

British Polythene Industries

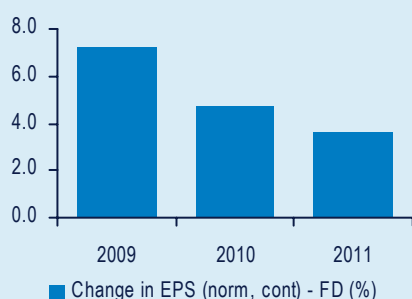
General Industrials

Buy **301p**

Potential upside **33%**

Target price **400p**

Impact on estimates



EPS (norm, cont) - FD (p)	2009E	2010E	2011E
Old	35.74	38.26	41.90
New	38.34	40.06	43.43

Source: Investec Securities estimates

Market cap	£79.7m
Enterprise value	£135m
Next news	Prelims, 1 Mar 10
12m high / low	312p/115p
Index	FTSE Small Cap
RIC / Bloomberg	BPI.L / BPI LN

Share price performance



Source: JCF Group

Earnings upgrades pattern continues

Our view

BPI has ended FY09E on a strong note and the outcome for the year will be “at the top end of current market expectations”, also ahead of our forecast. This caps a year when the earnings pendulum has swung in the group’s favour, in part through self-help but also due to a period with more benign input costs. We keep our Buy view and raise our target price from 320p to 400p/share.

Key points

- **Trading update.** BPI has issued a brief trading update containing three main points: a better than expected earnings outcome for FY09E, a year-end net debt position that is lower than anticipated and the closure of a manufacturing facility.
- **Forecasts upgrades.** We are raising our FY09E PTP before exceptional charges by 7.1% to £15.0m (a new EPS of 38.3p, was 35.7p) and increasing our FY10E PTP by 4.7% to £15.7m (a new EPS of 40.1p, was 38.3p). These increases follow some material upgrades made just under two months ago (i.e. FY09E EPS rose 17% to 35.7p, as shown in our note of 16th November 2009).
- **View.** BPI’s results are benefiting from self-help (mostly plant rationalisation) but input cost rises have been less severe than in FY08. We re-iterate our Buy view.

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Financials and valuation - IFRS compliant

Year end: 31 December

	2007	2008	2009E	2010E	2011E
Turnover (£m)	424.1	480.7	408.6	415.1	430.1
EBITDA (£m)	26.7	27.2	33.3	33.8	34.9
EBITA (£m)	14.6	12.6	18.3	18.8	19.9
PBT (normalised) (£m)	11.0	8.4	15.0	15.7	17.0
Net income (normalised) (£m)	7.8	5.8	10.1	10.5	11.4
EPS (normalised, continuing) - FD (p)	29.7	22.1	38.3	40.1	43.4
FCFPS - FD (p)	13.5	22.1	51.1	32.5	34.4
NAV per share (p)	237.6	202.5	141.4	166.5	194.9
DPS (p)	22.00	14.50	11.00	11.00	11.55
PE (normalised) (x)	10.1	13.6	7.8	7.5	6.9
Price/book (x)	1.3	1.5	2.1	1.8	1.5
EV/sales (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	5.0	4.9	4.0	4.0	3.9
FCF yield (%)	4.4	7.3	16.9	10.7	11.4
Dividend yield (%)	7.3	4.8	3.7	3.7	3.8

Source: Company accounts/Investec Securities estimates

Investec acts as Broker to British Polythene Industries

Readers in all geographies please refer to disclosures on page 5.

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British Polythene Industries

Trading update

Since the group's last IMS (released on 16th November 2009), BPI has continued to make positive progress. As a result, the group now expects that the outcome for FY09E will "be at the top end of current market expectations". We believe that the more recent FY09E PTP market forecasts are in the range £14m (our estimate) to £15m, excluding restructuring costs and pension adjustments. The group has also flagged that net debt at end-December 2009 was lower than previously expected and remained at around similar levels to end-June 2009 (i.e. c.£55m). Our forecast was c.£60m.

BPI has also announced today the proposed closure of its manufacturing facility at Brampton in Cumbria, with the probable loss of up to thirty nine jobs. This facility manufactures polythene film for packaging applications and has been a marginal plant for several years (with a significant deterioration in FY09, due to lower volumes). Existing production will be transferred to other BPI sites. The estimated closure cost of c.£0.6m will be included as an exceptional charge in FY10E.

