BP Plastics Holding

Recommendation: **STRONG BUY**

Stock Code: **5100** | Bloomberg: **BPP MK** | Price: **MYR0.60** | 12-Month Target Price: **MYR0.73** | Date: **February 9, 2010**

Board: Main

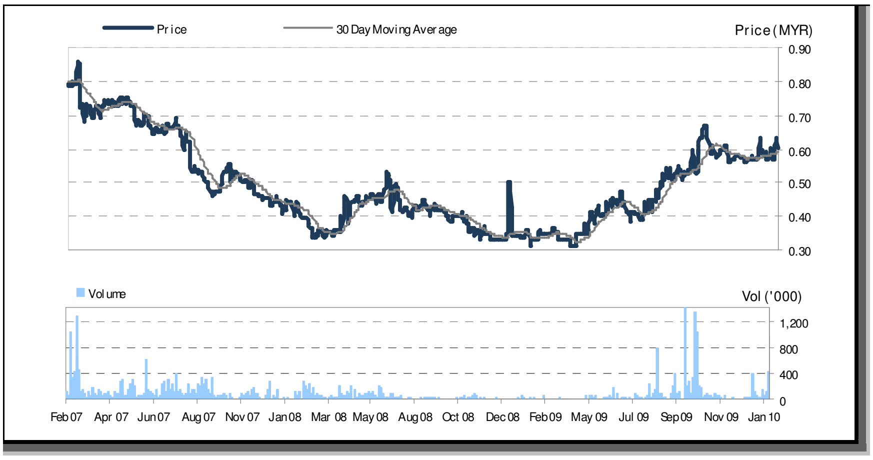
Sector: Industrial Products

GICS: Materials/Paper Packaging

Market Value - Total: MYR109.0 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 over 20 countries. The main raw material component is polyethylene resins.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- BPP posted a higher net profit of MYR15.6 mln (+33% YoY) for 2009, which was within our expectations for a net profit of MYR14.9 mln.
- The increase in 2009 net profit was achieved despite a 25% YoY drop in revenue to MYR175.2 mln. We understand from management that the decline in sales was largely due to the adjustment in selling prices in tandem with lower oil prices, as volumes sold had remained fairly consistent. Meanwhile, the surge in net profit margin to 8.9% from 5.0% a year earlier was attributed to the corresponding fall in resin prices and effective cost-management initiatives.
- For the quarter, 4Q09 revenue and net profit too, recorded YoY rises of 32% and 101% to MYR50.4 mln and MYR4.0 mln respectively, as demand for its stretch films increased along with the revival in global manufacturing activities. The group continues to export approximately 60% of its products overseas.
- With no surprises in the results, we retain our 2010 net profit estimate of MYR18.3 mln (+21% YoY), which assumes a sustained increase in demand for BPP's products. We also introduce our 2011 forecast of MYR215.2 mln in revenue and MYR19.8 mln in net profit.
- BPP recommended a first and final tax-exempt dividend of 3 sen for 2009 (2008: 2 sen).

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation with an unchanged 12-month target price of 73 sen.
- We derive our target price by ascribing a PER of 7x (unchanged) against 2010 earnings, inclusive of a 3 sen dividend. Our target PER multiple is benchmarked against its peers.
- We remain positive on BPP's prospects, as we expect the uptrend in earnings to prevail. This is in tandem with the global manufacturing sector recovery, where the company's industrial packaging is heavily used. Moreover, given the experienced management at BPP, we believe they will continue to handle well the fluctuations in raw materials prices.
- At prospective 2010 PER of 6x and dividend yield of 5%, we find BPP's valuation undemanding, compared to the average PER of 7x for its peers and 10x for the industrial sector. We note that the group's operations are also backed by a solid balance sheet, with a NTA/share of 73 sen and a net cash/share of 25 sen as at end-December 2009.
- Risks to our recommendation and target price include an unexpected drop in manufacturing activities, as well as a sudden spike in resin prices. We note that its thinly-traded volumes may also subject its share price to volatile fluctuations.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	8.7	10.2
PER (x)	7.0	6.0
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.73	1.03
Book Value/Share (MYR)	0.73	1.03
No. of Outstanding Shares (mln)	180.1	
52-week Share Price Range (MYR)	0.31 - 0.67	
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.	2007	2008	2009	2010E
Book Value (MYR)	0.60	0.65	0.73	1.03
Cash Flow (sen)	9.5	10.0	11.1	12.7
Reported Earnings (sen)	6.6	6.5	8.7	10.2
Dividend (sen)	2.0	2.0	3.0	3.0
Payout Ratio (%)	31.2	30.7	34.5	29.5
PER (x)	9.2	9.3	7.0	6.0
P/Cash Flow (x)	6.4	6.1	5.4	4.8
P/Book Value (x)	1.0	0.9	0.8	0.6
Dividend Yield (%)	3.3	3.3	5.0	5.0
ROE (%)	10.9	10.4	12.6	13.3
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.

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

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Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	50.4	38.3	31.6
Reported Operating Profit	4.1	3.4	19.8
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.1	0.0	>100
Reported Pre-tax Profit	4.1	3.4	22.1
Reported Net Profit	4.0	2.0	>100
Reported Operating Margin (%)	8.1	8.9	-
Reported Pre-tax Margin (%)	8.1	8.8	-
Reported Net Margin (%)	7.9	5.2	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	233.5	175.2	195.6	215.2
Reported Operating Profit	16.3	19.5	24.5	25.7
Depreciation & Amortization	-6.2	-4.4	-4.6	-4.8
Net Interest Income / (Expense)	0.2	0.5	0.4	0.4
Reported Pre-tax Profit	16.1	19.5	24.4	25.7
Effective Tax Rate (%)	27.0	19.8	25.0	23.0
Reported Net Profit	11.7	15.6	18.3	19.8
Reported Operating Margin (%)	7.0	11.1	12.5	12.0
Reported Pre-tax Margin (%)	6.9	11.1	12.5	11.9
Reported Net Margin (%)	5.0	8.9	9.4	9.2

Source: Company data, S&P Equity Research

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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.
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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
12-Nov-09	Strong Buy	0.73
21-Aug-09	Buy	0.63
29-May-09	Buy	0.51
26-Feb-09	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