

BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

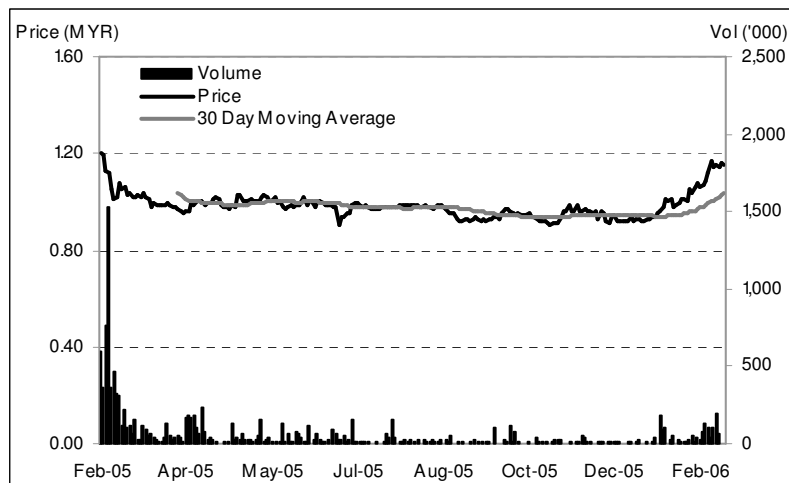
Price: MYR1.16

12-Month Target Price: MYR1.34

Date: February 23, 2006

Board: Main**Sector:** Industrial Products**GICS:** Materials / Commodity Chemicals**Market Capitalization:** MYR139.2 mln

Summary: BP Plastics Holding (BPP) is one of the leading producers of industrial plastic packaging bags and stretch films in Malaysia. Operating in a highly competitive environment, the group leverages on its advanced equipment & technologies, and a wide customer base to maintain its performance.

Analyst: Donovan Huang

Results Review & Earnings Outlook

- 4Q05 net profit of MYR4.5 mln (-27.5% QoQ) was in line with our expectations. According to management, the QoQ profit drop mainly resulted from slower domestic sales due to the festive season, and higher global resin prices. YoY comparison was not available as the company was only listed in Feb. 2005.
- Full year 2005 net profit of MYR20.5 mln (+39.3% YoY) was in line with our forecast of MYR20.6 mln. The growth was mainly driven by a 31.1% YoY increase in revenue, which more than offset the contraction in operating margin to 14.4% from 14.9% in 2004.
- We continue to project 2006 net profit of MYR23.4 mln (+16.1% YoY). In line with our revised WTI crude forecast for a 2.5% YoY increase in 2006, we have fine-tuned our average selling price (ASP) and plastic resin price (raw materials) assumptions, which largely offset each other. We believe strong volume growth and increased economies of scale will continue to outpace potential gross margin squeeze in 2006.
- Aggressive capacity expansion amid brisk demand appears to present a positive outlook in the near- to mid-term. However, we believe earnings momentum in a large part will also depend on the ability to continuously pass on cost increases and management's savvy in predicting the pricing trend of plastic resins.

Recommendation & Investment Risks

- We have raised our 12-month target price to MYR1.34 from MYR1.03 following the adjustments in our valuation multiples and the rollover to 2006. With a 15.8% potential upside, we upgrade our recommendation to Buy from Hold.
- Our target price is derived from relative valuation, based on 6.9x 2006 earnings. We have compared BPP with Scientex Packaging (SCIP MK, Hold) and Poly Tower Ventures (PTV MK, Sell), which are trading at 7.3x and 6.5x FY06 earnings respectively. We note that BPP has higher operating margins than SCIP and PTV, but is smaller in size relative to SCIP.
- Our valuation is constrained, however, by relatively low earnings visibility due to the difficulty in predicting resin prices and hence, the sustainability of profit margins.
- Risks to our recommendation and target price include delays in capacity expansion and relatively low earnings visibility complicated by volatile product prices, raw material costs and limited disclosure. We do not rule out that the possibility of higher crude prices (feedstock for plastic resins) could depress margins and sag demand for plastic packaging products.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	17.2	19.5
PER (x)	6.7	5.9
Dividend/Share (sen)	5.0	6.0
NTA/Share (MYR)	0.71	0.83
Book Value/Share (MYR)	0.71	0.83
Issued Capital (mln shares)	120.0	
52-week Share Price Range (MYR)	0.90 – 1.26	
Major Shareholders:	%	
LG Capital	45.0	

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	NA	0.55	0.71	0.83
Cash Flow (sen)	11.5	16.0	20.4	23.5
Earnings (sen)	9.5	13.1	17.2	19.5
Dividend (sen)	0.0	0.0	5.0	6.0
Payout Ratio (%)	0.0	0.0	29.0	30.8
PER (x)	12.2	8.8	6.7	5.9
P/Cash Flow (x)	10.1	7.2	5.7	4.9
P/Book Value (x)	NA	2.1	1.6	1.4
Dividend Yield (%)	0.0	0.0	4.3	5.2
ROE (%)	NA	23.7	24.4	23.4
Net Gearing (%)	NA	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	4Q05	4Q04	% Change
Revenue	41.8	NA	NA
Operating Profit (EBIT)	5.5	NA	NA
Depreciation	NA	NA	NA
Net Interest Income / (Expense)	0.1	NA	NA
Pretax Profit	5.6	NA	NA
Net Profit	4.5	NA	NA
Operating Margin (%)	13.2	NA	-
Pretax Margin (%)	13.4	NA	-
Net Margin (%)	10.7	NA	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	122.1	160.0	202.1	242.7
Operating Profit (EBIT)	18.1	23.1	29.3	35.6
Depreciation	-3.2	-3.8	-4.8	-5.3
Net Interest Income / (Expense)	-0.3	0.3	-0.4	-0.4
Pretax Profit	17.9	23.4	28.9	35.2
Effective Tax Rate (%)	17.7	12.4	19.0	19.0
Net Profit	14.7	20.5	23.4	28.5
Operating Margin (%)	14.9	14.4	14.5	14.7
Pretax Margin (%)	14.6	14.6	14.3	14.5
Net Margin (%)	12.1	12.8	11.6	11.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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