PLASTICS CAPITAL PLC (LON:PLA)

SPECIALITY CHEMICALS

02/07/2018

Organic growth Accelerates

FY MARCH 2018 RESULTS

Plastics Capital PLC (LON:PLA) has reported a strong set of results for the financial year ended March 2018. Revenues of £76.7mln and earnings per share (EPS) of 9.5p are both slightly ahead of our forecast, which was last updated at the time of the detailed Plastics Capital trading update on May 2.

The most important headline metric, in our view, is the organic (like-for-like) revenue growth of 13.0%, which reflects a strategy shift undertaken last year to focus more on top-line growth.

KEY FEATURES OF THE OPERATING PERFORMANCE

The Films division delivered 23.2% organic revenue growth, reflecting new customer wins, and capacity expansion.

The plastic ball bearings business, within the Industrials division, experienced a 4% like-for-like decline in revenues as expected, reflecting delays that were announced in the first half relating to the slow ramp-up of production on some major new projects. The company reports that there was some improvement in the bearings business in the final quarter. We present an overview of the business segments on page 2.

MARGIN PROGRESSION

Underlying EBITDA margin declined to 9.2%, from 10.5% the previous year, in line with the guidance of the May 2 update. This is primarily a result of the business mix – more of the growth came from the lower-margin Films business rather than the Industrials division.

We believe that the Industrials division is now positioned to make positive incremental contributions from FY Mar2019 onwards, leading to group profit margins moving upwards again. Our margin forecasts are presented on page 2.

CONCLUSIONS

During the last two years, Plastics Capital has undertaken a significant programme of investments - £4.1mln in FY Mar2018, including £1.8mln of investment in new capacity. The benefits are evident in the FY Mar2018 revenue growth, and we believe that earnings will begin to follow from FY Mar2019 onwards. We believe that the current valuation at a Mar2019 price/earnings ratio of 9.3x represents an interesting entry point in light of these growth dynamics.

Y/E March 31, £mln	2017	2018 forecast	2018 actual	2019e	2020e
Revenue	65.8	76.6	76.7	84.0	87.0
EBITDA	6.9	6.9	7.0	8.4	8.8
EBITDA margin	*10.5%*	*9.1%*	*9.1%*	*10.0%*	*10.1%*
Underlying PBT	4.3	4.0	4.2	5.1	5.6
Underlying EPS (p)	11.5	9.4	9.5	11.9	12.5

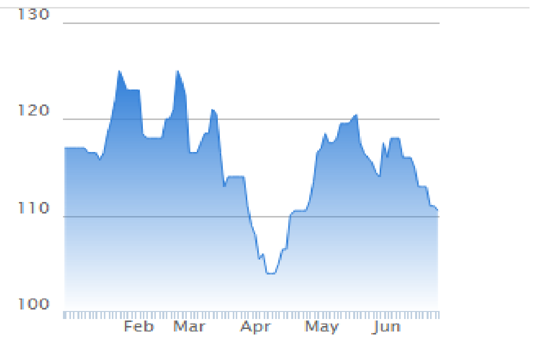
SHARE PRICE	52 WEEK LOW
110.5p	101.5p
MARKET CAP	**52 WEEK HIGH**
£43.1m	130p
NET DEBT	**NAV**
£15.1m	£31.1m

MAJOR SHAREHOLDERS

1) Camelot Capital Partners: 27.9%
2) Livingbridge: 10.6%
3) Octopus Investments: 7.7%

Shares in Issue	39.0mln
Avg Volume Daily	12,792
Primary index	AIM
EPIC	LON:PLA
Next Key Announcement	AGM August 2018
Sector	Basic Materials

