

BP Plastics Holding

Recommendation: **BUY**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR0.42

12-Month Target Price: MYR0.53

Date: August 25, 2008

Board: Main

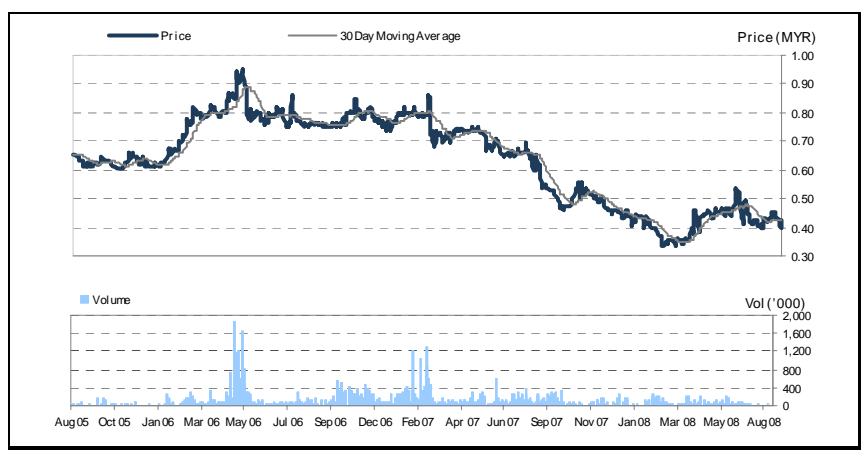
Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR76.6 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 & Earnings Outlook

- BPP's 2Q08 results were within our expectations with 1H08 net profit of MYR7.3 mln accounting for 51% of our forecast of MYR14.3 mln.
- 2Q08 revenue and net profit improved by 29% YoY and 30% YoY to MYR60.4 mln and MYR3.2 mln respectively. 1H08 revenue and net profit too, showed marked improvements rising 46% YoY and 91% YoY to MYR127.7 mln and MYR7.3 mln, respectively. Management attributed BPP's achievements to higher sales and overall improvements in production efficiency.
- 1H08 gross margin strengthened to 12.6% vs. 10.3% in 1H07, a reflection of BPP's continued ability to pass on costs increases to customers as well as positive results from continuous internal cost-cutting initiatives. The group remains in a net cash position, with NTA per share of 62 sen (share-base adjusted to reflect the recent one-for-two bonus issue in July 2008).
- BPP's export vs. local sales composition remains at 60:40, with the Middle Eastern, Australasia, Asian and European regions being the main export markets. We expect 2H08 performance to remain robust, especially given the recent retracement in global crude oil price and strengthening of USD. We maintain our current 2008 net profit forecast of MYR14.3 mln.
- No dividend was declared during the quarter under review.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	6.6	7.9
PER (x)	6.4	5.4
Dividend/Share (sen)	2.0	2.0
NTA/Share (MYR)	0.61	0.65
Book Value/Share (MYR)	0.61	0.65
No. of Outstanding Shares (mln)	180.1	
52-week Share Price Range (MYR)	0.33 - 0.55	
Major Shareholders:	%	
LG Capital Sdn Bhd	45.0	
Lim Chun Yow	5.8	
Hey Shioh Hoe	5.8	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We maintain a Buy recommendation on BPP with a 12-month target price of 53 sen (unchanged). Note that our target price has been adjusted to reflect the recent one-for-two bonus issue in July 2008 which resulted in the issuance of 60.0 mln new ordinary shares.
- We derive our target price by ascribing the average peer sector PER of 6.5x to our forecast 2008 EPS and includes a projected dividend.
- We continue to like BPP for its resilient performance. It appears that so far, the group has not been adversely affected by the global economic slowdown. Its exports to Middle Eastern countries, in our opinion, should provide a buffer should there be cutbacks in spending in other regions.
- Meanwhile, in terms of the tight resin supply issue plaguing the downstream industry players, we understand from BPP that additional supply from resin vendors in the Middle East are gradually coming on-stream with 9.5 mln tons of export surplus expected by 2011. This is a positive development and definitely provides much relief to downstream players such as BPP.
- Risks to our recommendation and target price include a reversal in BPP's ability to pass on cost increases to customers, and delays in the expected resin supply increase from the Middle East.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.48	0.57	0.61	0.65
Cash Flow (sen)	13.4	13.5	9.7	11.0
Reported Earnings (sen)	11.5	10.6	6.6	7.9
Dividend (sen)	4.7	3.3	2.0	2.0
Payout Ratio (%)	41.0	31.5	30.2	25.2
PER (x)	3.7	4.0	6.4	5.4
P/Cash Flow (x)	3.2	3.1	4.4	3.9
P/Book Value (x)	0.9	0.7	0.7	0.7
Dividend Yield (%)	11.0	7.8	4.7	4.7
ROE (%)	27.6	20.2	11.2	12.6
Net Gearing (%)	0.0	0.0	0.0	0.0

*Per share data adjusted to reflect the 1-for-2 bonus issue in July 2008.

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Quarterly Performance

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	60.4	46.7	29.1
Reported Operating Profit	4.3	2.7	59.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	>100
Reported Pre-tax Profit	4.3	2.7	57.6
Reported Net Profit	3.2	2.4	30.0
Reported Operating Margin (%)	7.2	5.8	-
Reported Pre-tax Margin (%)	7.1	5.8	-
Reported Net Margin (%)	5.3	5.2	-

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.

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.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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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
02-Jun-08	Buy	0.53
25-Feb-08	Strong Buy	0.51
06-Feb-08	Hold	0.47
30-Oct-07	Not Ranked	
28-Aug-07	Hold	0.58
11-Jul-07	Sell	0.61
07-Sep-06	Buy	0.90
08-May-06	Buy	1.02
23-Feb-06	Buy	0.89
17-Nov-05	Hold	0.69
19-Oct-05	Hold	0.67

