

4 July 2008

## British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	414	14.0	38.5	22.0	6.1	9.4
12/07	424	11.5	32.3	22.0	7.2	9.4
12/08e	500	9.5	26.7	22.0	8.8	9.4
12/09e	550	10.5	29.5	22.0	7.9	9.4

Note: \*PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

### Investment summary: Mixed performance

BPI's half year trading update serves to show the defensive qualities of this manufacturing business, which continues to produce a resilient performance despite extreme pricing conditions. Management's experience of the last recession leaves BPI well prepared for the grim market outlook.

### Further major polymer prices increases planned

With European polyethylene derived more from oil than gas, the sharp spike in oil prices is feeding through to polymer prices with a predicted €200/t increase in July, which is a c.20% increase even on current record peaks. As a polyethylene processor, BPI is already aggressively passing this on to customers, which have little choice but to accept it. The scale of the increase hence means a severe pain for BPI for a shorter period, which we equate to a c.£0.5m reduction in margins in H2.

### Demand outlook still mixed

As packaging is such a small cost of goods, volumes should be fairly insensitive to these price increases. However the wider demand picture from the economic slowdown remains a concern. To date construction and some industrial customers have cut back volume, however the 60% of the business selling to the retail food, services and agriculture industries all remain healthy at the moment.

### Defensive qualities

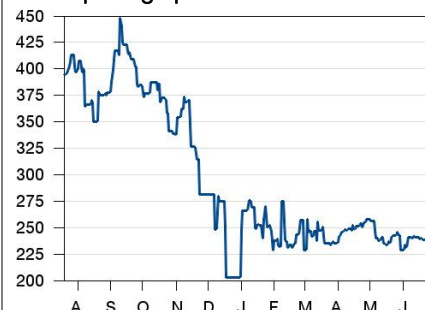
Excepting the short-term margin hits from price increases, BPI's customer exposure is pretty defensive. This is not a highly operationally geared company and management has demonstrated the flexibility in the business. We are also sure BPI will continue to rationalise excess capacity to maintain its low-cost base.

### Forecasts and valuation

We see no new excessive demands on cash flow, and believe BPI has the resources to maintain its dividend. Hence yield remains the floor under the share price until markets show signs of recovery.

Price 234p  
Market Cap £62m

#### Share price graph



#### Share details

Code BPI  
Listing FULL  
Sector General Industrial  
Shares in issue 26.0m

#### Price

52 week High 453.0p Low 227.8p

#### Balance Sheet as at 31 December 2007

Debt/Equity (%) 104  
NAV per share (p) 239  
Net borrowings (£m) 64.8

#### Business

BPI is one of the largest manufacturers of polythene films and sheet products from polymer in Europe.

#### Valuation

	2007	2008e	2009e
P/E relative	52%	79%	78%
P/CF	2.8	2.5	2.3
EV/Sales	0.3	0.3	0.2
ROE	14%	11%	12%

#### Geography based on revenues

UK	Europe	US/Can	Other
63%	30%	5%	2%

#### Analyst

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**Exhibit 1: Company data sheet**

