

BP Plastics Bhd
Results Note
Stock Code: 5100
Price: RM1.23
Market Capitalisation: RM147.6m
Board: Main Board
Sector: Industrial Products
Recommendation: Maintain BUY
Key Stock Statistics

FYE Dec (RMm)	2005	2006F
EPS (sen)	17.1	19.9
P/E (x)	7.2	6.2
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	0.92 - 1.49	

Major Shareholders:

	%
LG Capital	45.0

Per Share Data

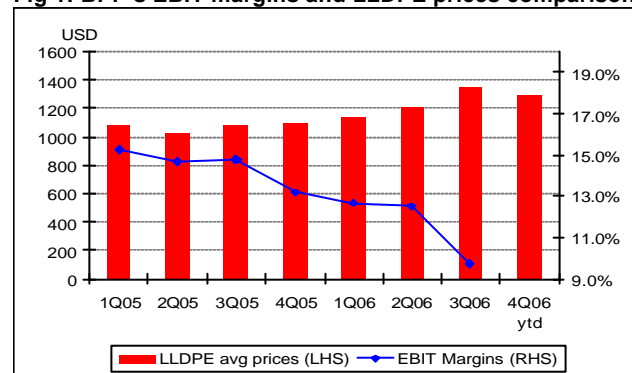
FYE Dec (RMm)	2003	2004	2005	2006F	2007F
Book Value (RM)	-	0.5	0.70	0.8	1.0
Cash Flow (sen)	-	1.1	24.8	26.7	30.5
Earnings (sen)	8.9	12.3	17.1	19.9	24.1
Dividend (sen)	-	-	7.0	7.0	7.0
Payout Ratio	-	-	41.0	35.2	29.0
PER (x)	13.8	10.0	7.2	6.2	5.1
P/Cash Flow (x)	-	-	5.0	4.6	4.0
P/Book Value (x)	-	-	1.8	1.5	1.3
Dividend Yield (%)	-	-	5.7	5.7	5.7
ROE (%)	-	-	28.1	26.6	27.2
Net Gearing (%)	-	-	(8.5)	Net Cash	Net Cash

P&L Analysis (RM mil)

FYE Dec (RMm)	2003	2004	2005	2006F	2007F
Revenue	64.9	122.1	160.5	228.5	281.3
Operating Profit	12.6	17.3	22.4	27.8	32.7
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	28.4	34.0
Effective Tax Rate	17.5	17.7	12.5	16.0	15.0
Net Profit	10.7	14.7	20.5	23.9	28.9
Operating Margin	19.5	14.2	14.0	12.2	11.6
Pre-tax Margin	19.9	14.6	14.6	12.4	12.1
Net Margin	16.4	12.1	12.8	10.5	10.3

Results Review & Earnings Outlook

- BPP reported a 9-month net profit of RM16.2m (+1.0% yoy) on the back of revenue of RM155.5m (+31.5% yoy). The surge in revenue was attributed to increase in sales due to additional capacity from its new manufacturing plant. However, as a result of higher raw material costs, EBIT margins fell to 9.7% from 14.7% in 3Q05. This is in line with our expectations as high LLDPE prices puts downward pressure on EBIT margins.
- Merely annualized, revenue and net profit is 9.3% and 9.8% lower than our FY06 estimates. However, for 4Q we expect a slight pickup in EBIT margins and hence earnings as prices for LLDPE have eased by around 10% from its peak in September at USD1,400/mt (refer to Fig 1).

Fig 1: BPP's EBIT margins and LLDPE prices comparison


Source: Bloomberg, Company data

- Against 2Q06, revenue increased 5.7% qoq attributed to increased sales from its new manufacturing plant, which is currently running at 70% of enlarged capacity as at 2H06. Sequentially, net profit came in lower at RM5.1m (-11.5% qoq) resulting from a contraction in EBIT margin, which was due to a 12% qoq increase in LLDPE prices.
- Going forward, FY07 would be a better year for BPP with stabilizing raw material prices, increased production capacity and good demand prospects for plastic packaging with management projecting a 30% increase in sales volume. We are forecasting a more conservative sales volume of 45,000mt (+21% yoy) and net profit to amount to RM28.9m (+21% yoy) for FY07.

Valuation & Recommendation

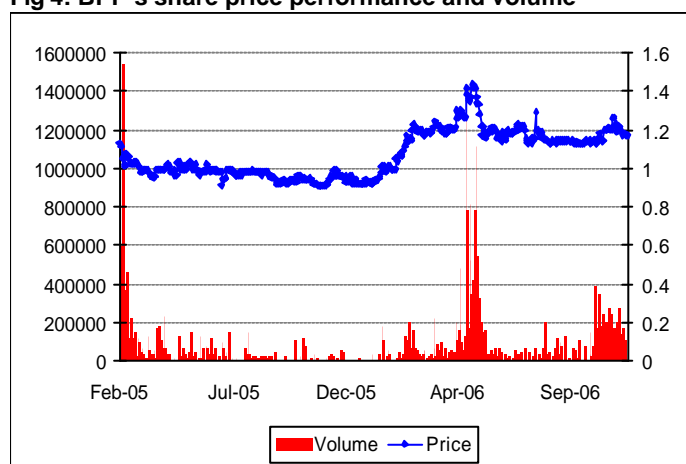
- We are maintaining our **BUY** recommendation on BPP, with an unchanged target price of **RM1.46**, which is derived by ascribing a peer PER of 6x FY07 EPS estimate. We continue to like the stock for its attractive valuations of 5.1x FY07 EPS and a decent dividend yield of 6%.

Fig 2: Quarterly results comparison

	3QFY05	2QFY06	3QFY06	QoQ	YoY
Revenue	41.0	52.2	55.2	5.7%	34.7%
Operating Profit	6.0	6.5	5.4	-17.8%	-10.8%
Int expense	-0.1	-0.2	-0.2	-2.5%	52.0%
Int income	0.2	0.1	0.1	-18.9%	-44.0%
Pre-tax Profit	6.1	6.5	5.3	-18.2%	-12.9%
Net Profit	6.2	5.8	5.1	-11.5%	-18.0%
Operating Margin	14.7%	12.5%	9.7%	nm	nm
Pre-tax Margin	14.9%	12.5%	9.7%	nm	nm
Net Margin	15.2%	11.0%	9.2%	nm	nm

Fig 3: Cumulative results comparison

	Ytd FY05	Ytd FY06	Ytd Chg
Revenue	118.2	155.5	31.5%
Operating Profit	17.6	18.0	2.5%
Int expense	-0.3	-0.5	0.0%
Int income	0.5	0.4	0.0%
Pre-tax Profit	17.8	18.0	1.1%
Net Profit	16.0	16.2	1.0%
Operating Margin	14.9%	11.6%	nm
Pre-tax Margin	15.1%	11.6%	nm
Net Margin	13.5%	10.4%	nm

Fig 4: BPP's share price performance and volume


Source: Bloomberg

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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
SELL	Total return is expected to be below -10% over a 12-month period
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