

CORPORATE

Current price 133p

Sector Chemicals

Code (PLA.L)

Listing AIM

SHARE PERFORMANCE


Source: Thomson Reuters, Allenby Capital

SHARE DATA

Market cap £40m

Shares in issue (m) 30.2m

52 weeks High Low

143p 79p

Financial year end 31 March

Source: Company Data, Allenby Capital

KEY SHAREHOLDERS

Directors and related 18.33%

Octopus Asset Management 15.94%

ISIS Equity Partners 11.70%

Arun Nagwaney 7.42%

F&C Asset Management 4.77%

Source: Company Data, Allenby Capital

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PLASTICS CAPITAL (PLA.L)
Recovery underway – small delay to acquisition

Plastics Capital has just issued its third quarter trading update. Three of its four divisions are seeing increasing demand, with the fourth (bearings) lagging modestly due to a little slippage with a couple of longer term projects which Plastics' products feed in to. The Chinese bureaucratic machine has caused the completion of the Shengli acquisition to be delayed by a couple of months, so we have made a very minor downward adjustment to this year's figures. But overall, Plastics is looking in very good shape.

- **Minor downgrade to account for acquisition delay:** The Chinese authorities have requested extra information ahead of final sign-off of the Shengli acquisition. This is now expected to complete at the end of February, rather than last December (*see our report on Shengli dated 18 November 2013*). Because of this delay, we have taken £150,000 off this year's pre-tax profit (taking it down from £4.00m to £3.85m) but we have made no changes to 2015 or 2016.
- **Trading update confirms recovery is happening:** Plastics' trading update notes that its mandrel, creasing matrix and plastic films businesses are all seeing rising demand. Palagan's new plastic film line is working well, producing new grades at lower prices and helping to meet rising demand. At Bell Plastics, strong demand for mandrels (for making rubber hoses) encouraged management to look at improving production: by using new materials and processes they have succeeded in doubling capacity. C&T Matrix, (products for creasing cardboard boxes) is also seeing good demand, especially for a newly developed matrix which lasts twice as long and is aimed at Asian markets.
- **Bearings still lagging:** The plastics bearings company, BNL, is working on a number of large projects for the likes of Audi and Samsung. Timing on these large projects is not down to Plastics and some have been slower than expected. Consequently, some of the profits from these contracts may slip in to next year.
- **Fair value target raised 20% to 160p:** Plastics' markets are clearly improving. This has led management to seek acquisitions and find ways to increase production capacity. The group's P/E remains undemanding and with its strong record and growth potential, investors should expect further strong share price growth.

Year End: 31 March

(£m)	2012	2013	2014E	2015E	2016E
REVENUE	32.1	31.4	33.4	38.0	41.6
EBITDA	5.0	4.5	5.2	6.5	7.1
EBIT	4.2	3.5	4.3	5.4	5.9
PBT (NORMALISED)	3.77	3.30	3.85	5.10	5.70
NET INCOME (NORMALISED)	2.8	2.8	3.2	4.2	4.7
EPS (p)	10.1	10.0	11.4	13.8	15.4
DPS (p)	1.0	2.0	3.0	4.0	5.0
FCF/SHARE (p)	9.0	8.6	6.8	10.9	11.9
NET ASSETS/SHARE (p)	70.6	74.7	86.7	87.0	93.7
PE(x)	13.2x	13.3x	11.6x	9.6x	8.6x
EV/REVENUE (x)	1.6x	1.5x	1.4x	1.2x	1.0x
EV/EBITDA (x)	10.0x	10.7x	9.1x	6.9x	6.0x
FCF YIELD (%)	6.8%	6.5%	5.1%	8.2%	9.0%
DIVIDEND YIELD (%)	0.8%	1.5%	2.3%	3.0%	3.8%

Allenby Capital acts as broker to Plastics Capital (PLA.L).

