STANDARD & POOR'S

BP Plastics Holding

Recommendation: **HOLD**

Stock Code: 5100 | Bloomberg: BPP MK | Price: MYR0.81 | 12-Month Target Price: MYR0.87 | Date: August 28, 2007

Board: Main

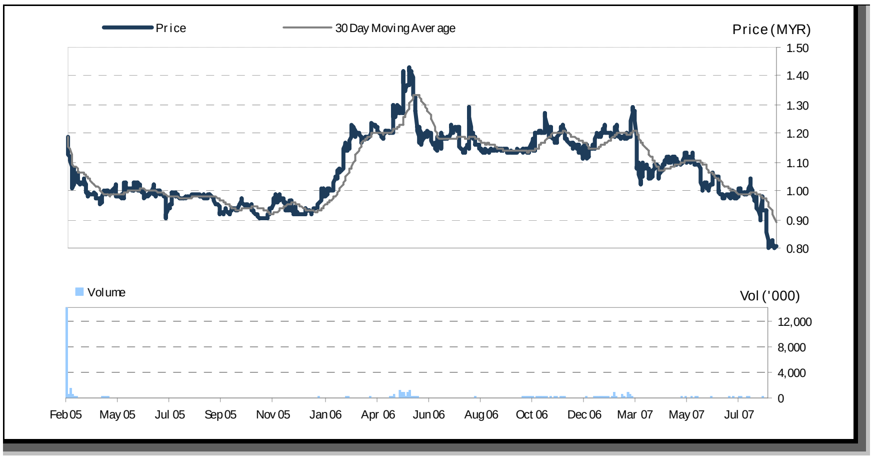
Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR96.7 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: Ching Wah Tam



Results Review & Earnings Outlook

- BPP's 2Q07 results were below our expectations, with earnings accounting for only 18.1% of our full-year forecast. Key variances were due to: (i) lower-than-expected revenue as a result of moderation of demand from overseas market, especially the Japanese market; and (ii) lower-than-expected operating margin of 5.8% in 2Q07 vs. our full year forecast of 7.7%. We forecast performance to improve in 2H07 due to an expected increase in sales volume and higher selling prices.

- On a quarterly basis, revenue showed a 15.1% improvement while earnings jumped 73.8% due to the normalization of marketing days after experiencing fewer marketing days attributable to various festive periods in 1Q07. The disproportionately higher earnings are also attributable to lower tax rate of 10.6% in 2Q07 (vs. 12.5% in 1Q07) due to the availability of tax incentives. Consequently, BPP recorded a higher net margin of 5.2% in 2Q07 (vs. 3.5% in 1Q07).

- YoY, earnings decreased by 57.6% to MYR2.4 mln in 2Q07, on the back of 10.5% YoY decrease in revenue. The lower revenue is due to the moderation of demand from overseas market, partly due to the appreciation of the Ringgit vs. the US$ (+6.0% YoY). BPP recorded disproportionately lower earnings due to higher raw material prices and higher operating costs attributable to lower production. Resin prices increase by 9.2% YoY to US$1,310/ton in 2Q07 vs. US$1,200/ton in 2Q06. As a result, net margin decrease to 5.2% in 2Q07 (vs. 11.0% in 2Q06).

- Due to escalating resin prices and moderation of overseas sales, we remained conservative and revised our 2007 and 2008 forecasts downwards by 18.9% and 17.8%, respectively. The changes made are: (i) lower revenue by 6.8% for 2007 while 2008 is relatively unchanged; (ii) lower operating margin to 6.5% (from 7.7%) for 2007 and 7.5% (from 9.5%) for 2008; and (ii) lower tax rate assumption to 12% (from 15%) for both 2007 and 2008.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	15.9	9.1
PER (x)	5.1	8.9
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	0.86	0.93
Book Value/Share (MYR)	0.86	0.93
No. of Outstanding Shares (mln)	120.1	
52-week Share Price Range (MYR)	0.80 - 1.29	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Dr Zainul Rashid Mohamad Razi	11.7	
Lim Chun Yow	5.8	

Recommendation & Investment Risks

- We upgrade our recommendation to Hold (from Sell), albeit lowering our target price to MYR0.87 (previously MYR0.91) per share after revising our net earning forecast and updating our valuation parameters. The higher recommendation is to reflect an expectation of a better performance in 2H07. The implied upside potential from its last traded price is 7.4%.

- 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 its projected 2008 EPS of 12.4 sen (previously a blend of its projected 2007 and 2008 EPS of 13.2 sen); and (ii) adding our projected net DPS for 2007 of 5.0 sen (tax-exempt) (previously 4.0 sen (after tax)), we arrived at a 12-month target price of MYR0.87. Our assigned 6.6x PER is a discount to the average sector PER of 7.0x.

- No dividends were declared for 2Q07.

- BPP does not have a specific dividend policy. It has paid 5.0 sen (tax-exempt) dividend per share in 2006 and we expect BPP to maintain a similar dividend moving forward, which translates to a gross yield of 6.2% and a dividend payout of MYR6.0 mln. The company is currently in a net cash position of MYR18.3 mln.

- Risks to our recommendation and target price include: (i) lower-than expected demand in plastic packaging products; (ii) lower-than expected product prices; and (ii) higher-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	0.93
Cash Flow (sen)	6.6	20.2	20.2	13.7
Reported Earnings (sen)	11.8	17.2	15.9	9.1
Dividend (sen)	0.0	7.0	5.0	5.0
Payout Ratio (%)	0.0	41.0	31.5	55.1
PER (x)	6.8	4.7	5.1	8.9
P/Cash Flow (x)	12.3	4.0	4.0	5.9
P/Book Value (x)	1.5	1.1	0.9	0.9
Dividend Yield (%)	0.0	8.7	6.2	6.2
ROE (%)	9.6	27.6	20.2	10.2
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	2Q07	2Q06	% Change
Reported Revenue	46.7	52.2	-10.5
Reported Operating Profit	2.7	6.5	-58.5
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	NM
Reported Pre-tax Profit	2.7	6.5	-58.1
Reported Net Profit	2.4	5.8	-57.6
Reported Operating Margin (%)	5.8	12.5	-
Reported Pre-tax Margin (%)	5.8	12.5	-
Reported Net Margin (%)	5.2	11.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	160.5	200.2	194.9	229.3
Reported Operating Profit	23.8	21.3	12.7	17.2
Depreciation & Amortization	-3.7	-5.3	-5.5	-6.0
Net Interest Income / (Expense)	0.3	0.1	0.2	0.3
Reported Pre-tax Profit	23.4	21.0	12.4	17.0
Effective Tax Rate (%)	12.5	9.1	12.0	12.0
Reported Net Profit	20.5	19.0	10.9	14.9
Reported Operating Margin (%)	14.8	10.7	6.5	7.5
Reported Pre-tax Margin (%)	14.6	10.5	6.4	7.4
Reported Net Margin (%)	12.8	9.5	5.6	6.5

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, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.87
11-Jul-07	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