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KEY HIGHLIGHTS

Sector

Property

3Q21 results preview: Sector's earnings weaken amid the COVID-19 pandemic.

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Results

Home Product Center (HMPRO TB/HOLD/Bt14.30/Target: Bt14.40)

3Q21: Weak 3Q21 results as a result of lockdown measures.

Page 5

SCG Packaging (SCGP TB/BUY/Bt63.00/Target: Bt69.00)

3Q21: Results slightly higher than our estimate on forex gains, on the path of recovery from 4Q21.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,635.97	1.77	0.11
SET50	984.04	1.23	0.13
Value (Btm) - SET	70,926		
Top 5 Sector			
BANK	393.79	(1.82)	(0.46)
PETRO	1,173.63	(15.50)	(1.30)
PROP	239.67	(1.75)	(0.72)
ENERG	24,542.06	112.97	0.46
ICT	164.05	1.96	1.21

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
KBANK	139.50	(1.06)	27,098.5
KCE	85.25	2.71	34,340.5
GLORY	5.65	(25.66)	351,193.1
TAKUNI	1.94	20.50	1,179,818.7
PTT	39.25	(0.63)	54,563.9

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PPPM	0.54	28.57	231,883.0
TAKUNI	1.94	20.50	1,179,818.7
GBX	1.68	15.86	304,262.7
K	1.80	13.92	367,730.4
OTO	10.20	12.71	15,227.1

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
GLORY	5.65	(25.66)	351,193.1
AQ	0.04	(20.00)	397,002.4
SMART	1.06	(11.67)	81,094.5
WINNER	2.48	(5.34)	7,727.4
SISB	9.75	(5.34)	2,884.0

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	86.2	9.6	20.0	69.9
Dubai crude*	82.9	11.2	15.2	64.9
Baltic Dry Index	4,257.0	(9.8)	34.5	211.6
Gold Spot***	1,792.4	2.4	(0.4)	(5.6)

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
2.4	617.9	(1,859.3)	9,418.5

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 33.19

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%) - MLR = 5.25

SECTOR UPDATE

Property – Thailand

3Q21 Results Preview: Sector's Earnings Weaken Amid The COVID-19 Pandemic

We estimate sector net profit at Bt4.4b (-26% yoy, -23% qoq) in 3Q21. The vulnerable earnings were pressured by the lockdown measures. However, we believe the worst is over, and the sector's earnings should start to recover from 4Q21 onwards. Maintain OVERWEIGHT. Top picks: AP and SPALI.

WHAT'S NEW

- **3Q21 earnings impacted by lockdown.** We expect the property developers under our coverage to report a combined net profit of Bt4.4b in 3Q21, down 26% yoy and 23% qoq, pressure by sluggish transfers (-11% yoy, -13% qoq) from both low-rise and high-rise segments. Meanwhile, we should see an improvement in gross margin from less aggressive promotions carried out. We estimate sector core earnings at Bt3.5b, declining 21% yoy and 23% qoq. We believe that SPALI will be the only developer to report positive yoy growth at 23%, outperforming its peers in 3Q21.

LOAN TO VALUE RATIO FOR MORTGAGES

Price	Condition	LTV Threshold (Old)	LTV Threshold (New)
Lower than Bt10m	First loan contract	100% with 10% top up	100% with 10% top up
	Second loan contract (Less than 2 years track record)	90%	100%
	Second loan contract (More than 2 years track record)	80%	100%
	Third loan contract	70%	100%
Higher than Bt10m	First loan contract	90%	100%
	Second loan contract	80%	100%
	Third loan contract	70%	100%

Source: Bloomberg, UOB Kay Hian

- **Easing LTV ratio.** The Bank of Thailand (BOT) announced an easing of LTV measures on 21 Oct 21. As a result, homebuyers can now take loans equivalent to 100% of the property's value until the end of 2022. Although every developer should generally benefit from this measure, we believe that the high-rise mid-to-upper mid-segment will benefit the most for three key reasons: a) homebuyers who take second and third loan contracts will have more purchasing power. Meanwhile, the luxury segment is expected to benefit the least due to the fact that this segment usually does not take 100% of the loan value; b) we believe banks remain strict about lending homebuyers with low debt repayment ability. Banks will likely approve more loans to the mid-to-upper mid-segment, especially products of Bt3m-7m; and c) the benefit will be limited to developers who have inventory ready for transfer in 2022.
- **Expect a recovery in 4Q21.** Sector earnings should see a recovery in 4Q21, supported by more completed projects and improved transfers. The sector's presale is expected to increase due to more launch plans after the lockdown measures are eased in 3Q21. In terms of the new LTV policy, we are more confident on developers' backlog in 4Q21 and expect to see better inventory sales in 2022.

ACTION

- **Maintain OVERWEIGHT.** We believe the worst is over for the property sector, and the sector's earnings are on the way to recovery in 2022. In addition, the easing LTV ratio should be favourable to the property sector, and there is potential upside to our earnings forecast in 2022. Furthermore, the sector's share prices are still laggards.

