STANDARD & POOR'S

BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100 | Bloomberg: BPP MK | Price: MYR0.69 | 12-Month Target Price: MYR0.80 | Date: June 2, 2008

Board: Main

Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR83.5 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 & Earnings Outlook

- BPP's 1Q08 results were above our expectations with net profit of MYR4.2 mln accounting for 30% of our 2008 forecast of MYR13.8 mln.
- 1Q08 revenue increased 66% YoY to MYR67 mln while net profit tripled to MYR4.2 mln from MYR1.4 mln in 1Q07. The rise in revenue was attributed to higher export sales volumes coupled with higher selling prices. We understand from management there were upward price adjustments in 1Q08. On exports, the surge was mainly due to demand from European markets, having contributed approximately 30% to 1Q08 revenue.
- Meanwhile, the improvement in net profit was due to higher revenue as well as ability to pass on cost increases in the form of higher selling prices. 1Q08 net profit margin was 6.2% against 3.5% a year ago. Recall that in 1Q07, management commented that BPP had to absorb the increase in raw materials prices. The operating environment has since improved with customers being more receptive to price adjustments.
- The group remains in net cash position with net cash/share at 11 sen, while NTA/share is 94 sen.
- With the stronger-than-expected 1Q results, we have tweaked our 2008 revenue and net profit projections to MYR234.7 mln (from MYR229.3 mln) and MYR14.3 mln (from MYR13.8 mln), respectively, to factor in higher sales volume and selling prices.
- No dividend was declared for the quarter under review.

Recommendation & Investment Risks

- In tandem with the increase in our earnings projections, we are raising our 12-month target price to 80 sen (from 77 sen). Our recommendation, however, is lowered to Buy (from Strong Buy) due to the appreciation in BPP's share price since our last report in Feb. 2008.
- We derive our target price by ascribing the peer sector PER of 6.5x against its revised 2008 EPS of 11.9 sen, and adding a projected dividend of 3 sen.
- We continue to like BPP for its resilient performance over the last few quarters in spite of rising oil prices which impact raw material prices. The group has managed to pass on cost increases to customers, easing much of its cost pressures. Exports sales to European markets are also better-than-expected as these are new territories for the group having just penetrated into the region in 2007.
- Risks to our recommendation and target price include unexpected reversal in BPP's ability to pass on cost increases to customers and possibility of customers delaying purchases should they expect a decline in oil price.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	9.9	11.9
PER (x)	7.0	5.8
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 - 1.06	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Lim Chun Yow	5.8	
Hey Shiow Hoe	5.8	

*Stock deemed Shariah compliant by the Securities Commission.

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	29.1	16.5
Reported Earnings (sen)	17.2	15.9	9.9	11.9
Dividend (sen)	7.0	5.0	3.0	3.0
Payout Ratio (%)	41.0	31.5	30.2	25.2
PER (x)	4.0	4.4	7.0	5.8
P/Cash Flow (x)	3.4	3.4	2.4	4.2
P/Book Value (x)	1.0	0.8	0.8	0.7
Dividend Yield (%)	10.1	7.2	4.3	4.3
ROE (%)	27.6	20.2	11.1	12.1
Net Gearing (%)	0.0	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	67.4	40.6	65.9
Reported Operating Profit	5.4	1.6	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.1	0.0	NM
Reported Pre-tax Profit	5.3	1.6	>100
Reported Net Profit	4.2	1.4	>100
Reported Operating Margin (%)	8.0	4.0	-
Reported Pre-tax Margin (%)	7.9	3.9	-
Reported Net Margin (%)	6.2	3.5	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	200.2	204.5	234.7	264.9
Reported Operating Profit	21.3	13.9	16.6	19.5
Depreciation & Amortization	-5.3	-5.6	-5.5	-6.8
Net Interest Income / (Expense)	0.1	0.1	0.3	0.5
Reported Pre-tax Profit	21.0	14.1	16.3	19.2
Effective Tax Rate (%)	9.1	15.1	12.5	13.0
Reported Net Profit	19.0	11.9	14.3	16.7
Reported Operating Margin (%)	10.7	6.8	7.1	7.4
Reported Pre-tax Margin (%)	10.5	6.9	6.9	7.3
Reported Net Margin (%)	9.5	5.8	6.1	6.3

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.

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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.

Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	0.80
25-Feb-08	Strong Buy	0.77
06-Feb-08	Hold	0.71
30-Oct-07	Not Ranked	
28-Aug-07	Hold	0.87
11-Jul-07	Sell	0.91
07-Sep-06	Buy	1.35
08-May-06	Buy	1.53
23-Feb-06	Buy	1.34
17-Nov-05	Hold	1.03
19-Oct-05	Hold	1.01