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SUMMARY FINANCIALS				YEAR END: 31 MARCH		
INCOME STATEMENT	£M	2012	2013	2014E	2015E	2016E
Group margin	%	12.9%	11.2%	12.7%	14.2%	14.2%
REVENUE						
Total Revenue	£m	32.1	31.4	33.4	38.0	41.6
PROFIT						
PBITA	£m	4.15	3.52	4.25	5.40	5.90
Net interest	£m	(0.01)	0.005	(0.61)	0.40	1.51
Pre-tax profit (normalised)	£m	3.77	3.30	3.85	5.10	5.70
Exceptionals	£m	(1.15)	(1.04)	(0.09)	(0.03)	(0.02)
Amortisation	£m	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)
PBT (reported)	£m	1.50	1.14	2.64	3.96	4.56
Tax	£m	(0.98)	(0.55)	(0.64)	(0.92)	(1.04)
Tax on exceptionals	£m	1.13	0.71	0	0	0
Total tax	£m	0.15	0.16	(0.64)	(0.92)	(1.04)
Normalised tax rate	%	26.0%	17.0%	16.5%	18.1%	18.2%
Net Income (normalised)	£m	2.79	2.76	3.21	4.18	4.66
EPS (fully diluted)	p	10.1p	10.0p	11.4p	13.8p	15.4p
EPS (reported)	p	6.2p	4.7p	7.1p	10.0p	11.7p
DPS (net)	p	1.0p	2.0p	3.0p	4.0p	5.0p
EBITDA	£m	5.0	4.5	5.2	6.5	7.1
EV	£m	50.2	48.4	47.4	45.1	42.8
No. of shares (undiluted)	m	27.5m	27.5m	28.2m	30.2m	30.2m
No. of shares (fully diluted)	m	27.6m	27.5m	28.2m	30.2m	30.2m

We expect Plastics Capital to deliver very good profit growth over the next few years

Source: Company Accounts/Allenby Capital Estimates.

SUMMARY FINANCIALS				YEAR END: 31 MARCH		
CASH FLOW	£M	2012	2013	2014E	2015E	2016E
INFLOW						
PBITA		4.15	3.52	4.25	5.40	5.90
Depreciation		0.87	1.01	0.98	1.10	1.20
Exceptionals		(0.30)	(0.30)	(0.09)	(0.03)	(0.02)
Disposals		0.45	0	0	0	0
Share issues (net)		0	0	2.70	0	0
Total Inflow		5.17	4.23	7.83	6.47	7.08
OUTFLOW						
Interest (net)		(0.56)	(0.48)	(0.40)	(0.30)	(0.20)
Tax		(0.44)	(0.20)	(0.60)	(0.60)	(0.80)
Dividends		(0.09)	(0.27)	(0.70)	(1.00)	(1.30)
Capital expenditure		(1.06)	(1.18)	(1.80)	(1.50)	(1.50)
Sale of tangible assets		0.45	0	0	0	0
Working capital		(0.11)	(0.31)	(0.30)	(0.80)	(1.00)
Acquisitions		(0.63)	0	(2.80)	0	0
Others		(0.54)	0	(0.21)	0	0
Total Outflow		(2.97)	(2.45)	(6.81)	(4.20)	(4.80)
Total cash movement		2.20	1.78	1.02	2.27	2.28
Free cash flow		2.5	2.4	1.9	3.3	3.6
Net Debt		(10.1)	(8.4)	(7.3)	(5.1)	(2.8)
Shareholders' funds		19.4	20.6	24.4	26.3	28.3
Interest cover		7.5x	7.4x	10.6x	18.0x	29.5x
Gearing		52%	41%	30%	19%	10%

Plastics Capital's net debt will continue to fall rapidly in the absence of further acquisitions

Source: Company Accounts/Allenby Capital Estimates.

