

BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR1.18

12-Month Target Price: MYR1.35

Date: February 8, 2007

Board: Main

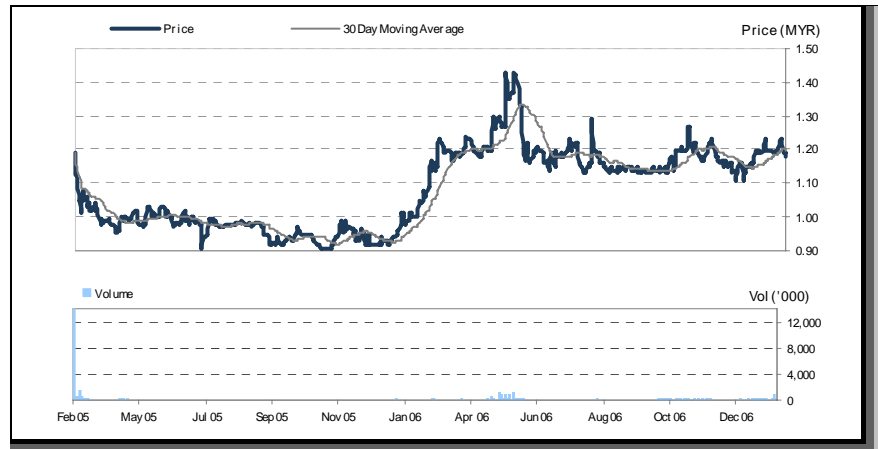
Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR141.7 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



Recent Developments

- Sales volume momentum was slower than anticipated in 4Q06. Our expectations that BPP would recover some of its lost profitability in 4Q (BPP's operating margin dropped to 9.7% in 3Q06 from 12.5% in 2Q06 and 14.9% in 3Q05) did not materialize. The anticipation that lower crude oil prices will bring down product prices could be one of the reasons for buyers delaying their orders.
- Nonetheless, the overall demand for polyethylene packaging is still healthy, driven by a continued economic expansion in the region. Demand for plastic packaging products in Asia has generally grown at about 1.5x-2.0x GDP growth. More than 60% of BPP's output is exported, mainly to Japan, Australia and Singapore.
- BPP's management remains optimistic with its sales volume growth projection of 30%-40% for 2007 to about 45,000 tonnes, which we believe is attainable given the expected growth in demand and higher capacity utilization (from less than 60% in 2006).
- LLDPE prices have come down by 10%-15% from its peak in early Sep. 2006 and are currently at about US\$1,200-US\$1,300/ton. Our forecast assumes an average LLDPE price of US\$1,200-US\$1,250/ton for 2007, which is about the same for 2006. Without factoring in an increase in selling prices, we expect net profit margin to stay at the single-digit level.

Recommendation & Investment Risks

- We maintain our Buy recommendation with an unchanged 12-month target price of MYR1.35 per share. While 2006 earnings may be weaker than our earlier expectation, we expect growth to resume strongly in 2007. The stock also offers a decent dividend yield of 5%.
- We value the stock at 6.0x our forecast earnings for 2007 and add our projected net dividend of 4.4 sen for 2007 to arrive at the target price. The assigned multiple is at a discount to the stock's average historical PER of 6.6x (since its listing in Feb. 2005). The discount reflects the uncertainty of a margin recovery given the fluctuating crude oil prices.
- Risks to our recommendation and target price include an economic slowdown, which will affect demand for plastic packaging products. Higher crude oil prices may also result in increased costs of plastic resins and negatively impact profitability.

Earnings Outlook

- We have revised down our projected net profit for 2006 by 8.2% after factoring in lower operating margins for 4Q, and therefore expect a slight contraction in earnings for the year. We are keeping our net profit forecast of MYR26.2 mln for 2007 (up 30% YoY) driven by an expansion in the sales volume.

Key Stock Statistics

FY Dec.	2005	2006E
Reported EPS (sen)	17.2	16.7
PER (x)	6.9	7.1
Dividend/Share (sen)	7.0	6.0
NTA/Share (MYR)	0.70	0.87
Book Value/Share (MYR)	0.70	0.87
No. of Outstanding Shares (mln)	120.1	
52-week Share Price Range (MYR)	1.06 - 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	0.87
Cash Flow (sen)	NA	6.6	20.3	20.3
Reported Earnings (sen)	NA	11.8	17.2	16.7
Dividend (sen)	NA	0.0	7.0	6.0
Payout Ratio (%)	NA	0.0	41.0	35.9
PER (x)	NA	10.0	6.9	7.1
P/Cash Flow (x)	NA	17.8	5.8	5.8
P/Book Value (x)	NA	2.1	1.7	1.4
Dividend Yield (%)	NA	0.0	5.9	5.1
ROE (%)	NA	9.6	28.1	21.4
Net Gearing (%)	NA	0.0	0.0	0.6

*2004 for 10M from Mar. 9 to Dec. 31

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Profit & Loss

FY Dec. / MYR mln	2004	2005	2006E	2007E
Reported Revenue	60.4	160.5	211.0	271.3
Reported Operating Profit	7.8	23.1	23.1	31.3
Depreciation & Amortization	-1.4	-3.7	-4.3	-4.6
Net Interest Income / (Expense)	0.0	0.3	0.0	0.0
Reported Pre-tax Profit	7.8	23.4	23.1	31.5
Effective Tax Rate (%)	23.9	12.5	13.0	17.0
Reported Net Profit	6.0	20.5	20.1	26.2
Reported Operating Margin (%)	13.0	14.4	10.9	11.5
Reported Pre-tax Margin (%)	13.0	14.6	10.9	11.6
Reported Net Margin (%)	9.9	12.8	9.5	9.6

*2004 for 10M from Mar. 9 to Dec. 31

Source: Company data, S&P Equity Research

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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.

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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

