

1 July 2010

## British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/08	480.7	8.4	22.1	14.5	8.9	7.4
12/09	424.7	16.3	44.4	11.0	4.4	5.6
12/10e	445.9	15.5	39.3	11.0	5.0	5.6
12/11e	459.3	16.5	41.8	11.0	4.7	5.6

Note: \*PBT and EPS are normalised, excluding pension net finance costs and exceptional items.

### Investment summary: Underlying attractions

While a number of uncertainties may obscure BPI's obvious headline valuation attractions, the underlying business is in excellent shape, having consolidated and invested in manufacturing facilities to reinforce its market leadership position. These actions are translating to improved profit metrics and this puts the company in a good position when sustained volume growth returns.

#### Some volume progress in H1

We expect to see some volume progress in H1, albeit below the 5% previously flagged for the first four months (as the first quarter of FY09 was weak generally, but Q2 improved). Uplifts in polymer prices have been sustained and will have negated this progress. We currently remain fairly cautious on the volume profile for this year and beyond. Similarly, although new feedstock capacity has been widely flagged, we do not currently factor in any retracement of material prices in our estimates. Consequently, this combination gives rise to a relatively flat earnings profile.

#### EU enquiry dampens sentiment

On 13 May, BPI announced that it had been among the companies visited by EU officials investigating pricing behaviour in the agricultural film market. The enquiry process is an opaque one and no further information has been released nor a timetable established to do so since the original announcement. Not surprisingly, this creates an area of financial uncertainty for external observers.

#### Valuation: Deep value opportunity?

On conventional measures, BPI is over-sold. Notwithstanding, a flattish earnings profile, a mid single digit P/E and even lower EBITDA multiple highlight weak underlying sentiment. We attribute this to general risk aversion among investors where there is a lack of visibility, on the EU enquiry especially but perhaps on the pension deficit also. These issues could recede without damaging BPI in any way, which would present a deep value opportunity. The 5.6% yield alone has attractions.

Price 197p  
Market Cap £52m

#### Share price graph



#### Share details

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

#### Price

52 week High 312p Low 132p

#### Balance Sheet as at 31 December 2009

Debt/Equity (%) 60  
NAV per share (p) 129  
Net borrowings (£m) 52.2

#### Business

BPI is one of the largest manufacturers of polythene film and sheet products in Europe. The company is also one of Europe's largest recyclers of polythene.

#### Valuation

	2009	2010e	2011e
P/E relative	44%	49%	59%
P/CF	1.2	2.6	1.6
EV/Sales	0.2	0.2	0.2
ROE	34%	24%	23%

#### Revenues by geography (destination)

UK 57% Europe 34% Other inc US 9%

#### Analysts

Toby Thorrington 020 3077 5721  
Neil Shah 020 3077 5715  
industrials@edisoninvestmentresearch.co.uk

## Investment summary: Underlying attractions

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### Company description

BPI specialises in the manufacture of polythene films especially for agricultural and retail supply chain (food and non-food) applications, but also for other industries. Additionally, BPI is a leading recycler of polythene films. UK/Ireland is the largest sales region and BPI also has facilities in Mainland Europe and Canada.

### Valuation

Headline valuation multiples are at attractive levels, but probably reflect investor uncertainty in a couple of areas (ie pension deficit and EU enquiry). These concerns may prove to be unfounded, in which case a FY10 P/E of 5.0x and EV/EBITDA multiples around 3x should mark a low point for the share price. In the meantime, BPI offers a secure 5.6% yield (c 3.5x covered by earnings).

### Sensitivities

The key sensitivities impacting BPI's profit progression are substantially known and regularly referred to in the company's own statements. Polymer **raw materials** are the primary business cost and have been subject to both volatility and high levels in the last couple of years. Although supply conditions are expected to become more favourable this is not currently evident. BPI passes on feedstock prices to customers, but short-term lags can influence profitability, as referred to in the May IMS update. Polymer prices are US dollar or euro derived and, hence, changes can be magnified or dampened by **currency** movements. This also applies to overseas business (over 40% of group revenues, 46% of operating profit in FY09) and reported debt levels (80% euro denominated). With regard to sales volumes, there are both **seasonal** and **cyclical** considerations. Annual demand for agricultural film is influenced by the length of the growing season (producing crops for animal feed which needs to be stored) and is usually H1 weighted, with a tail in H2 but subject to weather patterns. On a broader view, BPI services some sectors with more cyclical demand patterns which reflect the general level of economic activity and the growth therein.