Earnings upgrades

We are raising our FY09E PTP before exceptional charges by 7.1% to £15.0m (a new EPS of 38.3p, was 35.7p) and increasing our FY10E PTP by 4.7% to £15.7m (a new EPS of 40.1p, was 38.3p). We also raise our FY11E PTP from £16.4m to £17.0m (a new EPS of 43.4p, was 41.9p). Our FY10E and FY11E upgrades are due to the higher base established by the revised FY09E forecast and, in part, to reflect the savings that should be obtained from a more efficient manufacturing operation across the group, following the planned closure of the Brampton facility. BPI has not made any comments about current trading (more news should be forthcoming with the prelims on 1st March) and it is too early in the year to gauge future demand for the group's products and the likely trend for polymer costs. Hence, we believe that we have erred on the cautious side for now.

View and valuation

BPI has battled some tough headwinds in recent years with record polymer costs and high energy costs, and the recession has reduced demand for some of the group's products. Despite this, the group is delivering some good results and forecasts are being raised again. Self-help is also a key factor and management has not been shy when it comes to improving the productivity of its manufacturing facilities. We re-iterate our BUY recommendation and we have raised our target price from 320p to 400p/share, based on our new suggested 12 month forward PER of 10x (was 9x). The key risks to this target price include a sudden deterioration in overall demand and input costs rising above expectations.

General Industrials

Company profile

BPI manufactures just under 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. The group operates from twenty manufacturing sites in total (fourteen in the UK and the rest in Continental Europe, North America and China). 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)	41
Free float	100%
Number of shares in issue (m)	26
Website	www.bpipoly.com

Calendarised valuation - IFRS compliant

	2008	2009E	2010E	2011E
Calendar PE (x)	13.6	7.8	7.5	6.9
Calendar price/book (x)	1.5	2.1	1.8	1.5
Calendar EV/sales (x)	0.3	0.3	0.3	0.3
Calendar EV/EBITDA (x)	4.9	4.0	4.0	3.9
Calendar FCF yield (%)	7.3	16.9	10.7	11.4
Calendar dividend yield (%)	4.8	3.7	3.7	3.8

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	(15.0)	1.6	3.6
EBITDA growth (y-on-y) (%)	(10.4)	1.9	22.5	1.4	3.3
Net income (normalised) growth (y-on-y) (%)	(24.5)	(25.7)	74.2	4.5	8.4
EPS (normalised) growth (y-on-y) (%)	(24.5)	(25.6)	73.8	4.5	8.4
FCFPS growth (y-on-y) (%)	n/a	64.0	131.3	(36.3)	5.8
NAVPS growth (y-on-y) (%)	15.3	(14.8)	(30.2)	17.8	17.0
DPS growth (y-on-y) (%)	0.0	(34.1)	(24.1)	0.0	5.0
Interest cover (x)	4.1	3.0	5.6	6.1	6.9
Net debt/EBITDA (x)	2.4	2.8	1.6	1.4	1.2
Net debt/equity (%)	104.2	144.0	149.3	111.2	81.0
Dividend cover (x)	1.4	1.5	3.5	3.7	3.8
EBITDA margin (%)	6.3	5.7	8.2	8.1	8.1
EBITA margin (%)	3.4	2.6	4.5	4.5	4.6
ROCE (%)	9.8	8.2	12.7	13.0	13.8
NWC/sales (%)	15.1	12.8	13.3	13.3	13.1
Tax rate (normalised) (%)	29.4	31.1	33.0	33.0	33.0
Tax rate (reported) (%)	26.0	28.2	37.1	35.2	35.1

