

Company Update

Wednesday, April 10, 2024



I V Global Securities Public Company Limited

SCG Packaging Pcl (SCGP)

Rating: HOLD

Fair price: Bt36.2

Close price: Bt31.25

Improving trend in 1Q24

Company Information

Ticker:	SCGP TB
Sector:	Packaging
Shares outstanding (m):	4,292.92
Market capitalization (Btm):	134,153.76
Trading vol/day (Btm):	289.72
Free float (%):	26.38
Beta:	1.25

Major Shareholders

Siam Cement	72.12%
Thai NVDR	3.65%

Consensus Bloomberg

2024F EPS (Bt):	1.47
Target price (Bt):	40.13

Price Performance

52 Wk high/low:	46.00 / 26.50
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	1M	3M	1Y	YTD
Absolute (%)	10.6	-10.7	-30.9	-13.2
Relative (%)	9.6	-9.7	-19.8	-12.2



Rating	CGR	Thai CAC	SET ESG
SCGP		Certified	AAA

Analyst

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- Based on the industry outlook, the integrated packaging paper business in all key markets has seen improving demand YoY during 1Q24F, with the exception of declining sales QoQ in Vietnam due to the holiday season. The better 1Q24F operating performance will be thanks largely to an improving tourism sector and higher consumption in China boosting the core integrated packaging business (IPB, 75% of sales). Meanwhile, the continued rise in pulp prices is also improving the fibrous business chain (19%). We expect the 1Q24F performance to improve both YoY and QoQ.
- The key earnings catalyst is improving sales volume and selling prices, which reflect higher sales and EBITDA margins as the selling price appreciation is larger than product cost increases. We estimate SCGP's 1Q24F operating performance to increase by 25% YoY and QoQ to Bt1.5bn.
- IPB sales will increase from both domestic factors (partly rising tourist arrivals) and the improving export outlook (such as pet food and processed and frozen foods). The business in Indonesia has seen gradually improving demand and paper prices, but it still incurs losses. The fibrous business will likely also see higher sales QoQ thanks to the continued rise in the selling price of short fiber pulp (for the domestic market) and of the dissolving pulp price (to China). In 2023, operations from Thailand made up 41% of consolidated revenues, followed by 15% from Vietnam, 14% from Indonesia, 2% from the Philippines, and 2% from Malaysia.
- The rise in imported recycled paper costs (AOCC) is expected to be mitigated by increasing domestic sourcing at lower prices (up to 70% at some point), thanks to the strong local sourcing network (versus a normal level of 55%) with about three months' inventory being secured at lower cost. The coal cost during 1Q24 is relatively stable QoQ. Meanwhile, the rise in freight costs from Europe to Asia has had a limited impact given the option to import RCP from Japan and the US instead.
- We project EBITDA to rise by 10% YoY and 12% QoQ to Bt4.9bn during 1Q24F due to rising pulp prices.
- If a new partner cannot be found, a decision on whether to inject Bt23bn to increase its stake in Indonesian subsidiary Fajar from 44.48% to 99.71% will be made by mid-2024.
- Maintain HOLD.** We decide to raise our earnings estimates by 6% p.a. for 2024-25F, respectively, to reflect improving profitability. The expected better 1Q24F results may add to positive sentiment toward the stock. We prefer to maintain our HOLD rating on the stock with a revised price target of Bt36.2 (from Bt38), suggesting a target P/E of 25x our 2024F earnings. Downside risks to our earnings forecasts lie with slower global economic activity and rising paper raw material and energy costs.

Investment summary

FY Dec 31	2021	2022	2023	2024F	2025F	2026F
Sales (Btm)	124,223	146,068	129,398	139,750	153,725	164,486
Change (%)	33.9	17.6	-11.4	8.0	10.0	7.0
Net profit (Btm)	8,294	5,801	5,248	6,211	6,967	7,483
Change (%)	28.5	-30.1	-9.5	18.3	12.2	7.4
EPS (Bt)	1.93	1.35	1.22	1.45	1.62	1.74
Change (%)	28.5	-30.1	-9.5	18.3	12.1	7.4
P/E (x)	16.2	23.1	25.6	21.6	19.3	17.9
EV/EBITDA (x)	4.8	5.0	5.8	5.0	4.3	3.8
DPS (Bt)	0.65	0.60	0.55	0.65	0.73	0.78
Yield (%)	2.1	1.9	1.8	2.1	2.3	2.5
BVPS (Bt)	22.56	23.23	23.84	24.57	25.37	26.24
P/BV (x)	1.4	1.3	1.3	1.3	1.2	1.2
ROE (%)	8.9	5.9	5.2	6.0	6.5	6.8
ROA (%)	4.4	2.9	2.7	3.1	3.3	3.3
Net D/E ratio (x)	0.30	0.31	0.31	0.33	0.36	0.38

