

British Polythene Industries

Year-end update

Small PBT reduction at year end

Volumes are ahead year-on-year and consistent with our model, but we have trimmed PBT for FY13 and subsequent years by £0.5m to reflect a slightly more subdued trading tone as FY13 closes. Separately, downsizing activity at a plant in Worcester following a contract loss should sustain the profitability of that location. After a good run, British Polythene Industries' (BPI) share price has taken a breather. Capex investment should drive progress in FY14 to support an 11.1x forward P/E ratio.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/11	507.9	19.1	53.2	12.5	12.1	1.9
12/12	478.7	19.7	51.7	13.2	12.5	2.1
12/13e	513.3	21.7	55.0	14.1	11.7	2.2
12/14e	521.0	22.7	58.2	14.8	11.1	2.3

Note: *PBT and EPS are normalised and fully diluted, excluding pension net finance costs, intangible amortisation and exceptional items. FY11 is shown as reported; subsequent years are presented on an IAS 19R basis.

Organic volume just ahead, PBT trimmed by £0.5m

The year-end IMS indicated that group volumes are expected to be slightly ahead of last year organically. This is consistent with H1, where volumes were up c 1%. In FY12, BPI sold 264,000 tonnes of film products and our projected 272,700 tonnage (including c 6,000 tonnes from Flexfilm, acquired in April) has the same underlying growth rate. More detail will emerge when the FY13 results are announced, but we expect the growth to have been generated from European operations, with the UK/Ireland flat to marginally lower and North America flat. The FY IMS is slightly less firm on guidance compared to that of 8 November, so we now assume a small PBT undershoot of £0.5m compared to our previous estimates, and have reflected this in subsequent years, although the macro picture is little changed.

Consumer contract not renewed

BPI's Worcester facility has not been retained to service a follow-on bread bag supply contract with a major UK bakery after a tender process. Although the contract was large, its contribution to profitability was less so. Management regularly references pricing challenges in this market sector (consumer/food retail is c 32% of revenue) and has clearly taken a commercial stance versus more aggressive pricing. Other things being equal, volumes passing through this plant will be lower, which has resulted in an exceptional charge of £1m to cover a headcount reduction of 90 and the cost of mothballing some lines.

Valuation: Growth outlook intact

BPI's share price has performed strongly in 2013, although it has seen some profit-taking in the last month. The initial reaction to the year-end IMS (-7%) looks harsh, but in the context of a c 70% increase ytd (as at Thursday's close) is perhaps more understandable. The business is still performing well overall and returns from new investment are still to come, so we believe that notwithstanding a slightly subdued end to 2013, there remains good forward momentum and a forward P/E ratio of 11.1x is consistent with a growth outlook.

General industrials

23 December 2013

Price **643.5p**
Market cap **£173m**

€1.19/£

Net debt/cash (£m) £20.9m

Shares in issue 26.8m*

*Including shares held in treasury

Free float 87%

Code BPI

Primary exchange LSE

Share price performance



Business description

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

Next events

FY13 results March 2014

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[Edison profile page](#)

Exhibit 1: Financial summary

	£'000s	2011	2012	2013e	2014e	2015e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS			IAS19R	IAS19R	IAS19R	IAS19R
Revenue		507,867	478,716	513,281	521,039	536,981
Cost of Sales		(432,957)	N/A	(433,723)	(440,278)	(453,749)
Gross Profit		74,910	N/A	79,559	80,761	83,232
EBITDA		34,200	33,973	38,733	40,945	43,223
Operating Profit (before amort. and except.)		21,600	21,773	23,845	24,787	26,094
Intangible Amortisation		0	0	0	0	0
Pension net finance costs		(500)	(2,749)	(2,700)	(2,700)	(2,700)
Operating Profit		21,100	19,024	21,145	22,087	23,394
Net Interest		(2,500)	(2,050)	(2,100)	(2,100)	(1,900)
Exceptionals		600	0	(1,000)	0	0
Profit Before Tax (Edison norm)		19,100	19,723	21,745	22,687	24,194
Profit Before Tax (FRS 3)		19,200	16,974	18,045	19,987	21,494
Tax		(4,401)	(5,178)	(6,023)	(6,329)	(6,524)
Profit After Tax (Edison)		14,700	14,545	15,721	16,358	17,670
Profit After Tax (FRS 3)		14,800	11,796	12,021	13,658	14,970
Average Number of Shares Outstanding (m)		25.8	25.7	25.5	25.5	25.5
EPS - Edison (p)		55.9	55.9	59.7	63.2	68.3
EPS - Edison fully diluted (p)		53.2	51.7	55.0	58.2	63.0
EPS - Company fully diluted (p)		46.9	51.5	47.8	58.2	63.0
EPS - FRS 3 fully diluted (p)		50.2	38.9	39.8	45.7	50.5
Dividend per share (p)		12.5	13.2	14.1	14.8	15.4
Gross Margin (%)		14.8	N/A	15.5	15.5	15.5
EBITDA Margin (%)		6.7	7.1	7.5	7.9	8.0
Operating Margin (before amort. and except.) (%)		4.3	4.5	4.6	4.8	4.9
BALANCE SHEET						
Fixed Assets		108,400	112,500	120,511	124,253	125,024
Intangible Assets		1,600	1,300	3,700	3,600	3,500
Tangible Assets		106,800	111,200	116,811	120,653	121,524
Investments		0	0	0	0	0
Current Assets		118,000	117,700	124,764	126,582	130,317
Stocks		67,300	72,500	77,446	78,617	81,022
Debtors		47,700	41,800	42,818	43,465	44,795
Cash		300	100	500	500	500
Other		2,700	3,300	4,000	4,000	4,000
Current Liabilities		(82,007)	(86,400)	(101,371)	(103,035)	(102,503)
Creditors		(74,607)	(78,700)	(87,018)	(90,957)	(95,770)
Short term borrowings		(7,400)	(7,700)	(14,353)	(12,078)	(6,733)
Long Term Liabilities		(89,793)	(85,900)	(71,500)	(65,500)	(59,500)
Long term borrowings		(23,900)	(15,600)	(15,900)	(15,900)	(15,900)
Other long term liabilities		(65,893)	(70,300)	(55,600)	(49,600)	(43,600)
Net Assets		54,600	57,900	72,405	82,300	93,339
CASH FLOW						
Operating Cash Flow		37,400	33,373	33,312	34,661	36,006
Net Interest		(2,500)	(2,100)	(2,100)	(2,100)	(1,900)
Tax		(4,600)	(2,900)	(5,572)	(6,023)	(6,329)
Capex		(11,800)	(17,800)	(20,500)	(20,500)	(18,500)
Acquisitions/disposals		0	0	(5,100)	0	0
Financing		(1,700)	(1,100)	(1,700)	0	0
Dividends		(3,100)	(3,300)	(3,600)	(3,762)	(3,932)
Net Cash Flow		13,700	6,173	(5,260)	2,275	5,345
Opening net debt/(cash)		45,600	31,000	23,200	29,753	27,478
HP finance leases initiated		(2,600)	(2,600)	(600)	0	0
FX/Other		3,500	4,227	(693)	0	0
Closing net debt/(cash)		31,000	23,200	29,753	27,478	22,133

Source: Edison Investment Research, company data

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