PEER COMPARISON

Company	Ticker	Market Capitalization (Bt m)	Rec	Target Price (Bt)	Current Price (Bt)	Upside (%)	PE			EPS Growth			PB	ROE	Div Yield
							2020 (x)	2021F (x)	2022F (x)	2020 (%)	2021F (%)	2022F (%)			
AP (Thailand)	AP TB	27,999	BUY	10.25	8.90	15	6.6	6.7	6.3	37.8	-1.3	7.2	0.9	13.6	5.1
Land and Houses	LH TB	101,095	BUY	10.10	8.50	19	14.3	14.7	12.1	-29.1	-2.8	21.5	2.0	13.5	5.8
LPN Development	LPN TB	7,378	BUY	5.65	5.00	13	10.3	14.7	10.1	-43.0	-29.8	45.7	0.7	4.4	5.0
Pruksa Holding	PSH TB	29,946	HOLD	14.50	13.70	6	10.8	12.2	10.1	-48.3	-11.6	21.8	0.7	5.5	5.0
Quality Houses	QH TB	24,429	BUY	2.60	2.28	14	11.5	11.6	9.8	-25.6	-0.9	18.9	0.9	7.7	5.5
Supalai	SPALI TB	47,878	BUY	25.00	22.30	12	12.1	8.2	8.0	-27.0	47.7	2.8	1.2	14.8	5.1
Sector							10.6	9.7	8.7	-24.2	3.6	14.2	1.1	10.8	5.4

Source: UOB Kay Hian

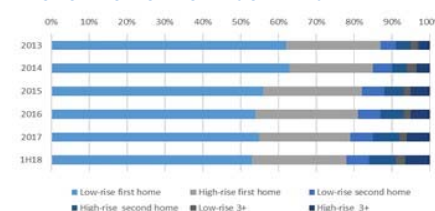
OVERWEIGHT (Maintained)

SECTOR TOP PICKS

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
AP Thailand	AP TB	BUY	8.90	10.25
Supalai	SPALI TB	BUY	22.30	25.00

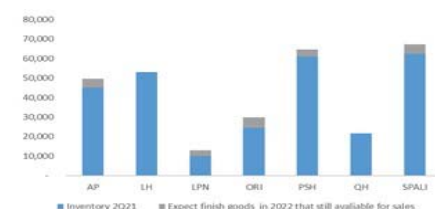
Source: Bloomberg, UOB Kay Hian

PROPORTION OF LOAN CONTRACT



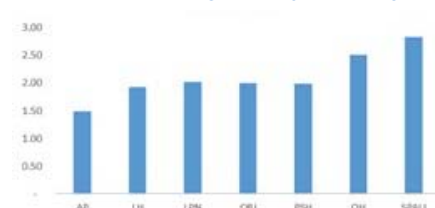
Source: The Bank of Thailand, UOB Kay Hian

2021 INVENTORY AND EXPECTED FINISHED GOODS IN 2022



Source: Respective Companies, UOB Kay Hian

INVENTORY AND FINISHED GOODS IN 2022 TO THREE-YEAR AVERAGE TRANSFER RATIO



Source: Respective companies, UOB Kay Hian

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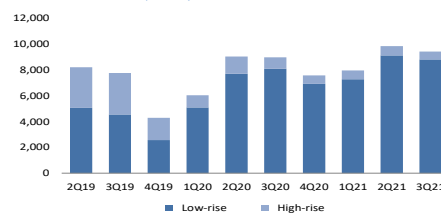
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ESSENTIALS

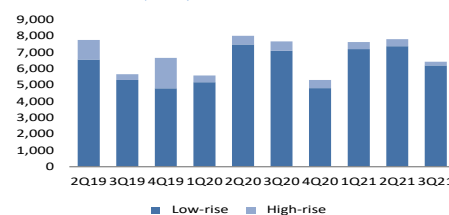
- AP:** We expect AP to report 3Q21 net profit of Bt980m, down 33% yoy and 12%, due to lower low-rise transfers. We estimate AP's residential transfers to come in at Bt6.8b (-23% yoy, -13% qoq), pressured by the fourth wave of COVID-19 infections, which could delay backlog recognition in 3Q21. 97% of transfers is estimated to come from low-rise projects. Gross margin will likely increase by 100bp yoy due to higher margin from low-rise transfers and the absence of aggressive promotional campaigns. SG&A-to-sales ratio is expected to be flat yoy but decrease 320bp qoq on a lower revenue base. Share of profit from associates will likely come in at Bt363m (3Q20: Bt776m, 2Q21: Bt181m), driven by the transfer of life Asoke-Rama 9, Life Ladprao Valley, and Life Asoke Hype.
- LH:** We expect LH's 3Q21 net profit to come in at Bt1,276m, decreasing 38% yoy and 32% qoq. Its vulnerable earnings would be pressured by lower low-rise and high-rise transfers due to the new wave of COVID-19 infections. LH's total revenue for 3Q21 including rental income is estimated to come in at Bt6.7b, up by 12% yoy. Share of profit from associates is expected at Bt492m (3Q20: Bt 685m, 2Q21: Bt644m). Overall gross margin is likely to come in at 32% (-80bp yoy, +40bp qoq). SG&A-to-sales should increase by 90bp yoy to 13.3% on a lower revenue base. Excluding non-core operations, we estimate LH's 3Q21 core profit to come in at Bt704m, down 24% yoy and 36% qoq.
- LPN:** We estimate LPN's 3Q21 net profit to come in at Bt50m (-51% yoy, -59% qoq), underperforming its industry peers due to weak demand for low-end high-rise projects. Residential revenue would fall 16% yoy on soft condo transfers and the absence of newly completed projects. Gross margin will likely remain weak, decreasing by 520bp yoy to 22.2%, as LPN continues with its aggressive promotional strategy. SG&A-to-sales ratio could decrease 110bp yoy to 18.2% on better cost control.
- PSH:** We forecast 3Q21 net profit of Bt296m, down 51% yoy and 31% qoq, pressured by weaker residential revenue and loss recognition from hospital business. Its residential transfer is expected to decrease 8% yoy to Bt5.9b, due to the closure of worker construction camps. Overall gross profit margin should decrease 230bp yoy to 29.8%. SG&A-to-sales ratio should rise 160bp yoy to 19.8% on lower base revenue. We expect PSH to record a loss at Bt110m from its hospital business.
- QH:** We estimate 3Q21 net profit to come in at Bt313m (-46% yoy, -35% qoq). QH's residential revenue could drop by 42% yoy to Bt1,380m, pressured by the absence of the Q-Sukhumvit project transfer. Meanwhile, QH's recurring income stream from its share of profit from associates and its rental business should worsen amid the fourth wave of COVID-19 infections. We expect share of profit from associates at Bt307m (3Q20: Bt409m, 2Q21: Bt381m). Gross margin could drop by 80bp yoy to 30% due to a higher contribution of low-rise transfers. SG&A-to-sales ratio could increase 770bp yoy to 26% on a lower revenue base.
- SPALI:** We expect SPALI to post a net profit of Bt1,499m, up 23% yoy but down 13% qoq in 3Q21. The positive yoy growth would be driven by higher residential revenue and a stronger gross margin. Residential transfers are expected to come in at Bt6.9b, of which 57% will be contributed by the high-rise segment. Gross margin could increase 350bp yoy to 40.1% due to higher contribution of high gross margin product mix. We estimate SG&A-to-sales ratio to increase 80bp yoy.