Earlier this year, news of EU enquiries into the agricultural film market created an area of uncertainty with a spectrum of possible outcomes. However, at this stage, we cannot judge either the duration of proceedings or the likely result, owing to the nature of the process itself.

### Financials

We have anticipated a flat volume outturn for the year, though acknowledge that the H1 performance could be modestly ahead of this. Given that polymer price levels have risen again (providing a drag on reported margins) and remain at historically high levels, we have not changed current year estimates at this stage. This can be revisited when more detail on the balance of these effects is available with the H1 results announcement.

Otherwise, the earnings profile is relatively subdued under current estimates, though we currently expect to see a cash neutral outturn this year (as polymer-driven working capital absorption more than offsets the Stockton disposal proceeds) and BPI's 60% gearing figure (£52m net debt at the end of 2009) reduce steadily from FY11 onwards.

## Company description: Polythene products leader

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BPI is a leading manufacturer of polythene film and sheet products and was the largest volume producer in Europe in 2009 (AMI). Its products are used in a broad range of end markets spanning agriculture, manufacturing, retail (food and non-food) and transportation. The company is also one of Europe's largest recyclers of used polythene film, largely into waste collection and construction products.

### Activities

BPI produces a broad range of low density polyethylene films and converted (or finished film) products primarily from virgin raw material feedstock and, increasingly, recycled material. In 2009, film products accounted for 46% of group sales with 38% from converted film and 16% from recycled plastic packaging. As shown in Exhibit 1 (page 6), UK facilities (71% of 2009 sales) generate revenues in each of these product areas. Mainland Europe (24%) is more focused on agricultural films, printed films and industrial packaging. North American facilities (5%) concentrate on agricultural and horticultural wide film products and large crop bags.

### Group strategy

We expect BPI to consolidate its position as a leading polyethylene product supplier in Europe and continue to develop in North America. Market leadership allows economies of scale in purchasing, though BPI is not solely volume driven, with a strong focus on profitability per tonne (of material processed and sold). BPI produces film and converted film products with sector-specific characteristics (chiefly differentiated by performance and appearance) for its customer base. This focus on value added features and continuous attention to production costs aims to protect and enhance the key profit metric and builds in some protection against raw material volatility (other things being equal). In turn, this is designed to create greater profit stability and a platform for growth.

### Management

Collectively, the executive board has over 60 years of experience within BPI. Cameron McLatchie has been group chairman since 1988 and has also undertaken the MD and then CEO roles before the latter role was assumed by John Langlands in 2003. Having previously been group finance director (since 1994) this was a natural succession. David Harris undertook a number of senior management roles within BPI prior to becoming FD in July 2009. This combination of deep business and industry knowledge is key to maintaining tight operational control and positioning the business appropriately for the prevailing business conditions. The board is balanced with a range of commercial and industrial backgrounds among the non-executives, including finance and investment.

## H1 update: Volume growth restarted?

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Trading updates so far this year have maintained the cautious stance previously outlined with FY09 results. There may be patchy signs of volume increases, though rising polymer prices continue to be an obstacle to converting this into profit progress. This is very much the tone for the year, which we see as one in which BPI can expect little help from the macro environment. However, we expect to see areas in which actions taken demonstrate business solidity and underlying progress that should stand the company in good stead in future periods.

### Volume pick-up?

So far, management has called its markets well, having initially identified a bottoming out late last year (resilience in defensive sectors and 'no worse' in more cyclical ones) and potential for a pick-up in certain areas subsequently. We would not expect to see even progress across the board this year. The H1 volume performance – which we expect to show modest progress – will inevitably distil a range of differing end market trends.

