

## BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR1.19

12-Month Target Price: MYR1.35

Date: February 15, 2007

Board: Main

Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR142.9 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 &amp; Earnings Outlook

- BPP's 4Q06 net profit declined by 31.9% YoY but the weak results for the quarter were within our expectations.
- Net profit for the full year was down by 6.2% despite a 25.1% growth in revenue (due to additional capacity and increased customer orders). Margins were squeezed by higher costs of plastic resins (as a consequence of the strong crude oil prices), which were mostly absorbed by BPP to enhance customers' loyalty.
- We are keeping our net profit projection of MYR26.2 mln for 2007 and introduce our forecast of MYR27.2 mln for 2008.
- BPP's sales volume is expected to grow by 30%-40% in 2007 and 9%-10% in 2008 driven by higher capacity utilization and a continued growth in demand (demand for plastic packaging products in Asia has generally grown at about 1.5x-2.0x GDP growth).
- Plastic resin prices have come down by 10%-15% from its peak in early Sep. 2006 and we expect the prices to sustain at the current price level of US\$1,200-US\$1,250/ton in 2007 (which is about the same average for 2006). Improvement in margins is expected from higher operating efficiency. We assume a higher effective tax rate of 15% for 2007 and 20% for 2008 (versus 9.1% for 2006) and thus expect net profit margin to stay in the single digits.

## Recommendation &amp; Investment Risks

- We maintain our Buy recommendation with an unchanged 12-month target price of MYR1.35 per share. The strong earnings growth projected for 2007 will cut PER to 5.5x, which is at a discount to our assigned PER of 7.4x for Scientex Packaging (SCIP MK, MYR1.88, Hold).
- BPP declared a final dividend of 5 sen per share (versus our expectation of 6 sen). Gross yield is still decent at 4.2%.
- We value BPP at 2007 PER of 6.0x and add our projected dividend 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. In our view, higher crude oil prices may also result in increased costs of plastic resins and negatively impact profitability.

## Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	16.0	21.8
PER (x)	7.4	5.5
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	0.86	1.03
Book Value/Share (MYR)	0.86	1.03
No. of Outstanding Shares (mln)	120.1	
52-week Share Price Range (MYR)	1.11 - 1.43	
Major Shareholders:	%	
LG Capital	45.0	

## Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.55	0.70	0.86	1.03
Cash Flow (sen)	6.6	20.4	19.5	25.6
Reported Earnings (sen)	11.8	17.2	16.0	21.8
Dividend (sen)	0.0	7.0	5.0	5.0
Payout Ratio (%)	0.0	41.0	31.2	22.9
PER (x)	10.1	6.9	7.4	5.5
P/Cash Flow (x)	18.0	5.8	6.1	4.7
P/Book Value (x)	2.2	1.7	1.4	1.2
Dividend Yield (%)	0.0	5.9	4.2	4.2
ROE (%)	9.6	28.1	20.6	23.1
Net Gearing (%)	0.0	0.0	0.0	0.0

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

All required disclosures appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2007 The McGraw-Hill Companies, Inc.

Page 1 of 4

## BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR1.19

12-Month Target Price: MYR1.35

Date: February 15, 2007

## Quarterly Performance

FY Dec. / MYR mln	4Q06	4Q05	% Change
Reported Revenue	44.7	41.8	6.8
Reported Operating Profit	3.3	5.5	-41.0
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.1	0.1	48.7
Reported Pre-tax Profit	3.1	5.6	-43.6
Reported Net Profit	3.1	4.5	-31.9
Reported Operating Margin (%)	7.3	13.2	-
Reported Pre-tax Margin (%)	7.0	13.4	-
Reported Net Margin (%)	6.9	10.7	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	160.0	200.2	267.2	293.1
Reported Operating Profit	23.3	21.3	30.7	33.8
Depreciation & Amortization	-3.7	-4.2	-4.6	-4.7
Net Interest Income / (Expense)	0.3	0.1	0.0	0.0
Reported Pre-tax Profit	23.4	21.1	30.8	33.9
Effective Tax Rate (%)	12.4	9.1	15.0	20.0
Reported Net Profit	20.5	19.2	26.2	27.2
Reported Operating Margin (%)	14.6	10.6	11.5	11.5
Reported Pre-tax Margin (%)	14.6	10.6	11.5	11.6
Reported Net Margin (%)	12.8	9.6	9.8	9.3

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**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.

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, respectively.

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