SHARE PRICE CHART



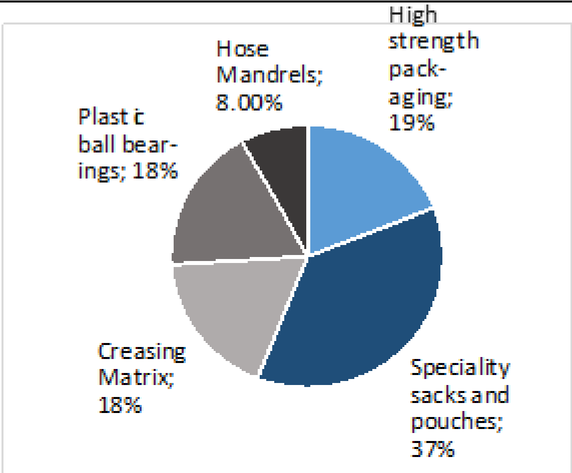
Company Information

Address : Room 1.1, Bridges Court Road London SW11 3BE
www.plasticscapital.com

Analyst Details

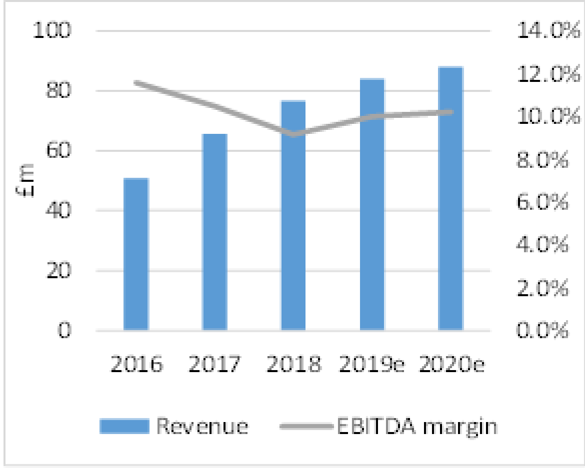
Ed Stacey
ed.stacey@capitalnetwork.com
+44 (0)20 7264 3921

Revenues by business segment, FY Mar2018



Source: Company data

Revenues and EBITDA margin



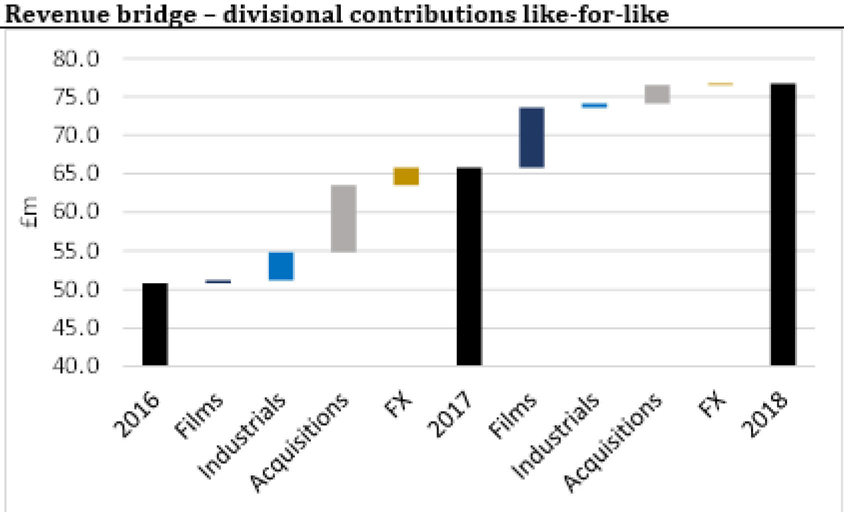
Source: Company data and Capital Network forecasts

The chart above left shows Plastics Capital's revenues by business segment:

- **High strength packaging (Films division) –** High strength plastic films for industrial packaging applications.
- **Speciality sacks and pouches (Films division) –** Packaging for the food industry and other applications.
- **Creasing matrix (Industrial division) –** A disposable plastic insert used in the manufacture of cardboard packaging.
- **Plastic ball bearings (Industrials division) –** Ball-bearing assemblies for applications such as steering columns, dashboard controls, and household appliances.
- **Hose mandrels (Industrials division) –** A specialised plastic rod used in the manufacture of hydraulic and industrial hoses.

The chart above right shows the profit margin progression in 2018 and in our forecasts. The reduction in the EBITDA margin for FY Mar2018 is primarily due to the business mix, with more of the organic growth coming from the Films division, which is a lower margin business. The growth mix is illustrated in the following chart:

Revenue bridge – divisional contributions like-for-like



Source: Company data

We believe that the 13.0% organic revenue growth in FY Mar2018 shows that the company's investment programme is succeeding. Going forward we expect this growth to be reflected at the earnings level, as growth becomes more balanced across the business segments, leading to a better mix, and as the positive volume effect benefits margins across all businesses.