Operations		Performance																					
<p>BPI has 25 plants located in the UK (19), Belgium (2), Netherlands, Canada (2) and China. Operations are managed as four UK businesses (250k tonnes) and one in Europe (60k tonnes). Main European competitors: RKW (Ger), Trioplast (Swe), Aspla (Spa), Manuli (Italy). Main UK competitors: Britton, Total, Amcor.</p> <p>Raw material polymers are bought from multiple sources including Dow Chemicals, Exxon Mobil, Ineos &amp; SABIC &amp; account for c 60% of group sales.</p>		<table border="1"> <caption>UK Volume and Operating Profit (2004-2009e)</caption> <thead> <tr> <th>Year</th> <th>UK - Volume ('000 T)</th> <th>Operating profit (£m)</th> </tr> </thead> <tbody> <tr><td>2004</td><td>275</td><td>10</td></tr> <tr><td>2005</td><td>265</td><td>18</td></tr> <tr><td>2006</td><td>250</td><td>10</td></tr> <tr><td>2007</td><td>245</td><td>8</td></tr> <tr><td>2008e</td><td>240</td><td>7</td></tr> <tr><td>2009e</td><td>240</td><td>7</td></tr> </tbody> </table>	Year	UK - Volume ('000 T)	Operating profit (£m)	2004	275	10	2005	265	18	2006	250	10	2007	245	8	2008e	240	7	2009e	240	7
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Film																							
<p>The 105k tonne operation is run from six factories in the UK, and a sales office in Ireland and combines the 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 agricultural and horticultural markets are truly international and the recent acquisition adds c 12k tonnes capacity in Canada and grain bags as a new product. Main products are stretch-wrap and shrink-wrap (silage, packaging and food), and films for other converters.</p>																							
Recycled																							
<p>BPI operates five plants in the UK and one in China and is the largest re-processor of polyethylene in Europe, producing c 80k tonnes of product. The plants take waste from its operations and from customers 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 is increasingly going to the Far East, where labour costs for sorting are cheaper. Supply of waste polyethene is short due to high demand from the Far East (UK is 65% export).</p>		<table border="1"> <caption>Europe Volume and Operating Profit (2004-2009e)</caption> <thead> <tr> <th>Year</th> <th>Europe - Volume ('000 T)</th> <th>Operating profit (£m)</th> </tr> </thead> <tbody> <tr><td>2004</td><td>55</td><td>4</td></tr> <tr><td>2005</td><td>58</td><td>6</td></tr> <tr><td>2006</td><td>60</td><td>8</td></tr> <tr><td>2007</td><td>65</td><td>7</td></tr> <tr><td>2008e</td><td>65</td><td>7</td></tr> <tr><td>2009e</td><td>70</td><td>8</td></tr> </tbody> </table>	Year	Europe - Volume ('000 T)	Operating profit (£m)	2004	55	4	2005	58	6	2006	60	8	2007	65	7	2008e	65	7	2009e	70	8
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Converted Product – Industrial/Consumer																							
<p>In this business, BPI makes c 70k tonnes polyethylene film into specific products by printing and converting it. In total there are eight 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.</p>		<table border="1"> <caption>Group operating profit/tonne (2003-2009e)</caption> <thead> <tr> <th>Year</th> <th>Group operating profit/tonne (£/T)</th> </tr> </thead> <tbody> <tr><td>2003</td><td>50</td></tr> <tr><td>2004</td><td>40</td></tr> <tr><td>2005</td><td>70</td></tr> <tr><td>2006</td><td>55</td></tr> <tr><td>2007</td><td>45</td></tr> <tr><td>2008e</td><td>40</td></tr> <tr><td>2009e</td><td>42</td></tr> </tbody> </table>	Year	Group operating profit/tonne (£/T)	2003	50	2004	40	2005	70	2006	55	2007	45	2008e	40	2009e	42					
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Europe																							
<p>This business runs the group's one Dutch and two Belgian plants (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 and heavy duty sacks.</p>																							
Process breakdown	Geographic breakdown	End-user market breakdown																					
<p>Based on 2007 sales. European operations are</p>	<p>Based on proforma 2007 sales by destination</p>	<p>Based on 2007 sales</p>																					

