

BP Plastics Holding Bhd
Results Note
Stock Code: 5100
Price: RM1.36
Market Capitalisation: RM163.2m
Board: Main
Sector: Industrial
Recommendation: BUY
Key Stock Statistics

<u>FYE Dec</u>	<u>2005</u>	<u>2006F</u>
EPS (sen)	17.1	19.9
P/E (x)	8.0	6.8
Dividend/Share (sen)	7.0	7.0
NTA/Share (RM)	0.72	0.82
Book Value/Share (RM)	0.70	0.80
Issued Capital (mil shares)	120.0	120.0
52-weeks Share Price Range	RM0.905-RM1.42	

Major Shareholders:

	<u>%</u>
LG Capital	45

Per Share Data

<u>FYE Dec (RMm)</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006F</u>	<u>2007F</u>
Book Value (RM)	-	0.5	0.70	0.8	0.9
Cash Flow (sen)	-	-	30.9	11.3	23.9
Earnings (sen)	8.9	12.3	17.1	19.9	20.4
Dividend (sen)	-	-	7.0	7.0	7.0
Payout Ratio (%)	-	-	41.0	35.1	34.4
PER (x)	15.3	11.1	8.0	6.8	6.7
P/Cash Flow (x)	-	-	4.4	12.0	5.7
P/Book Value (x)	-	-	1.9	1.7	1.5
Dividend Yield (%)	-	-	5.1	5.1	5.1
ROE (%)	-	-	28.1	26.6	23.5
Net Gearing (%)	-	-	(8.5)	Net Cash	Net Cash

P&L Analysis (RM m)

<u>FYE Dec (RMm)</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006F</u>	<u>2007F</u>
Revenue	64.9	122.1	160.0	187.0	218.1
Operating Profit	15.3	21.4	32.5	34.3	35.3
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	29.5
Effective Tax Rate	17.5	17.7	12.4	17.0	17.0
Net Profit	10.7	14.7	20.5	23.9	24.4
Operating Margin	19.5	14.2	16.9	15.1	13.3
Pre-tax Margin	19.9	14.6	14.6	15.4	13.5
Net Margin	16.4	12.1	12.8	12.8	11.2

Results Review & Earnings Outlook

- BPP posted a RM5.31m (+8.6% yoy) net profit on the back of revenue of RM48.1m (+25.3% yoy) for 1Q06. Operating margins were however weaker yoy at 12.4% vs 15.2% in 1Q05. The slip in margins was attributed to higher start-up costs due to teething problems incurred by BPP's new machine lines. To recap, the new machine line which has been in operation since Dec 05 increased BPP's capacity by 40% to 60,000MT. The yoy increase of 25.3% in revenue was also attributed to contribution from the new machinery. A change in product mix in favour of stretch films (75% stretch, 25% blown as opposed to 70:30 a year ago) which carry slightly lower margins (demand is however stronger for stretch film), also affected margins.
- Annualised, net profit came in some 11.2% short of our full year estimate for FY06 while revenue was roughly in line. However, we are maintaining our earnings for FY06 despite this shortfall as we expect the problems with the new machinery to be short term. In fact, our checks with management indicated that utilisation levels for its new machineries are already running near optimum levels, in the 70%-75% region, compared to its initial start up in 1Q. New orders are coming particularly from the export markets (Korea and Japan), which now account for 60%-62% of revenue, up from 55% a year ago.
- Sequentially, 1Q06 revenue was 14.9% higher while net profit increased by 18.2%. To recap, 4Q05's earnings were affected by higher global resin prices as a result of Hurricanes Katrina and Rita in the USA and slower sales due to the Ramadan festive season.
- Going forward, we expect BPP to achieve 16.4% yoy growth in EPS for FY06 driven by higher contribution from its new machine lines and higher machine utilization rate. Key risks to our estimates are the teething problems incurred with the new machine line and delays in passing on higher resin prices to its customers. The latter has not been an issue for BPP though.

Valuation and Recommendation

- BPP's share price has performed exceedingly well, appreciating 46% since our initiation of coverage in Sept 05. Despite this, we are keeping our **BUY** recommendation on the stock in light of its decent earnings growth, consistent delivery of earnings, cheap valuations (6.8x FY06 EPS) and an attractive net dividend yield of 5.1%, which is sustainable going forward. Our fair value is upgraded to RM1.59 (from RM1.41) based on BPP's peer average PE of 8x.

Figure 1: Quarterly Results Comparison

	1QFY05	4QFY05	1QFY06	QoQ	YoY
Revenue	38.4	41.8	48.1	14.9%	25.3%
Operating Profit	5.8	5.4	6.0	10.1%	2.0%
Int expense	-0.1	-0.1	-0.2	49.5%	69.7%
Int income	0.1	0.2	0.2	6.8%	46.5%
Pre-tax Profit	5.9	5.6	6.1	10.0%	4.5%
Net Profit	4.9	4.5	5.3	18.2%	8.6%
Operating Margin	15.2%	12.9%	12.4%	nm	nm
Pre-tax Margin	15.3%	13.4%	12.8%	nm	nm
Net Margin	12.8%	10.7%	11.1%	nm	nm

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HLG SECURITIES 12855-D

Level 8, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880 (Research)

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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
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