AP PRESALES (BTM)



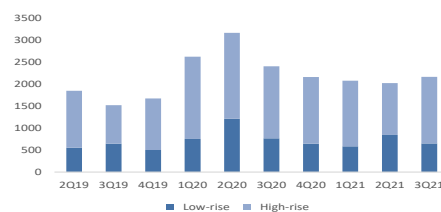
Source: AP, UOB Kay Hian

LH PRESALES (BTM)



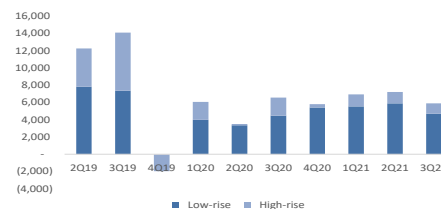
Source: LH, UOB Kay Hian

LPN PRESALES (BTM)



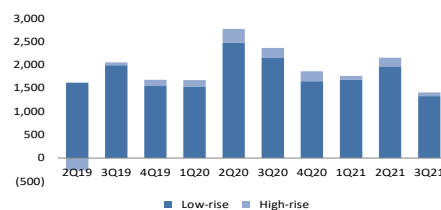
Source: LPN, UOB Kay Hian

PSH PRESALES (BTM)



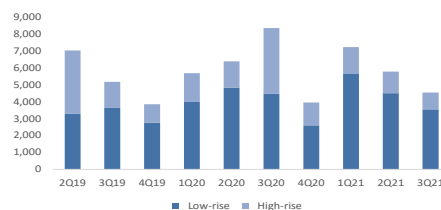
Source: PSH, UOB Kay Hian

QH PRESALES (BTM)



Source: QH, UOB Kay Hian

SPALI PRESALES (BTM)



Source: SPALI, UOB Kay Hian

3Q21 RESULTS PREVIEW

	3Q20	2Q21	3Q21	yoy (%)	qoq (%)
Residential sales revenue (Bt m)					
AP	8,900	7,836	6,843	(23.1)	(12.7)
LH	7,617	8,465	6,675	(12.4)	(21.1)
LPN	1,007	977	850	(15.6)	(13.1)
PSH	6,353	6,334	5,870	(7.6)	(7.3)
QH	2,374	1,963	1,380	(41.9)	(29.7)
SPALI	5,824	7,075	6,882	18.2	(2.7)
Total	32,074	32,651	28,500	(11.1)	(12.7)
Core profit - core business only (Bt m)					
AP	1,432	1,096	966	(32.5)	(11.9)
LH	922	1,104	704	(23.6)	(36.2)
LPN	103	121	50	(51.2)	(58.7)
PSH	603	427	296	(51.0)	(30.8)
QH	166	100	5	(96.9)	(94.8)
SPALI	1,217	1,730	1,499	23.2	(13.4)
Total	4,442	4,580	3,520	(20.8)	(23.1)
Net profit (Bt m)					
AP	1,451	1,115	980	(32.5)	(12.1)
LH	2,049	1,870	1,276	(37.7)	(31.7)
LPN	103	121	50	(51.2)	(58.7)
PSH	603	427	296	(51.0)	(30.8)
QH	575	482	313	(45.6)	(35.1)
SPALI	1,217	1,730	1,499	23.2	(13.4)
Total	5,998	5,745	4,413	(26.4)	(23.2)
Residential sales gross margin (%)					
AP	30.0	30.4	31.0	1.0	0.6
LH	32.8	31.6	32.0	(0.8)	0.4
LPN	27.4	25.8	22.2	(5.2)	(3.6)
PSH	32.1	29.2	29.8	(2.3)	0.6
QH	30.8	31.4	30.0	(0.8)	(1.4)
SPALI	36.6	40.0	40.1	3.5	0.1
Total	32.2	32.5	32.9	0.6	0.4
SG&A to total revenue (%)					
AP	21.0	17.3	20.5	(0.5)	3.2
LH	12.4	11.3	13.3	0.9	2.0
LPN	19.3	17.3	18.2	(1.1)	0.9
PSH	18.2	17.3	19.8	1.6	2.5
QH	18.3	21.2	26.0	7.7	4.8
SPALI	11.2	11.0	12.0	0.8	1.0
Total	16.3	14.7	16.9	0.5	2.2

