

Conditions unchanged

While overall volumes are still subdued, an improving revenue mix coupled with one quarter's decline in polymer prices is enabling BPI to hold year-on-year profitability at similar levels to last year in H1. With the same combination in place for H2, our estimates remain unchanged. While market headwinds exist, BPI continues to make underlying progress that will stand it in good stead when the cycle turns.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/10	477.7	15.8	45.4	11.5	7.7	3.3
12/11	507.9	19.1	53.2	12.5	6.5	3.6
12/12e	515.7	19.1	52.4	13.1	6.6	3.8
12/13e	536.3	20.3	55.5	13.7	6.3	3.9

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Market trends balancing out

Conditions for BPI are pretty much in line with comments made with the AGM IMS in May. Specifically, overall volumes were lower in H1 with more cyclical sectors (ie construction and industrial) remaining weak, but being partially offset by further progress from silage stretchwrap revenues. The euro has weakened modestly against sterling in the year to date (-3.5%) and against the average rate in the first half of FY11 (-5.4%), providing a drag on the translation of profits in Europe. However, polymer prices have confirmed the downward turn first noted in April and period end input costs appear to be heading back towards levels seen at the beginning of the year. Overall, these features are broadly in balance and profitability in H1 is expected to be in line with last year.

Well invested with financial flexibility

BPI has continued to invest in operations and growth in higher value-added products is improving the overall revenue mix and underlying profitability. The company remains conservatively financed (with interest cover over 10x) and, with net debt continuing to trend down, it retains the financial flexibility to take advantage of organic and potentially bolt-on acquisition opportunities. This is not to ignore the net pension deficit (c £56m as at December 2011), but, with a recovery plan in place, this should not be a constraint on incremental project investment.

Valuation: Value rating, estimates unchanged

BPI has comfortably outperformed the market in the last quarter though the P/E ratio remains a very modest 6.6x for the current year. An EBITDA multiple of 4.1x (adjusting for pensions cash) confirms the value rating picture. Current market headwinds are reflected in the flat FY12 earnings profile and we have made no estimate changes. More broadly based sector progress and/or sustained lower polymer prices may be required to get earnings moving ahead more rapidly. Low multiples and a reasonable yield (of 3.8%, 4x covered by earnings) offer a decent entry point ahead of this.

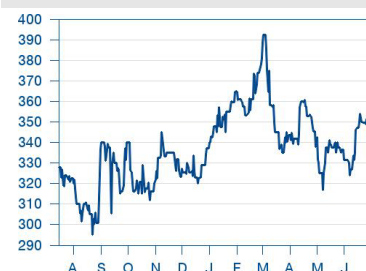
General Industrials

4 July 2012

Price 348p
Market cap £92m

Shares in issue 26.5m
Free float 88%
Code BPI
Primary exchange LSE

Share price performance



%	1m	3m	12m
Abs	5.0	0.9	12.8
Rel (local)	(2.8)	3.9	19.3
52-week high/low	392.5p	295p	

Business description

British Polythene Industries (BPI) is the largest manufacturer of polythene film products in Europe. It is also Europe's largest recycler of waste polythene film.

Next events

H1 results 28 August

Analysts

Toby Thorrington +44(0)20 3077 5721
Roger Johnston +44(0)20 3077 5722

industrials@edisoninvestmentresearch.co.uk

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Exhibit 1: Financial summary

