

Recommendation: **HOLD**

Stock Code: 5100

Bloomberg: BPP MK

Price: MYR0.36

12-Month Target Price: MYR0.37

Date: February 26, 2009

Board: Main

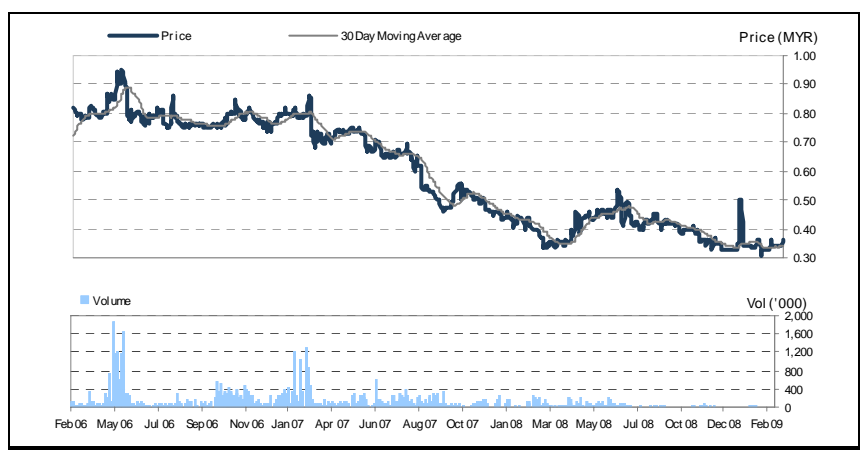
Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR65.7 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 reported a weak 4Q08 performance with revenue and net profit down 33% YoY and 53% YoY to MYR38.3 mln and MYR2.0 mln respectively. 2008 net profit of MYR11.7 mln was below our expectations compared to our forecast of MYR12.9 mln.
- The decline revenue and net profit in 4Q08 were mainly due to lower demand for BPP's products in tandem with the global economic downturn. We understand both local and exports sales were affected with customers holding back their purchases.
- Meanwhile, 2008 revenue was 14% higher YoY at MYR233.3 mln, attributable to the strong sales performance during 1H08 before the global economy slowdown worsened. Net profit however, was down 2% YoY to MYR11.7 mln affected by higher effective tax rate of 27% compared to 15% in 2007 as certain expenses were not deductible for tax in 2008.
- In view of the worsening economic situation and taking cue from its 4Q08 results, we are slashing our 2009 revenue and net profit by 39% and 43% to MYR163.6 mln and MYR8.2 mln, respectively, to account for lower demand for its products. We also introduce 2010 estimates with net profit of MYR10.3 mln, assuming gradual recovery in the economy by then.
- BPP has proposed a first and final tax-exempt dividend of 2 sen for 2008 subject to shareholders' approval.

### Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	6.5	4.6
PER (x)	5.6	8.0
Dividend/Share (sen)	2.0	2.0
NTA/Share (MYR)	0.65	0.67
Book Value/Share (MYR)	0.65	0.67
No. of Outstanding Shares (mln)	180.1	
52-week Share Price Range (MYR)	0.31 - 0.53	
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.

## Recommendation & Investment Risks

- We are downgrading our recommendation to Hold (from Buy) with a 12-month target price of 37 sen (from 40 sen).
- We derive our target price using a blend of 5x 2009 PER and 0.7x P/B multiples (from 2009 PER 5x). We have used a blended approach to reflect the group's weak outlook, offset by the strength of its lean and healthy balance sheet. The multiples are pegged to the peer average. Also, our target price includes a projected 2 sen dividend.
- BPP's outlook in the next 12 months is challenging as demand for its products are highly correlated to global industrial and manufacturing activities which have slowed down markedly. Nonetheless, we take comfort in the group's balance sheet which is backed by NTA/share of 65 sen and net cash/share of 18 sen, which would help the group weather the present tough times. We see few catalysts to take the share price significantly higher within our investment horizon with BPP close to being fairly valued, in our opinion.
- Risks to our recommendation and target price include a prolonged slowdown in global economy severely affecting the demand for BPP's products. We note that its thin traded volumes may also subject its share price to volatile fluctuations.

### Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.57	0.61	0.65	0.67
Cash Flow (sen)	13.5	9.7	9.6	7.1
Reported Earnings (sen)	10.6	6.6	6.5	4.6
Dividend (sen)	3.3	2.0	2.0	2.0
Payout Ratio (%)	31.5	30.2	30.7	43.7
PER (x)	3.5	5.5	5.6	8.0
P/Cash Flow (x)	2.7	3.8	3.8	5.1
P/Book Value (x)	0.6	0.6	0.6	0.5
Dividend Yield (%)	9.1	5.5	5.5	5.5
ROE (%)	20.2	11.2	10.4	6.9
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	4Q08	4Q07	% Change
Reported Revenue	38.3	56.8	-32.6
Reported Operating Profit	3.4	5.3	-34.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.1	-85.4
Reported Pre-tax Profit	3.4	5.2	-35.5
Reported Net Profit	2.0	4.1	-52.1
Reported Operating Margin (%)	8.9	9.3	-
Reported Pre-tax Margin (%)	8.8	9.2	-
Reported Net Margin (%)	5.2	7.3	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	204.5	233.3	163.6	183.2
Reported Operating Profit	13.9	16.4	11.3	14.0
Depreciation & Amortization	-5.6	-5.5	-4.6	-4.8
Net Interest Income / (Expense)	0.1	0.2	0.2	0.2
Reported Pre-tax Profit	14.1	16.1	11.0	13.7
Effective Tax Rate (%)	15.1	27.0	25.0	25.0
Reported Net Profit	11.9	11.7	8.2	10.3
Reported Operating Margin (%)	6.8	7.0	6.9	7.6
Reported Pre-tax Margin (%)	6.9	6.9	6.7	7.5
Reported Net Margin (%)	5.8	5.0	5.0	5.6

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.

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

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	0.37
26-Nov-08	Buy	0.40
2-Jun-08	Buy	0.53
25-Feb-08	Strong Buy	0.51
6-Feb-08	Hold	0.47
30-Oct-07	Not Ranked	
28-Aug-07	Hold	0.58
11-Jul-07	Sell	0.61
7-Sep-06	Buy	0.90
8-May-06	Buy	1.02

