

## BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR1.19

12-Month Target Price: MYR1.35

Date: November 29, 2006

**Board:** Main**Sector:** Industrial Products**GICS:** Materials/Paper Packaging**Market Value - Total:** MYR142.8 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:** Siti Rudziah Salikin**Results Review & Earnings Outlook**

- BPP's 3Q06 results were slightly below our expectations. Its profitability was impacted by high plastic resin prices, which reduced operating margin to 9.7% versus 12.6% in 1H06 and our projection of 11.5%. 9M net profit of MYR16.2 mln (+1% YoY) accounted for 69% of our original full-year forecast.
- The higher-than-expected drop in operating margin was caused by the lag effect of passing down the rise in raw material costs to customers, and this offset the 31.5% YoY growth in 9M06 revenue.
- We reduce our margin assumptions and cut net profit for 2006 and 2007 by 6.4% and 8.1% respectively. Our revised forecasts assume a pick-up in margins from 3Q06 for two reasons: (i) BPP expects to gradually pass on the cost increment to its customers in the next one to two quarters; and (ii) polyethylene prices have come down, in tandem with the fall in crude oil prices.
- Top-line growth will be driven by higher production capacity (BPP installed two new production lines in Dec. 2005, raising its annual capacity by 24,000 mt to 60,000 mt) and increasing customer orders (demand for plastic packaging products in Asia generally grows at 1.5x-2.0x GDP growth). The volume increase should offset margin contraction, allowing BPP to continue registering net profit growth in 2006.

**Recommendation & Investment Risks**

- We maintain our Buy recommendation on the stock with an unchanged 12-month target price of MYR1.35 per share.
- We value the stock at a PER of 6.0x (which is close to forward multiples for plastic manufacturing companies in the region) on a rolled-over EPS of 21.7 sen for 2007. We have also included our projected net dividend of 4.3 sen per share (nil previously) to arrive at the target price.
- We believe the share performance will be supported by the sustainability of earnings (notwithstanding the volatility of crude oil prices), strong ROEs and a decent dividend yield of 5% (gross).
- Risks to our recommendation and target price include an economic slowdown, which will affect demand for plastic packaging products and in turn may prevent BPP from passing on any cost increase to customers. Higher oil prices may impact profitability, which is susceptible to volatile end-product prices and raw material costs.

**Key Stock Statistics**

FY Dec.	2005	2006E
Reported EPS (sen)	17.2	18.2
PER (x)	6.9	6.5
Dividend/Share (sen)	7.0	6.0
NTA/Share (MYR)	0.70	0.82
Book Value/Share (MYR)	0.70	0.82
No. of Outstanding Shares (mln)	120.0	
52-week Share Price Range (MYR)	0.92 - 1.43	
Major Shareholders:	%	
LG Capital	45.0	

**Per Share Data**

FY Dec.	2003	2004	2005	2006E
Book Value (MYR)	NA	0.55	0.70	0.82
Cash Flow (sen)	NA	6.6	20.3	22.3
Reported Earnings (sen)	NA	11.8	17.2	18.2
Dividend (sen)	NA	0.0	7.0	6.0
Payout Ratio (%)	NA	0.0	41.0	32.9
PER (x)	NA	10.1	6.9	6.5
P/Cash Flow (x)	NA	18.0	5.9	5.3
P/Book Value (x)	NA	2.2	1.7	1.4
Dividend Yield (%)	NA	0.0	5.9	5.0
ROE (%)	NA	9.6	28.1	24.0
Net Gearing (%)	NA	0.0	0.0	0.0

\*2004: Mar. 9 to Dec. 31

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Page 1 of 4

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FY Dec. / MYR mln	3Q06	3Q05	% Change
Reported Revenue	55.2	41.0	34.7
Reported Operating Profit	5.4	6.1	-11.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.1	0.0	NM
Reported Pre-tax Profit	5.3	6.1	-12.9
Reported Net Profit	5.1	6.2	-18.0
Reported Operating Margin (%)	9.7	14.9	-
Reported Pre-tax Margin (%)	9.7	14.9	-
Reported Net Margin (%)	9.2	15.2	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2004	2005	2006E	2007E
Reported Revenue	60.4	160.5	211.0	260.7
Reported Operating Profit	7.8	23.1	24.8	31.5
Depreciation & Amortization	-1.4	-3.7	-4.8	-5.3
Net Interest Income / (Expense)	0.0	0.3	0.1	0.0
Reported Pre-tax Profit	7.8	23.4	24.8	31.6
Effective Tax Rate (%)	23.9	12.5	12.0	17.0
Reported Net Profit	6.0	20.5	21.9	26.2
Reported Operating Margin (%)	13.0	14.4	11.7	12.1
Reported Pre-tax Margin (%)	13.0	14.6	11.8	12.1
Reported Net Margin (%)	9.9	12.8	10.4	10.1

\*2004: Mar. 9 to Dec. 31

Source: Company data, S&amp;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.

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

**Recommendation and Target Price History**

Date	Recommendation	Target Price
7-Sep-06	Buy	1.35
8-May-06	Buy	1.53
23-Feb-06	Buy	1.34
17-Nov-05	Hold	1.03
19-Oct-05	Hold	1.01

