

BP Plastics Bhd
Results Note
Stock Code: 5100
Price: RM1.19
Market Capitalisation: RM142.8m
Board: Main Board
Sector: Industrial Products
Recommendation: Downgrade to REDUCE
Key Stock Statistics

FYE Dec (RMm)	2006	2007F
EPS (sen)	16.0	17.5
P/E (x)	7.4	6.8
Dividend/Share (sen)	5.0	5.0
NTA/Share (RM)	0.86	0.95
Book Value/Share (RM)	0.86	0.95
Issued Capital (mil shares)	120.0	120.0
52-weeks Share Price Range	1.07 - 1.49	

Major Shareholders:

	%
LG Capital	45.0

Per Share Data

FYE Dec (RMm)	2004	2005	2006	2007F	2008F
Book Value (RM)	0.5	0.7	0.9	1.0	1.1
Cash Flow (sen)	1.1	30.9	0.3	38.5	24.5
Earnings (sen)	12.3	17.1	16.0	17.5	19.1
Dividend (sen)	-	7.0	5.0	5.0	5.0
Payout Ratio	-	41.0	31.2	28.5	26.1
PER (x)	9.7	7.0	7.4	6.8	6.2
P/Cash Flow (x)	-	3.9	355.2	3.1	4.9
P/Book Value (x)	-	1.7	1.4	1.2	1.1
Dividend Yield (%)	-	5.9	4.2	4.2	4.2
ROE (%)	-	28.1	20.6	19.3	18.7
Net Gearing (%)	-	(8.5)	Net	Net	Net
			Cash	Cash	Cash

P&L Analysis (RM mil)

FYE Dec (RMm)	2004	2005	2006	2007F	2008F
Revenue	122.1	160.0	200.2	262.6	281.5
Operating Profit	17.3	22.0	19.9	24.7	25.1
Depreciation	-3.2	-3.7	-4.7	-5.1	-5.4
Interest Expenses	-0.3	-0.4	-0.4	-0.4	-0.4
Pre-tax Profit	17.9	23.4	21.1	24.7	26.6
Effective Tax Rate	17.7	12.4	9.1	15.0	14.0
Net Profit	14.7	20.5	19.2	21.0	22.9
Operating Margin	14.2	13.7	10.0	9.4	8.9
Pre-tax Margin	14.6	14.6	10.6	9.4	9.4
Net Margin	12.1	12.8	9.6	8.0	8.1

Results Review & Earnings Outlook

- BPP reported a FY06 net profit of RM19.2m (-6.2% yoy) on the back of revenue of RM200.2m (+25.1% yoy). FY06 revenue and net profit came in 12.4% and 19.7% below our expectations, resulting from slower demand in 4Q06. For FY06, BPP recorded an estimated sales volume of 33,000mt, which is 11.6% below our forecast of 37,320mt.
- Sequentially, revenue and net profit decreased by 19.0% and 39.9%, respectively. The lower profit resulted from management's decision to absorb part of the high resin cost and not pass on the full impact to customers to enhance customer loyalty. Consequently, EBIT margins dipped to 7.3% compared to 9.8% in 3Q06.
- Management is guiding for 1Q07 to report similar results as in 4Q06. In light of the lower-than-expected sales, we believe our FY07 sales forecast of 45,000mt is too aggressive. Therefore, we are factoring in a lower capacity utilization rate of 70% (was 75% previously) for FY07 amounting to sales volume of 42,000mt. In line with the lower projected sales volume, we are lowering our EBIT margin assumption to 9.4% from 11.6% for FY07. Accordingly, our revenue and net profit estimates for FY07 are reduced by 6.7% to RM262.6m and 27.3% to RM21.0m, respectively.
- BPP proposed a final tax-exempt dividend of 5sen, representing a dividend yield of 4.2%, which is lower than our projected dividend of 7sen. We have revised our FY07-08 dividend forecast downwards to 5sen.
- Going forward, management expects demand to start picking up from 2Q07 onwards as prices of raw materials start to stabilize. We are projecting a +31% and +9.5% growth in revenue and net profit respectively for FY07. We are however leaving our FY07 selling prices assumption unchanged. We are also maintaining our resin cost assumption at USD1,410/mt for FY07, a 5% increase from FY06.

Valuation & Recommendation

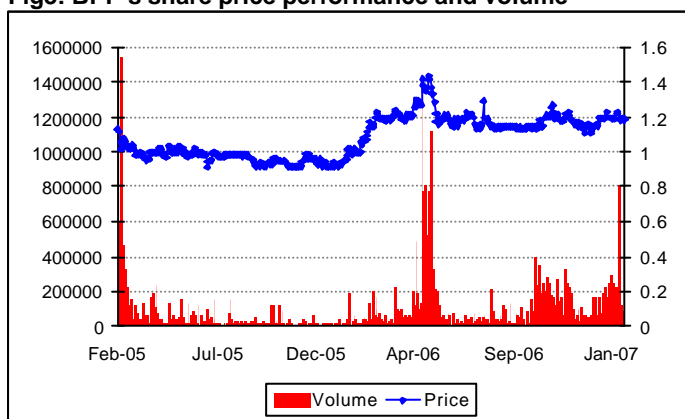
- Following the downgrade in earnings, valuations are now looking slightly demanding as BPP is trading at 6.8x FY07 EPS as opposed to its peers of 6x. Therefore, we are downgrading BPP to a **REDUCE** recommendation with a revised target price of **RM1.08** (was RM1.46 previously) based on an average peer PER of 6x.

Fig1 : Quarterly results comparison

	4QFY05	3QFY06	4QFY06	QoQ	YoY
Revenue	41.8	55.2	44.7	-19.0%	6.8%
Operating Profit	5.6	5.4	3.3	-39.6%	-41.7%
Int expense	-0.2	-0.2	-0.1	-11.0%	-17.9%
Int income	0.2	0.1	0.0	-66.0%	-80.2%
Pre-tax Profit	5.6	5.3	3.1	-40.9%	-43.6%
Net Profit	4.5	5.1	3.1	-39.9%	-31.9%
Operating Margin	13.3%	9.7%	7.3%	nm	nm
Pre-tax Margin	13.4%	9.7%	7.0%	nm	nm
Net Margin	10.7%	9.2%	6.9%	nm	nm

Fig2: Cumulative results comparison

	FY05	FY06	Ytd Chg
Revenue	160.0	200.2	25.1%
Operating Profit	23.2	21.3	-8.2%
Int expense	-0.5	-0.6	31.9%
Int income	0.7	0.5	-31.7%
Pre-tax Profit	23.4	21.1	-9.6%
Net Profit	20.5	19.2	-6.2%
Operating Margin	14.5%	10.6%	nm
Pre-tax Margin	14.6%	10.6%	nm
Net Margin	12.8%	9.6%	nm

Fig3: BPP's share price performance and volume


Source: Bloomberg

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BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% 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
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to be below -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
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