STANDARD & POOR'S

BP Plastics Holding

Recommendation: **BUY**

Stock Code: **5100** Bloomberg: **BPP MK** Price: **MYR1.35** 12-Month Target Price: **MYR1.53** Date: **May 8, 2006**

Board: Main

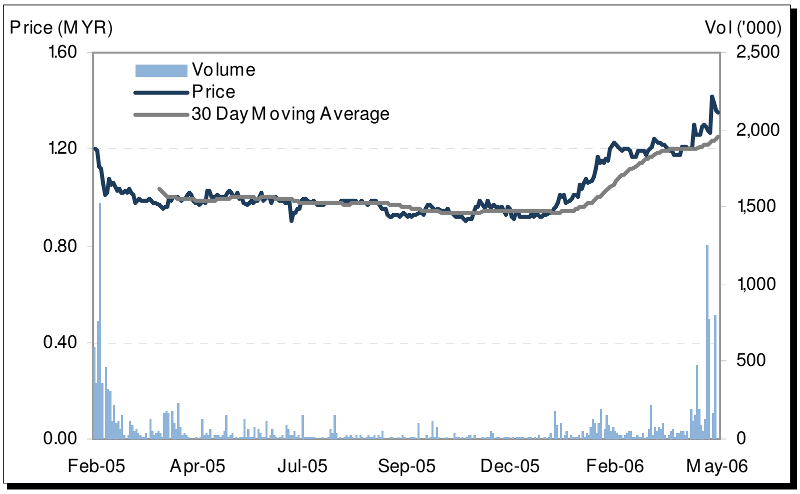
Sector: Industrial Products

GICS: Materials / Commodity Chemicals

Market Capitalization: MYR162.0 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

- 1Q06 net profit of MYR5.3 mln (+8.6% YoY) was in line with our expectations, accounting for 22.6% of our full year forecast. According to management, the growth was mainly driven by capacity expansion amid increased orders.
- While there was no disclosure on the average selling price (ASP), we note that 1Q06 operating margin fell to 12.7% from 15.3% in 1Q05 due to the increase in plastic resin prices and the startup cost of the new production line. Nonetheless, a 25.3% YoY increase in revenue more than offset the margin squeeze, resulting in a 3.9% rise in operating profit.
- We continue to project 2006 net profit of MYR23.4 mln (+14.2% YoY) and 2007 net profit of MYR28.5 mln (+21.7% YoY). In our view, higher sales volume will be the key growth driver. We have assumed relatively stable operating margins, with potential gross margin squeeze due to high crude prices (feedstock for plastic resins) partly offset by increased economies of scale.
- 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 company's ability to continuously pass on cost increases and to accurately predict the pricing trend of plastic resins.

Recommendation & Investment Risks

- We have raised our 12-month target price to MYR1.53 from MYR1.34 after updating our relative valuation multiples. With a 13.3% potential upside, we reiterate our Buy recommendation.
- Our target price is derived from relative valuation, based on 7.9x 2006 EPS estimate (vs. 6.9x previously). We have compared BPP with Scientex Packaging (SCIP MK, Hold) and Poly Tower Ventures (PTV MK, Strong Sell), which are trading at 7.9x and 14.6x FY06 earnings respectively. We note that BPP has a higher operating margin than SCIP and PTV, but is smaller in size relative to SCIP.
- Risks to our recommendation and target price include delays in capacity expansion and relatively low earnings visibility complicated by volatile product prices and raw material costs. We do not rule out the possibility of higher crude prices depressing gross margins and therefore, affecting demand for plastic packaging products.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	17.2	19.5
PER (x)	7.8	6.9
Dividend/Share (sen)	7.0	8.0
NTA/Share (MYR)	0.71	0.81
Book Value/Share (MYR)	0.71	0.81
Issued Capital (mln shares)	120.0	
52-week Share Price Range (MYR)	0.90 – 1.47	
Major Shareholders:	%	
LG Capital	45.0	

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	NA	0.55	0.71	0.81
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	7.0	8.0
Payout Ratio (%)	0.0	0.0	40.6	41.0
PER (x)	14.2	10.3	7.8	6.9
P/Cash Flow (x)	11.7	8.4	6.6	5.7
P/Book Value (x)	NA	2.4	1.9	1.7
Dividend Yield (%)	0.0	0.0	5.2	5.9
ROE (%)	NA	23.7	24.4	24.0
Net Gearing (%)	NA	0.0	0.0	0.0

All required disclosures appear on the last page of this report. Additional information is available upon request.

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Quarterly Performance

FY Dec. / MYR mln	1Q06	1Q05	% Change
Revenue	48.1	38.4	25.3
Operating Profit (EBIT)	6.1	5.9	3.9
Depreciation	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	NA
Pre-tax Profit	6.1	5.9	4.5
Net Profit	5.3	4.9	8.6
Operating Margin (%)	12.7	15.3	-
Pre-tax Margin (%)	12.8	15.3	-
Net Margin (%)	11.1	12.8	-

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
Pre-tax 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
Pre-tax 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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