 600 million. We foresee that this will translate into higher demand for our products,” he adds.

To benefit from the larger open market in Asia, BPP will continue to pursue strategies that have proven successful. Among others, it will conduct research on resin quality with its multilayer co-extrusion technology in order to produce innovative cost-effective, cheaper and thinner higher quality packaging film, says Lim.

The company has been consistent in rewarding its shareholders with 30% to 40% profit after tax since its listing on Bursa Malaysia in 2005. BPP’s shareholders have approved the first and final tax-exempt dividend of 4% or two sen per share during its AGM recently, which represents around 31% of the 2008 net profit.

“Depending on cash-flow requirement, financial results, capital expenditure and other investment plans, we try to maintain the policy of paying out 20% to 40% of profits after tax as dividends,” says Lim.

Going forward, he says the situation in the short to mid-term will likely remain volatile, as feedback from suppliers and business partners points to a prolonged recession in major consumer markets, such as the US, Europe and Japan. But the short term uncertainty doesn’t stop BPP from investing for the future. **E**