

BPPL HOLDINGS

1QFY21 EARNINGS UPDATE



WIN-WIN WINNING WITH GREEN GROWTH

Rating: BUY

Price: LKR 10.60

Target Price: LKR 14.20

Upside: 34%

Expected dividend: LKR 0.20

Dividend yield: 2%

| **BPPL.N0000** | **BPPL SL Equity** |

Share Price Performance

%	3m	6m	12m
BPPL	+50.0	-2.8	-0.9
ASI	+11.6	-6.9	-9.3

OVERVIEW: BPPL HOLDINGS



BPPL Holdings manufactures a range of brushware products and cleaning products for both professional and household applications. They are connected to major distributors and retailers of cleaning tools worldwide. Recently, group has diversified its business lines to include synthetic filament extrusion and polyester yarn production.



KEY SEGMENTS



Brushware



Filaments



Yarn

Brush market is mainly focused on **North American** markets

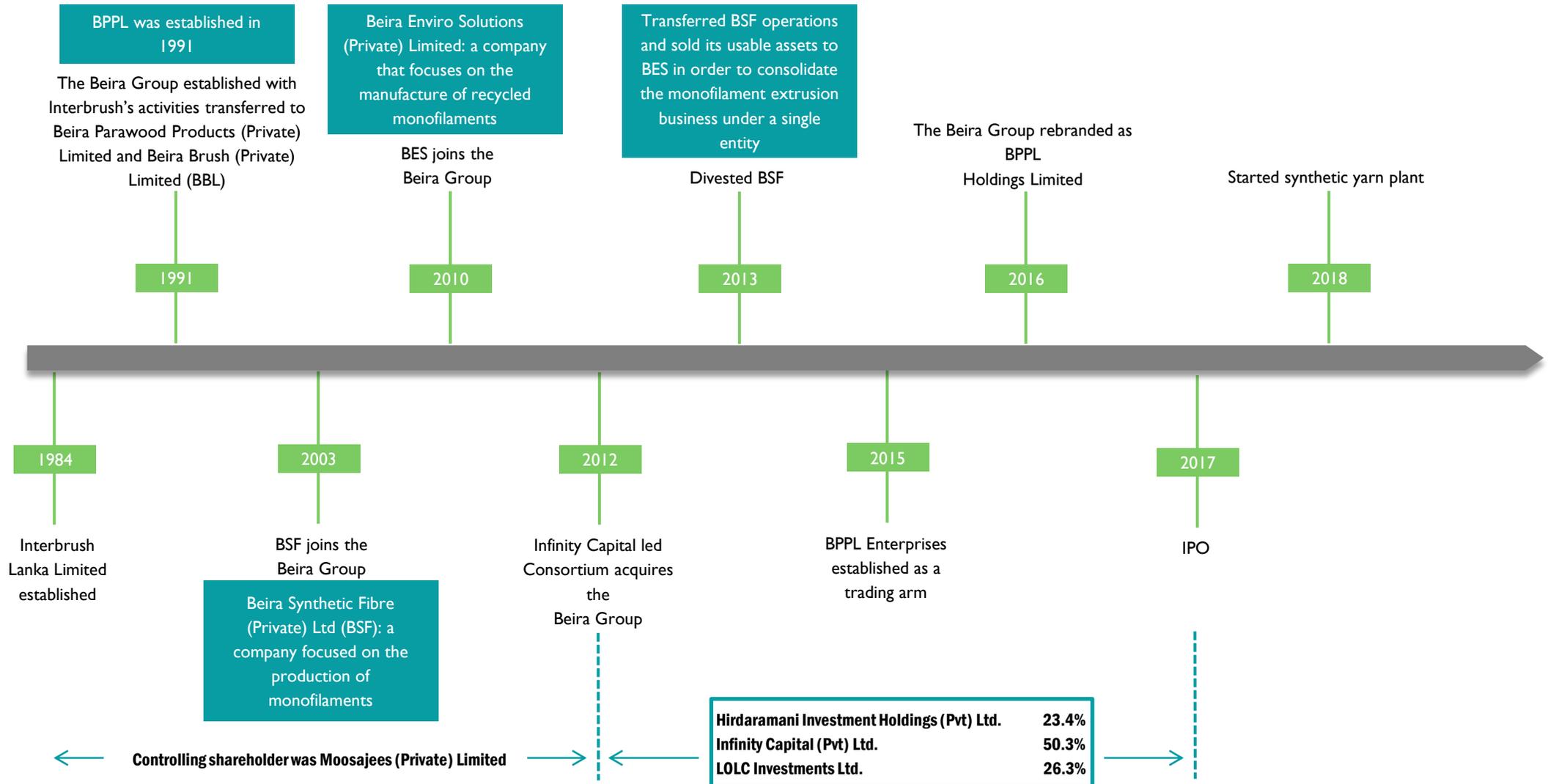
It is the **only** operation in Sri Lanka that recycles PET flakes

Company has started operations in **Synthetic yarn** manufacturing in which PET flakes are used as raw materials.

The climate change and pollution issue have raised the concern on recycling and usage of products made out of recycled materials



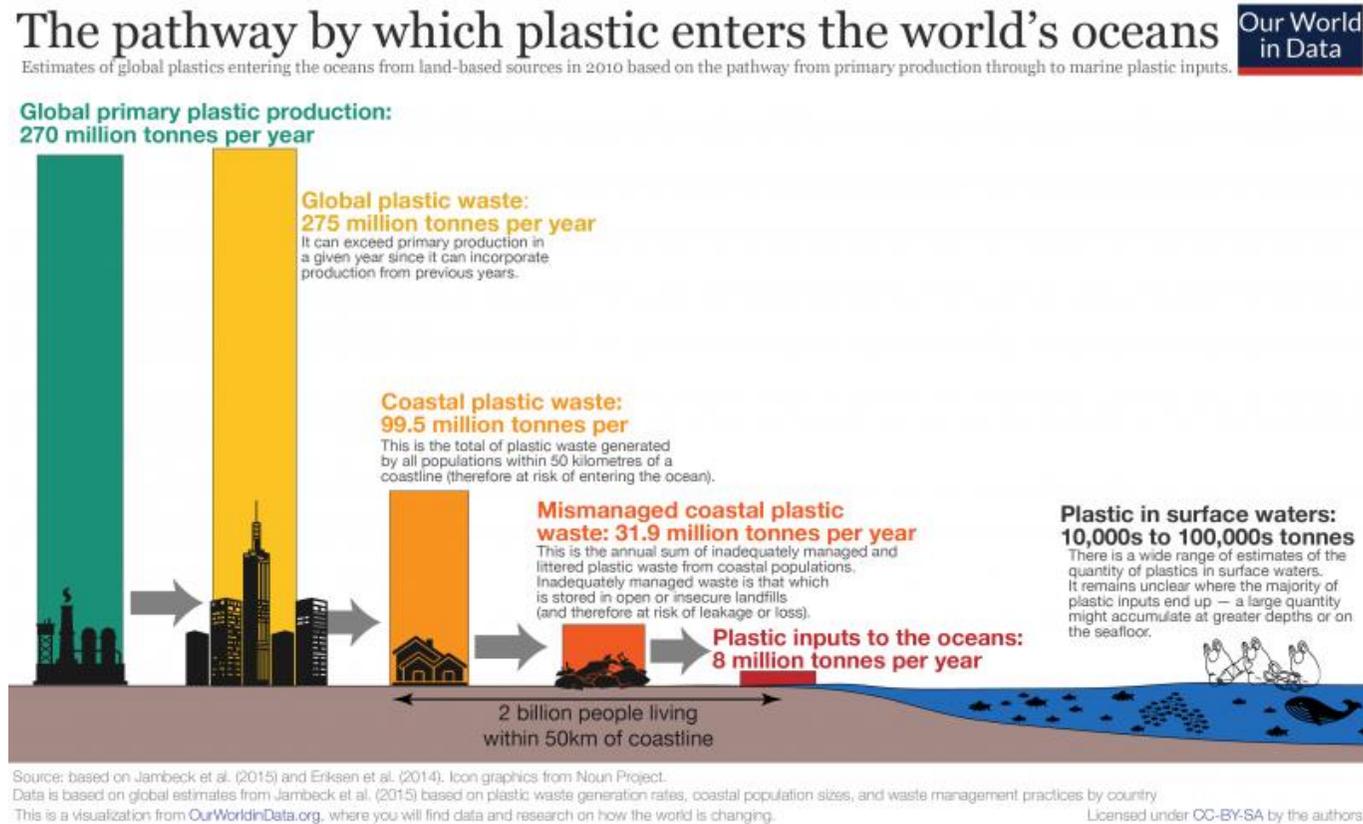
OVERVIEW: HISTORY



OVERVIEW: RAW MATERIAL

BPPL collects ~300tonnes of plastics for a month for their production and the required plastic bottles are collected solely from Sri Lanka.

According to Statista website ([Statista](https://www.statista.com)), Sri Lanka is among the top five sources of plastic bags, bottles and other rubbish clogging up global sea level.