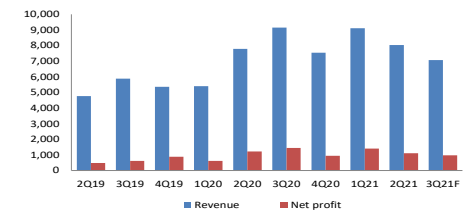
Source: Respective Companies, UOB Kay Hian

- We estimate sector net profit at Bt4.4b (-26% yoy, -23% qoq) in 3Q21. Meanwhile, the sector's core earnings should come in at Bt3.5m, down 21% yoy, dragged by all developers except SPALI. The vulnerable sector's core earnings are expected to be affected by the COVID-19 pandemic, which could cause a delay in completion of projects amid restriction of travelling. However, sector gross margin is likely to increase yoy and qoq, due to better cost control and less aggressive promotional campaigns. SPALI is expected to outperform its peers as we believe it will be the only developer to report positive yoy earnings growth.

VALUATION

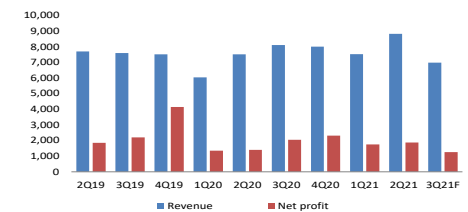
- **Upgrade LPN to BUY, maintain HOLD on PSH.** The sector should re-rate due to easing loan-to-value (LTV) ratio. We upgrade LPN to BUY with a new target price of Bt5.65, based on 11.4x 2022F PE, or its 10-year mean. Meanwhile, we recommend HOLD on PSH with a new target price of Bt14.50, based on 10.7x 2022F PE, +1SD to 10-year mean PE.
- **No earnings revision.** However, we now see potential upside toward our 2022 sector earnings forecast due to the new LTV measure. BOT expects the new loans worth Bt50b (accounting for 7% of 2020 transfer base) in 2022 from this stimulus.

AP EARNINGS BY QUARTER (BTM)



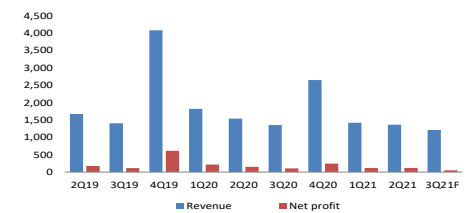
Source: AP, UOB Kay Hian

LH EARNINGS BY QUARTER (BTM)



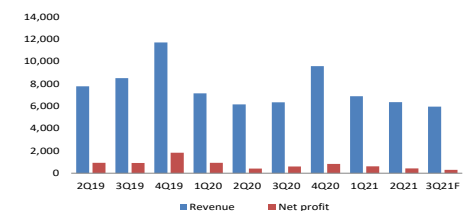
Source: LH, UOB Kay Hian

LPN EARNINGS BY QUARTER (BTM)



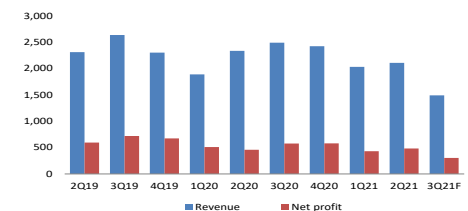
Source: LPN, UOB Kay Hian

PSH EARNINGS BY QUARTER (BTM)



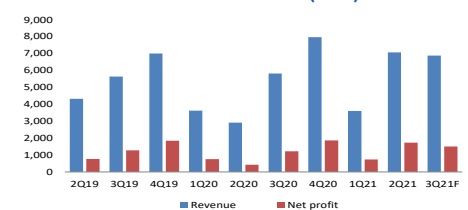
Source: PSH, UOB Kay Hian

QH EARNINGS BY QUARTER (BTM)



Source: QH, UOB Kay Hian

SPALI EARNINGS BY QUARTER (BTM)



Source: SPALI, UOB Kay Hian

COMPANY RESULTS

Home Product Center (HMPRO TB)

3Q21: Weak Results Due To Lockdown Measures

HMPRO reported 3Q21 earnings of Bt870m (-38% yoy, -39% qoq). All of HMPRO's core operations saw yoy and qoq declines in performance, mainly due to the second round of lockdown measures. While we believe HMPRO's earnings would pick up in 4Q21 as the lockdown measures have been eased, the earnings recovery rate would be slow, and the upside gain from share price is limited. Maintain HOLD. Target price: Bt14.40.

