Update

Edison investment research

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British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/07	424	10.3	27.7	22.0	9.0	8.8
12/08	481	3.0	7.3	14.5	34.5	5.8
12/09e	400	12.0	32.6	11.0	7.7	4.4
12/10e	440	13.5	36.4	12.0	6.9	4.8

Note: *PBT and EPS are normalised, excluding goodwill amortisation and pension adjustments.

Investment summary: Profit recovery continues

BPI's third quarter statement shows that the encouraging trend in the first half has continued despite a rise in polymer input costs. It focuses attention on how BPI can successfully pass on raw material costs while addressing its fixed cost base. Reaching the floor in the demand downswing, the business looks well placed.

Polymer price effects modest

Polymer prices have followed the recovery in oil prices, rising to about £1,000/t in September from lows of below £700/t at the beginning of the year. Although this is not normally good news, BPI looks to have held on to margin well and input prices are now beginning to erode again in the absence of any sustained demand.

Volume outlook near the bottom

The UK businesses have definitely benefitted from weaker sterling, with better export margins and less UK competition. Construction demand has also clearly bottomed out, while retail and silage trends are similar to last year (ie slightly down). Overall the rate of volume decline has eased in Q3 and it looks like Q4 might actually see a modest year-on-year rise. The net effect means a likely 10% volume decline in 2009 (compared to 17.5% in H1).

Raised forecasts (again)

The cost side of the equations looks more optimistic approaching the year end: polymer prices appear to have peaked again; energy prices are more stable than in previous years; and the restructuring programme has reduced the cost base. We expect more savings in the cost base in 2010 when the Stockton closure and relocation is completed in Q2. These reasons, and a lower than expected interest charge, cause us to raise forecasts again. We are adding £2m and £1.5m to our PBT forecasts in 2009 and 2010, respectively and expect net debt to fall y-o-y from £76m to £62m.

Valuation driven by earnings momentum

Earnings momentum continues to be with the stock. BPI continues to show that it can control its own destiny by tight cost control. With the demand downswing bottoming out, we still have scope to look at next year's figure, when and if recovery comes. The P/E valuation of c 7x for 2010 does look demanding.

British Polythene Industries is a research client of Edison Investment Research Limited

Price	250p
Market Cap	£66m

Share price graph

Share details

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

Price

	High	Low
52 week	251p	115p

Balance Sheet as at 30 June 2009

Debt/Equity (%)	147
NAV per share (p)	142
Net borrowings (£m)	55

Business

BPI is one of the largest manufacturers of polythene film products in Europe.

Valuation

	2008	2009e	2010e
P/E relative	325%	66%	66%
P/CF	2.4	2.1	2.4
EV/Sales	0.3	0.3	0.3
ROE	4%	15%	15%

Geography based on revenues

UK	Europe	US/Can	Other
58%	33%	5%	4%

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Exhibit 1: Company data sheet

Operations

BPI has 22 plants, located in the UK (16), Belgium (two), the Netherlands, Canada (two) and China. Operations are managed as four UK businesses (210k tonnes), one in Europe (60k tonnes) and one in Canada. Main European competitors are RKW (Germany), Trioplast (Sweden), Aspla (Spain), Manuli (Italy). Main UK competitors: Britton, Total and Amcor. Raw material polymers are bought from multiple sources including Dow Chemicals, Exxon Mobil, Ineos and SABIC, and account for c 60% of group sales.

Film

The 100k tonne operation is run from six factories in the UK and a sales office in Ireland and combines plain film and stretch film operations. Product is either sold to other parts of the group to convert into higher added-value products or direct to customers. The main products are stretch-wrap and shrink-wrap (silage, packaging and food), and films for other converters.

Recycled

BPI operates four plants in the UK and one in China and is the largest re-processor of polyethylene in Europe, producing c 70k tonnes of product. The plants take waste from its operations, from customers and from the open market and recycle 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 had been increasingly going to the Far East, where labour costs for sorting are cheaper.

