

# M&A Securities

KDN: PP/14767/9/2007



Date 25 April 2008

<b>BP Plastics Holding Bhd</b>	<b>Price:</b>	RM0.66
	<b>Market Capitalisation:</b>	RM79.27mn
	<b>Board:</b>	Main
	<b>Sector:</b>	Ind. Products
	<b>Stock Code</b>	5100
	<b>Recommendation:</b>	BUY

<u>Key Stock Statistics</u>	<u>2007</u>	<u>2008f</u>
EPS (sen)	9.86	11.82
P/E (est)	6.70	5.58
Dividend/Share	3.0	3.0
NTA/Share (sen)	1.19	1.26
Book Value/Share (sen)	0.91	0.91
Issued Capital (mn shares)	120.10	120.10
52-weeks Share Price Range	0.50	1.15
<b>Major Shareholders:</b>		
	LG Capital S/B	45.0
	Lim Chun Yow	5.8
	Hey Shioh Hoe	5.8

<u>Per Share Data</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008f</u>
Book Value (RM)	0.72	0.86	0.91	0.91
Cash Flow (sen)	25.02	3.63	22.90	19.45
Earnings (sen)	17.21	15.86	9.86	11.82
Dividend (sen)	5.00	5.00	3.00	3.00
Payout Ratio (%)	29.05	31.53	30.43	25.38
PER (x)	5.40	7.25	6.70	5.58
P/Cash Flow (x)	3.72	31.68	2.88	3.39
P/Book Value (x)	1.28	1.34	0.73	0.73
Dividend Yield (%)	5.38	4.35	4.55	4.55
ROE (%)	23.77	18.52	10.89	13.03
Net Gearing (%)	7.7	4.9	3.0	3.1

<u>P&amp;L Analysis (RM mn)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008f</u>
Year-end: 31 Dec				
Revenue	160.46	200.15	204.79	266.23
Operating Profit	23.10	21.32	14.30	17.05
Depreciation	(0.47)	(0.83)	(1.17)	(1.17)
Interest Expenses	0.28	(0.35)	(0.27)	(0.35)
Pre-tax Profit	23.38	20.96	14.03	16.70
Effective Tax Rate	12.47	9.15	15.62	15.00
Net Profit	20.47	19.04	11.84	14.20
Operating Margin	14.40	10.65	6.98	6.41
Pre-tax Margin	14.57	10.47	6.85	6.27
Net Margin	12.76	9.52	5.78	5.33

## 1. Investment Highlights

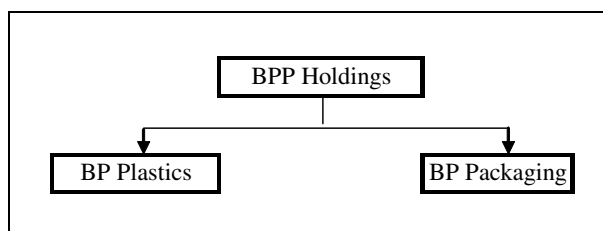
- BPP have put plan into motion to further penetrate markets in Europe, Australia, and Middle East.
- Despite high prices of oil which have driven resin prices upwards, BPP is now able to pass the cost increase as customer are now willing to pay the higher prices.
- Proposed bonus issue provides additional liquidity.

## 2. Background

- Corporate Profile

BP Plastics Holding Berhad (BPP) was listed on the Main Board of Bursa Malaysia in Feb 2005 BPP 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 Shioh Hoe and Tan See Khim each hold a 5.8% direct stake in the company while co-owning LG Capital Sdn. Bhd.

- Corporate Structure



Source: Company data

- **Business**

Located in Batu Pahat, BPP commenced operations in 1990 as a supplier of polyethylene bags to the garment and textile industries. The Group's manufacturing activities consist of cast stretch film division and industrial blown film division. Product mix is classified as 70% cast stretch films and 30% blown products.

Having invested in a 5-layer cast stretch film machine, a 7-layer cast stretch film machine and a 9-layer cast stretch film machine in 2000, 2003 and 2005 respectively, allowing it to produce high quality plastic stretched film. Currently BPP two production plants have 24 blown film and 3 cast film lines, with a total combined capacity of 60,000 metric tones (mt) which consist of 16,800 mt of blown and 43,200 mt of cast film capacity, which runs at approximately 80% capacity,

BPP produces a variety of Industrial Packaging Solutions i.e.

- Cast Stretch films
- Lamination Films
- LDPE Shrink Films / Bags
- Agriculture, Construction Film, Pallet Cover & Air cargo sheet
- PE & PP Garment Packaging Bags & Special Slope Cutting Hanger Hole Polybag
- UV Protection & Anti-Static Polybag; Heavy Duty Sack(Oil bags/ Ice Bags);
- Industrial Jumbo Bag (FIBC) Liners

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. Currently BPP manufactures and exports plastic packaging, including bags, sacks and films of the shrink and stretch variety. It serves the garment, furniture, rubber, building materials, food and electronic industries.