3Q21 RESULTS

Year to 31 Dec (Btm)	3Q21	2Q21	3Q20	qoq chg (%)	yoy chg (%)
Revenue from sales and services	13,170	16,154	15,064	(18.5)	(12.6)
Blended Gross Profit	3,391	4,212	4,237	(19.5)	(20.0)
EBITDA	1,998	2,641	2,588	(24.4)	(22.8)
EBIT	1,189	1,845	1,812	(35.6)	(34.4)
Core profit	870	1,433	1,401	(39.2)	(37.9)
Net profit	870	1,433	1,401	(39.2)	(37.9)
EPS (Bt)	0.07	0.11	0.11	(39.2)	(37.9)
Ratios (%)					
SSS Growth (%) yoy	(11.0)	13.0	(3.5)		
Blended Gross Margin (%)	25.3	25.6	27.2		
Cost to income (%)	18.8	16.9	18.1		
EBITDA margin (%)	14.5	15.6	16.2		

Source: HMPRO, UOB Kay Hian

RESULTS

- Weak 3Q21 earnings as a result of lockdown measures.** Home Product Center (HMPRO) reported 3Q21 earnings at Bt870m, down 38% yoy and 39% qoq. The results were above our forecast by 6% but below consensus by 14%. All of HMPRO's core operations saw yoy and qoq declines in performance, attributable to the fourth wave of COVID-19 infections and the second round of lockdown measures.
- Total revenue declined 14% yoy.** The second round of lockdown measures had forced HMPRO to temporarily close down 33 stores in Thailand for 42 days in 3Q21. As a result, HMPRO's SSS growth for Jul-Aug 21 was around -20% yoy but turned to a mid-positive single digit in Sep 21 after the lockdown measures were eased. While online channel sales grew 120% yoy, it was not enough to offset the negative impact from the closure of its stores. Moreover, HMPRO's rental income plunged by 55% yoy as the company gave tenants rental discount rates of up to 50% (vs 30% during the first lockdown).

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net turnover	65,253	59,874	60,593	64,785	67,785
EBITDA	8,780	7,939	7,538	8,354	8,956
Operating profit	5,838	4,757	4,482	5,400	6,080
Net profit (rep./act.)	6,177	5,155	5,051	5,901	6,557
Net profit (adj.)	6,177	5,155	5,051	5,901	6,557
EPS (Bt)	0.5	0.4	0.4	0.4	0.5
PE (x)	30.4	36.5	37.2	31.9	28.7
P/B (x)	8.9	8.7	8.5	8.0	7.6
EV/EBITDA (x)	22.7	25.1	26.4	23.8	22.2
Dividend yield (%)	2.6	2.2	2.4	2.4	2.9
Net margin (%)	9.5	8.6	8.3	9.1	9.7
Net debt/(cash) to equity (%)	49.8	68.3	49.5	36.6	27.5
Interest cover (x)	22.7	17.9	18.7	22.3	27.0
ROE (%)	30.1	24.1	23.1	25.8	27.2
Consensus net profit	-	-	5,283	6,174	6,951
UOBKH/Consensus (x)	-	-	0.96	0.96	0.94

Source: Home Product Center PCL, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt14.30
Target Price	Bt14.40
Upside	+0.7%

COMPANY DESCRIPTION

Thailand's largest home improvement centre, controls nearly 40% market share in the modern trade segment.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	HMPRO TB
Shares issued (m):	13,151.2
Market cap (Btm):	188,062.1
Market cap (US\$m):	5,675.6
3-mth avg daily t'over (US\$m):	10.2

Price Performance (%)

52-week high/low Bt15.60/Bt12.60

1mth	3mth	6mth	1yr	YTD
2.1	4.4	3.6	5.1	4.4

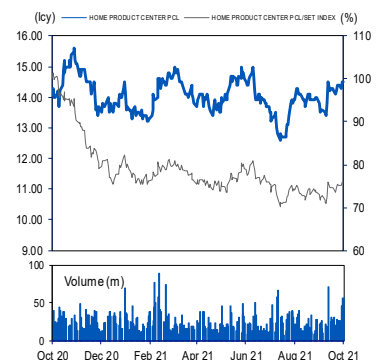
Major Shareholders

	%
Land and House	30.2
Quality House	20.0
AIA	4.8

FY21 NAV/Share (Bt) 1.69

FY21 Net Debt/Share (Bt) 0.84

PRICE CHART



Source: Bloomberg

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IMPACT FROM THE SECOND ROUND OF LOCKDOWN MEASURES

	# Of Store Closure	# Of Closing Days	Closing Date	Opening Date
Thailand				
Home Pro	29 (out of 86)	42	7/20/2021	8/31/2021
Mega Home	4 (out of 14)	42	7/20/2021	8/31/2021
Malaysia				
Home Pro (Malaysia)	7 (out of 7)	83-103	5/31/2021	8/22/2021

Source: HMPRO, UOB Kay Hian

- Blended gross margin dropped 190bp yoy.** The company's blended gross margin fell 190bp yoy to 25.3% in 3Q21. The decline in blended gross margin was caused by: a) gross margin from sales dropped 60bp yoy to 25.2% due to a higher sales mix of low-margin home appliances products, b) gross margin from rental income sank sharply to 34% (vs 64% in 2020) as the company provided tenants with higher discount rates, but operating costs for rental business remained relatively stable.

STOCK IMPACT

- Indicators show mixed results for HMPRO's earnings outlook.** According to Google Community Mobility Report (GCMR), Thailand's Mobility Change Index (MCI) to baseline (pre-COVID-19 level: 3 Jan – 6 Feb 20) in the retail segment (Mobility trends for places like restaurants, cafes, shopping centres) has improved from -22% in 3Q21 to -4% on 22 Oct 21. This indicates that the foot traffic for the retail segment has recovered to almost pre-COVID-19 level. However, the Consumer Confidence Index (CCI) remained sluggish at 41.4 in Sep 21, which implies that consumers are still unsure about the future economic outlook and are reluctant to spend their money. Hence, the retail sector's earnings are likely to recover at a slow pace, especially for consumer discretionary operators like HMPRO.

