

# Company Update

Wednesday, April 24, 2024



I V Global Securities Public Company Limited

## SCG Packaging Pcl (SCGP)

Rating: HOLD

Fair price: Bt36.2

Close price: Bt33.25

### 1Q24 net profit rises by 41% YoY

#### Company Information

Ticker:	SCGP TB
Sector:	Packaging
Shares outstanding (m):	4,292.92
Market capitalization (Btm):	142,739.60
Trading vol/day (Btm):	305.49
Free float (%):	26.38
Beta:	1.24

#### Major Shareholders

Siam Cement	72.12%
Thai NVDR	3.65%

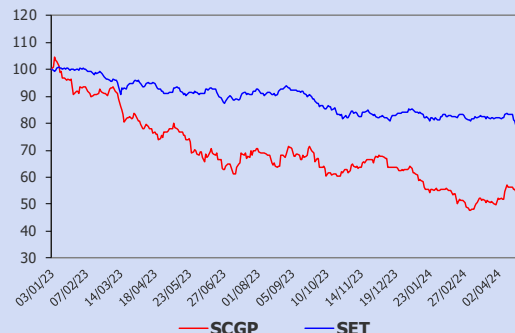
#### Consensus Bloomberg

2024F EPS (Bt):	1.42
Target price (Bt):	40.14

#### Price Performance

52 Wk high/low:	46.00 / 26.50
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	1M	3M	1Y	YTD
Absolute (%)	13.7	7.3	-21.3	-7.6
Relative (%)	15.4	7.2	-8.4	-3.5



Rating	CGR	Thai CAC	SET ESG
SCGP		Certified	AAA

#### Analyst

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- SCGP reported stronger-than-expected net profits of Bt1.72bn for 1Q24, up 41.3% YoY and 41.5% QoQ. Core profits rose by 43% YoY and 39% QoQ to Bt1.69bn thanks largely to EBITDA margin improving from 13.3% in 1Q23 and 13.8% in 4Q23 to 15.4% in 1Q24. The 1Q24 earnings beat our estimate of Bt1.53bn and the consensus projection of Bt1.49bn. Sales grew by 0.6% YoY and 6.5% QoQ to Bt33.95bn. The 1Q24 result accounted for 27.8% of our full year estimate.
- **Overall impression of 1Q24 performance.** The improving operating performance was driven by strong domestic consumption in F&B and fast-moving consumer goods, enhanced by strong tourist numbers and spending in Thailand and Vietnam, along with the election activities in Indonesia. In addition, improving exports of frozen & canned food, fresh fruits, garments, footwear, and furniture contributed to rising regional packaging demand. On the cost side, raw materials costs have risen gradually in line with the rising demand for packaging paper regionally and globally. Energy costs moved sideways while freight costs increased at the beginning of the year.
- The 6% QoQ growth in sales was from all business segments, while the YoY sales growth was attributable to rising sales volume. The integrated packaging business made up 75% of total sales, followed by 19% from the fibrous chain, and 6% from the recycling business.
- SCGP was successful in utilizing its domestic supply chain network of recovered paper (RCP) at competitive costs (versus imports). The use of alternative energy rose from 35.9% in 4Q23 to 37.8% in 1Q24. The higher production utilization rate also resulted in better economies of scale.
- EBITDA in 1Q24 rose by 15% YoY (on higher sales volume and production utilization costs) and 17% QoQ to Bt5.15bn (on higher packaging paper sales volume and selling prices). EBITDA margin came in at 15.4%, with the margin from the integrated packaging business coming at 16% versus 18% for the fibrous business.
- The non-recurring gain of Bt39m comprised a Bt48m forex gain, Bt2m in expenses from M&P transactions, and costs of Bt7m from other items.
- SCGP's net debt/EBITDA ratio stood at 1.7x at end-1Q24. The company spent just Bt1.49bn on capex and investments during 1Q24 versus a full-year capex budget of Bt15bn. On 28 June, SCGP will decide to increase its holding in Indonesia-based Fajar from 44.48% to 99.71% by June this year, with the Bt23bn payment to be made within 60 days after end-June.
- **Maintain HOLD.** We prefer to maintain our earnings estimates and HOLD rating on the stock with a price target of Bt36.2, 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)	17.2	24.6	27.2	23.0	20.5	19.1
EV/EBITDA (x)	5.2	5.5	6.3	5.4	4.7	4.2
DPS (Bt)	0.65	0.60	0.55	0.65	0.73	0.78
Yield (%)	2.0	1.8	1.7	2.0	2.2	2.4
BVPS (Bt)	22.56	23.23	23.84	24.57	25.37	26.24
P/BV (x)	1.5	1.4	1.4	1.4	1.3	1.3
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