BPP currently supplies to approximately 800 customers which are mainly located in Europe, Asean and Asia Pacific. The strength of its relationship with customers and its ability to meet high and stringent standards set by its customers particularly in ensuring of quality has allowed it being not reliant on a single customer.

The Group manages to export 60% of its product with key export markets which include Japan, Singapore and Australia, while the remaining is marketed domestically. Since the Group exports its products internationally and is exposed to various currencies, however it mainly deals with United States Dollar, Japanese Yen and Singapore Dollar.

The main raw material for BPP, resin, constitutes 75% of its operating cost. BPP largest supplier for resin remains Exxonmobil Chemical Asia Pacific based in Singapore.

The prices of resin have consistently rising in the past year, as substantial worldwide demand for resins, energy producer determination to improve margins and the rise in the price of oil and natural gas has been stated as a major reason for this price increase.

The price increase has also forced stretch film manufactures including BPP to follow suit, however like any manufacturers dealing in petroleum products they have managed to pass on most of the cost increase to its customers.

### 3. Valuation

<u>Comparative valuation</u>	<u>BP Plas</u>	<u>Scientex Pack</u>	<u>Thong Guan</u>
Share Price (RM)	0.66	1.14	1.04
Mkt Cap (RMmn)	79.27	89.85	109.41
Ave Daily Vol (mn)	0.07	0.04	0.03
P/E FY05	5.40	8.75	9.25
P/E FY06	7.23	8.41	7.14
P/E FY07	6.59	9.35	4.94
P/NTA	0.75	0.83	0.52
Dividend Yield	4.55	4.72	3.16

### 4. Earnings Outlook

Since the price of oil has risen dramatically throughout the past two years, so has the price of resin. Stretch films manufacturers have faced steep increases in raw material costs, and even though prices have dropped to more reasonable levels, they are still looking for ways to reduce raw material and manufacturing costs. Many manufacturers have sought international sources of resin to keep costs down and continue to do so.

Stretch film demand is expected to reach US\$2.7bn in 2011, stimulated by increased consumer goods manufacturing and resin and processing improvements that will heighten cost competitiveness.

The prices of resin will likely to ease off in 2008 as additional supply expected to come on stream from the new petrochemical plants in the Middle East .This would allow BPP increase production and further explore the possibility to secure more sales as it focus its efforts to further penetrate market that it currently supplies.

Going forward we are confident that not only will BPP revenue increase as it secures more sales as it shifts its attention to other markets, its ability to pass cost increases especially the now costlier resin prices to its customer will help improve its margins going forward.

## 5. Recent Developments

As mentioned earlier BPP intention to secure more sales has made the Group to embark on aggressive marketing efforts to further penetrate markets in the Europe, Australia and Middle East. This will be the Group's growth driver given the strong demand in the various regions as buyers prefer high quality and more environmentally friendly stretch film. This is the direction in which packaging is moving as both users and manufacturers looks at saving on resin, energy, and manufacturing costs and ultimately, maybe even saving the environment.

BPP announced recently a proposed bonus issue of up to 63.45mn new ordinary shares of RM0.50 each in BPP to be issued and credited as fully paid-up on the basis of one (1) new BPP share for every two (2) existing BPP shares held at an entitlement date. In addition, the Company also proposed a share buy-back scheme.

## 6. Investment Risk

BPP's reliance on resin is an investment concern as there is supply limit and a possibility of prices rising in tandem with oil prices. This in turn will impact BPP's margins going forward, however so far the Group has managed to pass the cost increase to its customers whom are much aware of the current market conditions.

## 7. Balance Sheet

<b>Balance Sheet (RMmn)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008e</b>
Year-end: 31 Dec				
Total Assets	129.46	139.22	157.59	165.94
Fixed Assets	64.16	67.60	72.07	75.89
Current Assets	65.30	71.62	85.51	90.05
Other LT Assets	0.00	0.00	0.00	0.00
Current Liabilities	6.62	5.06	3.26	3.33
LT Liabilities	12.77	11.67	10.87	11.44
Share Capital	60.00	60.04	60.04	60.04
Shareholders Funds	86.12	102.86	108.69	109.00

## 8. Recommendation

We like BPP due to its superior operational performance hence offering its customers superior quality products and hence its ability to command better selling prices. Furthermore, BPP's effort to mount aggressive marketing efforts to further penetrate markets in the Europe, Australia and Middle East will further drive its earnings.

Going into 2008, we are projecting a net profit of RM14.2mn with total revenue of RM266.2mn. As such based on a prospective EPS of 11.82sen for FY08, we have fairly valued BPP at RM0.89 pegging a PER of 7.5x. We are recommending BPP a **BUY** as it is undervalued and trading at a 33% discount to our fair value.

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