THAILAND'S MOBILITY CHANGE INDEX - RETAIL



Source: Google, UOB Kay Hian

CONSUMER CONFIDENCE INDEX



Source: UTCC, UOB Kay Hian

EARNINGS REVISION/RISK

- No earnings revision.

VALUATION/RECOMMENDATION

- Maintain HOLD** with a target price of Bt14.40, pegged at 5-year historical PE mean or 32.0x 2022F PE. HMPRO is trading close to its fair price, and the upside gain from share price is limited.

SHARE PRICE CATALYST

- Announcement of large-scale stimulus packages would be a positive catalyst to share price.

PE BAND



Source: HMPRO, UOB Kay Hian

P/B BAND



Source: HMPRO, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Net turnover	59,874	60,593	64,785	67,785
EBITDA	7,939	7,538	8,354	8,956
Deprec. & amort.	3,182	3,056	2,954	2,876
EBIT	4,757	4,482	5,400	6,080
Total other non-operating income	1,875	2,097	2,189	2,270
Net interest income/(expense)	(442)	(403)	(374)	(332)
Pre-tax profit	6,190	6,177	7,215	8,019
Tax	(1,035)	(1,126)	(1,314)	(1,462)
Minorities	0	0	0	0
Net profit	5,155	5,051	5,901	6,557
Net profit (adj.)	5,155	5,051	5,901	6,557

CASH FLOW

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Operating	8,363	9,304	8,948	9,536
Pre-tax profit	6,190	6,177	7,215	8,019
Tax	(1,035)	(1,126)	(1,314)	(1,462)
Deprec. & amort.	3,182	3,056	2,954	2,876
Working capital changes	(799)	1,045	63	69
Other operating cashflows	825	153	31	34
Investing	(3,145)	(282)	(1,996)	(2,306)
Capex (growth)	(2,145)	(1,837)	(2,086)	(2,328)
Proceeds from sale of assets	11	0	0	0
Others	(1,011)	1,556	91	22
Financing	(4,797)	(8,465)	(6,762)	(5,841)
Dividend payments	(4,076)	(4,435)	(4,569)	(5,397)
Issue of shares	0	0	0	0
Loan repayment	6,125	(2,621)	(2,194)	(443)
Others/interest paid	(6,847)	(1,409)	0	0
Net cash inflow (outflow)	421	558	190	1,389
Beginning cash & cash equivalent	2,860	3,283	3,859	4,049
Changes due to forex impact	2	19	0	0
Ending cash & cash equivalent	3,283	3,859	4,049	5,438

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Fixed assets	33,056	30,935	30,157	29,700
Other LT assets	7,206	7,037	6,834	6,706
Cash/ST investment	3,283	3,859	4,049	5,438
Other current assets	12,546	12,806	13,251	13,712
Total assets	56,091	54,636	54,291	55,556
ST debt	5,573	3,952	2,551	2,682
Other current liabilities	15,037	16,261	16,810	17,380
LT debt	12,429	10,903	10,110	9,536
Other LT liabilities	1,487	1,315	1,282	1,261
Shareholders' equity	21,565	22,205	23,537	24,697
Minority interest	0	0	0	0
Total liabilities & equity	56,091	54,636	54,291	55,556

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	13.3	12.4	12.9	13.2
Pre-tax margin	10.3	10.2	11.1	11.8
Net margin	8.6	8.3	9.1	9.7
ROA	9.5	9.1	10.8	11.9
ROE	24.1	23.1	25.8	27.2
Growth				
Turnover	(8.2)	1.2	6.9	4.6
EBITDA	(9.6)	(5.1)	10.8	7.2
Pre-tax profit	(18.6)	(0.2)	16.8	11.1
Net profit	(16.5)	(2.0)	16.8	11.1
Net profit (adj.)	(16.5)	(2.0)	16.8	11.1
EPS	(16.5)	(2.0)	16.8	11.1
Leverage				
Debt to total capital	45.5	40.1	35.0	33.1
Debt to equity	83.5	66.9	53.8	49.5
Net debt/(cash) to equity	68.3	49.5	36.6	27.5
Interest cover (x)	17.9	18.7	22.3	27.0

COMPANY RESULTS

SCG Packaging (SCGP TB)

3Q21: Results Slightly Higher Than Our Estimate On Forex Gains

SCGP posted a qoq drop in core profit, slightly higher than our estimate and in line with consensus. The weak core earnings were mainly due to the impact of a new COVID-19 outbreak in the region. However, we expect core earnings to improve in 4Q21 after the relaxation of lockdowns in several countries in the region. Expect medium- to long-term outlook to remain resilient, with organic and inorganic growth to continue in 2022-23. We maintain BUY. Target price: Bt69.00.

