

BP Plastics Bhd**Results Note****Stock Code: 5100****Price: RM1.14****Market Capitalisation: RM136.8m****Board: Main****Sector: Industrial Products****Recommendation: Maintain BUY****Key Stock Statistics**

FYE Dec	2005	2006F
EPS (sen)	17.1	19.9
P/E (x)	6.6	5.7
Dividend/Share (sen)	5.0	5.0
NTA/Share (RM)	0.72	0.84
Book Value/Share (RM)	0.70	0.82
Issued Capital (mil shares)	120.0	120.0
52-weeks Share Price Range	RM0.90 – RM1.26	

Major Shareholders:

LG Capital	45.0%
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Per Share Data

FYE Dec (RMm)	2003	2004	2005	2006F	2007F
Book Value (RM)	-	0.5	0.70	0.8	1.0
Cash Flow (sen)	-	-	30.9	11.3	23.9
Earnings (sen)	8.9	12.3	17.1	19.9	20.5
Dividend (sen)	-	-	5.0	5.0	5.0
Payout Ratio (%)	-	-	29.3	25.1	24.4
PER (x)	12.8	9.3	6.7	5.7	5.6
P/Cash Flow (x)	-	-	3.7	10.1	4.8
P/Book Value (x)	-	-	1.6	1.4	1.2
Dividend Yield (%)	-	-	4.4	4.4	4.4
ROE (%)	-	-	28.1	26.2	22.8
Net Gearing (%)	-	-	(8.5)	Net Cash	Net Cash

P&L Analysis (RM m)

FYE Dec (RMm)	2003	2004	2005	2006F	2007F
Revenue	64.9	122.1	160.0	187.0	218.1
Operating Profit	12.6	17.3	27.1	28.2	29.0
Depreciation	-2.2	-3.2	-4.7	-5.1	-5.4
Interest Expenses	-0.2	-0.3	-0.4	-0.4	-0.4
Pre-tax Profit	12.9	17.9	23.4	28.8	29.6
Effective Tax Rate	17.5	17.7	12.4	17.0	17.0
Net Profit	10.7	14.7	20.5	23.9	24.5
Operating Margin	19.5	14.2	16.9	15.1	13.3
Pre-tax Margin	19.9	14.6	14.6	15.4	13.6
Net Margin	16.4	12.1	12.8	12.8	11.3

Results Review & Earnings Outlook

- BP Plastic (BPP) reported a full year FY05 net profit of RM20.5m (+39.3% yoy) on the back of revenue of RM160.0m (+31.1% yoy). The strong performance was attributed to improved utilisation levels. We estimate that utilisation levels were in the 73%-75% region vs 60%-65% in FY04. Operating margin averaged 14.4% in FY05 vs 14.2% a year ago despite higher cost of materials. This clearly indicates that BPP has managed to contain its cost well, passing on most of higher resin prices to its customers. Against our estimates, the FY05 results came in right on the spot. No consensus figures were available for comparison.
- Sequentially, turnover rose +2.1% qoq to RM41.8m although net profit was weaker at RM4.5m (-27.7% qoq). The decline in net profit was attributed to higher global resin prices caused by hurricanes Katrina and Rita in the USA. We understand that there were also some IT related expenses which were charged out in 4QFY05. Consequently, 4Q operating margin was weaker at 13.2% vs 14.7% in 3Q.
- No major changes to our FY06 projection. We are projecting a net profit growth of +16.7% yoy to the tune of RM23.9m for FY06. Growth will be fuelled very much by additional capacity from its new plant which began commercial operations last month. The new plant consists of 2 additional lines (a 4,800 MT of blown and a 16,800 MT of cast capacity). With this new plant, annual capacity has been bumped up to 60,000 MT (+56%) from 38,400 MT.

Valuation and Recommendation

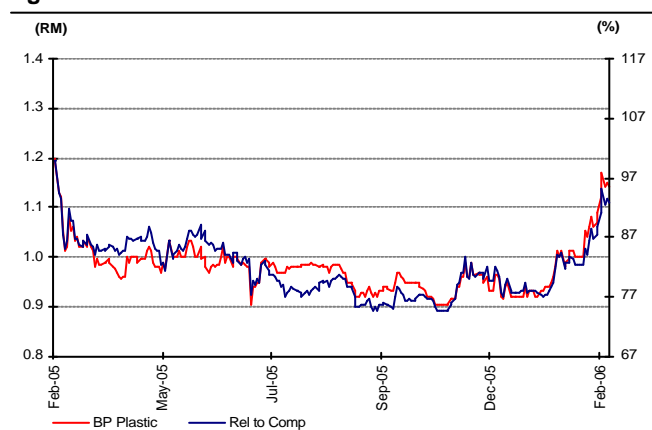
- Today, share price of BPP has appreciated 22.6% since our initiation of coverage in September 2005. Despite this, we think that there is still upside potential in share price and continue to like BPP for its growth prospects and attractive dividend yield of 4.4% for FY06.
- In terms of valuations, BPP is still cheaper than its peers, trading at a FY06 PER of 5.7x compared to its peers average PER of 7.1x. Thus, we are maintaining our **BUY** rating on BPP with a revised target price of **RM1.41** (previously RM1.26) based on its peers FY06 average PER. At current price, this provides a further 23.6% upside.

Figure 1: Quarterly Results Comparison

	4QFY04	3QFY05	4QFY05	QoQ	YoY
Revenue	-	41.0	41.8	2.1%	-
Operating Profit	-	6.0	5.5	-8.7%	-
Int expense	-	-0.1	-0.1	-1.0%	-
Int income	-	0.2	0.2	-3.8%	-
Pre-tax Profit	-	6.1	5.6	-8.7%	-
Net Profit	-	6.2	4.5	-27.7%	-
Operating Margin	-	14.7%	13.2%	nm	nm
Pre-tax Margin	-	14.9%	13.4%	nm	nm
Net Margin	-	15.2%	10.7%	nm	nm

Figure 2: Cumulative Results Comparison

	Ytd FY04	Ytd FY05	Ytd Chg
Revenue	122.1	160.0	31.1%
Operating Profit	17.3	23.1	33.6%
Int expense	-0.3	-0.4	0.0%
Int income	0.9	0.7	0.0%
Pre-tax Profit	17.9	23.4	30.8%
Net Profit	14.7	20.5	39.3%
Operating Margin	14.2%	14.4%	nm
Pre-tax Margin	14.6%	14.6%	nm
Net Margin	12.1%	12.8%	nm

Figure 3: BP Plastic vs KLCI


Source: Bloomberg

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +10% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
HOLD	Total return is expected to be between -10% to +10% over a 12-month period
SELL	Total return is expected to be below -10% over a 12-month period
NOT RATED	HLGS does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation