

British Polythene Industries

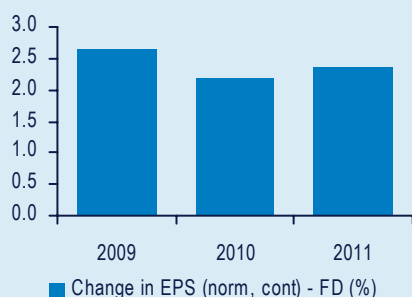
General Industrials

Buy **225p**

Potential upside **16%**

Target price **260p**

Impact on estimates



EPS (norm, cont) - FD (p)	2009E	2010E	2011E
Old	29.85	32.49	37.00
New	30.64	33.20	37.88

Source: Investec Securities estimates

Market cap	£59.6m
Enterprise value	£122m
Next news	
12m high / low	253p/115p
Index	FTSE Small Cap
RIC / Bloomberg	BPI.L / BPI LN

Share price performance



Source: JCF Group

Forecast upgrades

Our view

BPI has delivered a good H1 result (+65% lift in underlying PTP to £11.9m). Nearly 70% of group sales are in more resilient sectors (e.g. the food retail chain, agriculture and horticulture) that along with more stable input prices, cost reduction measures and a currency benefit have helped. We reiterate our BUY view, increase forecasts and raise our target price from 200p to 260p.

Key points

- **Interims.** BPI beat our FY09E H1 PTP forecast (£11.9m versus our estimate of £10.2m), due in part to a higher margin than we expected. BPI's operating profit per tonne (a key KPI) rose from £51/tonne to £91/tonne. The DPS was reduced to 3.5p (08: 7.0p), part of a previously-announced rebasing plan.
- **Forecasts.** BPI's tough action to align capacity with reduced overall levels of demand and lower the cost base puts the group in a good position to cope with the current challenging environment. Hence, in spite of limited demand visibility, we raise our forecasts (see overleaf for detail).
- **View.** We reiterate our BUY recommendation, although we are raising our PE-based target price from 200p to 260p per share (implying a 09E PE of 8.5x).

John Lawson

+44 (0) 20 7597 5062

john.lawson@investec.co.uk

Financials and valuation - IFRS compliant

Year end: 31 December

	2007	2008	2009E	2010E	2011E
Turnover (£m)	424.1	480.7	388.1	402.0	420.6
EBITDA (£m)	26.7	27.2	31.0	32.0	33.9
EBITA (£m)	14.6	12.6	16.0	17.0	18.9
PBT (normalised) (£m)	11.0	8.4	12.0	13.0	14.9
Net income (normalised) (£m)	7.8	5.8	8.1	8.7	10.0
EPS (normalised, continuing) - FD (p)	29.7	22.1	30.6	33.2	37.9
FCFPS - FD (p)	13.5	22.1	47.3	27.8	29.5
NAV per share (p)	237.6	202.5	133.7	152.0	174.8
DPS (p)	22.00	14.50	11.00	11.00	11.55
PE (normalised) (x)	7.6	10.2	7.3	6.8	5.9
Price/book (x)	0.9	1.1	1.7	1.5	1.3
EV/sales (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	4.6	4.5	3.9	3.8	3.6
FCF yield (%)	5.9	9.7	20.8	12.3	13.0
Dividend yield (%)	9.8	6.4	4.9	4.9	5.1

Source: Company accounts/Investec Securities estimates

British Polythene Industries

Interims

BPI has reported a 65% lift in PTP pre-restructuring costs and pensions financing to £11.9m, ahead of our £10.2m forecast, and a 61% lift in underlying EPS to 31.1p. As expected, the DPS was rebased and the interim dividend is 3.5p per share (08: 7.0p). Our forecast DPS for the FY09E is 11.0p (08: 14.5p). This rebasing of the DPS was flagged at the prelims announcement.

Forecasts

Whilst the H2 FY09E forecasts are dependent on a number of factors, such as the raw material price cycle (and if the group can continue to recover raw material increases, as we expect) and whether the traditional retail Christmas spending is up to expectations, we are increasing our FY09E PTP from £11.0m to £12.0m. The FY09E EPS is 30.6p (was 29.9p). The group usually has a significant seasonal bias in favour of the first half (mainly due to agricultural film sales), but this FY09 forecast implies a H2 PTP of just £0.1m (08: £1.2m).