	2009	2010	2011	2012e	2013e	2014e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	424,668	477,748	507,867	515,746	536,290	557,532
Cost of Sales	(353,855)	(408,905)	(430,417)	(435,805)	(453,165)	(471,115)
Gross Profit	70,813	68,844	77,450	79,941	83,125	86,418
EBITDA	32,457	30,493	34,200	35,446	36,799	38,014
Operating Profit (before amort. and except.)	18,957	17,893	21,600	21,446	22,299	23,514
Intangible Amortisation	0	0	0	0	0	0
Pension net finance costs	(1,400)	(1,893)	(500)	(1,000)	(1,000)	(1,000)
Operating Profit	17,557	16,000	21,100	20,446	21,299	22,514
Net Interest	(2,651)	(2,100)	(2,500)	(2,300)	(2,000)	(1,900)
Exceptionals	(3,092)	2,800	600	0	0	0
Profit Before Tax (Edison norm)	16,306	15,793	19,100	19,146	20,299	21,614
Profit Before Tax (Company norm)	14,906	13,900	17,400	16,346	17,499	18,814
Profit Before Tax (FRS 3)	11,814	16,700	19,200	18,146	19,299	20,614
Tax	(3,714)	(3,111)	(4,401)	(4,978)	(5,278)	(5,620)
Profit After Tax (Edison)	12,592	12,681	14,700	14,168	15,021	15,994
Profit After Tax (FRS 3)	8,100	13,588	14,800	13,168	14,021	14,994
Average Number of Shares Outstanding (m)	26.2	26.1	25.8	25.6	25.5	25.5
EPS - Edison (p)	44.4	46.4	55.9	55.4	58.9	62.7
EPS - Edison fully diluted (p)	43.7	45.4	53.2	52.4	55.5	59.1
EPS - Company fully diluted (p)	38.6	38.3	46.9	42.0	45.2	48.8
EPS - FRS 3 (p)	30.9	52.2	52.8	44.4	47.9	51.7
Dividend per share (p)	11.0	11.5	12.5	13.1	13.7	14.3
Gross Margin (%)	16.7	14.4	15.3	15.5	15.5	15.5
EBITDA Margin (%)	7.6	6.4	6.7	6.9	6.9	6.8
Operating Margin (before amort. and except.) (%)	4.5	3.7	4.3	4.2	4.2	4.2
BALANCE SHEET						
Fixed Assets	105,500	103,600	108,400	112,200	112,500	112,800
Intangible Assets	2,400	2,100	1,600	1,400	1,200	1,000
Tangible Assets	103,100	101,500	106,800	110,800	111,300	111,800
Investments	0	0	0	0	0	0
Current Assets	111,700	122,200	118,000	119,582	124,226	131,986
Stocks	61,400	66,900	67,300	68,142	70,857	73,663
Debtors	47,100	52,300	47,700	48,440	50,370	52,365
Cash	500	300	300	300	300	3,257
Other	2,700	2,700	2,700	2,700	2,700	2,700
Current Liabilities	(73,500)	(81,900)	(82,007)	(82,552)	(81,956)	(83,658)
Creditors	(66,700)	(73,800)	(74,607)	(76,390)	(79,965)	(83,658)
Short term borrowings	(6,800)	(8,100)	(7,400)	(6,162)	(1,991)	0
Long Term Liabilities	(109,300)	(99,300)	(89,793)	(84,793)	(79,793)	(74,793)
Long term borrowings	(45,900)	(37,800)	(23,900)	(23,900)	(23,900)	(23,900)
Other long term liabilities	(63,400)	(61,500)	(65,893)	(60,893)	(55,893)	(50,893)
Net Assets	34,400	44,600	54,600	64,437	74,977	86,334
CASH FLOW						
Operating Cash Flow	42,657	22,693	37,400	29,770	30,130	31,264
Net Interest	(3,200)	(2,100)	(2,500)	(2,300)	(2,000)	(1,900)
Tax	(2,500)	(2,400)	(4,600)	(4,401)	(4,978)	(5,278)
Capex	(12,700)	(5,800)	(11,800)	(18,500)	(15,500)	(15,500)
Acquisitions/disposals	0	0	0	0	0	0
Financing	0	(700)	(1,700)	0	0	0
Dividends	(2,900)	(2,900)	(3,100)	(3,331)	(3,481)	(3,638)
Net Cash Flow	21,357	8,793	13,700	1,238	4,171	4,949
Opening net debt/(cash)	76,000	52,200	45,600	31,000	29,762	25,591
HP finance leases initiated	1,200	(2,500)	(2,600)	0	0	0
FX/Other	1,243	307	3,500	0	0	(0)
Closing net debt/(cash)	52,200	45,600	31,000	29,762	25,591	20,643

Source: Edison Investment Research, company accounts

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www.edisoninvestmentresearch.co.uk

London +44 (0)20 3077 5700
 Lincoln House, 296-302 High Holborn
 London, WC1V 7JH, UK

New York +1 212 551 1118
 380 Lexington Avenue, Suite 1724
 NY 10168, New York, US

Sydney +61 (0)2 9258 1162
 Level 33, Australia Square, 264 George St,
 Sydney, NSW 2000, Australia