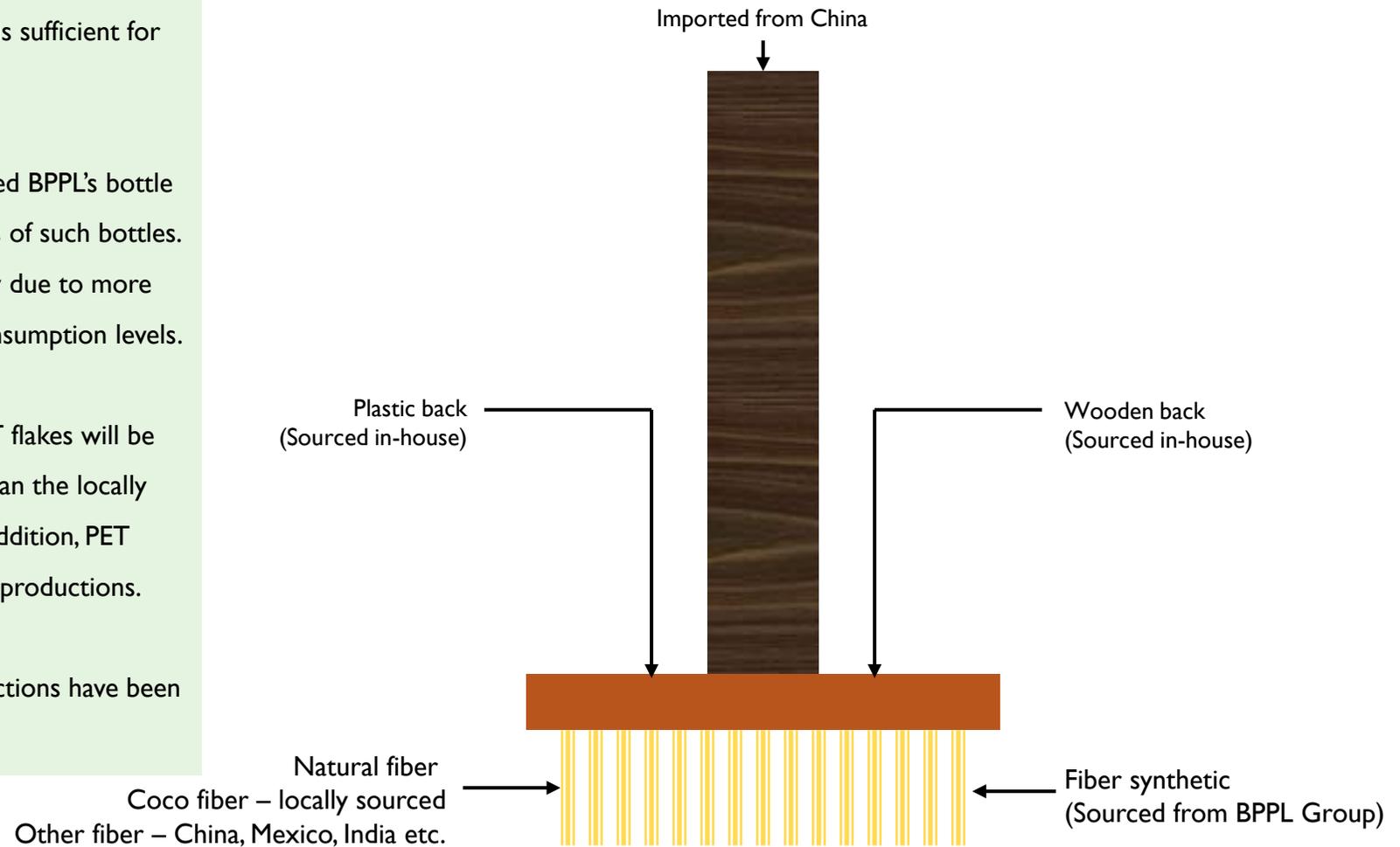
OVERVIEW: RAW MATERIAL

At present, local sourcing of PET flakes is sufficient for current production.

Prevailing travel restrictions had impacted BPPL's bottle collection as tourists are the large users of such bottles. However, collections are improving now due to more locals travelling and a general rise in consumption levels.

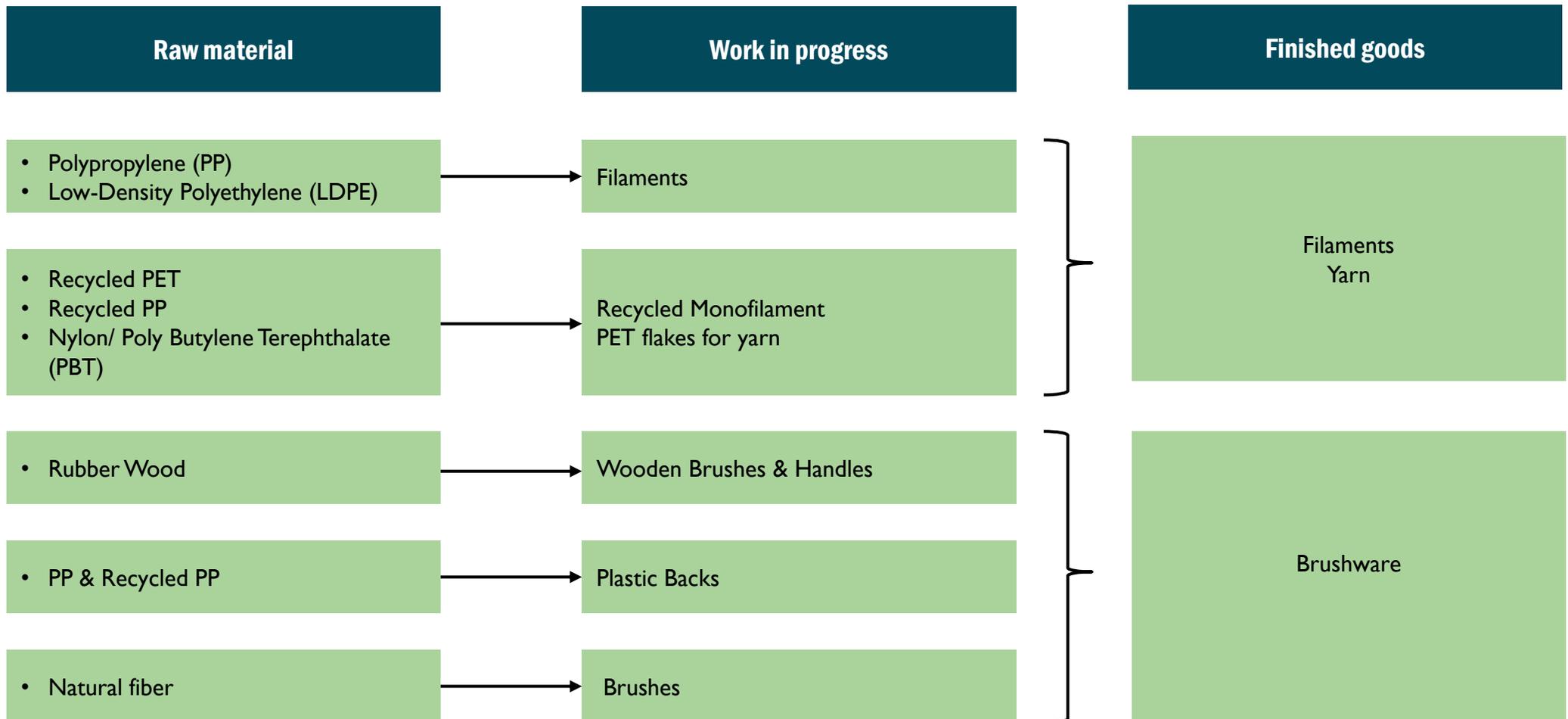
If the local sourcing is not sufficient, PET flakes will be imported from Thailand at 40% more than the locally sourced and processed flake prices. In addition, PET bottles also can be imported for BPPL's productions.

As an export company, all import restrictions have been waived for them.



OVERVIEW: MANUFACTURING PROCESS

CURRENT MANUFACTURING PROCESS FROM RAW MATERIAL TO FINISHED GOODS



Source: IPO Prospectus; BPPL Annual reports

OVERVIEW: PLANT OPERATIONS

BRUSHWARE



FILAMENTS



YARN

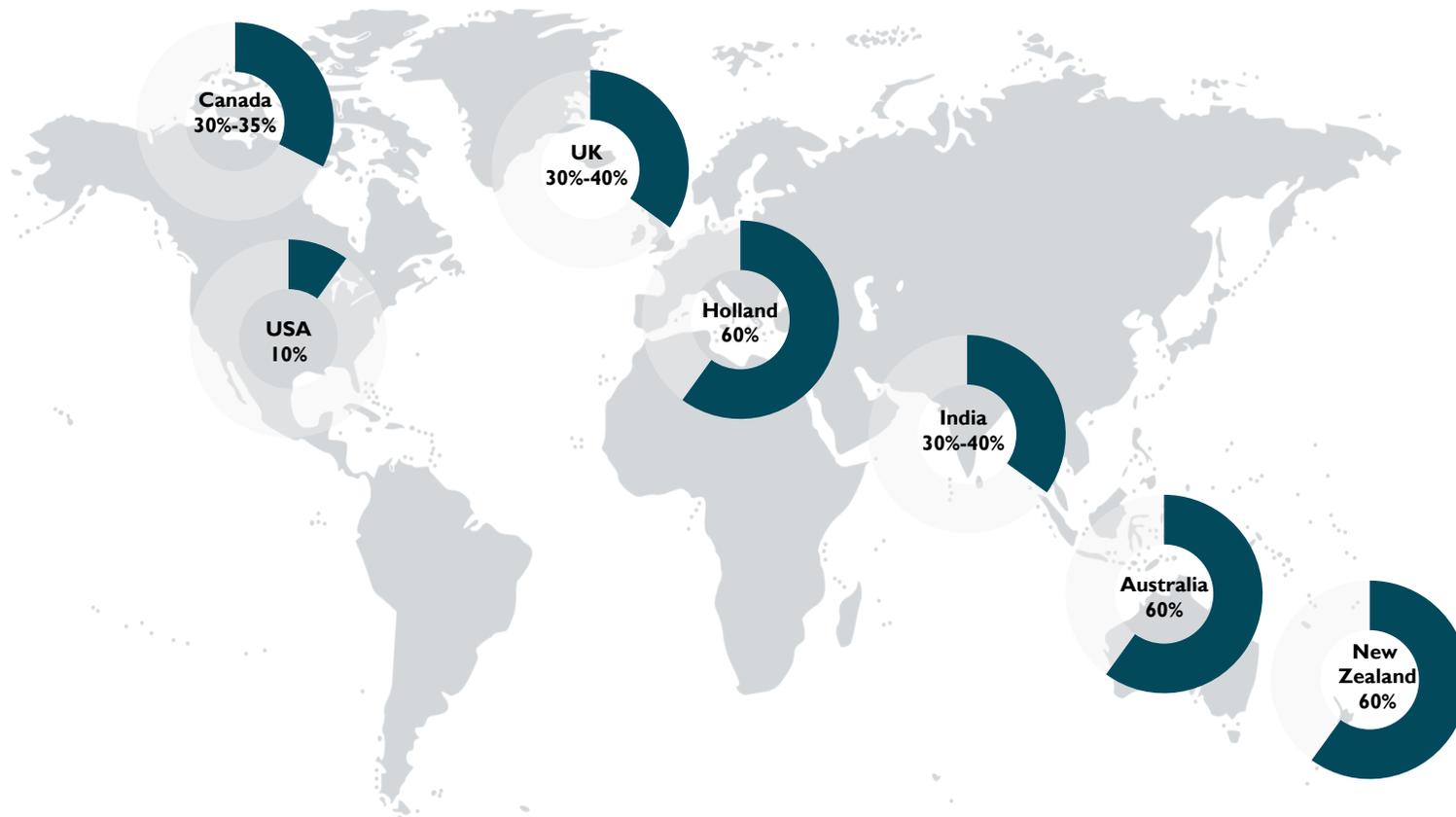


CURRENT OPERATING LEVEL	1 shift: 90% 2 shifts 50%	60%	80%
OUTPUT GENERATION	60mn tuft per month	180T per month	40-45T per month

OVERVIEW: GLOBAL FOOT PRINT

BPPL primarily focuses on corporate market (B2B market). At present, company is penetrating widely into overseas markets. In addition, BPPL is selling the products under their own brand “Tip Top” in local super markets.