Converted Product — industrial/consumer

In this business, BPI makes c 60k tonnes polyethylene film into specific products by printing and converting it. In total there are six 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 higher added-value content than the film business.

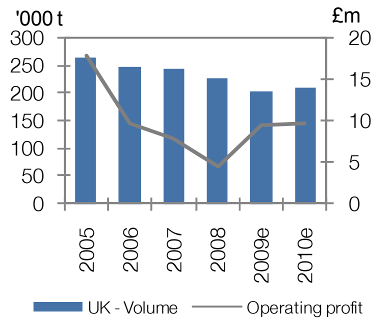
Europe

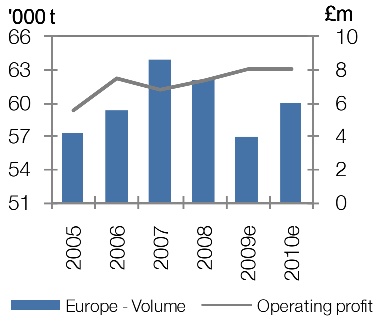
This business runs the group's one Dutch and two Belgian plants (c 60k tonnes). It replicates the UK film and converted products operations, although it performs limited recycling. The three strongest non-UK territories for BPI are Belgium, the Netherlands and France, which each account for about 5%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

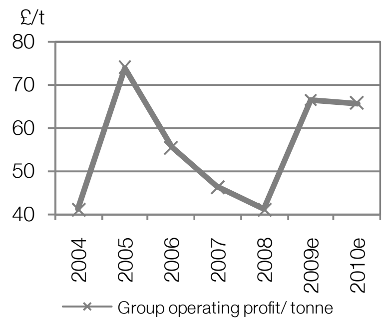
Canada

The main agricultural and horticultural markets are truly international and the recent acquisition adds c 13k tonnes of capacity in Canada, and silage and grain bags as new products.

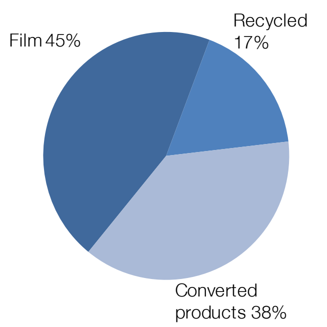
Performance





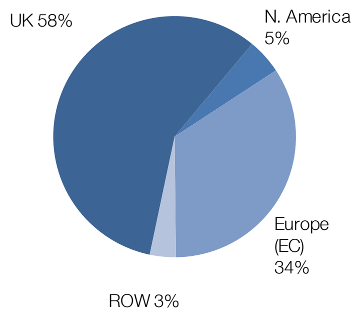


Process breakdown



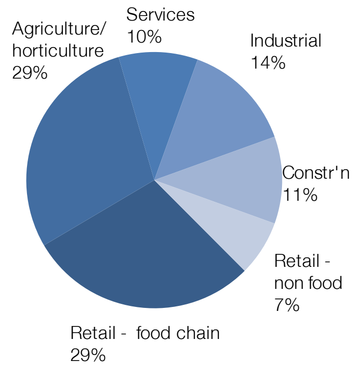
Based on 2008 sales. European operations are also split into these three groups.

Geographic breakdown



Based on sales by destination.

End-user market breakdown



Based on 2008 sales.

