

## BP Plastics Holding

Recommendation: **STRONG BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR0.51

12-Month Target Price: MYR0.77

Date: February 25, 2008

Board: Main

Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR60.6 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



## Results Review &amp; Earnings Outlook

- BPP's 2007 results were above our expectations with net profit coming in 9% ahead of our projection. On a YoY basis, while 2007 revenue increased a marginal 2.2% to MYR204.5 mln, net profit dipped by 37.5% to MYR11.9 mln largely due to escalating raw material prices and operating expenses.
- 4Q07 was BPP's best quarter since 3Q06. After several dismal quarters in the early 2007, things are finally looking up with net profit margin recovering to 7.4% in 4Q07 from a low of 3.5% in 1Q07.
- We believe BPP's recent improvement in performance is attributed to higher production efficiency as well as improvement in its ability to pass on cost increases to its customers. With crude oil price remaining high, we understand that customers are now more receptive to price adjustments, especially given the resin shortage. The difficulty in passing on cost increases was one of the key factors affecting profitability earlier.
- Judging from BPP's improved operating environment recently, we have revised our 2008 net profit upward to MYR13.8 mln from MYR12.6 mln, translating into 2008 EPS of 11.5 sen (previously 10.5 sen). We maintain our 2008 revenue projection at MYR229.3 mln, with the 15% YoY increase driven by the expected ramp-up in production to 43,200 metric tonne (mt) from 34,000 mt in 2007.

## Recommendation &amp; Investment Risks

- Based on our upward revision in BPP's earnings, and coupled with the retracement in the share price, we are upgrading our call to Strong Buy (from Hold) with a higher 12-month target price of 77 sen (previously 71 sen), representing a potential upside of 51%.
- We believe BPP and its peers are on a recovery path after the harsh operating environment in 2007 and expect the improved performance to sustain going forward.
- We derive our target price by ascribing the peer sector PER of 6.5x to our forecast 2008 EPS of 11.5 sen, plus a projected dividend of 3 sen.
- BPP continues to be in net cash position and is currently trading well below its NTA per share of 91 sen.
- The Board has recommended a first and final tax exempt dividend of 3 sen for 2007, which gives an attractive net dividend yield of 5.9%. We expected similar dividend in 2008.
- Risks to our recommendation and target price include unexpected reversal in BPP's ability to pass on cost increases to customers, higher operating expenses arising from its aggressive marketing efforts to penetrate new markets and problems for sourcing for new resin supply from the Middle East.

## Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	9.9	11.5
PER (x)	5.1	4.4
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.91	1.02
Book Value/Share (MYR)	0.91	1.02
No. of Outstanding Shares (mln)	120.1	
52-week Share Price Range (MYR)	0.50 - 1.28	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Lim Chun Yow	5.8	
Hey Shioh Hoe	5.8	

## Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.72	0.86	0.91	1.02
Cash Flow (sen)	20.2	20.2	13.3	16.5
Reported Earnings (sen)	17.2	15.9	9.9	11.5
Dividend (sen)	7.0	5.0	3.0	3.0
Payout Ratio (%)	41.0	31.5	30.2	26.1
PER (x)	2.9	3.2	5.1	4.4
P/Cash Flow (x)	2.5	2.5	3.8	3.1
P/Book Value (x)	0.7	0.6	0.6	0.5
Dividend Yield (%)	13.9	9.9	5.9	5.9
ROE (%)	27.6	20.2	11.1	11.8
Net Gearing (%)	0.0	0.0	0.0	0.0

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**Quarterly Performance**

FY Dec. / MYR mln	4Q07	4Q06	% Change
Reported Revenue	56.8	44.7	27.1
Reported Operating Profit	5.3	3.3	60.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.1	-0.1	NM
Reported Pre-tax Profit	5.2	3.0	74.8
Reported Net Profit	4.1	2.9	43.7
Reported Operating Margin (%)	9.3	7.3	-
Reported Pre-tax Margin (%)	9.2	6.7	-
Reported Net Margin (%)	7.3	6.5	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	200.2	204.5	229.3	242.0
Reported Operating Profit	21.3	13.9	16.0	21.1
Depreciation & Amortization	-5.3	0.0	-6.0	-6.8
Net Interest Income / (Expense)	0.1	0.1	0.3	0.5
Reported Pre-tax Profit	21.0	14.1	15.7	20.8
Effective Tax Rate (%)	9.1	15.1	12.0	24.0
Reported Net Profit	19.0	11.9	13.8	15.8
Reported Operating Margin (%)	10.7	6.8	7.0	8.7
Reported Pre-tax Margin (%)	10.5	6.9	6.8	8.6
Reported Net Margin (%)	9.5	5.8	6.0	6.5

Source: Company data, S&amp;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	Strong Buy	0.77
6-Feb-08	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