**UK/Ireland** remains the largest part of BPI (at over 70% group volumes) and this region will most likely have experienced flat volumes so far this year. While silage volumes appear to have undershot expectations in H1, some of the more cyclical exposure in BPI's portfolio (notably construction, where supply chain demand for building materials and bricks/blocks has shown signs of reviving) may have improved. It remains to be seen whether this represents the beginning of a sustained pick-up or whether there are re-stocking and/or seasonal elements at work. That said, given the very poor weather conditions in the UK in Q1, any progress in the construction sector is noteworthy.

**Mainland Europe** has a greater seasonal skew to H1 (approaching two-thirds of full year volume) and, with silage volumes likely to be flat, progress will be determined by demand from the food (printed film) and industrial (heavier gauge converted product) segments.

A rebound from a particularly weak first half in FY09 in **North America** (which primarily serves the agricultural market) should provide some scope for year-on-year volume progress in the first half of FY10. Note, however, that this territory accounts for less than 5% of annual group volume.

To our mind, this is as good a performance as one could have hoped for in the year to date, particularly given that we have a flat volume assumption built into current estimates. Some caution exists on the silage volume picture, but, with a 55-60% H1 volume bias for the group, this is a reasonable start.

### Polymer pricing

BPI is experiencing its longest period of sustained high polymer prices – likely to result in the highest six monthly average on record – at around £1,100 per tonne. This compares to £773 per tonne in H1 last year and £869 per tonne for FY09 as a whole (uplifts of 42% and 27% respectively).

Clearly, the trend was higher in H2 last year, but price increases in the year to date have extended it. This appears to be the double-edged effect of a slower or delayed ramp-up of new capacity in the Middle East together with a succession of outages at Europe-based plants. Commentators

continue to suggest that ethylene supply dynamics will become more favourable to feedstock buyers (if nothing else reversing the causal effect of the H1 increases) though this is not being reflected in near-term trends. An additional consideration will be the carrying value of raw material inventory which, other things being equal, could be swollen by c 15-20% at the end of H1.

## Revenue impact

Faced with higher feedstock prices, BPI will be endeavouring to pass them through in the form of higher end product prices as swiftly as possible. Accordingly, we might expect to see this effect to be more pronounced in heavier gauge products (such as Industrial) and specialist applications, so mix considerations come into play in estimating top line progress. We note that despite this end pricing environment, volume growth is still likely to have been positive in H1. Although the year-on-year difference is dramatic, the customer base will have experienced progressive price rises over the last 12 months and, while there may be resistance, there should not be significant 'price shock'.

## Profitability

By way of balance, some squeeze on margin has been acknowledged in H1. This should not be a surprise; in a steadily rising price environment we would expect to see a degree of margin drag. At this stage, BPI expects its H1 operating profit performance overall to be slightly below that of a year earlier (H109 £13.7m). Bear in mind that there will also be an element of double-running costs in H1, reflecting the transfer of product lines from Brampton (closed with effect from 7 April) and, more significantly, Stockton (where production has now ceased). This is consistent with the broadly flat EBIT in our current FY10 estimates, which, hence, are unchanged. Sustaining profits despite higher polymer prices bodes well for progress when the feedstock supply balance becomes more favourable in due course.

## Cash

BPI ended 2009 with a £52m net debt position (a £24m reduction over the year). With high seasonal revenues around the end of H1 we would expect to see the usual build-up in debtors partly offset by higher creditors, both of which will be exaggerated by higher year-on-year polymer price effects. Inventories will also be affected by this and, we assume, an element of stock-building to facilitate production line relocations. This may be most visible in silage products. Despite a smaller outflow from restructuring costs, we expect to see a more muted cash generated from operations line versus last year.

Factoring in H1 loaded capex spend (reflecting re-commissioning of relocated lines plus new capacity, eg at Ardeer), payment of the second interim dividend less c £6m received from the sale of the Stockton site, we assess that cash generation is likely to be modest in H1 (compared to £15.8m last time). We note that the sterling/euro rate has strengthened (to €1.23/£ vs €1.12/£ at the beginning of the year), which would benefit reported debt at the period end, as it is substantially euro denominated.