3Q21 RESULTS

Year to 31 Dec	3Q20 (Btm)	2Q21 (Btm)	3Q21 (Btm)	yoy % change	qoq % change
Revenue	23,287	29,895	31,930	37.1	6.8
COGS	-18,701	-23,748	-26,417	41.3	11.2
SG&A	-2,419	-2,922	-3,372	39.4	15.4
EBITDA	3,874	5,532	0	(100.0)	(100.0)
Interest expenses	-579	-307	-283	(51.1)	(7.8)
Net income	1,335	2,263	1,781	33.4	(21.3)
EPS (Bt)	0.3	0.5	0.4	33.4	(21.3)
Other non-recurring items	-113	-24	245	316.8	1,120.8
Recurring Income	1,448	2,287	1,536	6.1	(32.9)
SG&A/Sales (%)	10.4%	9.8%	10.6%		
EBITDA margin (%)	16.6%	18.5%	15.4%		
Net profit margin (%)	5.7%	7.6%	5.6%		

Source: SCGP, UOB Kay Hian

RESULTS

• **3Q21 net profit slightly below our estimate.** SCG Packaging (SCGP) posted a net profit of Bt1,781m in 3Q21, down 21% qoq but up 33% yoy. The results were slightly higher than our estimate and in line with consensus. Our key misses were the non-recurring items on the forex gains of Bt280m and expenses related to Deltalab M&P activities of Bt35m. Taking out the extraordinary items, core earnings were slightly below our estimate on higher-than-expected SG&A expenses, which increased 15% qoq and 39% yoy mainly due to Duay Tan and Intan Group consolidations and transportation expenses on higher freight rates.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net turnover	89,070	92,786	121,187	133,376	148,165
EBITDA	14,370	17,098	19,840	22,674	25,591
Operating profit	8,379	9,915	12,532	14,765	16,892
Net profit (rep./act.)	5,269	6,457	8,191	9,700	11,148
Net profit (adj.)	5,588	6,635	7,827	9,700	11,148
EPS (Bt)	1.3	1.5	1.8	2.3	2.6
PE (x)	49.2	41.4	35.1	28.3	24.6
P/B (x)	6.4	3.1	2.9	2.7	2.5
EV/EBITDA (x)	21.9	18.4	15.8	13.8	12.3
Dividend yield (%)	0.7	0.7	0.9	1.0	1.2
Net margin (%)	5.9	7.0	6.8	7.3	7.5
Net debt/(cash) to equity (%)	128.5	15.4	18.0	18.2	19.2
Interest cover (x)	8.9	11.8	17.2	19.9	20.8
ROE (%)	12.6	9.8	8.9	9.8	10.5
Consensus net profit	-	-	8,792	10,577	12,253
UOBKH/Consensus (x)	-	-	0.89	0.92	0.91

Source: SCGP, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt63.00
Target Price	Bt69.00
Upside	+9.5%

COMPANY DESCRIPTION

SCGP is one of the largest packaging paper producers across ASEAN and is the number one market share holder for packaging paper and corrugated containers.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCGP TB
Shares issued (m):	4,292.9
Market cap (Btm):	270,454.0
Market cap (US\$m):	8,162.2
3-mth avg daily t'over (US\$m):	32.2

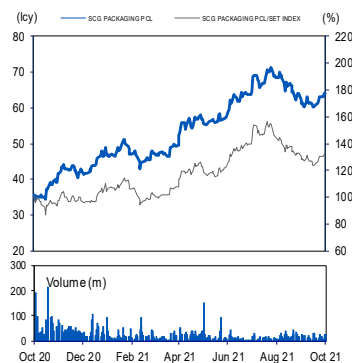
Price Performance (%)

52-week high/low	Bt71.25/Bt34.25			
1mth	3mth	6mth	1yr	YTD
(1.6)	(1.2)	27.9	80.0	51.8

Major Shareholders

SCG	72.1
NVDR	3.1
Ladawan Capital	1.7
FY21 NAV/Share (Bt)	22.07
FY21 Net Debt/Share (Bt)	3.25

PRICE CHART



Source: Bloomberg

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- **Earnings impacted by COVID-19 in 3Q21.** 3Q21 core earnings were impacted by the lockdown in the region especially in Vietnam and Thailand. Although 3Q21 revenue increased 7% qoq mainly due to the business expansion from Merger & Partnership (M&P) of Duy Tan and Intan Group and the easing of strict lockdown measures in Indonesia, EBITDA decreased 12% qoq on the spike in global freight rates and raw material costs. EBITDA margin was down to 15.4% in 3Q21 from 18.5% in 2Q21.

- **SCGP's long-term strategy to focus on M&P acquisitions.** SCGP's strategy is to remain focused on M&P, with a recent deal making inroads into healthcare and medical packing in Spain. This deal is likely to be completed by end-4Q21. Moreover, SCGP plans to invest in a new production base in North Vietnam, which is expected to increase 70% of its existing packaging paper capacity in Vietnam, with a total investment of Bt11.8b and expected COD in early-24. SCGP also plans to extract the synergies and expand the market upstream and downstream with its T-model (with horizontal offerings and deep vertical integration) via M&P acquisitions going forward.

- **Limit concern over higher cost of coal.** Although SCGP has already locked the coal price and coal volume used until the end of this year (no impact from the high coal price to its earnings performance in 4Q21), SCGP has not locked the coal price for 2022 (but SCGP has already entered the contract with coal quantity at 50% of coal volume to be used in 2022). SCGP believes the high coal price is a temporary issue. Moreover, the high coal price is also a problem for the whole packaging industry, so SCGP's strategy is to provide solutions to customers and adjust the selling price of its packaging paper to compensate for this impact. Note that coal cost accounted for only 5% of its total COGS.

- **SCGP has cost advantages over its peers.** SCGP as the leading integrated packaging producer in ASEAN has cost advantages over the peers with: a) deep vertical integration at the pulp production stage, paper production stage and conversion phase for corrugated containers, and b) its ability to leverage on its supply chain network and advanced manufacturing technologies to provide raw materials to its plants.

