Update

Edison investment research

12 May 2008

British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	414	14.0	38.5	22.0	6.1	9.4
12/07	424	11.5	32.3	22.0	7.3	9.4
12/08e	460	10.0	28.1	22.0	8.4	9.4
12/09e	460	11.5	32.4	22.0	7.3	9.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Mixed performance

BPI's AGM statement paints a very mixed picture, but thankfully leaves us with no overall surprise. Increased competitiveness and acquisitions are helping volumes in the face of some market sectors' deterioration. The pressure, however, remains on input costs. The announced anticipation of a lower H1 result is already assumed in our forecasts.

Volumes rise by 5% in Q1

Overall volume in Q1 rose by 5% due principally to the additional tonnage from the Canadian subsidiary (we estimate this added 4%). Even so, a strong start to the season in silage stretch wrap looks to have more than compensated for weaker demand for construction and manufacturing products. The weakness of sterling also appears to have reduced import penetration and boosted export volumes into Europe.

Continued squeeze from input prices

The pressure on input costs, and hence margins, shows little sign of easing. Just when the European polymer price seems to have topped out, BPI's UK plants face the impact of higher sterling polymer prices due to the stronger euro and another increase in energy prices. We hence remain cautious on the margin outlook in 2008.

Further cost-cutting action

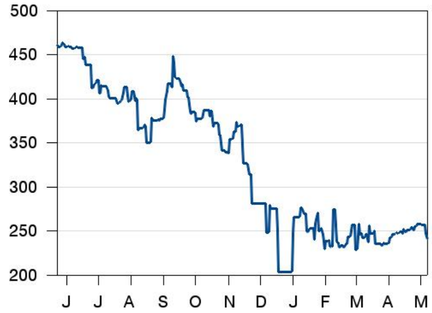
The announcement of the potential consolidation of Buckhurst Hill operations into other sites follows a similar rationalisation announcement last year. It should not only cut out the losses there, but improve efficiency elsewhere, which should compensate for the closure costs. (NB No exceptional costs yet released.)

Forecasts and valuation

Management's comments that the expectation of a steadier Q2 will not be enough to compensate for the weak Q1 come as no surprise. Against a strong H1 last year (£8.8m PBT), we had expected a fall in H1 in arriving at our £10m FY forecast. With no change to our figures, the net asset value and yield continue to put a firm floor under the share price.

Price	235p
Market Cap	£63m

Share price graph



Share details

Code	BPI
Listing	FULL
Sector	General Industrial
Shares in issue	26.5m

Price

52 week	High	Low
	470.0p	187.5p

Balance Sheet as at 31 December 2007

Debt/Equity (%)	104
NAV per share (p)	239
Net borrowings (£m)	64.8

Business

BPI is one of the largest manufacturers of polythene films and sheet products from polymer in Europe.

Valuation

	2007	2008e	2009e
P/E relative	53%	76%	71%
P/CF	2.9	2.9	2.3
EV/Sales	0.3	0.3	0.3
ROE	14%	12%	13%

Geography by revenues

UK	Europe	N.America	Other
63%	30%	5%	2%

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Exhibit 1: Company data sheet

Operations

BPI has 25 plants located in the UK (19), Belgium (2), the Netherlands, Canada (2) and China. Operations are managed as four UK businesses (250k tonnes) and one in Europe (60k tonnes). Main European competitors: RKW (Ger), Trioplast (Swe), Aspla (Spa), Manuli (Italy). Main UK competitors: Britton, Total, Amcor. Raw material polymers are bought from multiple sources including Dow Chemical, Exxon Mobil, Ineos and SABIC, and account for c 60% of group sales.

Film

The 105k tonne operation is run from six factories in the UK and a sales office in Ireland, and combines the film and stretch film operations. Product is mainly sold direct to customers or to other parts of the group to convert into higher added value products. Main products are stretch-wrap and shrink-wrap (silage, packaging and food), and films for other converters.

Recycled

BPI operates five plants in the UK and one in China and is the largest re-processor of polyethylene films in Europe, producing c 80k tonnes of product. The plants take waste from its operations and external purchases and recycle them into products like refuse sacks or building films. The lowest grade plastic is converted into moulded products like plastic wood for street furniture, decking etc. Having a recycling operation improves the group's efficiency. It is a fragmented market and waste is increasingly going to the Far East, where labour costs for sorting are cheaper. Supply of waste polyethene is short due to high demand from the Far East (UK is 70% export), this is partially offset by farm films collection where very little is exported.

Converted product — industrial/consumer

In this business, BPI makes c 70k tonnes polyethylene film into specific products by printing and converting it. In total there are eight plants and the business is run as two separate operations: industrial, which produces heavy duty sacks, large bags and pallet shrink wrap/hoods as well as short-run packaging products; and consumer, which does not extrude, but processes a wide range of printed bags for produce and the food industry. Converted products have a higher added value content than the film business.

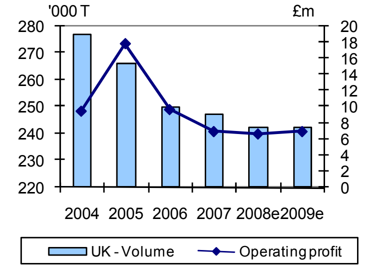
Europe

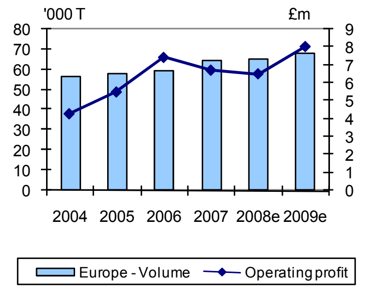
This business runs the group's Dutch and the two Belgian plants (60k tonnes). It replicates the UK Film and Converted Products operations, although it performs limited recycling. The three strongest non-UK territories for BPI are Belgium, the Netherlands and France which each account for about 5% of group sales. (NB Ireland is serviced from the UK.) The main products are silage wrap, printed film and heavy duty sacks.