Source: Edison Investment Research

Exhibit 2: Financial information

£m Year end 31 December	2005 IFRS	2006 IFRS	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS
PROFIT & LOSS						
Revenue	410.2	414.2	424.1	480.7	400.0	440.0
Cost of Sales	(338.7)	(352.4)	(363.5)	(425.4)	(339.2)	(371.8)
Gross Profit	71.5	61.8	60.6	55.3	60.8	68.2
EBITDA	37.2	29.8	27.3	27.2	32.0	32.5
Operating Profit (before GW and restruct.)	23.9	17.1	14.6	12.6	18.0	18.5
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Net restructuring costs	(0.6)	0.0	(0.7)	(5.4)	(3.0)	(2.0)
Operating Profit	23.3	17.1	13.9	7.2	15.0	16.5
Net Interest	(3.2)	(2.7)	(3.6)	(4.2)	(3.0)	(3.0)
Pension adjustments	(0.4)	(0.3)	1.2	0.9	(1.5)	(1.5)
Profit Before Tax (norm)	20.1	14.3	10.3	3.0	12.0	13.5
Profit Before Tax (FRS 3)	19.7	14.0	11.5	3.9	10.5	12.0
Tax	(5.4)	(3.9)	(3.0)	(1.1)	(3.5)	(4.0)
Profit After Tax (norm)	14.7	10.4	7.3	1.9	8.5	9.5
Profit After Tax (FRS3)	14.3	10.1	8.5	2.8	7.0	8.0
Average Number of Shares Outstanding (m)	25.7	26.0	26.2	26.4	26.5	26.5
EPS - normalised (inc restructuring)(p)	53.6	39.8	27.7	7.3	32.6	36.4
EPS - FRS 3 (p)	55.3	38.8	32.4	10.6	26.5	30.3
Dividend per share (p)	22.0	22.0	22.0	14.5	11.0	12.0
Gross Margin (%)	17.4	14.9	14.3	11.5	15.2	15.5
EBITDA Margin (%)	9.1	7.2	6.4	5.7	8.0	7.4
Operating Margin (before GW and except.) (%)	5.8	4.1	3.4	2.6	4.5	4.2
BALANCE SHEET						
Fixed Assets	93.5	85.4	86.6	99.9	102.9	101.4
Intangible Assets	2.0	2.1	2.1	2.2	2.2	2.2
Tangible Assets	79.2	77.3	82.5	90.3	85.4	83.9
Investment/tax credits	12.3	6.0	2.0	7.4	15.3	15.3
Current Assets	119.4	120.5	127.8	124.0	118.0	129.2
Stocks	55.3	59.5	62.1	62.5	52.0	57.2
Debtors	63.2	60.5	65.1	61.1	65.0	71.0
Cash	0.9	0.5	0.6	0.4	1.0	1.0
Current Liabilities	(75.5)	(68.3)	(81.4)	(92.2)	(76.8)	(86.5)
Creditors	(68.7)	(60.9)	(63.5)	(62.5)	(47.1)	(56.8)
Short term borrowings	(6.8)	(7.4)	(17.9)	(29.7)	(29.7)	(29.7)
Long Term Liabilities	(100.2)	(83.2)	(70.6)	(78.6)	(88.1)	(82.1)
Long term borrowings	(41.2)	(45.1)	(47.5)	(46.7)	(33.3)	(27.3)
Other long term liabilities	(59.0)	(38.1)	(23.1)	(31.9)	(54.8)	(54.8)
Net Assets	37.2	54.4	62.4	53.1	56.0	62.0
CASH FLOW						
Operating Cash Flow	33.8	19.4	22.0	27.8	31.6	27.1
Net Interest	(3.2)	(2.8)	(3.6)	(4.1)	(3.0)	(4.0)
Tax	(4.0)	(5.6)	(2.2)	(3.3)	(2.5)	(2.5)
Capex	(11.6)	(11.6)	(13.2)	(14.2)	(15.8)	(11.5)
Acquisitions/disposals	0.0	0.0	(6.5)	0.0	0.0	0.0
Financing	0.0	1.4	(3.5)	(0.6)	1.1	(0.2)
Dividends	(5.4)	(5.7)	(5.8)	(5.8)	(2.9)	(2.9)
Net Cash Flow	9.6	(4.9)	(12.8)	(0.2)	8.5	6.0
Opening net debt/(cash)	56.7	47.1	52.0	64.8	76.0	62.0
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0
FX movement	(0.0)	0.0	0.0	(11.0)	5.5	(0.0)
Closing net debt/(cash)	47.1	52.0	64.8	76.0	62.0	56.0

Source: Company accounts/Edison Investment Research