STOCK IMPACT

- **4Q21 earnings to improving qoq.** We expect earnings to recover in 4Q21 due to the lockdown relaxation of several countries in the region. Moreover, SCGP's management expects the impact of high raw material and energy cost to be manageable as SCGP provides solution services to its customers and will be able to pass on some of the raw material costs.

EARNINGS REVISION/RISK

- We fine-tuned our 2021-22 core earnings forecasts slightly (please see the earnings revision table). 9M21 core earnings accounted for 75% of our 2021 full year forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 2022 target price of Bt69.00, based on SOTP valuation.** We expect that SCGP's share price decline of 10.5% from its peak on 23 Aug 21 should have priced in the negative factors. We expect earnings momentum to recover from the relaxation of social restrictions for several countries in the region and that the high raw material and energy cost should be manageable. We expect the strong earnings momentum in the medium to long term brought about by organic and inorganic growth to continue in 2022-23 and boost positive sentiment for SCGP going forward.

PACKAGING MARKET VALUE



Source: Frost & Sullivan, UOB Kay Hian

SOTP VALUATION

(Btm)	New		Old	
	2021F	2022F	2021F	2022F
Total net profit	8,191	9,700	7,991	9,734
Total core profit	8,098	9,700	8,143	9,734
Assumption change				
Sale growth	30.6%	10.1%	18.8%	9.8%
Gross margin	19.9%	20.5%	20.9%	21.2%
EBITDA margin	16.4%	17.0%	18.1%	18.3%

Source: SCGP, UOB Kay Hian

SOTP VALUATION

	% weight	Regional P/E (x)	Target Price (Bt)
- Consumer segment	80%	34.1	61.9
- Others packaging segment	20%	14.8	6.7
SCGP's target price			69.0

Source: SCGP, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Net turnover	92,786	121,187	133,376	148,165
EBITDA	17,098	19,840	22,674	25,591
Deprec. & amort.	7,183	7,308	7,909	8,699
EBIT	9,915	12,532	14,765	16,892
Total other non-operating income	(222)	455	0	0
Associate contributions	66	57	64	74
Net interest income/(expense)	(1,452)	(1,154)	(1,138)	(1,233)
Pre-tax profit	8,308	11,890	13,691	15,733
Tax	(1,002)	(2,188)	(2,464)	(2,832)
Minorities	(848)	(1,511)	(1,526)	(1,754)
Net profit	6,457	8,191	9,700	11,148
Net profit (adj.)	6,635	7,827	9,700	11,148

CASH FLOW

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Operating	13,822	8,917	13,388	15,368
Pre-tax profit	7,459	10,379	12,165	13,980
Tax	(1,002)	(2,188)	(2,464)	(2,832)
Deprec. & amort.	7,183	7,308	7,909	8,699
Associates	(848)	(1,511)	(1,526)	(1,754)
Working capital changes	1,030	(5,071)	(2,696)	(2,724)
Non-cash items	0	0	0	0
Other operating cashflows	0	0	0	0
Investing	(13,724)	(12,919)	(15,092)	(18,256)
Capex (growth)	(11,589)	(13,992)	(15,709)	(18,933)
Capex (maintenance)	0	0	0	0
Investments	(1,063)	(181)	0	0
Proceeds from sale of assets	0	0	0	0
Others	(1,072)	1,254	617	677
Financing	26,764	4,946	2,177	2,698
Dividend payments	(1,838)	(2,458)	(2,835)	(3,258)
Issue of shares	38,529	0	0	0
Proceeds from borrowings	(14,656)	4,382	1,960	2,448
Loan repayment	0	0	0	0
Others/interest paid	4,730	3,022	3,052	3,507
Net cash inflow (outflow)	26,862	944	473	(189)
Beginning cash & cash equivalent	4,394	31,256	32,199	32,673
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	31,256	32,199	32,673	32,484

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Fixed assets	87,271	91,986	98,659	107,653
Other LT assets	22,239	24,950	26,383	27,980
Cash/ST investment	31,256	32,199	32,673	32,484
Other current assets	31,663	40,000	43,616	48,121
Total assets	172,429	189,135	201,331	216,238
ST debt	31,809	36,111	37,976	40,301
Other current liabilities	11,428	14,693	15,613	17,394
LT debt	13,118	13,199	13,294	13,418
Other LT liabilities	6,233	8,048	8,971	10,005
Shareholders' equity	88,738	94,909	102,217	110,615
Minority interest	21,103	22,176	23,259	24,505
Total liabilities & equity	172,429	189,135	201,331	216,238

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.4	16.4	17.0	17.3
Pre-tax margin	9.0	9.8	10.3	10.6
Net margin	7.0	6.8	7.3	7.5
ROA	4.1	4.5	5.0	5.3
ROE	9.8	8.9	9.8	10.5
Growth				
Turnover	4.2	30.6	10.1	11.1
EBITDA	19.0	16.0	14.3	12.9
Pre-tax profit	19.7	43.1	15.1	14.9
Net profit	22.6	26.8	18.4	14.9
Net profit (adj.)	18.7	18.0	23.9	14.9
EPS	18.7	18.0	23.9	14.9
Leverage				
Debt to total capital	29.0	29.6	29.0	28.4
Debt to equity	50.6	52.0	50.2	48.6
Net debt/(cash) to equity	15.4	18.0	18.2	19.2
Interest cover (x)	11.8	17.2	19.9	20.8

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