

13 January 2010

British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/07	424.1	10.3	27.7	22.0	10.7	7.5
12/08	480.7	3.0	7.3	14.5	41.0	5.0
12/09e	400.0	12.5	33.9	11.0	8.5	3.8
12/10e	415.0	13.5	36.4	11.0	7.9	3.8

Note: * PBT and EPS are normalised, excluding pension adjustments & goodwill amortisation, but include restructuring.

Investment summary: Strong end to 2009

BPI's year end trading update again pleases. A strong last quarter's trading and the effect of cost-cutting initiatives means full year results will be "at the top end of market expectations" and encourages us to raise forecasts modestly. We are raising 2009 PBT estimates from £12.0m to £12.5m (£15.5m before £3.0m restructuring costs) and leaving 2010 profit forecasts unchanged, despite extra announced restructuring costs. We assume a no-growth environment in our 2010 forecasts. Higher turnover reflects higher average polymer prices and increased profits derive from lower restructuring costs.

Further restructuring initiatives

BPI has announced the closure of the Brampton packaging film plant in Cumbria due to lower volume causing a significant drop in profitability. This will result in about 40 redundancies and a £0.6m exceptional charge against 2010 profits. Early restructuring initiatives in each of the last two years have enabled BPI to remain ahead of the cost curve. Management's emphasis in these tough markets remains on restoring operational margins.

Pricing and volume: The same environment

While BPI offered no new information on the trading environment, we understand market polymer prices (input costs) dropped back slightly in November after over 20% rises in Q3. Further increases are indicated in Q1, depending on how the supply/demand outlook unfolds for polymer suppliers. We reiterate views from the last trading statement that the volume outlook has bottomed and there are no immediate signs of recovery from these levels.

Favourable cash flow

We have also cut our net debt forecast by £6m to £56m, which amounts to a total £20m reduction in debt levels from the 2008 peak. We are encouraged that further modest reductions in debt next year should continue to reduce this structural problem.

Valuation: Driven by momentum

After more upgrades, earnings momentum continues to be with the stock. BPI still shows that it can control its own destiny by tight cost control. With the demand downswing bottoming out, we still have scope to look for more recovery in 2010, if and when recovery comes. The P/E valuation of c 8.5x for 2010 does look demanding.

Price 288p
Market Cap £76m

Share price graph



Share details

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

Price

52 week High 305p Low 120p

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	375%	69%	53%
P/CF	2.7	2.2	3.0
EV/Sales	0.3	0.3	0.3
ROE	4%	16%	15%

Geography based on revenues

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

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Exhibit 1: Company data sheet

Operations		Performance
<p>BPI has 22 plants, located in the UK (16), Belgium (two), Netherlands, Canada (two) and China. Operations are managed by geographic region. Main European competitors are RKW (Germany), Trioplast (Sweden), Aspla (Spain) and Manuli (Italy). Main UK competitors are 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.</p>		<p>UK - Volume (bars) and Operating profit (line) from 2005 to 2010e. Y-axis: '000 (0-300), £m (0-20).</p> <p>Europe - Volume (bars) and Operating profit (line) from 2005 to 2010e. Y-axis: '000 (52-66), £m (0-10).</p> <p>Group operating profit/tonne (line) from 2004 to 2010e. Y-axis: £/T (20-80).</p>
UK & Ireland		
<p>In the UK, BPI manufactures both film and converted products (products with a higher added value for specific customers/uses). The 100k tonne film 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 (silage and industrial) and shrink-wrap (packaging and food), and films for other converters.</p> <p>BPI makes c 60k tonnes polyethylene film into specific products by printing and converting it. There are six plants in the UK and one in China. 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.</p> <p>BPI also recycles used film. It operates four plants in the UK 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 it 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.</p>		
Europe		
<p>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, 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.</p>		
North America		
<p>The main agricultural and horticultural markets are truly international and the 2008 acquisition adds c 13k tonnes of capacity in Canada, and silage and grain bags as new products.</p>		
Process breakdown	Geographic breakdown	End-user market breakdown
<p>Based on 2008 sales. European operations are also split into these three groups.</p>	<p>Based on sales by destination.</p>	<p>Based on 2008 sales.</p>

Source: Edison Investment Research

Exhibit 2: Financials

	£m	2005	2006	2007	2008	2009e	2010e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		410.2	414.2	424.1	480.7	400.0	415.0
Cost of Sales		(338.7)	(352.4)	(363.5)	(425.4)	(339.2)	(350.7)
Gross Profit		71.5	61.8	60.6	55.3	60.8	64.3
EBITDA		37.2	29.8	27.3	27.2	32.5	32.5
Operating Profit (before GW and restruct.)		23.9	17.1	14.6	12.6	18.5	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	15.5	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	12.5	13.5
Profit Before Tax (FRS 3)		19.7	14.0	11.5	3.9	11.0	12.0
Tax		(5.4)	(3.9)	(3.0)	(1.1)	(3.6)	(4.0)
Profit After Tax (norm)		14.7	10.4	7.3	1.9	8.9	9.5
Profit After Tax (FRS3)		14.3	10.1	8.5	2.8	7.4	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	33.9	36.4
EPS - FRS 3 (p)		55.3	38.8	32.4	10.6	27.8	30.3
Dividend per share (p)		22.0	22.0	22.0	14.5	11.0	11.0
Gross Margin (%)		17.4	14.9	14.3	11.5	15.2	15.5
EBITDA Margin (%)		9.1	7.2	6.4	5.7	8.1	7.8
Operating Margin (before GW and except.) (%)		5.8	4.1	3.4	2.6	4.6	4.5
BALANCE SHEET							
Fixed Assets		93.5	85.4	86.6	99.9	102.9	102.4
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	84.9
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	122.2
Stocks		55.3	59.5	62.1	62.5	52.0	54.0
Debtors		63.2	60.5	65.1	61.1	65.0	67.2
Cash		0.9	0.5	0.6	0.4	1.0	1.0
Current Liabilities		(75.5)	(68.3)	(81.4)	(92.2)	(81.7)	(82.5)
Creditors		(68.7)	(60.9)	(63.5)	(62.5)	(52.0)	(52.8)
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)	(82.1)	(79.1)
Long term borrowings		(41.2)	(45.1)	(47.5)	(46.7)	(27.3)	(24.3)
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	57.0	63.0
CASH FLOW							
Operating Cash Flow		33.8	19.4	22.0	27.8	34.1	25.6
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)	(14.0)	(13.0)
Acquisitions/disposals		0.0	0.0	(6.5)	0.0	0.0	0.0
Financing		0.0	1.4	(3.5)	(0.6)	1.3	(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)	13.0	3.0
Opening net debt/(cash)		56.7	47.1	52.0	64.8	76.0	56.0
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)	7.0	(0.0)
Closing net debt/(cash)		47.1	52.0	64.8	76.0	56.0	53.0

Source: Company/Edison Investment Research

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