Polymer prices increased in July and August (with a further increase expected in September). However, with the expected arrival of supplies from new plants in the Middle East and elsewhere (such as Teesside in England), BPI expects that maintenance of polymer prices at current levels would “appear to be difficult”.

We also raise our FY10E PTP from £12.0m to £13.0m, i.e. a new EPS of 33.2p (was 32.5p). We forecast a higher tax charge of 33% in FY09 and beyond, compared to 28% in our earlier model, due to high tax rates in some Continental European countries. We maintain our DPS forecasts, as shown overleaf.

Our view and valuation

In some very tough markets, the group is performing well. To a large measure this is due to self help, as BPI's management is quick to align capacity with demand, but also input costs have been more benign than in recent years. BPI's business has a high level of operating gearing, so when more normal economic conditions re-emerge we would expect that the group will be a beneficiary.

Our new forecasts are relatively conservative, we believe, but given the limited visibility over future demand it would be rash to be too ambitious at present. We reiterate our BUY recommendation but raise our PE-based target from 200p to 260p per share. This new 12-month price target implies a PE multiple of 8.5x for FY09.

General Industrials

Company profile

BPI manufactures c.300,000 tonnes of polythene products (films, sacks and bags such as silage stretch wrap, refuse sacks, industrial films and shrink wrap) for a wide range of applications. BPI is one of the largest producers in Europe and operates from eighteen manufacturing sites in the UK, three plants in Continental Europe, from one factory in China and recently extended its operations into Canada (through the AT Films acquisition). BPI is a major recycler of polythene waste, having pioneered recycling techniques for the processing of scrap materials ranging from agricultural films to post-use stretch films.

Other information

Average daily volume (000s)	76
Free float	100%
Number of shares in issue (m)	26
Website	www.bpipoly.com

Calendarised valuation - IFRS compliant

	2007	2008	2009E	2010E
Calendar PE (x)	7.6	10.2	7.3	6.8
Calendar price/book (x)	0.9	1.1	1.7	1.5
Calendar EV/sales (x)	0.3	0.3	0.3	0.3
Calendar EV/EBITDA (x)	4.6	4.5	3.9	3.8
Calendar FCF yield (%)	5.9	9.7	20.8	12.3
Calendar dividend yield (%)	9.8	6.4	4.9	4.9

Source: Company accounts/Investec Securities estimates

Ratios and metrics - IFRS compliant

Year end: 31 December

	2007	2008	2009E	2010E	2011E
Sales growth (y-on-y) (%)	2.4	13.3	(19.3)	3.6	4.6
EBITDA growth (y-on-y) (%)	(10.4)	1.9	14.0	3.2	6.1
Net income (normalised) growth (y-on-y) (%)	(24.5)	(25.7)	39.2	8.4	14.1
EPS (normalised) growth (y-on-y) (%)	(24.5)	(25.6)	38.9	8.4	14.1
FCFPS growth (y-on-y) (%)	n/a	64.0	113.8	(41.1)	6.2
NAVPS growth (y-on-y) (%)	15.3	(14.8)	(34.0)	13.7	15.0
DPS growth (y-on-y) (%)	0.0	(34.1)	(24.1)	0.0	5.0
Interest cover (x)	4.1	3.0	4.0	4.3	4.7
Net debt/EBITDA (x)	2.4	2.8	2.0	1.8	1.5
Net debt/equity (%)	104.2	144.0	178.5	143.2	111.6
Dividend cover (x)	1.4	1.5	2.8	3.0	3.3
EBITDA margin (%)	6.3	5.7	8.0	8.0	8.1
EBITA margin (%)	3.4	2.6	4.1	4.2	4.5
ROCE (%)	9.8	8.2	11.0	11.7	13.0
NWC/sales (%)	15.1	12.8	13.5	13.3	12.9
Tax rate (normalised) (%)	29.4	31.1	33.0	33.0	33.0
Tax rate (reported) (%)	26.0	28.2	38.8	35.7	35.4