**Exhibit 1: BPI sales split by product, sector and geography**

FY09 Sales	%	46%		38%			16%
		Film		Converted			Recycled
		Plain	Stretch	Industrial	Consumer	Packaging Services	
UK/Ireland	71%	Bromborough	Bridgewater	Ardeer	Worcester	Swansea	Dumfries (scrap washing)
		Sevenoaks	Leominster	Greenock	Xinhui (Guandong)	Norwich	Rhymney (washing/manufacturing)
			Widnes			Flint	Heanor (manufacturing)
							Stround (manufacturing)
Europe	24%		Zelev (Ghent)	Roeselare (Lille) Hardenberg (Zwolle)	Zelev (Ghent)		
N.America	5%	Edmonton Westlock					
Agriculture / Horticulture	31%	Field covers Greenhouse films	Silage wrap Bale wrap	Animal feed sacks Peat/compost sacks			
Food Retail supply chain	29%	Lamination films Produce / Deep freeze films Shrink film	Pallet stretch wrap		Fresh Produce films Bakery film & bags Shrink films Deep freeze films		
Manufacturing	14%	Surface protection film Lamination films Shrink films	Pallet stretch wrap	Pallet covers Bulk chemicals bags		Sterilized medical packs Pharmaceutical film	
Construction	12%		Pallet stretch wrap	Pallet covers Aggregates sacks Cement sacks		Damp proof membranes Damp proof course Gas Protection membranes Plastic wood substitutes Protective coverings	
Services	9%	Mailing film Courier bag film Coin bag film				Tamper evident bags Transit protection Mail order bags Battery collection bags	Refuse sacks Paper collection bags Clinical waste sacks Anti static aprons
Non Food Retail chain	5%		Pallet stretch wrap	Building product sacks Garden product sacks	Furniture films Refuse sacks Waste collection sacks	Protection film / covers	Refuse sacks Laundry sacks

Source: Company, Edison Investment Research

## Adding value and managing costs

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BPI produces polythene film and converted film products made from polyethylene resins. Film is substantially supplied direct to customers (though distributors are a feature of the agricultural film sector), while a relatively small proportion goes to converters, including BPI's own facilities. In addition, BPI produces a range of polythene products from recycled (mainly agricultural) PE materials. In FY09, BPI achieved a sales volume of 275,000 tonnes. Volume capability can vary depending upon the gauge (or thickness) of film produced, but operational gearing is achievable from both higher volumes – for which some capacity is available – and improving profitability per tonne sold.

### Increasing value added

In the last two years, BPI has invested in its sites to upgrade product capability, including finer gauge grades (Bromborough), increased silage capacity (Leominster, Zele), enhanced colour printing (Worcester) and wider film widths (Ardeer). This expenditure is designed to broaden the product offering, increase the value added offering to customers and also act as a differentiator compared to less technical market alternatives. Hence, innovation is an important feature of this well-established industry with technical advancement driven by customer requirements on one hand (eg appearance, performance, weight) and production equipment (speed, print quality, tolerance) on the other.

### Increasing site specialism

Exhibit 1 (opposite) summarises BPI's activities by product groups and market sectors, showing the regional manufacturing footprint. Although a multi-location business, it is clear that there is site specialism. Site consolidation has increased this; BPI has exited three marginal sites (ie Buckhurst Hill, Cowdenbeath and Brampton) in the last couple of years, moving some of the product lines into other facilities. Investment has further reinforced this process, as described above. The process is ongoing though the exit from Stockton (a 30,000 tonne site) is now substantially complete. Lines have already been relocated to Ardeer and Greenock with a replacement agricultural line (at Ardeer) outstanding. This will incur some double running costs this year (perhaps as much as £1m) but will leave group headcount below 2,500 compared to an average of 2,761 in 2007. The group will have increased site specialism and capabilities and reduced operating costs as a result. There has also been some consolidation of sales offices (eg recycling).

### Dual strategy is delivering benefits

BPI's actions have reduced costs but also increase operational gearing on the upside. Enhanced product capability/service should supplement profit recovery through improved mix effects. While the benefits of this may not be fully apparent to date, we would cite the improvement in profit per tonne (up from c £46 in 2007 to c £69 in 2009 after dipping in 2008) as evidence of success, and progress was achieved in each of the three regions. 2009 volumes came in c 13% below 2007 levels, but, with broadly similar average materials prices, BPI delivered comparable revenues and a 230bp improvement in gross margin. This demonstrates that the strategy of cost reduction, targeted mix improvements together with close control over costs can deliver enhanced profitability despite challenging conditions.