MARKET SHARES



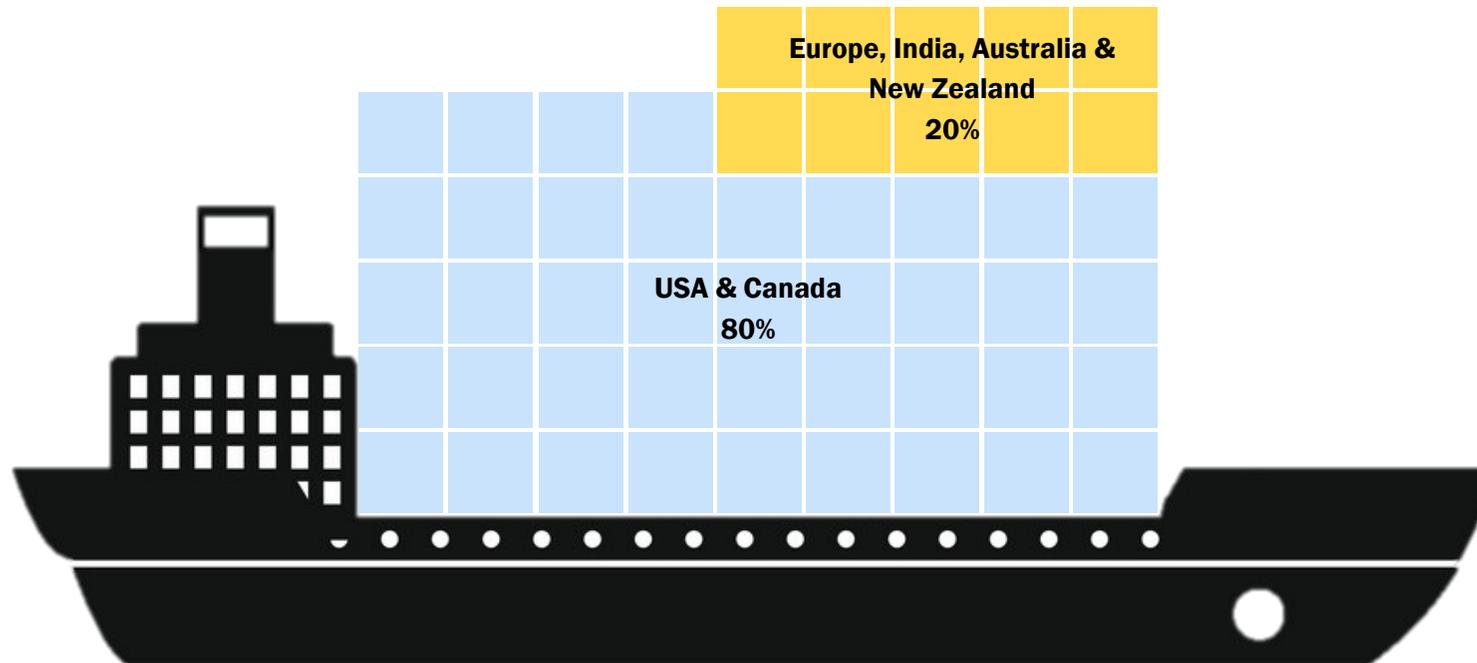
OVERVIEW: MARKETS

Local
2%-5%

Export
95%-98%



The local market is a B2B market where the buyer is an exporter. Therefore, the local supply of 2-5% can be categorized as an indirect export



OVERVIEW: ECO SPINDLES – POLYESTER YARN



Eco Spindles, a wholly owned subsidiary of BPPL inaugurated Sri Lanka's first ever polyester yarn plant at Horana Export Processing Zone during 2018. It has a capacity level of 40-45tonnes per month. This plant is one of two plants in the world that create yarn directly from flakes circumventing the polymerization where flakes are first converted to chips and then to yarn

From Waste to Wearable: The New Sri Lanka Cricket Jersey

MAS Holdings, together with Sri Lanka Navy, **Eco Spindles** and Sri Lanka Cricket, has up-cycled waste plastic recovered from the beaches of Sri Lanka, to produce the official jerseys which were worn by Sri Lanka's national cricket team during the ICC Cricket World Cup 2019.

It takes about 10 PET bottles to produce enough yarn to make a jersey.

Eco Spindles Pvt Ltd has further strengthened the partnership with MAS Holdings to construct a Material Recovery Center at the Security Forces Headquarters in Wannai which functions as a hub to redistribute waste materials collected from the neighboring regions to recyclers.

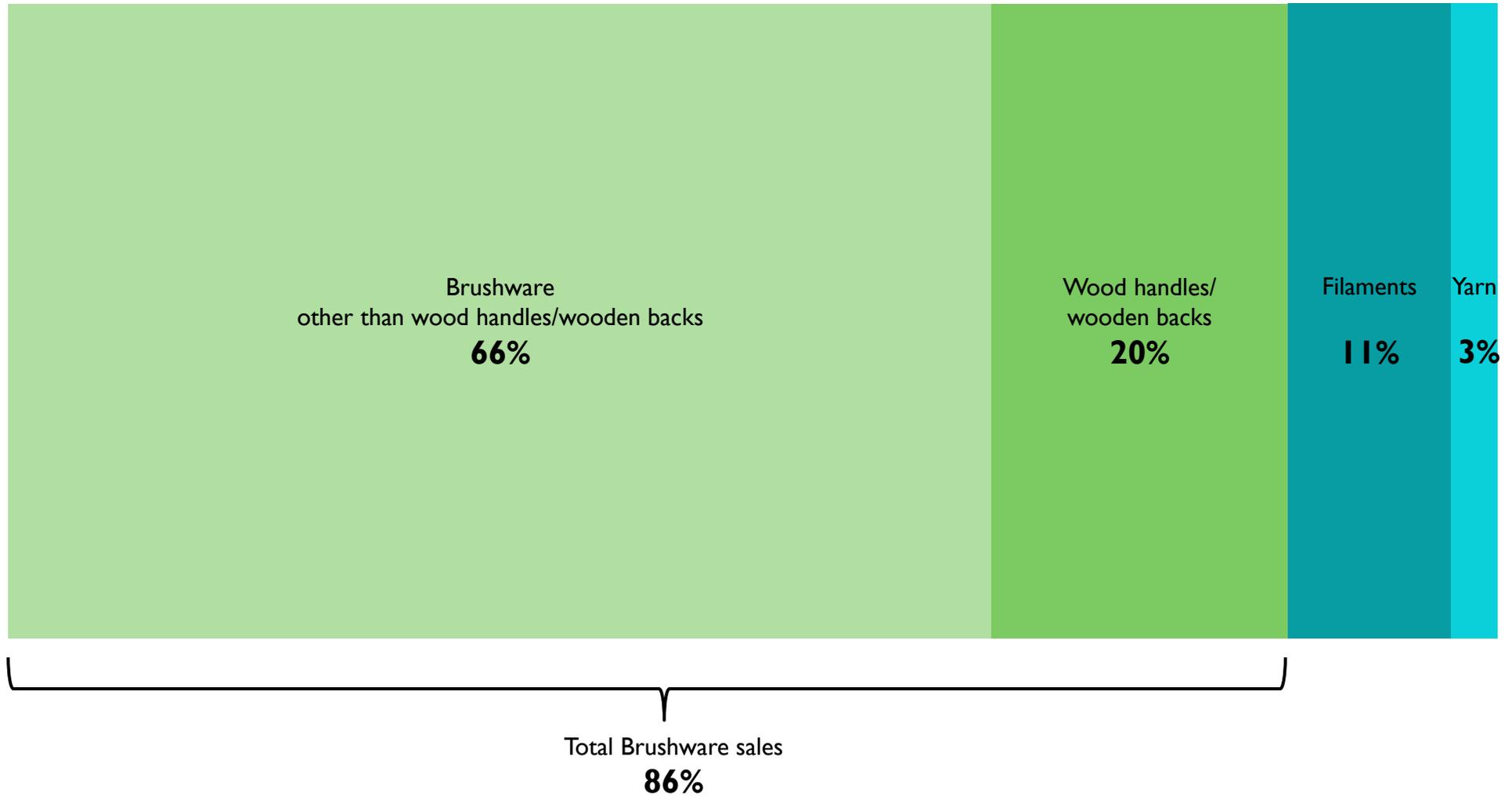


1QFY21 EARNINGS SUMMARY

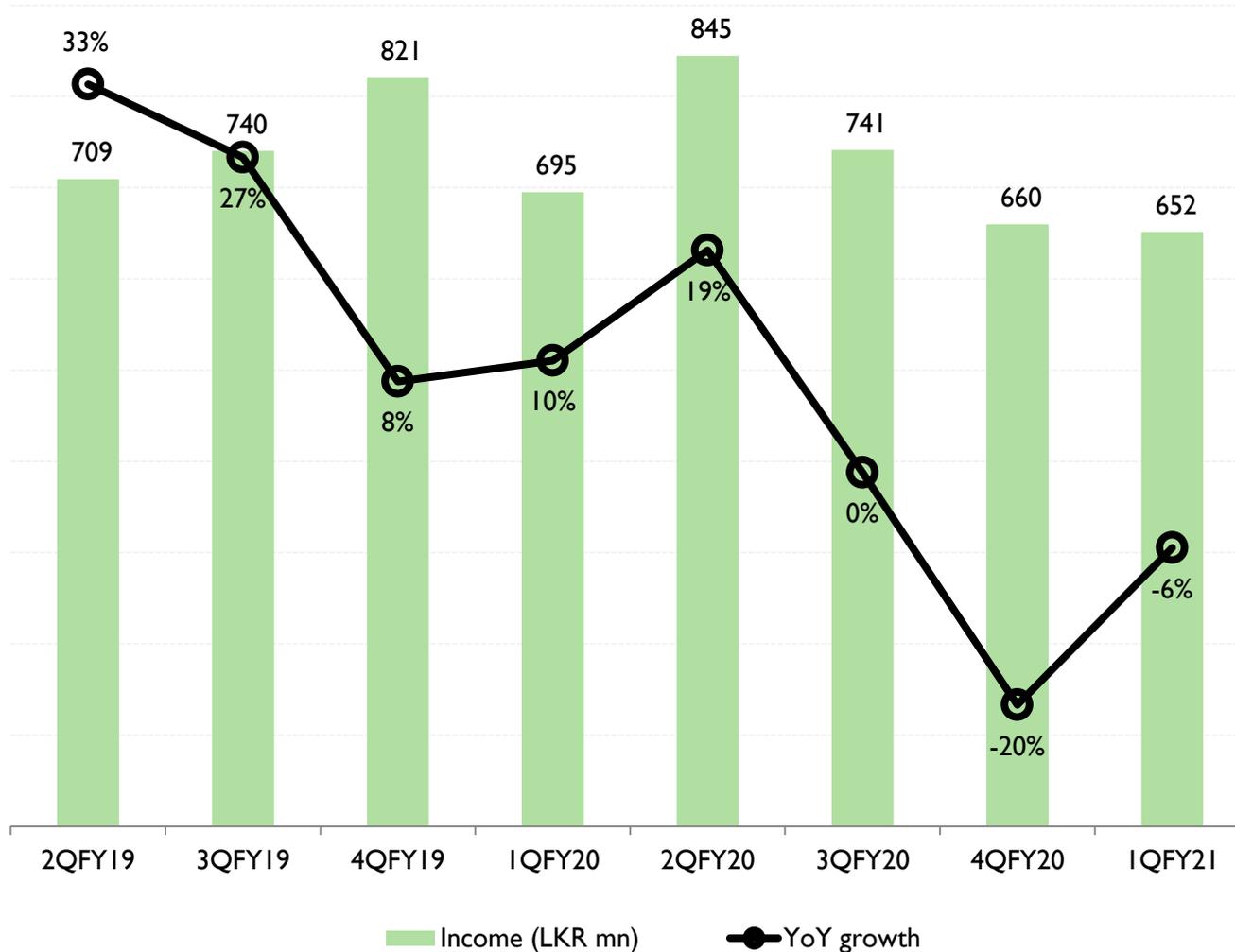
	1QFY21	1QFY20	YoY
Revenue	590	645	(9)
Gross profit	187	243	(23)
Other income	8	3	203
Operating expenses	(100)	(123)	(19)
Operating profit	94	122	(23)
Non-recurring items	-	-	-
Net finance expenses	(8)	(8)	4
PBT	86	114	(25)
Tax	(26)	(15)	70
PAT	60	98	(39)
Equity holder's profit	60	98	(39)

