HLG Research

CMDF Bursa Research Scheme

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BP Plastics Holding Bhd

Results Note

Stock Code: 5100

Price:	**RM1.14**
Market Capitalisation:	**RM136.8m**
Board:	**Main**
Sector:	**Industrial**
Recommendation:	**BUY**

Key Stock Statistics

FYE Dec	2005	2006F
EPS (sen)	17.1	21.8
P/E (x)	6.7	5.2
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		RM0.90-RM1.49

Major Shareholders:

	%
LG Capital	45

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)	-	1.1	24.8	28.6	29.3
Earnings (sen)	8.9	12.3	17.1	21.8	24.0
Dividend (sen)	-	-	7.0	7.0	7.0
Payout Ratio (%)	-	-	41.0	32.0	29.2
PER (x)	12.8	9.3	6.7	5.2	4.7
P/Cash Flow (x)	-	-	4.6	4.0	3.9
P/Book Value (x)	-	-	1.6	1.4	1.2
Dividend Yield (%)	-	-	6.1	6.1	6.1
ROE (%)	-	-	28.1	28.8	26.6
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	160.5	228.5	254.8
Operating Profit	12.6	17.3	22.4	31.0	33.3
Depreciation	-2.2	-3.2	-3.7	-4.7	-5.1
Interest Expenses	-0.2	-0.3	-0.4	-0.4	-0.4
Pre-tax Profit	12.9	17.9	23.4	31.6	34.7
Effective Tax Rate	17.5	17.7	12.5	17.0	17.0
Net Profit	10.7	14.7	20.5	26.2	28.8
Operating Margin	19.5	14.2	14.0	13.6	13.1
Pre-tax Margin	19.9	14.6	14.6	13.8	13.6
Net Margin	16.4	12.1	12.8	11.5	11.3

Results Review & Earnings Outlook

1H06 results in line, margins down due to higher costs

BPP's 1H06 results came in line with our expectations with revenue and net profit increasing by 29.8% and 13.0% yoy respectively. The surge in revenue was attributed to the increase in sales due to additional capacity. Recall that BPP increased its capacity by 56.25% to 60,000MT pa in Dec 05. However, as a result of higher raw material and operating costs, operating margins fell from 15.0% in 1H05 to 12.6%. This is in line with our expectations as higher resin prices are evident worldwide and resin constitutes more than 80% of raw material cost.

Sequential improvement due to higher sales

Sequentially, revenue was up 8.7% while net profit was up 8.3%. This increase was attributed to higher sales during 2Q06. As seen in the 1H06 results, there was a slight margins erosion (operating margins down from 12.7% in 1Q06 to 12.5%). The dip in margins can also be attributed to the change in product mix for stretch and blown films from 70:30 previously to 75:25, as there is higher demand for lower margin stretch film.

1H06 seasonally weaker, annualised results thus lower

Merely annualised, 1H06 revenue and net profit were 12.2% and 15.6% lower than our FY06 estimates. However, BPP usually has a seasonally stronger second half of the year. Also, there were higher start-up costs and teething problems with the new lines installed in Dec 05 as mentioned in our previous report.

2H06 to be strong with growing demand for products

Going forward, we are expecting 3Q06 and 4Q06 to be seasonally stronger. With sufficient capacity to meet growing demand and the new lines working efficiently, margins are expected to improve as economies of scale can be achieved. Consequently, we expect revenue and earnings to be stronger in 2H06 and therefore leaving our forecast unchanged.

Valuation and Recommendation

We are maintaining our **BUY** recommendation on BPP with an unchanged target price of **RM1.68**, which is derived from its peers' average PER of 7.7x. We continue to like the stock for its decent earnings growth, constant delivery of earnings, cheap valuations of 5.2x FY06 EPS and a decent net dividend yield of 6.1%.

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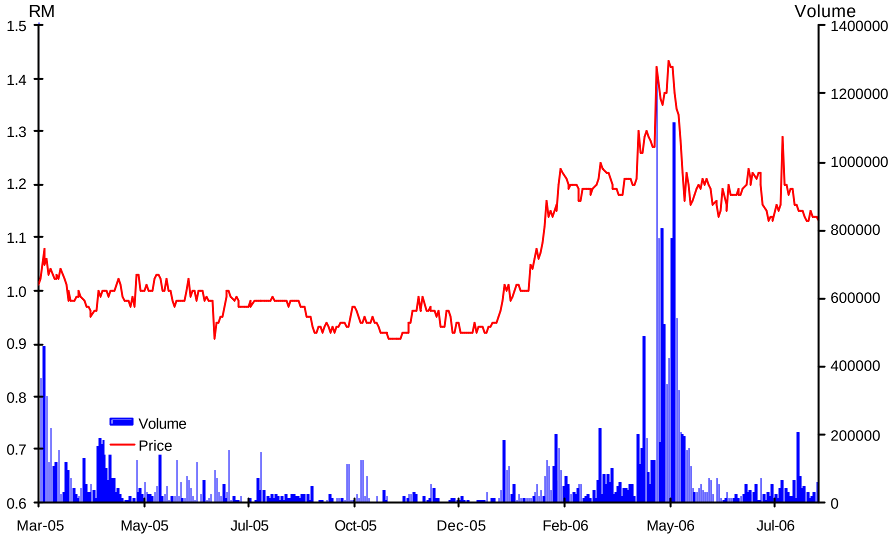
Figure 1: Quarterly Results Comparison

	2QFY05	1QFY06	2QFY06	QoQ	YoY
Revenue	38.9	48.1	52.2	8.7%	34.4%
Operating Profit	5.7	6.1	6.5	7.2%	14.4%
Int expense	-0.1	-0.2	-0.2	5.3%	62.2%
Int income	0.2	0.2	0.1	-32.8%	-27.4%
Pre-tax Profit	5.8	6.1	6.5	6.0%	12.4%
Net Profit	4.9	5.3	5.8	8.3%	17.5%
Operating Margin	14.7%	12.7%	12.5%	nm	nm
Pre-tax Margin	14.9%	12.8%	12.5%	nm	nm
Net Margin	12.6%	11.1%	11.0%	nm	nm

Figure 2: Cumulative Results Comparison

	Ytd FY05	Ytd FY06	Ytd Chg
Revenue	77.2	100.3	29.8%
Operating Profit	11.6	12.7	9.4%
Int expense	-0.2	-0.3	0.0%
Int income	0.3	0.3	0.0%
Pre-tax Profit	11.7	12.7	8.4%
Net Profit	9.8	11.1	13.0%
Operating Margin	15.0%	12.6%	nm
Pre-tax Margin	15.1%	12.6%	nm
Net Margin	12.7%	11.0%	nm

Figure 3: BPP's share price performance and volume



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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

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