Source: Company and IVG estimates

Results preview

(Btm)	1Q24F	1Q23	% YoY	4Q23	% QoQ	2023	2022	% YoY
Revenue	35,246	33,729	4.5	31,881	10.6	129,398	146,068	-11.4
Cost of service	(28,902)	(27,780)	4.0	(26,179)	10.4	(106,274)	(121,791)	-12.7
Gross profit	6,344	5,948	6.7	5,702	11.3	23,124	24,277	-4.7
Admin expense	(4,166)	(4,220)	-1.3	(3,886)	7.2	(15,684)	(16,039)	-2.2
Other income	250	232	7.6	325	-23.1	1,043	1,322	-21.1
EBITDA	4,900	4,471	9.6	4,388	11.7	17,769	19,402	-8.4
Interest expense	(520)	(497)	4.7	(516)	0.7	(2,020)	(1,468)	37.6
Pre-tax profit	1,908	1,464	30.3	1,625	17.4	6,464	8,091	-20.1
Tax	(382)	(296)	29.0	(325)	17.6	(1,153)	(1,550)	-25.6
Core profit	1,500	1,182	26.9	1,215	23.5	5,146	5,768	-10.8
Net profits	1,529	1,220	25.2	1,219	25.4	5,248	5,801	-9.5
EPS (Bt)	0.36	0.28	25.2	0.28	25.4	1.22	1.35	-9.5

Source: Company and IVG estimates

Financial ratios

%	4Q22	1Q23	2Q23	3Q23	4Q23
Sales growth YoY	-4.7	-7.9	-15.2	-16.8	-4.9
Gross margin	14.6	17.6	18.2	17.8	17.9
SG&A as % of revenue	11.3	12.5	11.7	12.1	12.2
EBITDA margin	10.6	13.3	14.5	13.4	13.8
Net margin	1.3	3.6	4.6	4.2	3.8
Net D/E ratio (x)	0.3	0.3	0.3	0.3	0.3

Source: Company and IVG estimates

Quarterly performance

(Btm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Revenue	36,634	37,982	37,943	33,509	33,729	32,216	31,573	31,881
Cost of service	(30,346)	(31,303)	(31,518)	(28,625)	(27,780)	(26,350)	(25,965)	(26,179)
Gross profit	6,288	6,679	6,425	4,884	5,948	5,866	5,608	5,702
SG&A expenses	(3,990)	(4,202)	(4,077)	(3,770)	(4,220)	(3,754)	(3,824)	(3,886)
Other income	296	262	422	342	232	161	325	325
EBITDA	4,887	5,478	5,483	3,554	4,435	4,510	4,229	4,388
Interest expense	(286)	(311)	(404)	(467)	(497)	(510)	(496)	(516)
Pre-tax profit	2,308	2,428	2,366	989	1,464	1,762	1,612	1,625
Tax	(316)	(541)	(470)	(223)	(296)	(305)	(228)	(325)
Core profit	1,722	1,906	1,512	628	1,182	1,439	1,310	1,215
Net profit	1,658	1,856	1,837	449	1,220	1,485	1,324	1,219
EPS (Bt)	0.39	0.43	0.43	0.10	0.28	0.35	0.31	0.28

Source: Company and IVG estimates

Financial ratios

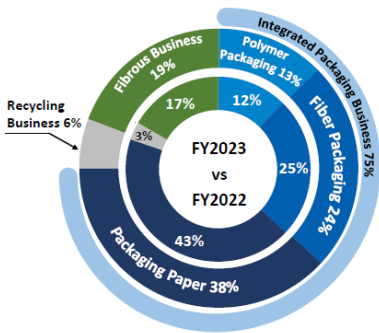
%	1Q22	2Q22	3Q22	4Q22	2021	2022	2023
Sales growth YoY	34.4	27.1	18.8	-4.7	27.1	18.8	-11.4
Gross margin	17.2	17.6	16.9	14.6	17.6	16.9	17.9
SG&A as % of revenue	10.9	11.1	10.7	11.3	11.1	10.7	12.1
EBITDA margin	13.3	14.4	14.5	10.6	14.4	14.5	13.7
Net margin	4.5	4.9	4.8	1.3	4.9	4.8	4.1
Net D/E ratio (x)	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Source: Company and IVG estimates