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## Results

(Btm)	1Q24	1Q23	% YoY	4Q23	% QoQ	2023	2022	% YoY
Revenue	33,948	33,729	0.6	31,881	6.5	129,398	146,068	-11.4
Cost of service	(27,146)	(27,780)	-2.3	(26,179)	3.7	(106,274)	(121,791)	-12.7
Gross profit	6,802	5,948	14.3	5,702	19.3	23,124	24,277	-4.7
Admin expense	(4,294)	(4,220)	1.8	(3,886)	10.5	(15,684)	(16,039)	-2.2
Other income	263	232	13.1	325	-19.2	1,043	1,322	-21.1
EBITDA	5,151	4,471	15.2	4,388	17.4	17,769	19,402	-8.4
Interest expense	(523)	(497)	5.3	(516)	1.4	(2,020)	(1,468)	37.6
Pre-tax profit	2,247	1,464	53.4	1,625	38.2	6,464	8,091	-20.1
Tax	(483)	(296)	63.2	(325)	48.7	(1,153)	(1,550)	-25.6
Core profit	1,686	1,182	42.6	1,215	38.8	5,146	5,768	-10.8
<b>Net profits</b>	<b>1,725</b>	<b>1,220</b>	<b>41.3</b>	<b>1,219</b>	<b>41.5</b>	<b>5,248</b>	<b>5,801</b>	<b>-9.5</b>
EPS (Bt)	0.40	0.28	41.3	0.28	41.5	1.22	1.35	-9.5

Source: Company and IVG estimates

## Financial ratios

%	1Q23	2Q23	3Q23	4Q23	1Q24
Sales growth YoY	-7.9	-15.2	-16.8	-4.9	0.6
Gross margin	17.6	18.2	17.8	17.9	20.0
SG&A as % of revenue	12.5	11.7	12.1	12.2	12.7
EBITDA margin	13.3	14.5	13.4	13.8	15.4
Net margin	3.6	4.6	4.2	3.8	5.1
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

### E: Environmental

In 2023, SCGP set a new target to increase its greenhouse gas emission reduction from 20% to 25% by 2030, align with Science Based Target (SBTi). This demonstrates a commitment to reducing greenhouse gas emissions. Additionally, the Risk Management Committee has monitored and assessed risks at the organizational level and reported to the ESG Committee to strategize and implement action plans. Furthermore, SCGP adheres to the Task Force on Climate related Financial Disclosures (TCFD) framework to analyze risks and opportunities arising from climate change and have set a target to achieve Net-Zero emissions by 2050.

### S: Social

SCGP places great emphasis towards Circular Economy as an essential solution to Thailand and the global environmental issues such as global warming, resource scarcity, global waste crisis, poverty, and quality of life. By elevating our Circular Economic practices, we can manage the circulation of resources and energy in the system with cost-effectiveness at the highest benefit, starting from planning, design, material selection, production, consumption, and waste management until recycling in the production process as raw materials.

### G: Governance

SCGP places great importance on conducting business transparently and ethically to build trust among all stakeholders. SCGP continually raises awareness among employees at all levels, both in domestic and international operations, by promoting adherence to SCGP's morals, philosophies, code of conduct, and anti-corruption policies. It also encourages suppliers to adopt good corporate governance practices that align with SCGP's policies.

## Comment

SCGP has been awarded a SET ESG rating of AAA, indicating a strong commitment to Environmental, Social, and Governance (ESG) practices, as well as clear long-term objectives in this regard. Furthermore, the company demonstrates the ability to execute short-term goals effectively.

*Source: Company and IVG estimates*

## 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

<b>Level 5 Extended</b>	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
<b>Level 4 Certified</b>	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.)
<b>Level 3 Established</b>	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)
<b>Level 2 Declared</b>	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
<b>Level 1 Committed</b>	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws
<b>Partially progress</b>	Insufficient or not clearly defined policy
<b>No progress</b>	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.