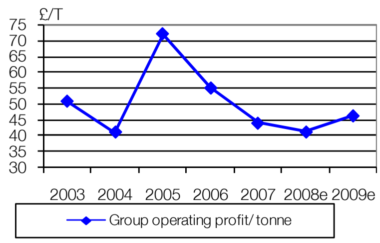
Canada

The main agricultural and horticultural markets are truly international and the recent acquisition adds c 12k tonnes capacity in Canada, and grain bags as a new product.

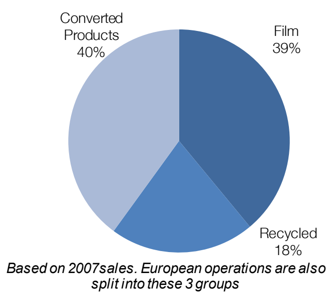
Performance



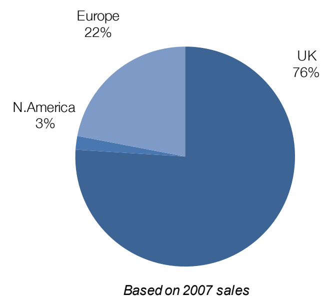




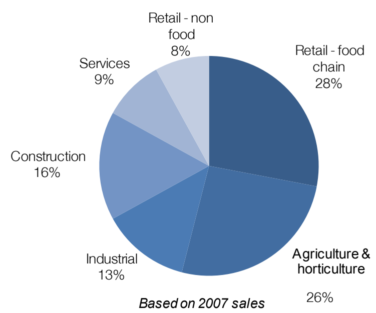
Process breakdown



Geographic breakdown



End user market breakdown



Source: Edison Investment Research

Exhibit 2: Financial information

£m	2005	2006	2007	2008e	2009e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	410.2	414.2	424.1	460.0	460.0
Cost of Sales	(338.7)	(352.4)	(363.5)	(398.9)	(390.1)
Gross Profit	71.5	61.8	60.6	61.2	69.9
EBITDA	36.6	29.8	26.6	26.3	28.1
Operating Profit (before GW and except.)	23.3	17.1	13.9	13.2	15.0
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other	(0.4)	(0.3)	1.2	1.0	1.0
Operating Profit	22.9	16.7	15.1	14.2	16.0
Net Interest	(3.2)	(2.7)	(3.6)	(4.2)	(4.5)
Profit Before Tax (norm)	19.7	14.0	11.5	10.0	11.5
Profit Before Tax (FRS 3)	19.7	14.0	11.5	10.0	11.5
Tax	(5.4)	(3.9)	(3.0)	(2.6)	(3.0)
Profit After Tax (norm)	14.3	10.1	8.5	7.4	8.5
Profit After Tax (FRS3)	14.3	10.1	8.5	7.4	8.5
Average Number of Shares Outstanding (m)	25.7	26.0	26.2	26.5	26.5
EPS - normalised (p)	54.3	38.5	32.3	28.1	32.4
EPS - FRS 3 (p)	55.3	38.8	32.4	27.9	32.1
Dividend per share (p)	22.0	22.0	22.0	22.0	22.0
Gross Margin (%)	17.4	14.9	14.3	13.3	15.2
EBITDA Margin (%)	8.9	7.2	6.3	5.7	6.1
Operating Margin (before GW and except.) (%)	5.7	4.1	3.3	2.9	3.3
BALANCE SHEET					
Fixed Assets	93.5	85.4	86.6	88.4	88.9
Intangible Assets	2.0	2.1	2.1	2.3	2.3
Tangible Assets	79.2	77.3	82.5	84.0	84.5
Investment/tax credits	12.3	6.0	2.0	2.1	2.1
Current Assets	119.4	120.5	127.8	137.5	139.5
Stocks	55.3	59.5	62.1	67.4	67.4
Debtors	63.2	60.5	65.1	69.2	70.2
Cash	0.9	0.5	0.6	1.0	2.0
Current Liabilities	(75.5)	(68.3)	(81.4)	(87.0)	(90.5)
Creditors	(68.7)	(60.9)	(63.5)	(69.1)	(72.6)
Short term borrowings	(6.8)	(7.4)	(17.9)	(17.9)	(17.9)
Long Term Liabilities	(100.2)	(83.2)	(70.6)	(74.9)	(70.9)
Long term borrowings	(41.2)	(45.1)	(47.5)	(52.1)	(50.1)
Other long term liabilities	(59.0)	(38.1)	(23.1)	(22.8)	(20.8)
Net Assets	37.2	54.4	62.4	64.0	67.0
CASH FLOW					
Operating Cash Flow	33.8	19.4	22.0	22.3	28.1
Net Interest	(3.2)	(2.8)	(3.6)	(4.2)	(4.5)
Tax	(4.0)	(5.6)	(2.2)	(2.6)	(3.0)
Capex	(11.6)	(11.6)	(13.2)	(13.3)	(13.0)
Acquisitions/disposals	0.0	0.0	(6.5)	0.0	0.0
Financing	0.0	1.4	(3.5)	(0.7)	1.1
Dividends	(5.4)	(5.7)	(5.8)	(5.7)	(5.7)
Net Cash Flow	9.6	(4.9)	(12.8)	(4.2)	3.0
Opening net debt/(cash)	56.7	47.1	52.0	64.8	69.0
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	(0.0)	0.0	0.0	(0.0)	0.0
Closing net debt/(cash)	47.1	52.0	64.8	69.0	66.0

Source: Company accounts/Edison Investment Research