SCGP business portfolio: FY2023¹

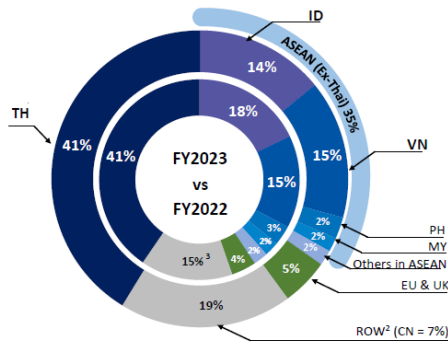
Consumer packaging delivered strong performance. Expansion of revenue in new growth markets amid macro challenges

REVENUE FROM SALES BY BUSINESS UNITS*



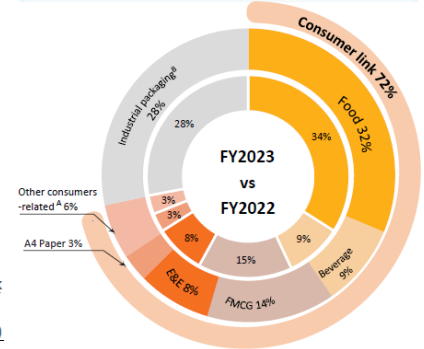
Continuation of strong performance from consumer packaging while change in % proportion came from new foodservice capacity and recycling business

REVENUE FROM SALES BY END DESTINATIONS*



Resilient TH&VN portion while ID declined. Enlarged sales in strategic growth markets: South Asia for recycling & packaging paper and USA for foodservice

%CONSUMER-LINKED PORTFOLIO*



Consumer-linked revenue increased to 72% of total SCGP's revenue

*Note
Outer pie chart: FY2023 (Revenue 129,398 MB)
Inner pie chart: FY2022 (Revenue 146,068 MB)

Definition:
A. Other consume-related includes footwear, apparel, healthcare etc.
B. Industrial packaging includes auto parts, petroleum products, construction materials, furniture, with addition of packaging material recycling revenue since Q3/2022, etc.

Source: Company

SCGP IVG ESG Rating: GOOD	88%
E: Environmental	25%
Energy Efficiency Management	100%
Climate-Related Management	100%
Sustainable Water Management	50%
Sustainable Waste Management	50%
S: Social	29%
Human Rights Management	100%
Education and Training Policy	50%
Occupational Health and Safety Policy	100%
Corporate Social Responsibility Policy	100%
G: Governance	33%
Corporate Governance Rating (CGR)	100%
Employees Trained on Anti-Corruption	100%
Risk and Crisis Management	100%
Cybersecurity and Customer Data Privacy Protection	100%
Digitalization and Innovation	100%
Customer Relationship Management	100%

INDUS-PKG Sector	Scores	Weights	SCGP
E: Environmental	8	33%	25%
S: Social	8	33%	29%
G: Governance	10	33%	33%
Total	26	100%	88%

Company ESG Policy Priorities

POOR	MEDIUM	GOOD
1-50%	>50 - 70%	>70 - 100%

Source: Sustainability report from company 2022 and Criteria by IVG

I V Global Investment Research – Recommendation Definitions

Sector Recommendations

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.

Stock Recommendations

BUY: Expecting positive total returns of 15% or more over the next 12 months.

HOLD: Expecting total returns of not more than -10% to +10% over the next 3 months.

SELL: Expecting negative total returns of 15% or more over the next 12 months

Anti-corruption Progress Indicator Definitions

Level 5 Extended	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
Level 4 Certified	Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
Level 3 Established	Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes. (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)
Level 2 Declared	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
Level 1 Committed	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws
Partially progress	Insufficient or not clearly defined policy
No progress	Data not available / no policy

Corporate Governance Report (CGR)



Excellent



Very good



Good

Disclaimers

The disclosure of the survey result of corporate governance, which is surveyed by the Thai Institute of Directors Association ("IOD"), and the Anti-Corruption Progress Indicators, which is assessed by Thaipat Institute, are the disclosure of the survey or assessment result based on the information received from the listed company that was stipulated in the form for Annual Corporate Governance Report of Thai Listed Companies (CGR) and the form for the assessment of Anti-corruption that refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2) or other relevant documents or reports of such listed company (as the case may be). The survey or assessment result is based on the information of the listed company, which is disclosed to the public and can be accessed by all investors and is made in order to comply with the policy of the Office of the Stock Exchange of Thailand.

Nevertheless, the survey or assessment result is made from the perspective of the IOD or Thaipat Institute that are the third party only. It is not an assessment of operation of the listed company and is not based on any inside information."

Since this survey or assessment result is only the survey or assessment result as of the date appearing in the survey or assessment result only, it may be changed after that date or when there is any change to the relevant information. Nevertheless, I V Global Securities Plc. (IVG) does not confirm, verify, or certify the accuracy and completeness of the survey or assessment result.