Source: Company accounts/Investec Securities estimates

British Polythene Industries

Summary financials (£m) - IFRS compliant

Year end: 31 December

Income statement	2007	2008	2009E	2010E	2011E
Turnover	424.1	480.7	388.1	402.0	420.6
EBITDA	26.7	27.2	31.0	32.0	33.9
Depreciation	(12.1)	(14.6)	(15.0)	(15.0)	(15.0)
Operating profit	14.6	12.6	16.0	17.0	18.9
Other income, JVs and associates	0.0	0.0	0.0	0.0	0.0
Net interest	(3.6)	(4.2)	(4.0)	(4.0)	(4.1)
Share-based payments	0.0	0.0	0.0	0.0	0.0
PBT (normalised)	11.0	8.4	12.0	13.0	14.9
Impairment of acquired intangible assets	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.4	(4.5)	(4.5)	(1.0)	(1.0)
PBT (reported)	11.5	3.9	7.5	12.0	13.9
Taxation	(3.0)	(1.1)	(2.9)	(4.3)	(4.9)
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued / assets held for sale	0.0	0.0	0.0	0.0	0.0
Profit attributable	8.5	2.8	4.6	7.7	9.0
Net income (normalised)	7.8	5.8	8.1	8.7	10.0
EPS (reported) - FD (p)	32.5	10.7	17.5	29.4	34.1
EPS (normalised, continuing) - FD (p)	29.7	22.1	30.6	33.2	37.9
EPS (normalised) - FD (p)	29.7	22.1	30.6	33.2	37.9
DPS (p)	22.00	14.50	11.00	11.00	11.55
Average number of group shares - FD (m)	26.3	26.2	26.3	26.3	26.3
Average number of group shares (m)	26.2	26.2	26.2	26.2	26.2
Cash flow	2007	2008	2009E	2010E	2011E
Operating profit	14.6	12.6	16.0	17.0	18.9
Depreciation	12.1	14.6	15.0	15.0	15.0
Other non-cash movements	(8.2)	(8.2)	(7.5)	(2.5)	(2.5)
Change in working capital	2.8	8.4	9.0	(1.0)	(1.0)
Other cash movements	0.1	0.4	0.2	0.2	0.2
Operating cash flow	21.4	27.8	32.7	28.7	30.6
Interest	(3.6)	(4.1)	(4.0)	(4.0)	(4.1)
Dividends from JVs & associates	0.0	0.0	0.0	0.0	0.0
Tax	(2.2)	(3.3)	(1.3)	(2.4)	(3.8)
Maintenance capex	(12.1)	(14.6)	(15.0)	(15.0)	(15.0)
Free cash flow	3.5	5.8	12.4	7.3	7.8
Expansionary capex	(1.1)	0.4	(0.5)	1.0	1.0
Dividends paid	(5.8)	(5.8)	(2.9)	(2.9)	(3.0)
Cash impact of exceptionals	0.0	0.0	0.0	0.0	0.0
Acquisitions	(6.5)	(0.4)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Share issues	(0.2)	0.0	0.0	0.0	0.0
Other financial	(3.3)	(11.2)	4.9	0.0	0.0
Change in net debt	(13.4)	(11.2)	13.9	5.4	5.8
Net cash (debt)	(64.8)	(76.0)	(62.0)	(56.6)	(50.8)
FCFPS - FD (p)	13.5	22.1	47.3	27.8	29.5
Balance sheet	2007	2008	2009E	2010E	2011E
Intangible fixed assets	2.1	2.2	2.2	2.2	2.2
Tangible fixed assets	82.5	90.3	90.8	89.8	88.8
Net working capital	64.0	61.4	52.4	53.4	54.4
Assets employed	148.6	153.9	145.4	145.4	145.4
Investments/other assets	3.1	8.1	8.1	8.1	8.1
Net cash (debt)	(64.8)	(76.0)	(62.0)	(56.6)	(50.8)
Provisions & other liabilities (inc. Pension)	(24.5)	(32.9)	(56.3)	(56.9)	(56.7)
Net assets	62.4	53.1	35.2	40.0	46.0
Minority interests	0.2	0.4	0.4	0.4	0.4
NAV per share (p)	237.6	202.5	133.7	152.0	174.8