During the second quarter of the year, BPPL reported 9% decrease in revenue while net earnings decreased to LKR 60mn (-39%yoy). Increase in tax rate together with decrease in topline dragged down the bottom line.

1Q REVENUE BREAKDOWN



QUARTER TRENDS: BRUSHWARE



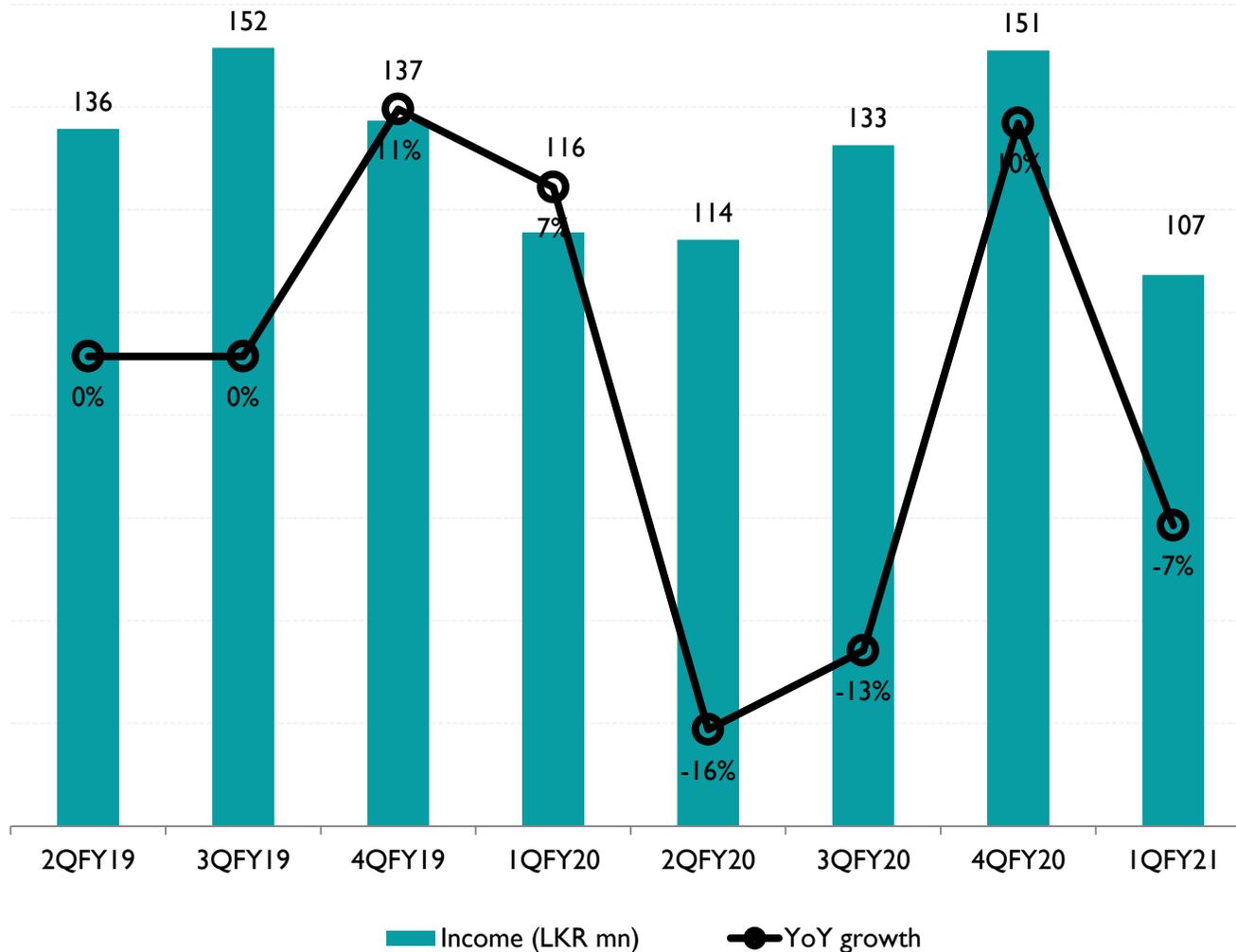
Source: BPPL interim financial statements

During the 1QFY21, BPPL recorded LKR 652mn of brushware revenue, declined by 6%YoY. Even though sales dropped during 4QFY20 notably, brush sales picked up during 1QFY21 with new orders.

Since cleaning sector was declared as an essential service in many countries due to COVID pandemic, company has witnessed strong growth in brushware sales.

All their brushware orders, received during the quarter, could not be completed and delivered by the quarter-end due to the disruptions to the production in April & May. Company is likely to complete delivery of the order backlog in 2QFY21.

QUARTER TRENDS: FILAMENTS & YARN

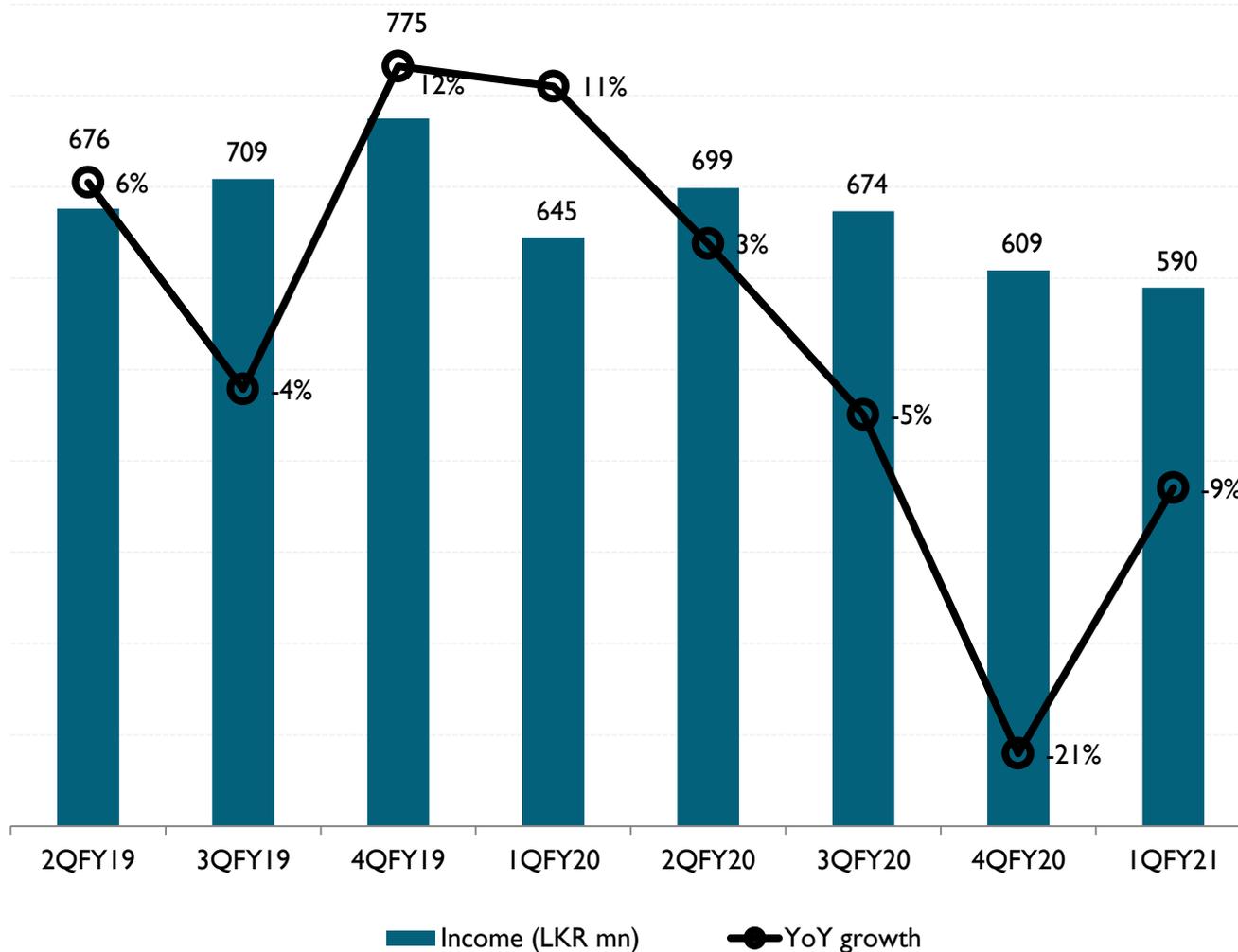


Source: BPPL interim financial statements

Filaments and yarn segment recorded a revenue of LKR 107mn (-7%YoY). Company was not able to report expected revenue from synthetic yarn due to the disruptions caused by COVID-19 pandemic

Most global sportswear brands that company primarily serve had to close down most of their retail stores across the world. They have lost deliveries for most of the Autumn/Winter '20 season. However, orders are now being placed for the Spring/Summer '21 season.

