HLG Research
CMDF-Bursa Research Scheme
HL Broking
www.hlebroking.com
22 May 2007

BP Plastics Bhd

Results Note

Stock Code: 5100

Price:	**RM1.08**
Market Capitalisation:	**RM129.7m**
Board:	**Main Board**
Sector:	**Industrial Products**
Recommendation:	**Downgrade to SELL**

Key Stock Statistics

FYE Dec (RMm)	2006	2007F
EPS (sen)	16.0	8.6
P/E (x)	7.4	13.8
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 - 1.29

Major Shareholders:

	%
LG Capital	45.0

Per Share Data

FYE Dec (RMm)	2004	2005	2006	2007F	2008F
Book Value (sen)	0.5	0.7	0.9	0.9	0.9
Cash Flow (sen)	1.1	30.9	0.3	27.3	18.5
Earnings (sen)	12.3	17.1	16.0	8.6	12.2
Dividend (sen)	-	7.0	5.0	5.0	5.0
Payout Ratio	-	41.0	31.2	57.9	40.9
PER (x)	9.7	7.0	7.4	13.8	9.7
P/Cash Flow (x)	-	3.9	355.2	4.4	6.4
P/Book Value (x)	-	1.7	1.4	1.4	1.3
Dividend Yield (%)	-	5.9	4.2	4.2	4.2
ROE (%)	-	28.1	20.6	10.0	13.5
Net Gearing (%)	-	(8.5)	Net Cash	Net Cash	Net Cash

P&L Analysis (RM mil)

FYE Dec (RMm)	2004	2005	2006	2007F	2008F
Revenue	122.1	160.0	200.2	206.3	248.7
Operating Profit	17.3	22.0	19.9	12.1	16.1
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	12.2	17.0
Effective Tax Rate	17.7	12.4	9.1	15.0	14.0
Net Profit	14.7	20.5	19.2	10.4	14.7
Operating Margin	14.2	13.7	10.0	5.9	6.5
Pre-tax Margin	14.6	14.6	10.6	5.9	6.9
Net Margin	12.1	12.8	9.6	5.0	5.9

Results Review & Earnings Outlook

- BPP's 1Q07 results came in significantly below our expectations, with revenue of RM40.6m (-9.1% qoq, -15.5% yoy) and net profit of RM1.4m (-54.2% qoq, -73.6% yoy). Operating profit was sharply lower at RM1.6m (-49.6% qoq, -73.2% yoy), a result of softer overseas demand and higher raw material and labour costs. Consequently, EBIT margin dipped to 4% compared to 10% in FY06.
- Over the years, there is an inverse relationship between BPP's EBIT margin and prices of its raw material (low linear density polyethylene, LLDP), suggesting BPP's limited pricing power in passing on the higher raw material costs (please refer to Fig 1). We believe there is an industry-wide margin erosion as its peers's EBIT margins are also narrowing. To stay competitive in this highly fragmented and saturated packaging industry, BPP is unlikely to significantly raise its selling prices in the near term.
- In view of the lower-than-expected sales, we are slashing our forecasts, imputing a lower utilisation rate of 55% (against 70%), which translates to sales volume of only 36,000mt (from 42,000mt). In addition, we also raised our overhead cost estimates by 5.9%. Our projected FY07 EBIT margin is consequently reduced to 5.2% (from 9.4%). Our unit selling price and resin cost assumptions remain unchanged, i.e. a yoy increase of 2% and 8% respectively.
- Accordingly, our FY07 revenue and net profit estimates are lowered to RM206.3m (-21.4%) and RM10.4m (-50.7%) respectively. Similar to FY07, our FY08 revenue and net profit forecasts have been downgraded by 12.7% and 35.8% respectively after our revisions in the utilisation rate and overhead cost assumptions.

Valuation & Recommendation

- In view of stiff competition, lower demand and higher operating costs, we are downgrading BPP to a **SELL** (from REDUCE) with a revised target price of **RM0.98** (from RM1.08), pegging BPP to its historical average PER of 8x FY08 EPS.

Research: The Research Team, Hlg-research@hlgsecurities.com (603) 2168 1074
Sales (603) 2176 2288 (2626)/Retail (603) 2168 1323

Fig1: SE Asia LLDPE and EBIT margin trends

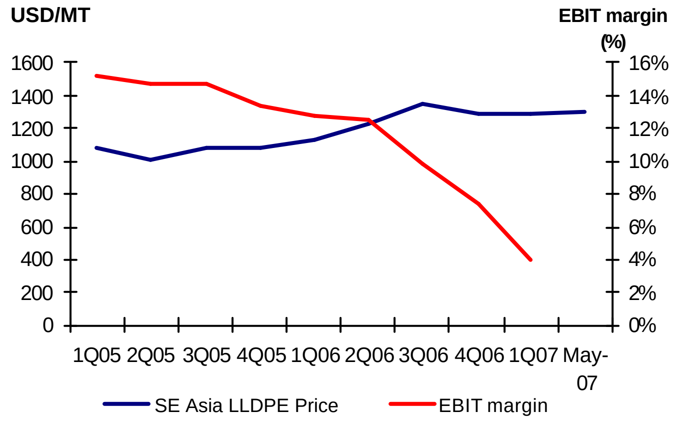
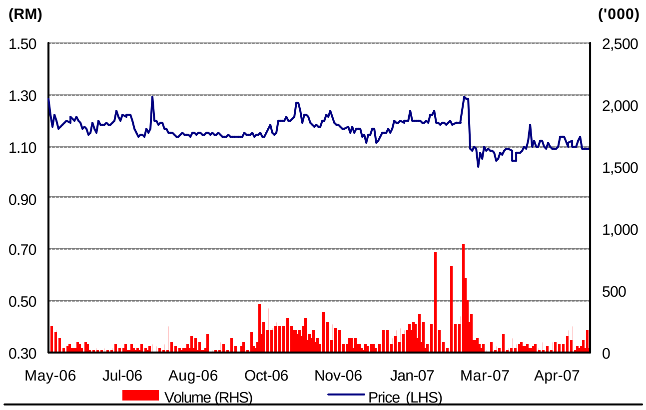


Fig2: Quarterly results comparison

	1QFY06	4QFY06	1QFY07	QoQ	YoY
Revenue	48.1	44.7	40.6	-9.1%	-15.5%
Operating Profit	6.1	3.3	1.6	-49.6%	-73.2%
Int expense	-0.2	-0.1	-0.1	-43.5%	-48.3%
Int income	0.2	0.0	0.0	22.9%	-77.2%
Pre-tax Profit	6.1	3.1	1.6	-49.1%	-73.9%
Net Profit	5.3	3.1	1.4	-54.2%	-73.6%
Operating Margin	12.7%	7.3%	4.0%	nm	nm
Pre-tax Margin	12.8%	7.0%	3.9%	nm	nm
Net Margin	11.1%	6.9%	3.5%	nm	nm

Fig3: BPP's share price performance and volume



Source: Bloomberg

DISCLAIMER

The info contained in this report is based on data and obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither HLG Securities nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. HLG Securities has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

HLG Securities and its related companies, their associates, directors, connected parties and/or employeees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securites related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This report may provide the addresses of, or contain hyperlinks to, websites. HLG Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to HLG Securities own website material) is provided solely for your convenience. The information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through the report or HLG Securities' website shall be at your own risk.

HLG Securities is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation.

HLG SECURITIES 12855-D
Level 8, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880 (Research)
KDN No. PP 9484/3/2007

Equity Rating Structure and Definitions

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
NOT RATED	HLGS does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation