STANDARD & POOR'S

BP Plastics Holding

Recommendation: **BUY**

Stock Code: **5100** Bloomberg: **BPP MK** Price: **MYR1.16** 12-Month Target Price: **MYR1.35** Date: **October 16, 2006**

Board: Main

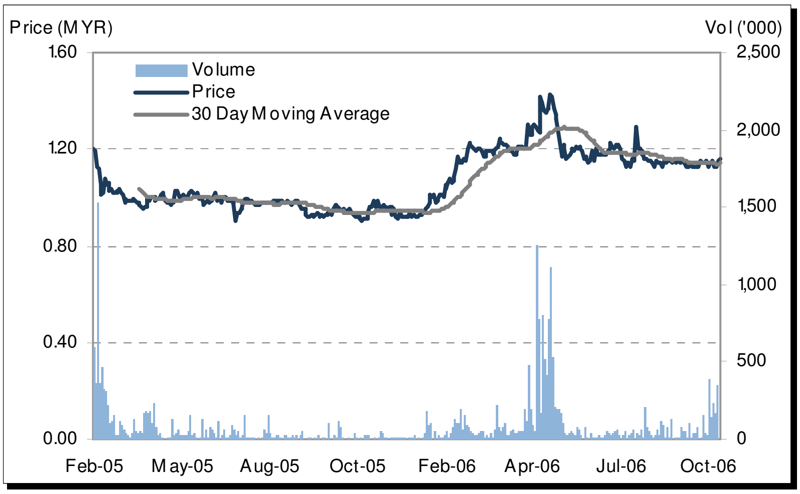
Sector: Industrial Products

GICS: Materials / Paper Packaging

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



Recent Developments

- Due to high plastic resin prices, 3Q06 gross margin could fall from 18.0% in 1H06 and sales volume momentum might slow as customers refrain from buying in hope for softer product prices given the retreat in crude prices to below US$60/bbl.
- Nonetheless, gross margin and demand could stabilize or improve in 4Q06 should the fall in crude prices filter into plastic resin prices. We note that the LLDPE price is currently only 5.0% off from the peak of US$1400/ton in early September 2006.
- BPP sold more than 17,000 tons of stretch films and plastic bags in 1H06, on track to meet our full-year forecast of 34,000 tons (+21.4% YoY). Management remains confident of the demand prospect and expects a 30%+ YoY increase in 2007 sales volume to around 45,000 tons.
- We continue to project a contraction in 2006 operating margin to 12.2% from 14.4% in 2005 and 12.6% in 1H06. In line with our expectations for a flat average crude price in 2007, we forecast a slight pickup in 2007 operating margin to 12.4% helped by lower startup cost of new equipment. We maintain our 2007 output forecast of 42,000 tons (+23.5 % YoY).

Recommendation & Investment Risks

- We reiterate our Buy recommendation and 12-month target price of MYR1.35.
- Our target price is derived from relative valuation, based on 6.9x 2006 EPS estimate. We have compared BPP with Scientex Packaging (SCIP MK, Buy) and Poly Tower Ventures (PTV MK, Hold), which are trading at 7.4x and 6.7x FY06 earnings, respectively. Although smaller in size relative to SCIP, BPP has a higher operating margin than both SCIP and PTV.
- 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.

Earnings Outlook

- We believe volume increases will offset margin contraction to deliver decent earnings growth. We continue to project 2006 and 2007 net profit of MYR23.4 mln (+14.0% YoY) and MYR28.5 mln (+21.8% YoY), respectively.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	17.2	19.5
PER (x)	6.7	6.0
Dividend/Share (sen)	7.0	8.0
NTA/Share (MYR)	0.70	0.81
Book Value/Share (MYR)	0.70	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	0.70	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	41.0	41.1
PER (x)	12.2	8.8	6.7	6.0
P/Cash Flow (x)	10.1	7.2	5.7	4.9
P/Book Value (x)	NA	2.1	1.7	1.4
Dividend Yield (%)	0.0	0.0	6.0	6.9
ROE (%)	NA	23.7	24.4	23.9
Net Gearing (%)	NA	0.0	0.0	0.0

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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

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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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