## Sensitivities

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The key sensitivities impacting upon BPI's profit progression are substantially known and regularly referred to in the company's own statements. Our discussion of trading in the early part of FY10 also refers to these characteristics, which we summarise below.

- **Raw material prices:** Polymers (chiefly lower density polyethylene) are the dominant cost component. The exact percentages obviously vary with underlying pricing but, by way of illustration, we estimate that raw materials accounted for c 60% of total costs and c 70% of cost of sales in FY09.
- **Seasonality:** By virtue of its agriculture/horticulture sector exposure (31% of sales), BPI has a seasonal volume bias towards H1. The customer base is international, but poor UK weather (affecting crop growth and yields) influences demand patterns for BPI products.
- **Cyclicalities:** The manufacturing, construction and non-food retail sectors account for 30% of sales. The volume of goods packaged and transported across a broad range of sectors reflects the general level of economic activity and the growth therein.
- **Currency:** Over 40% of revenues are generated outside the UK and currency movements can impact the competitive position of certain products. Additionally, raw materials have US dollar or euro derived prices and currency movements can magnify or dampen underlying price changes. Lastly, c 80% of debt is Euro denominated and reported levels can fluctuate with currency changes as well as underlying cash performance.

### EU enquiry

On 28 and 29 April 2010, European Commission officials carried out unannounced inspections at the premises of companies active in the bale wrap and related (agricultural) markets in the UK and other EU Member States on the grounds that it had "reason to believe that the companies concerned may have violated EU antitrust rules that prohibit cartels and restrictive business practices and/or abuse of a dominant market position". Source:

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/190&format=HTML&aged=0&language=EN&guiLanguage=en> (12 May).

These companies include BPI, though the others concerned have not declared themselves nor has the Commission disclosed their names or quantified the number. The Commission states that the inspections do not pre-judge the outcome of any investigation that may follow. Similarly, it stresses that "there is no strict deadline to complete inquiries into anticompetitive conduct" emphasising that each case has its own complexities.

BPI has previous experience of such enquiries and has stated that it has "extensive guidelines and controls in place designed to ensure compliance with competition laws" (12 May RNS release).

Clearly, we are unable to second guess the process and behaviour of the participant companies in this latest case, though it could potentially be considered to be a material uncertainty for BPI.

## Valuation: Evaluating the risks

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Headline valuation multiples are at very attractive levels. They appear to reflect investor caution in areas of potentially material uncertainty. These concerns may be unfounded though they may require newsflow for them to recede significantly. The underlying business has some relatively defensive sector exposure though the volatility of input prices also attracts some pseudo-cyclical sentiment. A retracement in resin prices is widely anticipated, though again the market is adopting a cautious stance. Nevertheless, we expect to see the good market positions that BPI has established to translate into stronger profit performance in due course.

### Basis for the valuation

As discussed, BPI is in a strong competitive position with modern facilities and broad product capability. This has been achieved without creating financial risk; net debt (FY09 £52m or 1.6x EBITDA) is at comfortable levels as is forward interest cover (in excess of 6x and cash interest cover over 10x). Assuming a fairly flat volume backdrop, we currently see a modest (annualised) uplift in earnings by FY12, though – with consolidation and investment benefits to come – BPI is far from ex-growth. That said, flattish near-term earnings profiles tend to attract single-digit ratings.

### Low headline valuation metrics

On headline metrics, BPI is on very low valuation multiples. An FY10 P/E of 5.0x is now below its yield of 5.2% (c 3.5x covered by earnings). Similarly, on enterprise value yardsticks, FY10 EV/sales of sub 0.25x and EV/EBITDA at around 3x are very much at the lower end of the scale for industrial/manufacturing companies. This is particularly so given that the balance sheet is conservatively structured.