Source: Edison Investment Research

## Exhibit 1: Financials

31-December	£m	2004	2005	2006	2007	2008e	2009e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>359.4</b>	<b>410.2</b>	<b>414.2</b>	<b>424.1</b>	<b>500.0</b>	<b>550.0</b>
Cost of Sales		(300.5)	(338.7)	(352.4)	(363.5)	(433.5)	(475.8)
Gross Profit		58.9	71.5	61.8	60.6	66.5	74.3
<b>EBITDA</b>		<b>26.8</b>	<b>36.6</b>	<b>29.8</b>	<b>26.6</b>	<b>25.8</b>	<b>27.1</b>
<b>Operating Profit (before GW and except.)</b>		<b>13.7</b>	<b>23.3</b>	<b>17.1</b>	<b>13.9</b>	<b>12.7</b>	<b>14.0</b>
Goodwill Amortisation		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(0.4)	(0.3)	1.2	1.0	1.0
<b>Operating Profit</b>		<b>13.9</b>	<b>22.9</b>	<b>16.7</b>	<b>15.1</b>	<b>13.7</b>	<b>15.0</b>
Net Interest		(2.9)	(3.2)	(2.7)	(3.6)	(4.2)	(4.5)
<b>Profit Before Tax (norm)</b>		<b>11.0</b>	<b>19.7</b>	<b>14.0</b>	<b>11.5</b>	<b>9.5</b>	<b>10.5</b>
<b>Profit Before Tax (FRS 3)</b>		<b>11.0</b>	<b>19.7</b>	<b>14.0</b>	<b>11.5</b>	<b>9.5</b>	<b>10.5</b>
Tax		(2.9)	(5.4)	(3.9)	(3.0)	(2.5)	(2.7)
<b>Profit After Tax (norm)</b>		<b>8.1</b>	<b>14.3</b>	<b>10.1</b>	<b>8.5</b>	<b>7.0</b>	<b>7.8</b>
<b>Profit After Tax (FRS3)</b>		<b>8.1</b>	<b>14.3</b>	<b>10.1</b>	<b>8.5</b>	<b>7.0</b>	<b>7.8</b>
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>90.7</b>	<b>93.5</b>	<b>85.4</b>	<b>86.6</b>	<b>87.9</b>	<b>87.4</b>
Intangible Assets		2.6	2.0	2.1	2.1	2.3	2.3
Tangible Assets		79.4	79.2	77.3	82.5	83.5	83.0
Investment/tax credits		8.7	12.3	6.0	2.0	2.1	2.1
<b>Current Assets</b>		<b>121.3</b>	<b>119.4</b>	<b>120.5</b>	<b>127.8</b>	<b>149.1</b>	<b>165.7</b>
Stocks		58.4	55.3	59.5	62.1	73.2	80.5
Debtors		61.9	63.2	60.5	65.1	74.9	83.1
Cash		1.0	0.9	0.5	0.6	1.0	2.0
<b>Current Liabilities</b>		<b>(104.9)</b>	<b>(75.5)</b>	<b>(68.3)</b>	<b>(81.4)</b>	<b>(102.1)</b>	<b>(120.1)</b>
Creditors		(70.4)	(68.7)	(60.9)	(63.5)	(84.2)	(102.2)
Short term borrowings		(34.5)	(6.8)	(7.4)	(17.9)	(17.9)	(17.9)
<b>Long Term Liabilities</b>		<b>(71.0)</b>	<b>(100.2)</b>	<b>(83.2)</b>	<b>(70.6)</b>	<b>(70.9)</b>	<b>(66.9)</b>
Long term borrowings		(23.2)	(41.2)	(45.1)	(47.5)	(48.1)	(46.1)
Other long term liabilities		(47.8)	(59.0)	(38.1)	(23.1)	(22.8)	(20.8)
<b>Net Assets</b>		<b>36.1</b>	<b>37.2</b>	<b>54.4</b>	<b>62.4</b>	<b>64.0</b>	<b>66.0</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>16.4</b>	<b>33.8</b>	<b>19.4</b>	<b>22.0</b>	<b>24.8</b>	<b>27.1</b>
Net Interest		(3.0)	(3.2)	(2.8)	(3.6)	(4.2)	(4.5)
Tax		(3.2)	(4.0)	(5.6)	(2.2)	(2.5)	(2.7)
Capex		(13.0)	(11.6)	(11.6)	(13.2)	(12.8)	(12.0)
Acquisitions/disposals		0.0	0.0	0.0	(6.5)	0.0	0.0
Financing		(0.2)	0.0	1.4	(3.5)	0.2	0.8
Dividends		(5.4)	(5.4)	(5.7)	(5.8)	(5.7)	(5.7)
Net Cash Flow		(8.4)	9.6	(4.9)	(12.8)	(0.2)	3.0
<b>Opening net debt/(cash)</b>		<b>48.3</b>	<b>56.7</b>	<b>47.1</b>	<b>52.0</b>	<b>64.8</b>	<b>65.0</b>
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.0)	(0.0)	0.0	0.0	(0.0)	(0.0)
<b>Closing net debt/(cash)</b>		<b>56.7</b>	<b>47.1</b>	<b>52.0</b>	<b>64.8</b>	<b>65.0</b>	<b>62.0</b>

Source: Company accounts/Edison Investment Research

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