QUARTER TRENDS: GROUP REVENUE

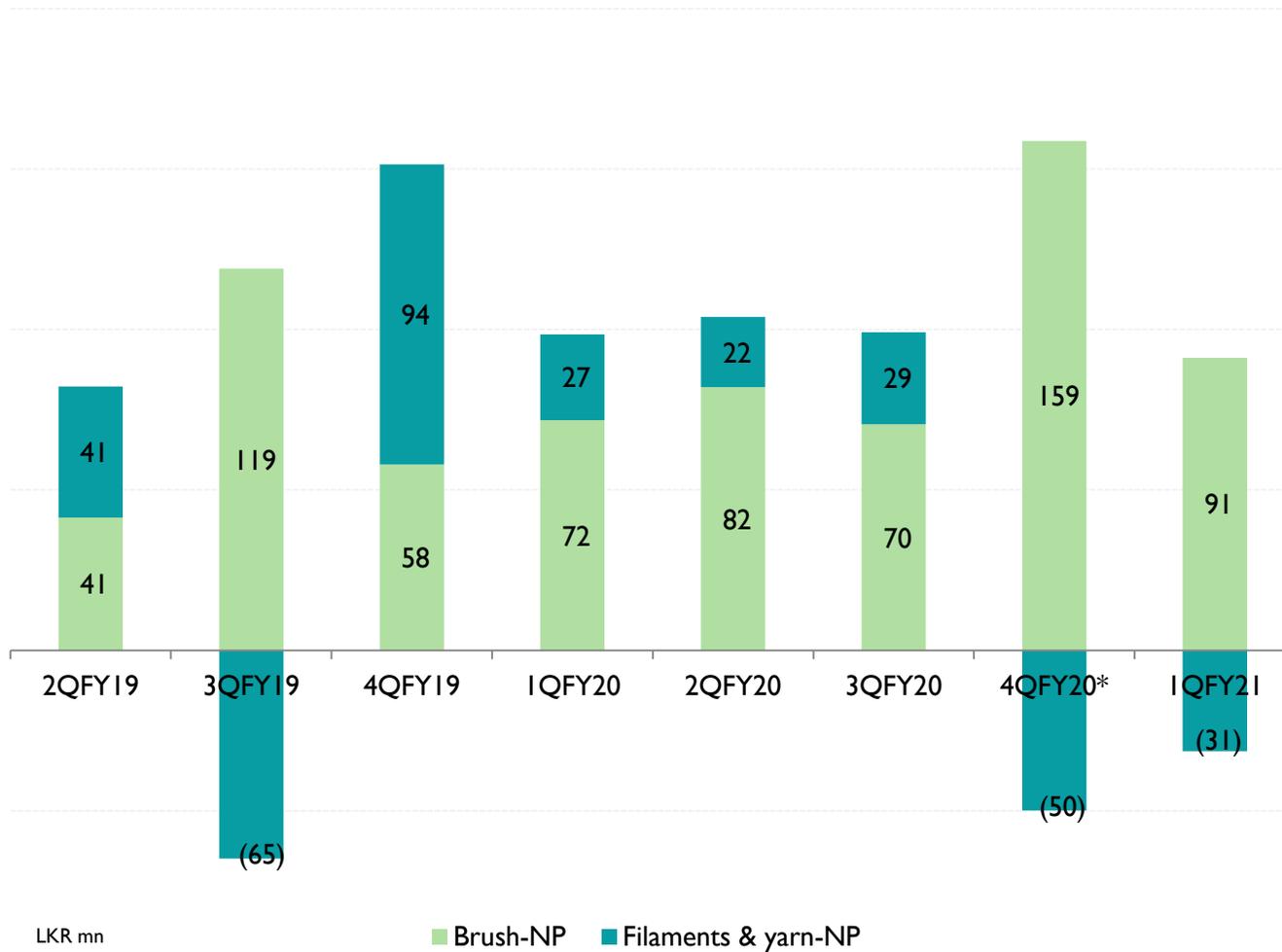


Source: BPPL interim financial statements

Overall, group revenue has dropped by 9%yoy during the 1QFY21, mainly as a result of less support from filaments and yarn section.

However, the YoY drop has reduced compared to the 4QFY20 due to strong brush sales in brushware segment.

QUARTER TRENDS: GROUP NET PROFIT



The increase in corporate tax from 12% to 14% also dragged the profit to down in 1QFY21.

As a result of the above, group net profit declined to LKR 60mn.

*4QFY20 profit of LKR 109mn includes an one-off transaction of LKR 188mn relating to the final insurance payment for a warehouse which was destroyed by fire in 2019.

Source: BPPL interim financial statements

OUTLOOK: MARKET OPPORTUNITIES – US & CANADA MARKET

In together, US & Canada markets account for around **80%** of the total revenue of the group. BPPL holds market shares of 30% & 10% in Canada & USA respectively.

There is a risk in depending on one region. However, BPPL is currently moving to other regions with their new products to overcome the concentration risk.

...The US cleaning industry (both household & commercial) is packed with opportunities – an earlier forecast reflected that the industry will earn over \$46 billion in 2020, and grow 10% by 2026. More than 1.7 million people are currently employed in the cleaning industry, yet it is still forecasted to spur a 6% year-on-year growth in new jobs because of the increase in demand. Let's not forget how popular this industry is, especially amongst the single-person households that make up 27% in America...

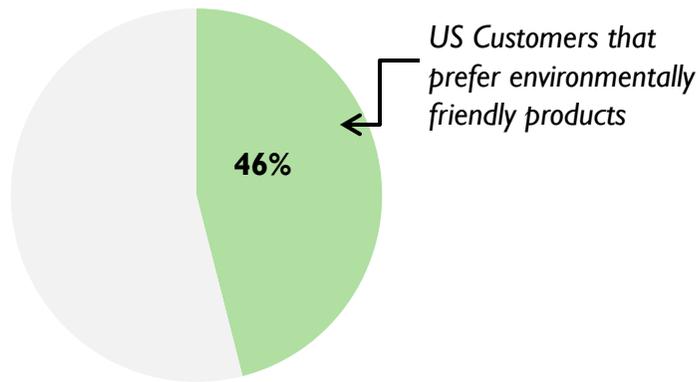
-FranchiseHelp

US-CHINA TRADE WAR

According to 2019 data, China accounts for more than 50% of the brush & broom imports in USA. The trade war between both countries will benefit BPPL as buyers may switch out of China.

OUTLOOK: BRUSHWARE

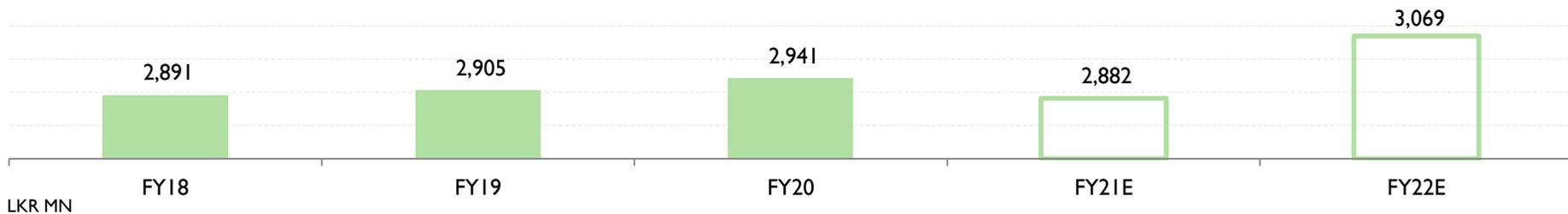
The demand for BPPL brushware has remained strong during the Apr to June quarter as a result of cleaning becoming an essential service around the world.



Source: FranchiseHelp

According to *Brandessence Market Research* report, global household cleaning tools market is valued at USD 30.3bn in 2019 and expected to reach USD 37.9bn by 2025 with a CAGR of 3.45% over the forecast period. Therefore, there are opportunities available for brushware products in global market.

We expect BPPL will make a revenue of LKR 2.9bn for FY21, lesser than previous FY due to disruptions to operations amidst the curfew in March-May 2020. However, we hope company will be able to record LKR 3.1bn (+6.5%YoY) for FY22 as a result of improved demand in cleaning tools.

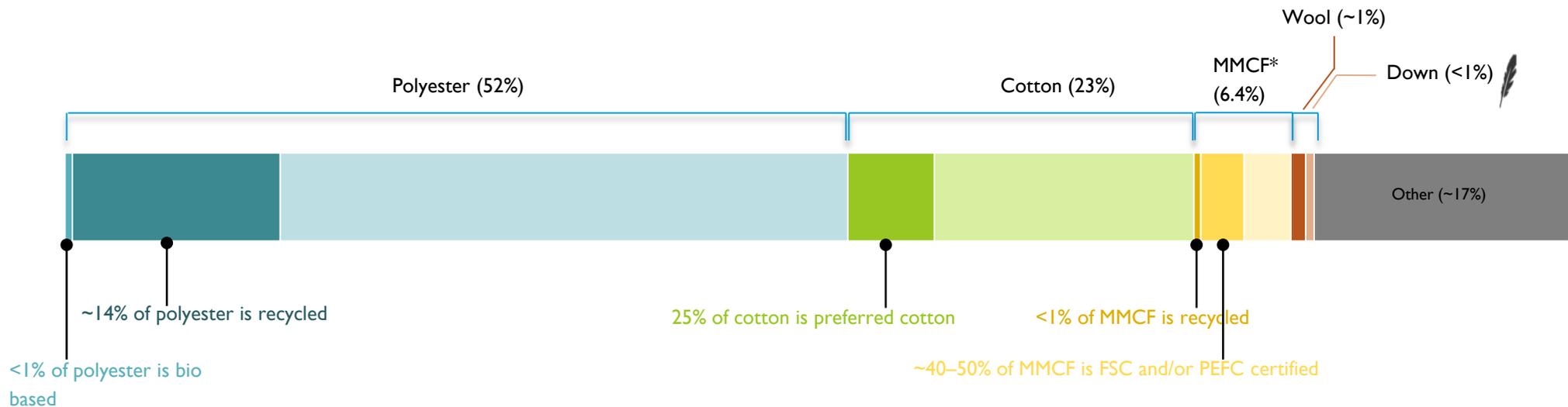


Source: BPPL interim financial statements, LSL Research estimates

OUTLOOK: POLYESTER YARN

In 2019, recycled polyester accounted for around 14% of the polyester global market. Recycled polyester is mainly made from PET plastic bottles. Recycled polyester is made by breaking down used plastic into small, thin chips, which are processed and eventually turned into yarn.

PREFERRED FIBER AND MATERIALS MARKET OVERVIEW – 2019:



*Manmade Cellulosic Fibers

Source: [TextileExchange](https://www.textileexchange.org/)

OUTLOOK: POLYESTER YARN

GREEN CLOTHING: EASY TO THROW OUT-BETTER TO THROW ON

Many companies globally are coming forward to recycle the waste plastic bottles and create sustainable environment. Not only entrepreneurs but fashion designers are also coming forward to join their hands in supporting the environment. Green clothing refers to fabrics that are obtained from sustainable materials like hemp, bamboo or recycled plastic (such as PET bottles). Its chemical structure makes PET strong, light, and flexible – and a popular choice across industries. World’s renowned brands like, H&M, Adidas and Nike are increasingly investing on this Green clothing concept.