Solely taking these features into account, a rating of 9x P/E or 4.5x EBITDA would look more reasonable in our view and would equate to a 'fair value' share price of 363p. This would better reflect our earnings growth estimates, which are set to follow GDP growth for FY09-FY12 overall. Within this, there is little credit for the prospect of improving business quality (measured by profit per tonne) or the strength of BPI's market position at this stage.

### Possible ratings drag from pension funds and EU enquiries

At 363p, BPI would see a £44m 'fair value' market cap uplift from current levels. To provide some context, the current discount approximates both the balance sheet net pension deficit (£41m at December 2009) and a theoretical maximum EU penalty in the event of an adverse ruling (ie 10% of sales, or £42m). It may be instructive to try and separate these effects to interpret external perceptions. Using the EU enquiry announcement date (13 May) as the dividing point:

- Pre-announcement: (at 252p) £29.4m discount, or 72% of net pension deficit.
- Current price: (at 197p) further c £15m drop or 36% of a theoretical maximum EU fine.

On this analysis, there is understandably a larger discount now as investors have stepped back pending more enquiry news. Investors must decide – on a balance of risk appraisal – what is the 'right' discount for these elements. Clearly, in the scenario in which the EU enquiry finds no guilt and the pension fund deficit contracts naturally, BPI appears extremely cheap, even before factoring in a more favourable macro economic backdrop.

## Financials

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Headline financials – in each of the statements shown opposite – can be distorted by polymer price movements. This applies particularly to the P&L; separating volume fluctuations in conjunction with prevailing material prices provides a better indicator of underlying activity and performance.

### Earnings

As a general overview, we have assumed that 2010 sales volumes remain at the 2009 level (ie 275,000 tonnes) and rise at around 3% thereafter, while polymer prices progress a little ahead of this rate on average for the periods shown. With a similar profit per tonne figure this year and next (at around £67 per tonne) and some improvement in 2012, this translates to:

- A stable EBIT performance 2009-11, with some uplift in 2012.
- Similar trends at the pre tax level.
- Earnings are pegged below 2009 levels until 2012 (as we conservatively assume a higher tax charge).
- There should be a positive exceptional item in FY10, being a £3.5m gain on the disposal of Stockton, net of a £0.6m charge to close Brampton.

### Cash flow

In 2009, operating cash flow (of almost £43m) was boosted by a £15m working capital inflow. We do not expect the latter to recur – in fact polymer price increases will necessitate an outflow – and in the forecast years shown we estimate the equivalent figure to be £20m this year, rising to £30m or better thereafter.

- Gross capex increases in FY10 (reflecting spend at Ardeer and Bromborough) to just over half of operating cash flow. (Note that the sale of Stockton will generate c £6m proceeds.) We currently project that the absolute level of spend eases back modestly from this level.
- Together, interest, tax and dividends absorb c £10m.
- This leaves c £5m cash flow before financing per annum.

We re-iterate that polymer price fluctuations have a bearing on BPI's reported results and working capital performance. Under our flat volume/gently rising average polymer price scenario, modest re-investment in working capital occurs. Trimming inventory positions (eg after site consolidation) and tight debtor control can ameliorate underlying upward pressure to some extent.

### Balance sheet

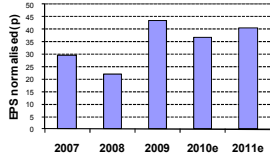
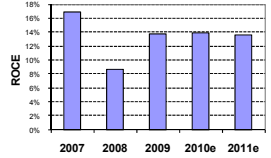
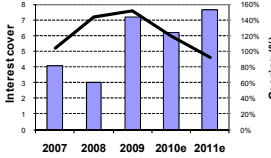
BPI's balance sheet has strong asset backing with c £90m tangible fixed assets and c £60 in inventory (with trade debtors and creditors broadly equal). The primary offsets to this are £52m net debt (as at the end of 2009) and net retirement benefit obligations of £42m (or £58m gross).

- Net debt of £52m (equivalent to 60% gearing) is unlikely to change too much in FY10, exhibiting a gradual downward trend beyond this.
- We note that floating rate bank debt – which is substantially euro denominated – is drawn from a facility (totalling £106m), which expires towards the end of 2011. Hence, we would expect to see this facility renewed or replaced in the next 12 months.

