

BP Plastics Holding

Recommendation: **HOLD**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR0.59

12-Month Target Price: MYR0.71

Date: February 6, 2008

Board: Main

Sector: Industrial Products

GICS: Materials / Paper Packaging

Market Value - Total: MYR71.4 mln

Summary: BP Plastics Holding (BPP) is one of Malaysia's leading producers of multilayer cast stretch films and blown plastic film and bag for various industrial applications with an annual production capacity of 60,000 mt. 60% of its products are exported to 24 countries. The main raw material component is polyethylene resins.

Analyst: Alexander Chia, ACA



Highlights

- BPP's performance in 9M07 was disappointing. Raw material supply shortage, high crude oil price, and the inability to fully pass on cost increases substantially affected the company's profitability.
- Looking forward, the stretch films and plastic bags packaging industry is set to make a recovery in 2008 with the raw material shortage projected to ease by 4Q08 with additional supply scheduled to come on stream from new petrochemical plants in the Middle East.
- Production volume at BPP is estimated to increase by 27% to 43,200 mt in 2008. Management is stepping up marketing efforts to further penetrate markets in Europe, Australia, Middle East and Asia Pacific countries to diversify its currency exposure from US\$.
- With the current prevailing resin shortage environment, we understand BPP's customers are now more willing to pay higher prices, enabling BPP to pass through some cost increase. Efforts are also being made to continuously improve production efficiency and to manage costs.
- Our 2007 revenue and net profit projection are MYR194.9 mln and MYR10.9 mln respectively. For 2008, we forecast revenue to hit MYR229.3 mln and net profit to increase to MYR12.6 mln, translating into 2008 EPS of 10.5 sen.

Recommendation

- We resume coverage on BPP with a Hold call and a 12-month target price of 71sen.
- We derive our target price by pegging BPP's 2008 EPS of 10.5 sen against PER of 6.5x, which is the peers' average, plus a projected dividend of 3 sen.
- This is well supported by BPP's healthy balance sheet, where it enjoys a net cash position of MYR17.8 mln with NTA per share of 87 sen.
- While several positive developments are expected in 2008, the operating environment remains highly uncertain affecting earnings visibility and as such, we are taking a more cautious stand for the time being until we see more concrete results.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	15.9	9.1
PER (x)	3.7	6.6
Dividend/Share (sen)	5.0	3.0
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)	0.60 - 1.29	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Lim Chun Yow	5.8	
Hey Shioh Hoe	5.8	

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	3.0
Payout Ratio (%)	0.0	41.0	31.5	33.0
PER (x)	5.0	3.5	3.7	6.6
P/Cash Flow (x)	9.1	3.0	2.9	4.3
P/Book Value (x)	1.1	0.8	0.7	0.6
Dividend Yield (%)	0.0	11.8	8.4	5.0
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

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

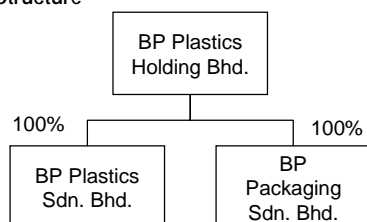
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Business

BP Plastics Holding (BPP) was listed on the Main Board of Bursa Malaysia in Feb. 2005. BPP is an investment holding company and its two wholly-owned subsidiaries are involved in the manufacturing and trading of industrial plastic products. Its largest shareholder is LG Capital Sdn. Bhd., holding a 45.0% stake. Directors Lim Chun Yow, Hey Shiow Hoe and Tan See Khim each hold a 5.8% direct stake in the company while co-owning LG Capital Sdn. Bhd. as well.

Corporate Structure



Source: Company data

BPP's history dates back to 1990 when it started supplying polyethylene bags to the garment and textile industries. Today, BPP is one of Malaysia's leading producers of multilayer cast stretch films and blown plastic film and bags for various industrial applications. Its two production plants are located in Batu Pahat, Johor and have a combined annual production of 60,000 metric tonnes (mt).

Cast stretch films are mainly used to wrap goods in pallets or cartons to facilitate transportation and to protect from goods from damage. The blown films and bag are used to enhance packaging integrity and shelf life. Some examples are shrink films, garment bags, mattress or sofa cover. Product mix remains 70% cast stretch films and 30% blown products. Raw materials mainly comprise low-density polyethylene (LLDPE) resin, a petrochemical product, which BPP sources from its long-time supplier in Singapore. We estimate raw materials form approximately 75% of total production cost.

BPP's export vs local sales composition is approximately 60:40. It exports to 24 countries, with main destinations being Japan, ASEAN, Australia and Europe.

Earnings Outlook

BPP's production volume in 2007 is estimated at 34,000 mt. We expect production volume in 2008 to increase by approximately 27% to 43,200 mt, translating into an average utilization of 72%. The growth is underpinned by BPP's planned aggressive marketing efforts to further penetrate markets in the Europe, Australia, Middle East and countries in the Asia Pacific.

