STANDARD & POOR'S

BP Plastics Holding

Recommendation: **BUY**

Stock Code: **5100** | Bloomberg: **BPP MK** | Price: **MYR1.14** | 12-Month Target Price: **MYR1.35** | Date: **September 7, 2006**

Board: Main

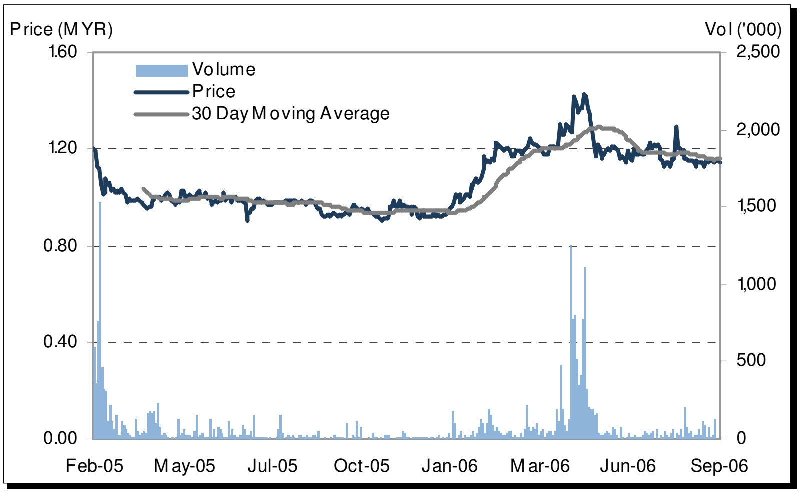
Sector: Industrial Products

GICS: Materials / Paper Packaging

Market Capitalization: MYR136.8 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

- 2Q06 net profit of MYR5.8 mln (+17.5% YoY) was in line with our expectations, accounting for about 24.8% of our full year forecast. According to management, the growth was mainly driven by capacity expansion amid increased orders. Nonetheless, operating margin fell to 12.5% from 14.8% in 2Q05 due to higher plastic resin prices and the startup cost of new equipment.
- Dragged down by a slightly weaker 1Q06, 1H06 net profit increased 13.0% YoY to MYR11.1 mln. Operating margin fell to 12.6% from 15.1% in 1H05. While net profit was largely in line with our expectations, operating margin was lower than expected.
- We have lowered our operating margin assumptions, which were largely offset by higher revenue estimates from the increase in our average selling price forecasts. We continue to project 2006 and 2007 net profit of MYR23.4 mln (+14.2% YoY) and MYR28.5 mln (+21.7% YoY), respectively. We have assumed the margin squeeze to continue into 2H06 due to high plastic resin prices.
- 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 continue to pass on cost increases and to accurately predict the pricing trend of plastic resins.

Recommendation & Investment Risks

- We lower our 12-month target price to MYR1.35 (from MYR1.53) after updating our relative valuation multiples. We reiterate our Buy recommendation.
- Our target price is derived from relative valuation, based on 6.9x 2006 EPS estimate (vs. 7.9x previously). We have compared BPP with Scientex Packaging (SCIP MK, MYR1.75, Hold) and Poly Tower Ventures (PTV MK, MYR0.61, Hold), which are trading at 7.7x and 6.1x 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)	6.6	5.9
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 – 1.49	
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	41.1
PER (x)	12.0	8.7	6.6	5.9
P/Cash Flow (x)	9.9	7.1	5.6	4.8
P/Book Value (x)	NA	2.1	1.6	1.4
Dividend Yield (%)	0.0	0.0	6.1	7.0
ROE (%)	NA	23.7	24.4	23.9
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.

BP Plastics Holding

Recommendation: **BUY**

Stock Code: **5100** Bloomberg: **BPP MK** Price: **MYR1.14** 12-Month Target Price: **MYR1.35** Date: **September 7, 2006**

Quarterly Performance

FY Dec. / MYR mln	2Q06	2Q05	% Change
Revenue	38.9	52.2	34.4
Operating Profit (EBIT)	5.8	6.5	13.6
Depreciation	NA	NA	NA
Net Interest Income / (Expense)	0.04	-0.03	-186.5
Pre-tax Profit	5.8	6.5	12.4
Net Profit	4.9	5.8	17.5
Operating Margin (%)	14.8	12.5	-
Pre-tax Margin (%)	14.9	12.5	-
Net Margin (%)	12.6	11.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	122.1	160.0	218.1	262.0
Operating Profit (EBIT)	18.1	23.1	26.7	32.5
Depreciation	-3.2	-3.8	-4.8	-5.3
Net Interest Income / (Expense)	-0.3	0.3	0.2	0.2
Pre-tax Profit	17.9	23.4	26.9	32.7
Effective Tax Rate (%)	17.7	12.4	13.0	13.0
Net Profit	14.7	20.5	23.4	28.5
Operating Margin (%)	14.9	14.4	12.2	12.4
Pre-tax Margin (%)	14.6	14.6	12.3	12.5
Net Margin (%)	12.1	12.8	10.7	10.9

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

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.

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"); in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of MYR15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe, or Ching Wah Tam.