

BP Plastics Holding

Recommendation: **SELL**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR1.00

12-Month Target Price: MYR0.91

Date: July 11, 2007

Board: Main

Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR116.5 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: Ching Wah Tam



Results Review & Earnings Outlook

- BPP 1Q07 were significantly below our expectations with 1Q07 revenue and net profit made up 15.2% and 5.4% of our full year forecasts, respectively. The key variances were due to: (i) lower-than-expected revenue due to less marketing days during the festive period and a moderation of demand from overseas market; and (ii) lower-than-expected EBIT margin of 4.0% in 1Q07 (vs. our previous full year forecast of 11.5%).
- BPP's 1Q07 reported a 73.6% YoY drop in net profit on the back of 15.5% YoY decline in revenue. The decline in revenue was due to (i) lesser marketing days as a result of long festive period in 1Q07; (ii) lower export demand; and (iii) as a result of the 6.6% appreciation of the MYR vs the US\$, which lowered export sales contribution. EBIT margin also declined to 4.0% in 1Q07 (from 12.7% in 1Q06), due to an increase in raw material prices and labor costs recorded during the period. LLDPE prices increased by 15.0% YoY to an average price of US\$1,300/ton in 1Q07 from US\$1,130/ton in 1Q06. Consequently net profit dropped to MYR1.4 mln in 1Q07 (vs. net profit of MYR5.3 mln in 1Q06), mitigated slightly by the lower tax rate of 12.5% in 1Q07 (vs. 13.6% in 1Q06) due to the availability of tax incentive to a subsidiary company.
- We have adjusted our earnings forecast downwards by 48.0% in 2007 and 32.3% in 2008. The key changes to our forecasts are (i) lower revenue by 21.8% in 2007 and 22.0% in 2008; and (ii) lower EBIT margin to 7.7% (from 11.5%) for 2007 and EBIT margin of 9.5% (from 11.5%) for 2008 mainly due to higher raw material prices.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	15.9	11.2
PER (x)	6.3	8.9
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	0.86	0.95
Book Value/Share (MYR)	0.86	0.95
No. of Outstanding Shares (mln)	120.1	
52-week Share Price Range (MYR)	0.97 - 1.29	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Hey Shiow Hoe	5.8	
Lim Chun Yow	5.8	

Recommendation & Investment Risks

- We downgrade our recommendation to Sell (from Buy) with a revised target price of MYR0.91 (previously MYR1.35) per share after revising our net earning forecast to impute in lower revenue and higher raw material and operating costs. The implied downside risk from its last traded price is 9.0%.
- We derive our 12-month target price by: (i) assigning a 6.6x PER, based on the stock's average historical PER (since its listing in Feb. 2005) to a blend of its projected 2007 and 2008 EPS of 13.2 sen; and (ii) adding our projected net DPS for 2007 of 4.0 sen, we arrived at a 12-month target price of MYR0.91. Our assigned 6.6x PER is a discount to the average sector PER of 7.0x.
- No dividends were declared for 1Q07.
- Risks to our recommendation and target price include: (i) better-than-expected demand in plastic packaging products; (ii) higher-than-expected product prices; and (iii) lower-than-expected resin prices. Other potential risks, in our view, include the impact of MYR appreciation on raw material prices and the relatively low share-trading liquidity.

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.55	0.72	0.86	0.95
Cash Flow (sen)	6.6	20.2	20.2	15.8
Reported Earnings (sen)	11.8	17.2	15.9	11.2
Dividend (sen)	0.0	7.0	5.0	5.0
Payout Ratio (%)	0.0	41.0	31.5	44.6
PER (x)	8.5	5.8	6.3	8.9
P/Cash Flow (x)	15.3	5.0	4.9	6.3
P/Book Value (x)	1.8	1.4	1.2	1.1
Dividend Yield (%)	0.0	7.0	5.0	5.0
ROE (%)	9.6	27.6	20.2	12.4
Net Gearing (%)	0.0	0.0	0.0	0.0

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

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Quarterly Performance

FY Dec. / MYR mln	1Q07	1Q06	% Change
Reported Revenue	40.6	48.1	-15.5
Reported Operating Profit	1.6	6.1	-73.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	NM
Reported Pre-tax Profit	1.6	6.1	-73.9
Reported Net Profit	1.4	5.3	-73.6
Reported Operating Margin (%)	4.0	12.7	-
Reported Pre-tax Margin (%)	3.9	12.8	-
Reported Net Margin (%)	3.5	11.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	160.5	200.2	209.1	228.5
Reported Operating Profit	23.8	21.3	16.1	21.7
Depreciation & Amortization	-3.7	-5.3	-5.5	-6.0
Net Interest Income / (Expense)	0.3	0.1	0.0	0.0
Reported Pre-tax Profit	23.4	21.0	15.8	21.4
Effective Tax Rate (%)	12.5	9.1	15.0	15.0
Reported Net Profit	20.5	19.0	13.5	18.2
Reported Operating Margin (%)	14.8	10.7	7.7	9.5
Reported Pre-tax Margin (%)	14.6	10.5	7.6	9.3
Reported Net Margin (%)	12.8	9.5	6.4	7.9

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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Sell	0.91
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