Source: Company accounts/Investec Securities estimates

General Industrials

Definition of research ratings

	Expected 12m performance
Buy	Appreciation of 10% or more
Hold	Appreciation or depreciation of less than 10%
Sell	Depreciation of 10% or more

UK stock ratings distribution

	Coverage universe		Investment banking clients	
	Count	% of total	Count	% of total
Buy	123	53%	66	54%
Hold	86	37%	14	16%
Sell	23	10%	0	0%

Source: Investec Securities

Investec Bank plc (Investec) has investment banking relationships with a number of companies covered by our Research department. In addition we may seek an investment banking relationship with companies referred to in this research. As a result investors should be aware that the firm may have a conflict of interest which could be considered to have the potential to affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Our policy on managing actual or potential conflicts of interest can be found at www.investec.com/UnitedKingdom.

Analyst certification

Each research analyst responsible for the content of this research report, in whole or in part, and who is named herein, attests that the views expressed in this research report accurately reflect his or her personal views about the subject securities or issuers. Furthermore, no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this research report.

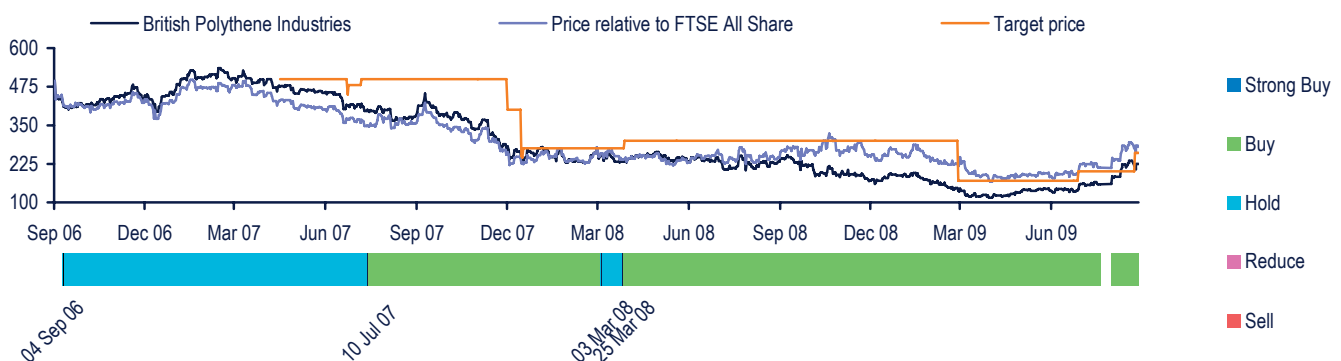
Third party research disclosures / Additional disclosures:

This report has been produced by a non-member affiliate of Investec Securities (US) LLC and is being distributed as third-party research by Investec Securities (US) LLC in the United States. This Report is not intended for use by or distribution to US corporations or businesses that do not meet the definition of a major institutional investor in the United States, or for use by or distribution to any individuals who are citizens or residents of the United States. Investec Securities (US) LLC accepts responsibility for the issuance of this report when distributed in the United States to entities who meet the definition of a US major institutional investor.

Investec makes a market in the securities of British Polythene Industries. Investec has received compensation from British Polythene Industries for investment banking services within the past 12 months. Investec expects to receive or intends to seek compensation for investment banking services from British Polythene Industries in the next 6 months.

Please note: As of October 2006, Investec Securities moved to the Buy/Hold/Sell structure defined above from a Strong Buy/Buy/Hold/Reduce/Sell recommendation structure. In the old structure performance was measured relative to the FTSE All Share with: greater than 20% out performance for a Strong Buy; between 10% and 20% out performance for a Buy; less than 10% out/under performance for a Hold; between 10% and 20% under performance for a Reduce; and greater than 20% under performance for a Sell. Historic recommendations are unchanged in the following ratings plotter chart(s).