## Exhibit 2: Financials

Year end 31 December	£'000s	2007	2008	2009	2010e	2011e	2012e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>424,062</b>	<b>480,726</b>	<b>424,668</b>	<b>445,857</b>	<b>459,343</b>	<b>490,930</b>
Cost of Sales		(363,104)	(417,703)	(353,855)	(371,510)	(382,748)	(409,067)
Gross Profit		60,959	63,023	70,813	74,347	76,595	81,863
<b>EBITDA</b>		<b>26,737</b>	<b>27,230</b>	<b>32,457</b>	<b>33,043</b>	<b>33,541</b>	<b>35,840</b>
<b>Operating Profit (before amort. and except.)</b>		<b>14,637</b>	<b>12,630</b>	<b>18,957</b>	<b>18,543</b>	<b>19,041</b>	<b>21,340</b>
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(700)	(5,400)	(3,092)	2,900	0	0
Other		1,200	900	(1,400)	(1,800)	(1,800)	(1,800)
<b>Operating Profit</b>		<b>15,137</b>	<b>8,130</b>	<b>14,465</b>	<b>19,643</b>	<b>17,241</b>	<b>19,540</b>
Net Interest		(3,600)	(4,200)	(2,651)	(3,000)	(2,500)	(2,250)
<b>Profit Before Tax (norm)</b>		<b>11,037</b>	<b>8,430</b>	<b>16,306</b>	<b>15,543</b>	<b>16,541</b>	<b>19,090</b>
<b>Profit Before Tax (FRS 3)</b>		<b>11,537</b>	<b>3,930</b>	<b>11,814</b>	<b>16,643</b>	<b>14,741</b>	<b>17,290</b>
Tax		(3,001)	(1,132)	(3,714)	(5,129)	(5,458)	(6,300)
<b>Profit After Tax (norm)</b>		<b>8,036</b>	<b>7,298</b>	<b>12,592</b>	<b>10,414</b>	<b>11,082</b>	<b>12,790</b>
<b>Profit After Tax (FRS 3)</b>		<b>8,536</b>	<b>2,798</b>	<b>8,100</b>	<b>11,514</b>	<b>9,282</b>	<b>10,990</b>
Average Number of Shares Outstanding (m)		26.2	26.2	26.2	26.5	26.5	26.5
EPS - normalised (p)		29.9	22.1	44.4	39.3	41.8	48.3
EPS - normalised fully diluted (p)		29.8	22.1	43.7	38.0	40.4	46.6
EPS - FRS 3 (p)		32.5	10.7	30.9	43.5	35.0	41.5
Dividend per share (p)		22.0	14.5	11.0	11.0	11.0	12.0
Gross Margin (%)		14.4	13.1	16.7	16.7	16.7	16.7
EBITDA Margin (%)		6.3	5.7	7.6	7.4	7.3	7.3
Operating Margin (before amort. and except.) (%)		3.5	2.6	4.5	4.2	4.1	4.3
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>86,600</b>	<b>99,900</b>	<b>105,500</b>	<b>104,000</b>	<b>104,500</b>	<b>105,000</b>
Intangible Assets		2,100	2,200	2,400	2,400	2,400	2,400
Tangible Assets		84,400	97,600	103,100	101,600	102,100	102,600
Investments		100	100	0	0	0	0
<b>Current Assets</b>		<b>127,800</b>	<b>124,000</b>	<b>111,700</b>	<b>133,711</b>	<b>137,175</b>	<b>151,468</b>
Stocks		62,100	62,500	61,400	72,521	74,715	79,853
Debtors		61,900	58,000	47,100	55,631	57,314	61,255
Cash		600	400	500	0	216	5,231
Other		3,200	3,100	2,700	5,558	4,930	5,129
<b>Current Liabilities</b>		<b>(81,400)</b>	<b>(92,200)</b>	<b>(73,500)</b>	<b>(85,411)</b>	<b>(83,008)</b>	<b>(89,991)</b>
Creditors		(63,500)	(62,500)	(66,700)	(79,738)	(83,008)	(89,991)
Short term borrowings		(17,900)	(29,700)	(6,800)	(5,673)	0	0
<b>Long Term Liabilities</b>		<b>(70,600)</b>	<b>(78,600)</b>	<b>(109,300)</b>	<b>(109,300)</b>	<b>(109,300)</b>	<b>(109,300)</b>
Long term borrowings		(47,500)	(46,700)	(45,900)	(45,900)	(45,900)	(45,900)
Other long term liabilities		(23,100)	(31,900)	(63,400)	(63,400)	(63,400)	(63,400)
<b>Net Assets</b>		<b>62,400</b>	<b>53,100</b>	<b>34,400</b>	<b>42,999</b>	<b>49,367</b>	<b>57,177</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>22,037</b>	<b>27,830</b>	<b>42,657</b>	<b>20,257</b>	<b>31,933</b>	<b>31,403</b>
Net Interest		(3,600)	(4,100)	(3,200)	(3,000)	(2,500)	(2,250)
Tax		(2,200)	(3,300)	(2,500)	(3,714)	(5,129)	(5,458)
Capex		(13,200)	(14,600)	(12,700)	(10,000)	(15,500)	(15,500)
Acquisitions/disposals		(6,500)	0	0	0	0	0
Financing		(200)	0	0	(0)	0	0
Dividends		(5,800)	(5,800)	(2,900)	(2,915)	(2,915)	(3,180)
Net Cash Flow		(9,463)	30	21,357	627	5,889	5,014
<b>Opening net debt/(cash)</b>		<b>52,000</b>	<b>64,800</b>	<b>76,000</b>	<b>52,200</b>	<b>51,573</b>	<b>45,684</b>
HP finance leases initiated		(1,000)	4,000	1,200	0	0	0
FX/Other		(2,337)	(15,230)	1,243	(0)	(0)	0
<b>Closing net debt/(cash)</b>		<b>64,800</b>	<b>76,000</b>	<b>52,200</b>	<b>51,573</b>	<b>45,684</b>	<b>40,670</b>