SUMMARY FINANCIALS		YEAR END: 31 MARCH				
BALANCE SHEET	£M	2012	2013	2014E	2015E	2016E
Intangible fixed assets		21.37	20.46	19.67	18.82	18.00
Tangible fixed assets		4.16	4.11	4.70	4.60	4.60
<i>Stocks</i>		3.13	2.78	3.54	3.96	3.96
<i>Debtors</i>		6.86	7.14	8.00	8.60	8.80
<i>Creditors</i>		(4.82)	(4.58)	(4.60)	(4.62)	(4.65)
Net working capital		5.17	5.34	6.94	7.94	8.11
Total Assets Employed		30.71	29.92	31.31	31.36	30.71
Investments & other assets		0.03	0	0	0	0
Net cash (debt)		(10.15)	(8.37)	(7.35)	(5.07)	(2.79)
Provisions		0	0	0	0	0
Deferred tax (net)		(1.14)	(0.78)	(0.78)	(0.78)	(0.78)
Pension fund surplus/(deficit)		0	0	0	0	0
Other liabilities (net)		0	(0.19)	1.26	0.77	1.16
Total Shareholders' Funds		19.45	20.57	24.44	26.27	28.30
Net Cash (Debt)		(10.15)	(8.37)	(7.35)	(5.07)	(2.79)
Capital Employed		29.60	28.94	31.78	31.34	31.09
Called up share capital		0.28	0.28	0.28	0.28	0.28
Share premium account		14.10	14.10	14.10	14.10	14.10
Capital redemption reserve		(0.21)	(0.20)	(0.21)	(0.21)	(0.21)
Merger reserve		0	0	0	0	0
Retained earnings & other		5.29	6.40	10.27	12.10	14.13
Total Shareholders' Funds		19.45	20.57	24.44	26.27	28.30
BALANCE SHEET RATIOS		2012	2013	2014E	2015E	2016E
Net asset per share		70.6p	74.7p	86.7p	87.0p	93.7p
Debt to shareholders' funds		52%	41%	30%	19%	10%
Debt (cash) to capital employed		34%	29%	23%	16%	9%
Interest cover		7.5x	7.4x	10.6x	18.0x	29.5x
Return on capital employed		13.5%	11.8%	13.0%	16.8%	18.5%

Very high interest cover

Source: Company Accounts/Allenby Capital Estimates.

SUMMARY FINANCIALS		INTERIMS TO 30 SEPTEMBER		
INTERIM RESULTS	£M	H1 2013	H1 2014	% CHANGE
Group margin	%	11.5%	11.9%	
Total Revenue	£m	15.7	16.4	+4%
PROFIT				
Operating profit	£m	1.81	1.94	+7%
Net interest	- Group	(0.25)	(0.22)	(12%)
	- FX Translation	0.26	0	(100%)
Pre-tax profit	£m	1.83	1.72	(6%)
Exceptionals and unrealized fx gains/losses	£m	(0.32)	0.15	
Amortisation	£m	(0.56)	(0.56)	
Pre-tax profit	- Reported	0.95	1.32	+38%
Tax	£m	(0.31)	(0.24)	
Tax on exceptionals	£m	0.06	0.01	
Total tax	£m	(0.25)	(0.23)	(10%)
Normalised tax rate	%	17.0%	13.7%	
Net Income	- Normalised	1.58	1.49	(2%)
EPS	- Fully diluted	5.49p	5.42p	(2%)
EPS	- Reported	2.56p	4.10p	+60%
DPS	- Net	0.66p	1.00p	+52%
EBITDA	£m	2.29	2.42	+6%
Number of shares	- Undiluted	27.5	26.6	(3%)
Number of shares	- Fully diluted	27.6	26.6	(4%)
Free cash flow	£m	2.04	1.31	(36%)
Net debt	£m	(8.61)	(8.07)	(6%)
Shareholders' funds	£m	20.0	21.0	+5%
Gearing	- Debt/ Shareholders' Funds	43%	38%	

Foreign exchange translation impacted on Plastics' debt and derivatives and on its pre-tax profits

Capital investments for expansion reduced free cash flow in the first half

Source: Company Accounts

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