Currently, export sales currency breakdown is US\$ (70%), JPY (15%) and S\$ (15%). Hence, revenue is impacted with the appreciation of MYR. This explains management's efforts to secure more sales outside US, particularly in Europe.

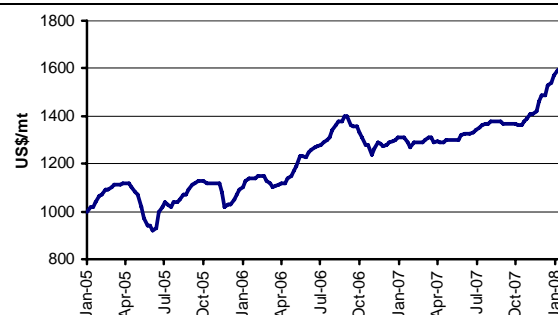
Nonetheless, we are comforted by the fact the BPP purchases about 70% of its resin supply requirement in US\$, hence providing partial hedge to the lower revenue arising from appreciating MYR.

On the supply front, polyethylene resin prices continue to surge, in tandem with the rise in crude oil price. Supply remains tight, and the situation was further affected in Dec. 2007 when Mitsubishi Chemical Holdings

Corporation (4188 JP, JPY740, Not Ranked) shut down one of two units of its ethylene plant in Kashima after a fire. The unit's annual production capacity is estimated at 260,000 mt. Ethylene feedstock is the raw material used by polyethylene plants.

The prevailing shortage in polyethylene resin supply is expected to result in high prices of between US\$1,600 to US\$1,800 per mt during the first nine months in 2008. However, prices will likely to ease off towards the last quarter with additional supply expected to come on stream from the new petrochemical plants in the Middle East.

SE Asia LLDPE Price trend



Source: Bloomberg, S&P Equity Research

On a brighter note, management revealed that while resin prices are likely to remain high, customers are beginning to be more receptive to paying higher price for BPP's products as they are now cognizant of the supply shortage issue. In our earlier reports, we mentioned that BPP had to absorb much of the cost increase in the past but going forward, it should be easier to pass on cost increases to customers. As such, profit margin should be more resilient going.

In addition, management has stressed that efforts are being put in place to improve production efficiency and manage costs as the operating environment continues to be challenging.

Going into 2008, we are cautiously optimistic that BPP's performance may pick up in 2008 after several disappointing quarters in 2007, supported by: (i) expected higher production volume with sales targeted for Europe, Australia, Middle East and Asia Pacific countries and (ii) improved ability to pass-through higher costs.

Our 2007 revenue and net profit projection are MYR194.9 mln and MYR10.9 mln respectively. For 2008, we forecast revenue to hit MYR229.3 mln and net profit to increase to MYR12.6 mln, translating into 2008 EPS of 10.5 sen.

BPP remains in net cash position and NTA per share stands at 87 sen as at 3Q07.

Valuation

We have a 12-month price target of 71 sen for BPP. This is derived from applying the average peers' PER of 6.5x against BPP's 2008 EPS of 10.5 sen, plus a projected dividend of 3.0 sen. The peers consist of Scientex Packaging (SCIP MK, MYR01.18, Not Ranked) and Thong Guan Industries (TGI MK, MYR0.85, Not Ranked) which also manufacture stretch films and various industrial plastic packaging bags.

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Comparative Valuation

	BP Plastics Holdings	Thong Guan Industries	Scientex Packaging
Bloomberg Code	BPP MK	TGI MK	SCIP MK
Share Price @ Feb 5, 2008	0.59	0.86	1.18
Currency	MYR	MYR	MYR
Mkt. Cap (mln)	71.50	90.00	93.80
Ave. Daily Vol. ('000)	72	130	39
PER FY07 (x)	6.66	6.40	6.80
P/B	0.68	0.49	0.61
Yield (%)	5.00	3.50	4.20

Source: Bloomberg, Company data

Recent Developments

Nov 2007: Reported 3Q07 revenue of MYR60.4 mln (+29% QoQ) and net profit of MYR3.9 mln (+61% QoQ). 9M07 revenue and net profit were MYR147.7 mln (-5% YoY) and MYR7.8 mln (-52% YoY), respectively.

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	14.6
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	14.3
Effective Tax Rate (%)	12.5	9.1	12.0	12.0
Reported Net Profit	20.5	19.0	10.9	12.6
Reported Operating Margin (%)	14.8	10.7	6.5	6.4
Reported Pre-tax Margin (%)	14.6	10.5	6.4	6.2
Reported Net Margin (%)	12.8	9.5	5.6	5.5

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	0.71
30-Oct-07	Not Ranked	
28-Aug-07	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