British Polythene Industries Ratings Plotter as at 01 Sep 09



Source: Investec Securities estimates, FactSet

British Polythene Industries

General Industrials

Disclaimer

This report has been issued or approved for issue by a member of the Investec Group of companies ("Investec Group") listed below and has been forwarded to you solely for your information and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto ("financial instruments"). This report is intended for use by professional and business investors only. This report may not be reproduced without the consent of Investec Group or one of its affiliates ("Investec").

The information and opinions expressed in this report have been compiled from sources believed to be reliable, but, neither Investec, nor any of its directors, officers, or employees accepts liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. Investec is not agreeing to nor is it required to update the opinions, forecasts or estimates contained herein.

The value of any securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors. This report does not have regard to the specific instrument objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, financial instrument or investment strategies discussed in this report.

Investec (or its directors, officers or employees) may, to the extent permitted by law, own or have a position in the securities or financial instruments (including derivative instruments or any other rights pertaining thereto) of any company or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such securities or financial instruments. Directors of Investec may also be directors of any of the companies mentioned in this report. Investec may from time to time provide or solicit investment banking, underwriting or other financial services to, for or from any company referred to herein. Investec (or its directors, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published. Investec may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

The securities or financial instruments described herein may not have been registered under the US Securities Act of 1933, and may not be offered or sold in the United States of America or to US persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements or such Act. US entities that are interested in trading securities listed in this report should contact a US registered broker dealer. Investec Securities (US) LLC accepts responsibility for the issuance of this report when distributed in the United States to US persons who meet the definition of a US major institutional investor. The distribution of this document in other jurisdictions may be prohibited by rules, regulations and/or laws of such jurisdiction. Any failure to comply with such restrictions may constitute a violation of United States securities laws or the laws of any such other jurisdiction.

To our readers in the United Kingdom, this report has been issued by Investec Bank plc, a firm authorised and regulated by the Financial Services Authority and a member of the London Stock Exchange. This report is not for distribution to retail clients.

To our readers in the Republic of Ireland, this report has been issued or approved for issue in the Republic of Ireland by either Investec Bank plc (Irish branch), a firm authorised by the FSA and regulated for investment business by the Financial Regulator or Investec Ireland Limited which is authorised and regulated by the Financial Regulator.

This report is disseminated in South Africa by Investec Securities Limited, which is regulated by the Financial Services Board and the Johannesburg Stock Exchange, and in Switzerland by Investec Bank (Switzerland) AG.

This report is not intended for use by, or distribution to, US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

© 2009

This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part, copies circulated, or disclosed to another party, without the prior written consent of Investec Group or one of its subsidiaries or affiliates. Securities referred to in this research report may not be eligible for sale in those jurisdictions where a member of the Investec Group is not authorised or permitted by local law to do so. In particular, the Investec Group does not allow the redistribution of this report to non-professional investors and cannot be held responsible in any way for third parties who effect such redistribution.

Investec Securities

A division of Investec Bank plc
Authorised and regulated by the FSA
Member of the London Stock Exchange
Registered No. 489604 England

Registered Office:

2 Gresham Street London EC2V 7QP
Telephone: +44 20 7597 4000
Fax: +44 20 7597 4070

Investec Securities Ltd (Johannesburg)

PO Box 78055
Sandton 2146
South Africa
Telephone: +27 11 286 7000
Fax: +27 11 286 9923

Investec Securities Ltd (Cape Town)

PO Box 4059
Cape Town 8000
South Africa
Telephone: +27 21 416 3000
Fax: +27 21 416 3598

Investec (US) LLC (New York)

15th Floor, 666 Fifth Avenue
New York, NY 10103
USA
Telephone: +1 212 259 5600
Fax: +1 917 206 5102

General Industrials Analysts

John Lawson

+44 (0) 20 7597 5062
john.lawson@investec.co.uk

Robert Morton

+44 (0) 20 7597 5139
robert.morton@investec.co.uk

Guy Hewett

+44 (0) 20 7597 5191
guy.hewett@investec.co.uk

Wayne Gerry

+44 (0) 20 7597 5171
wayne.gerry@investec.co.uk

General Industrials Specialist Sales

Vince Silvester

+44 (0) 20 7597 5005
vince.silvester@investec.co.uk