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	408.6	415.1	430.1
EBITDA	26.7	27.2	33.3	33.8	34.9
Depreciation	(12.1)	(14.6)	(15.0)	(15.0)	(15.0)
Operating profit	14.6	12.6	18.3	18.8	19.9
Other income, JVs and associates	0.0	0.0	0.0	0.0	0.0
Net interest	(3.6)	(4.2)	(3.3)	(3.1)	(2.9)
Share-based payments	0.0	0.0	0.0	0.0	0.0
PBT (normalised)	11.0	8.4	15.0	15.7	17.0
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	10.5	14.7	16.0
Taxation	(3.0)	(1.1)	(3.9)	(5.2)	(5.6)
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	6.6	9.5	10.4
Net income (normalised)	7.8	5.8	10.1	10.5	11.4
EPS (reported) - FD (p)	32.5	10.7	25.2	36.3	39.6
EPS (normalised, continuing) - FD (p)	29.7	22.1	38.3	40.1	43.4
EPS (normalised) - FD (p)	29.7	22.1	38.3	40.1	43.4
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	18.3	18.8	19.9
Depreciation	12.1	14.6	15.0	15.0	15.0
Other non-cash movements	(8.2)	(8.2)	(7.5)	(3.0)	(2.5)
Change in working capital	2.8	8.4	7.0	(1.0)	(1.0)
Other cash movements	0.1	0.4	0.2	0.2	0.2
Operating cash flow	21.4	27.8	33.0	30.0	31.6
Interest	(3.6)	(4.1)	(3.3)	(3.1)	(2.9)
Dividends from JVs & associates	0.0	0.0	0.0	0.0	0.0
Tax	(2.2)	(3.3)	(1.3)	(3.4)	(4.7)
Maintenance capex	(12.1)	(14.6)	(15.0)	(15.0)	(15.0)
Free cash flow	3.5	5.8	13.4	8.6	9.1
Expansionary capex	(1.1)	0.4	2.5	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)	8.0	0.0	0.0
Change in net debt	(13.4)	(11.2)	21.0	6.6	7.1
Net cash (debt)	(64.8)	(76.0)	(54.9)	(48.3)	(41.2)
FCFPS - FD (p)	13.5	22.1	51.1	32.5	34.4
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	87.8	86.8	85.8
Net working capital	64.0	61.4	54.4	55.4	56.4
Assets employed	148.6	153.9	144.4	144.4	144.4
Investments/other assets	3.1	8.1	8.1	8.1	8.1
Net cash (debt)	(64.8)	(76.0)	(54.9)	(48.3)	(41.2)
Provisions & other liabilities (inc. Pension)	(24.5)	(32.9)	(60.4)	(60.4)	(60.1)
Net assets	62.4	53.1	37.2	43.8	51.3
Minority interests	0.2	0.4	0.4	0.4	0.4
NAV per share (p)	237.6	202.5	141.4	166.5	194.9

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	122	57%	61	50%
Hold	79	37%	13	16%
Sell	13	6%	0	0%

Source: Investec Securities

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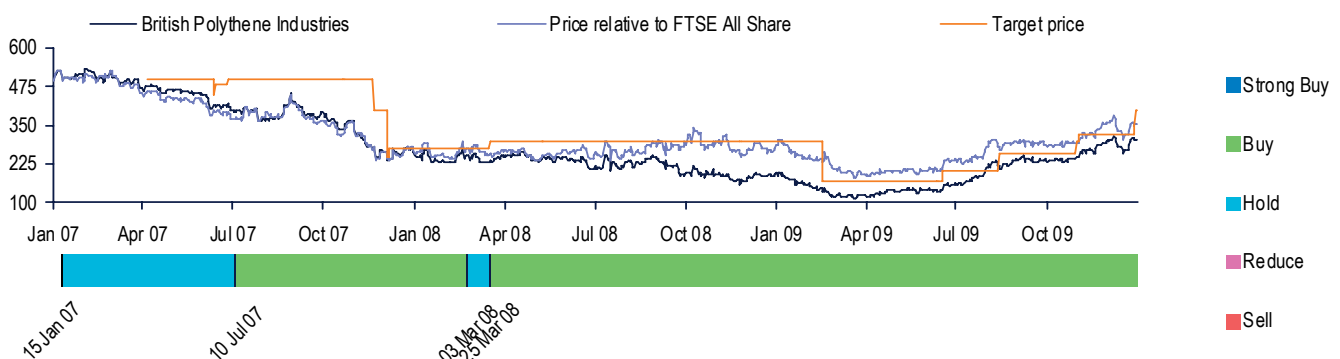
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British Polythene Industries Ratings Plotter as at 12 Jan 10



Source: Investec Securities estimates, FactSet

British Polythene Industries

General Industrials

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