These fiber materials are generally called as recycle PET (r-PET). According to a market research report, the market for r-PET is expected to grow at a CAGR of above 7.5% during a forecast period of 2019 - 2024 ([Business Insider](#)).

Major factors driving the growth of the green clothing market are the growing emphasis on sustainability among the consumer and packaging products and increasing demand from the textile industry

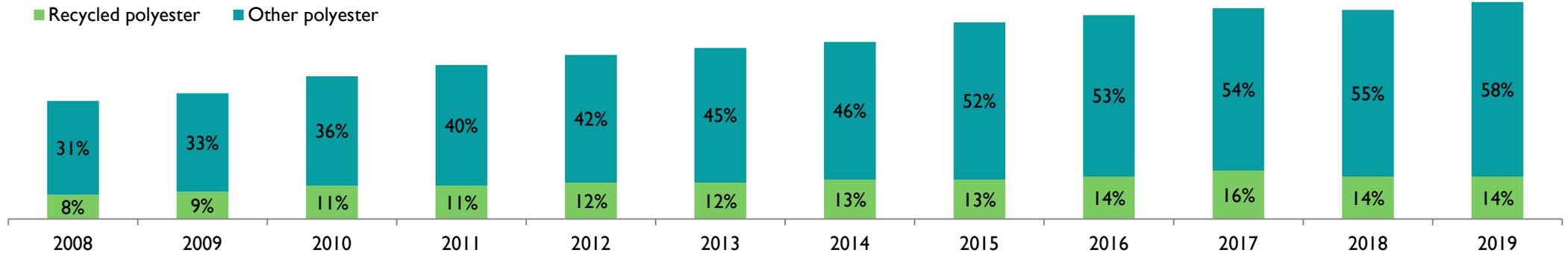
Industrial yarn segment stands to be the largest consumer of r-PET, which accounts for almost 50% of market demand

A notable increase in r-PET market is expected over the period of 2019-2025, in response to EU initiatives that actively promote circular economy and green development models

Asia-Pacific region dominated the global r-PET market in 2018, which accounted for more than 50% of the market share

OUTLOOK: POLYESTER YARN

Global polyester production (million mt)



In 2015, Adidas partnered with Parley for the Oceans to turn marine pollution into sportswear. Adidas uses recycled plastic bottles as a replacement for virgin polyester. Adidas has announced that it will use 100% rPET in its garments by 2024



H&M Fall 2019 Conscious Collection launched in September, made from recycled materials or materials with a lower environmental impact, such as recycled polyester made from used PET bottles, organic cotton and TENCEL™ lyocell



75% of all Nike shoes and apparel now contain some recycled material. Nike has diverted nearly 5 billion plastic bottles from landfills since 2012



Zara has announced that 100% of the cotton, linen and polyester used in its clothing will be organic, sustainable or recycled by 2025



Prada has committed to using only recycled nylon by 2021



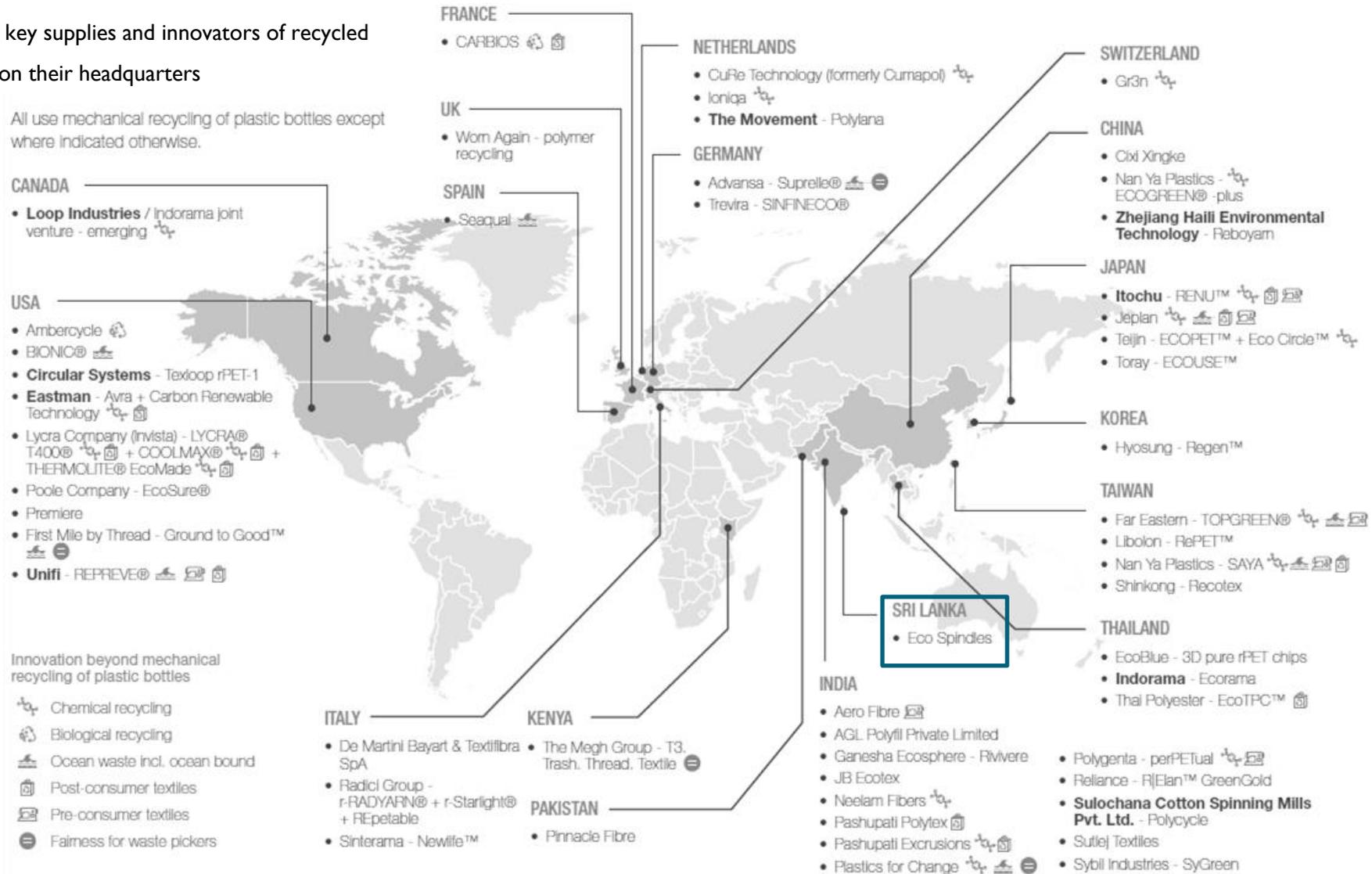
Stella McCartney has set a goal of using just recycled nylon by 2020 and recycled polyester by 2025



Everlane recently launched its ReNew line made entirely of recycled bottles, with an aim to eliminate all virgin plastic from its supply chain by 2021

OUTLOOK: POLYESTER YARN

The map locates key supplies and innovators of recycled polyester based on their headquarters



Source: [TextileExchange](https://www.textileexchange.com)

OUTLOOK: POLYESTER YARN

BENEFITS OF USING BPPL'S RECYCLED SYNTHETIC YARN FOR THE APPAREL MANUFACTURERS (VS IMPORTS)



Fabric manufacturers can significantly reduce inventory lead times and inventory holding costs



Savings in freight and documentation costs



Environmental friendly dyeing process



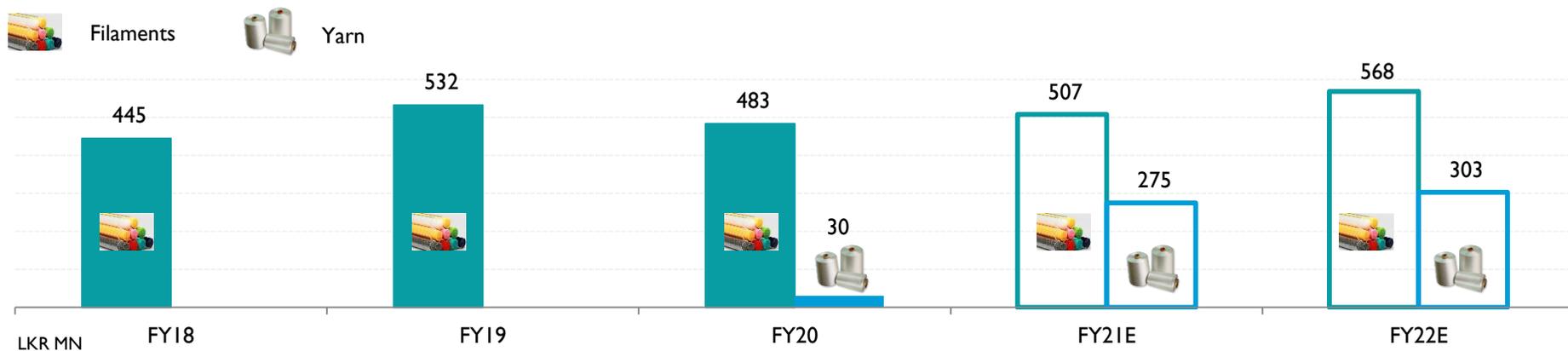
Traceability of the bottle collection

OUTLOOK: POLYESTER YARN

Revenue from the new polyester yarn operations were not recognized in the first nine month period in FY20 as full commercial production was delayed due to a faulty component in one of the plant’s power unit. However, the commercial operations began with 70% of plant capacity in January 2020 and was only able to record LKR 30mn for February & March. The company is expecting to increase the operational level to 90% within this financial year.

Eventhough they have lost deliveries for most of the Autumn/Winter '20 season, new orders are now being placed for deliveries for the Spring/Summer '21 season.