Source: Company, Edison Investment Research estimates

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	●
			Pensions	◐
			Currency	●
			Stock overhang	○
			Interest rates	◐
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details
EPS CAGR 07-11e	7.9	ROCE 10e	13.8	Gearing 10e	120
EPS CAGR 09-11e	N/A	Avg ROCE 07-11e	9.9	Interest cover 10e	6.2
EBITDA CAGR 07-11e	5.8	ROE 10e	23.7	CA/CL 10e	1.6
EBITDA CAGR 09-11e	1.7	Gross margin 10e	16.7	Stock turn 10e	59.4
Sales CAGR 07-11e	2.0	Operating margin 10e	4.2	Debtor days 10e	45.5
Sales CAGR 09-11e	4.0	Gr mgn / Op mgn 10e	4.0	Creditor days 10e	61.1
				Address:	
				96 Port Glasgow Road, Greenock. PA15 2UL	
				Phone	01475 501000
				Fax	01475 743143
				www.bpipoly.com	

Principal shareholders	%	Management team
Liberty Square Asset Management	5.4	<b>Chairman: Cameron McLatchie</b> Cameron McLatchie joined the BPI board in 1983 when it acquired Anaplast, where he was chairman and MD. He became chairman and CEO of BPI in 1988 before relinquishing the latter role in 1993.
Aberdeen Asset Management	4.9	
Legal & General Investment Management	4.0	
Deutsche Bank	4.0	
Blackrock	2.9	
Barclays Stockbrokers	2.6	<b>CEO: John Langlands</b> John Langlands became group FD on joining in 1994 having previously held the same role in several other companies including, in the quoted arena, Eclipse Blinds. He assumed the role of COO in May 2002 before becoming CEO a year later.
M&G Investment Management	2.6	
Forthcoming announcements/catalysts	Date *	<b>FD: David Harris</b> David Harris has undertaken a number of senior management and financial roles since joining BPI in 1996, including positions in the consumer and industrial business segments. He became FD in July 2009.
Interim results	31 August	
<i>Note: * = estimated</i>		

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ [www.edisoninvestmentresearch.co.uk](http://www.edisoninvestmentresearch.co.uk)  
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