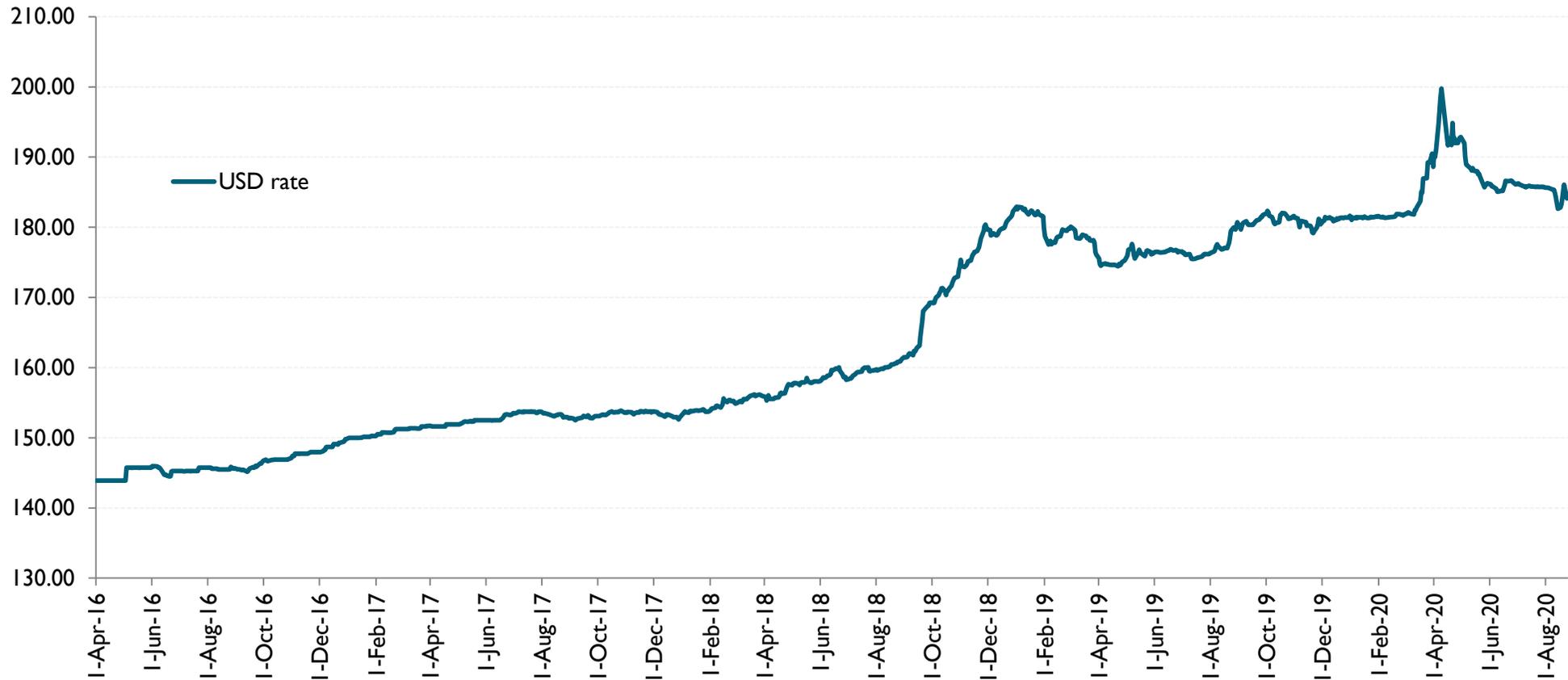
We expect BPPL to report around LKR 275mn of revenue for the FY21 from Polyester Yarn sales. We project it will grow to LKR 303mn in FY22. In addition, the filament segment would generate LKR 507mn and LKR 568mn for FY21 & FY22 respectfully.



Source: BPPL interim financial statements, LSL Research estimates

OUTLOOK: USD RATE

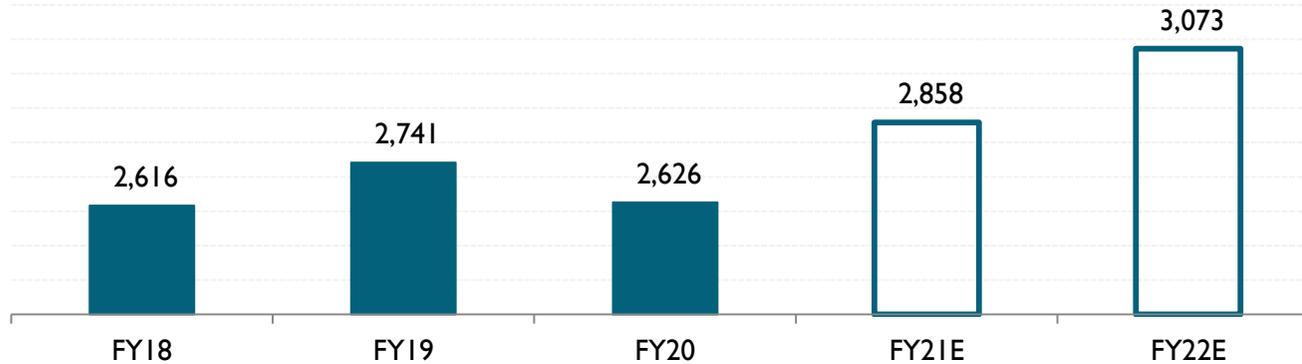
Even though the LKR/USD rate is stagnate in the recent period due to the global cues & import restrictions, we expect exchange rate would depreciate when control measures are relaxed and this could benefit exporters such as BPPL.



Source: Central Bank of Sri Lanka

OUTLOOK: GROUP

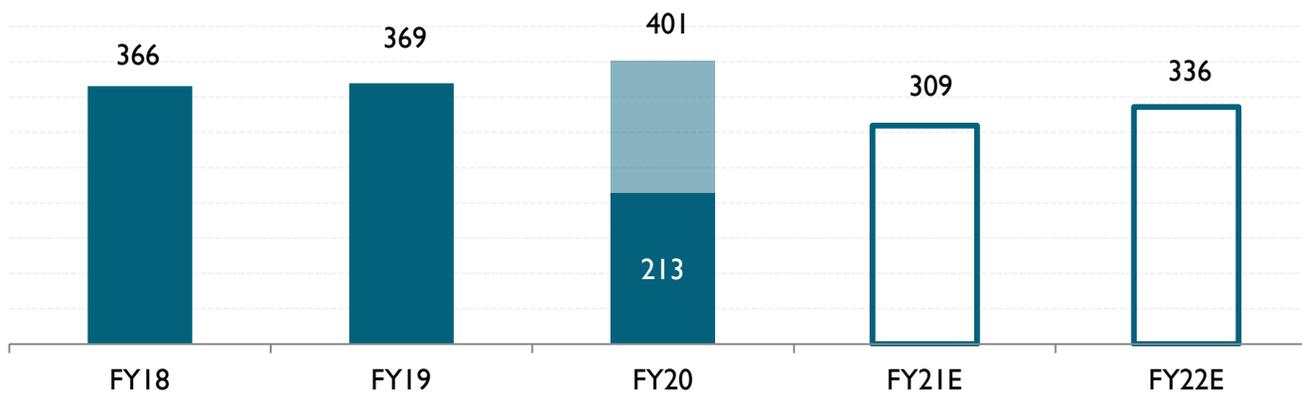
REVENUE (LKR MN)



We expect BPPL to report a revenue of LKR 2.9bn for FY21, +9% higher than the previous year. Expected sales in all three products (brush, filaments and yarn) will support the growth in top line.

We anticipate the growth in top line would continue with the global trends in usage of recycled products.

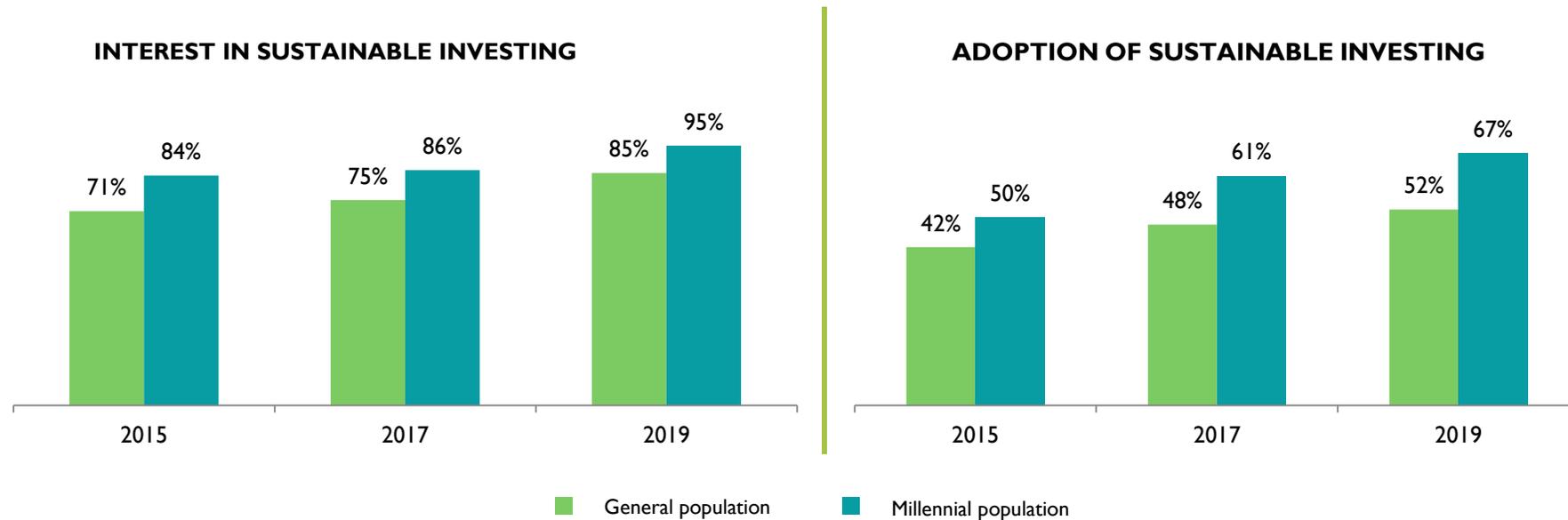
NET PROFIT (LKR MN)



Further, expected net profit is LKR 309mn & LKR 336mn for FY21 & FY22 respectively. This is an increase of 45%YoY from the recurring net profit of LKR 213mn in FY20.

OUTLOOK: TREND IN ESG INVESTING

According to a survey done among US individual investors, Morgan Stanley claims that investors care strongly about environment and social issues and that familiarity with and enthusiasm for sustainable investing is currently at an all-time high. It further states that among the environment, social and governance (ESG) issues, investors have the most interest in “plastic reduction” & “climate change”.



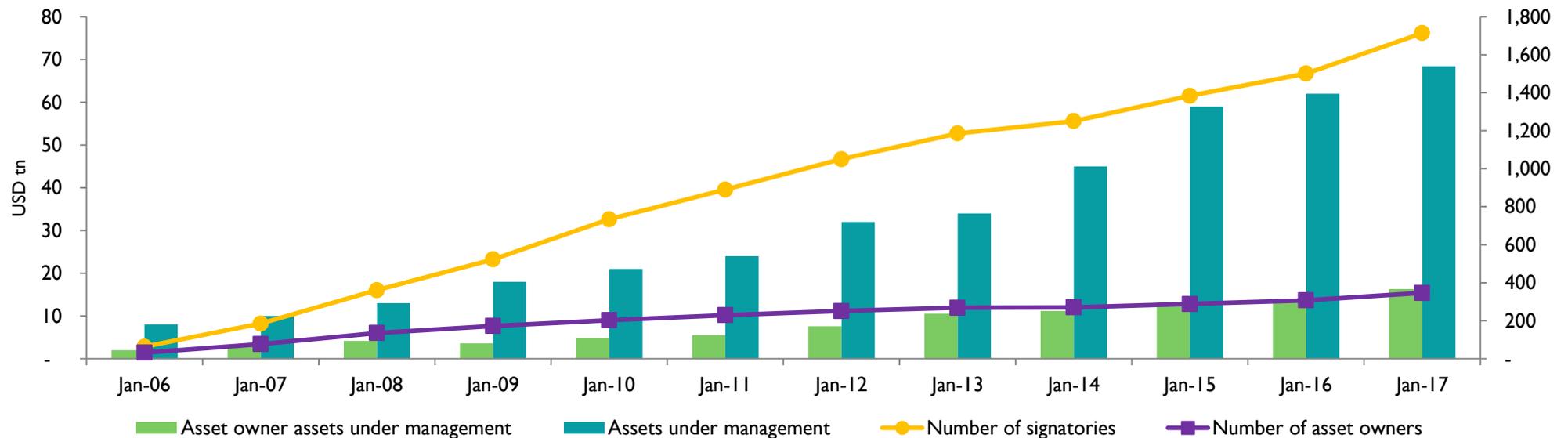
Source: [Morgan Stanley](#)

OUTLOOK: TREND IN ESG INVESTING

Morgan Stanley survey further states that 86% of individual investors agree that the ESG practices can potentially lead to higher profitability and may be better long-term investments.

ESG investing consists of investing in ways that promote sustainable investments made with the intention of generating measurable social and environmental impact alongside financial returns. Worldwide, ESG-classified investment has swollen by more than a third since 2016 and accounts for assets worth more than trillions of dollars.

BPPL is a good option for an ESG investor



Source: [MSCI](#)

WE VALUE THE SHARE AT LKR 14.20

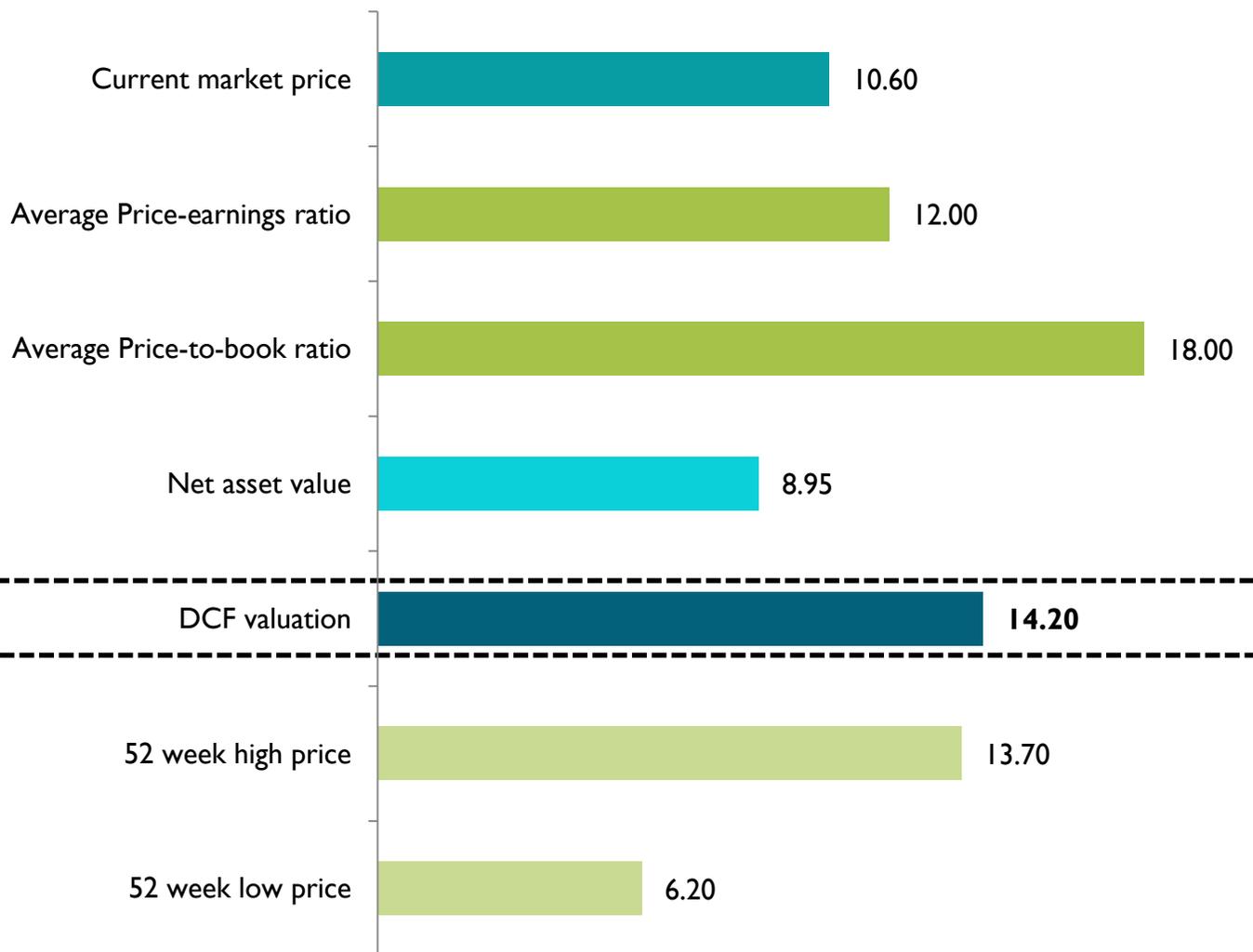
DCF BASED VALUATION

Enterprise value (LKR mn)	5,946
Debt (LKR mn)	(1,581)
Other adjustments (LKR mn)	-
Equity value (LKR mn)	4,365
Number of shares (mn)	307

Per share value (LKR) 14.20

Upside +34.0%

WACC 13.3%



WE EXPECT A DIVIDEND OF LKR 0.20 PER SHARE FOR FY21

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Earnings per share (LKR)	1.01	1.42	1.19	1.20	1.31	1.01	1.09
Dividend per share (LKR)	0.36	0.42	0.42	0.42	0.42	0.20	0.33
Market price per share (LKR)*	n/a	n/a	13.20	9.90	7.60	10.60	10.60
Dividend payout ratio (%)	36.0	29.5	35.2	34.9	32.1	19.8	30.0
Dividend yield (%)	n/a	n/a	3.2	4.2	5.5	1.9	3.1

*Company was listed in Apr 2017

We recommend **BUY**



SHARE INFORMATION

KEY DATA	
Shares O/S (mn)	307
Market cap (LKR mn)	3,253
Market cap (\$ mn)	17
3m – avg daily volume	83,481
3m – avg daily value (LKR 000)	831
3m – avg daily value (\$ 000)	4
52 wk high	13.70
52 wk low	6.20

SHAREHOLDING STRUCTURE (%)	
Infinity Capital (Pvt) Ltd	50.3
LOLC Investments Ltd	26.3
Hirdaramani Investment Holdings Pvt Ltd	13.4
Hallsville Trading Group Inc	0.5
Karagoda Loku Gamage Udayananda	0.4
Free float	10.0
Foreign ownership	1.0



Source: Colombo Stock Exchange

EARNINGS FORECAST

INCOME STATEMENT (LKR MN)	FY19	FY20	FY21E	FY22E
Revenue	2,741	2,626	2,858	3,073
Gross profit	964	896	990	1,065
Other income	10	9	11	11
Operating expenses	(529)	(559)	(622)	(672)
Operating profit	445	346	379	404
Non-recurring items	-	188	-	-
Net finance expenses	(23)	(28)	(29)	(24)
Associate/JV profit	-	-	-	-
PBT	422	507	349	379
Tax	(52)	(106)	(40)	(43)
PAT	369	401	309	336
Equity holder's profit	369	401	309	336
Recurring net profit (est)	369	213	309	336

Source: BPPL Annual Reports, LSL Research estimates

FINANCIAL POSITION FORECAST

BALANCE SHEET (LKR MN)	FY19	FY20	FY21E	FY22E
PPE	2,822	2,922	2,949	2,976
Other non-current assets	25	18	18	19
Total non-current assets	2,847	2,939	2,968	2,995
Inventories	702	500	704	757
Trade & other receivables	736	771	799	859
Cash & equivalents	31	533	488	654
Other current assets	2	7	2	2
Total current assets	1,472	1,811	1,993	2,272
Total assets	4,319	4,750	4,961	5,267
Share capital	100	100	100	100
Retained earnings	2,063	2,319	2,537	2,742
Other reserves	260	260	260	260
Minority interest	-	-	-	-
Total equity	2,423	2,679	2,897	3,102
Long-term borrowings	460	374	424	441
Other non-current liabilities	186	215	239	263
Total noncurrent liabilities	646	589	663	704
Short-term borrowings	1,023	1,207	1,128	1,172
Trade & other payables	187	216	214	231
Other current liabilities	40	59	59	59
Total current liabilities	1,250	1,482	1,401	1,462
Total liabilities	1,896	2,071	2,064	2,165

Source: BPPL Annual Reports, LSL Research estimates

KEY RATIOS FORECAST

RATIO ANALYSIS	FY19	FY20	FY21E	FY22E
Revenue growth (%)	4.8	(4.2)	8.9	7.5
PAT growth (%)	1.1	8.5	(22.8)	8.6
GP margin (%)	35.2	34.1	34.6	34.6
OP margin (%)	16.2	13.2	13.2	13.1
NP margin (%)	13.5	15.3	10.8	10.9
RoA (%)	9.3	8.8	6.6	6.6
RoE (%)	16.1	15.7	11.6	11.2
Asset turnover (x)	0.7	0.6	0.6	0.6
Inventory turnover (days)	2.7	2.9	2.9	2.7
Quick ratio (x)	0.6	0.9	0.9	1.0
Debt-to-capital (%)	38.0	37.1	34.9	34.2
BVPS (LKR)	7.90	8.73	9.44	10.11
EPS (LKR)	1.20	1.31	1.01	1.09
MPS (LKR)	9.90	7.60	10.60	10.60
DPS (LKR)	0.42	0.42	0.20	0.33
PE (x)	8.2	5.8	10.5	9.7
PBV (x)	1.3	0.9	1.1	1.0
Div payout (%)	34.9	32.1	19.8	30.0
Div yeild (%)	4.2	5.5	1.9	3.1

Source: BPPL Annual Reports, LSL Research estimates

IMPORTANT DISCLOSURES AND DISCLAIMERS

Equity research methodologies and definitions

Equity research is based on a fundamental analysis of the companies covered, using the application of multiples and, where appropriate, discounted cash flow valuation models. In arriving at equity research recommendations, macroeconomic conditions are also taken into account.

Equity research recommendations have the following definitions:

For 12 month timescale:

'Buy' expected absolute change of +20% or more

'Add' expected absolute change between +10% and +20%

'Hold' expected absolute change between -10% and +10%

'Reduce' expected absolute change between -20% and -10%

'Sell' expected absolute change of -20% or more

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