

COMPANY UPDATE

SCGP (SCGP TB)

Packaging Demand Continues To Recover

We have a positive view on business trends in 2H24, particularly due to the recovery of the packaging demand in the region. Although 2Q24 is a low season, we expect that 2Q24 core profit will remain stable qoq. The progress of the Fajar deal is on track, and our concerns about this investment have lessened following positive indications of a recovery in packaging demand in Indonesia. Maintain BUY. Target price: Bt38.00.

WHAT'S NEW

• Key takeaways from a site visit to TCRY and VEXCEL in Rayong include:

- **TCRY is a producer of corrugated packaging.** Production capacity and facilities: Thai Container Rayong (TCRY) operates production plants in Thailand, Vietnam, and Indonesia, with a total capacity of 1.46m tonnes per year, focusing on corrugated cardboard sheets and boxes. Market position: TCRY holds a significant 31% market share in the fibre packaging sector as of Mar 24, driven by demand growth from sectors like tourism, exports, and foreign investment. Revenue contribution: TCRY contributed 1.4% to SCGP's total revenue in 2023, with a stable EBITDA margin of 7-10%. Customer base: TCRY primarily serves consumer-linked industries in Thailand, accounting for approximately 81% of total revenue. Innovation: TCRY is known for its Green Carton products, emphasizing eco-friendly packaging with reduced material use and increased recyclability. It utilises internet of think (IoT) technology to enhance production efficiency.

- **Vexcel is a leader in high-barrier packaging production.**

- a) Production capacity: VEXCEL Pack (Vexcel) can manufacture 40m pieces annually, specialising in polymer-based rigid food packaging such as cups, trays, and jars.
- b) Market reach: All products are exported abroad, catering to global multinational corporations in sectors like ready-to-eat fruits, fast-moving consumer goods (FMCG), food and beverage, and animal food.
- c) Revenue contribution: Vexcel contributed 1.2% to SCGP's total revenue in 2023, achieving a robust EBITDA margin of 30%.
- d) Innovative solutions: Vexcel implements fully automated systems in production and warehousing, enhancing operational efficiency. It offers new packaging formats that withstand high heat, prevent contamination and odour leakage, and extend product shelf life without refrigeration, thus reducing waste and transportation costs.

- **The region's demand is rebounding as China resumes increasing its paper imports.** China's Purchasing Managers' Index (PMI) and imports of packaging paper are showing signs of recovery, approaching pre-COVID-19 levels of 800,000 tonnes per month. China imported 759,000 tonnes of packaging paper in May despite it being the off-peak season. This development is expected to mitigate the risk of oversupply and decrease market competition in Indonesia. Adjusting selling prices becomes more feasible under these conditions, supporting the pricing and sales of PT Fajar Surya Wisesa (Fajar) from 2Q24 onwards. Fajar saw a qoq recovery in EBITDA in 1Q24 (3Q23: -7%, 4Q23: -2%).

KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	146,068	129,398	142,903	156,459	164,201
EBITDA	19,259	17,689	19,746	19,575	19,140
Operating profit	9,560	8,483	9,114	9,810	10,157
Net profit (rep./act.)	5,801	5,248	5,715	6,187	6,638
Net profit (adj.)	5,658	5,169	5,715	6,187	6,638
EPS (Bt)	1.3	1.2	1.3	1.4	1.5
PE (x)	25.4	27.8	25.2	23.2	21.7
P/B (x)	2.4	2.3	2.2	2.1	2.0
EV/EBITDA (x)	8.1	8.8	7.9	8.0	8.2
Dividend yield (%)	1.8	1.6	1.8	1.9	2.1
Net margin (%)	4.0	4.1	4.0	4.0	4.0
Net debt/(cash) to equity (%)	40.2	17.8	19.0	13.3	9.4
Interest cover (x)	13.1	8.8	9.8	9.5	10.4
Consensus net profit	-	-	6,201	7,280	7,937
UOBKH/Consensus (x)	-	-	0.92	0.85	0.84

Source: SCGP, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt33.50
Target Price	Bt38.00
Upside	+13.4%

COMPANY DESCRIPTION

SCGP is Holding Company, operating core business as an integrated packaging solutions provider, which is organized into three main businesses: Integrated Packaging Business, Fibrous Business, and Recycling Business.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCGP TB
Shares issued (m):	4,292.9
Market cap (Btm):	143,812.8
Market cap (US\$m):	3,911.8
3-mth avg daily t'over (US\$m):	7.8

Price Performance (%)

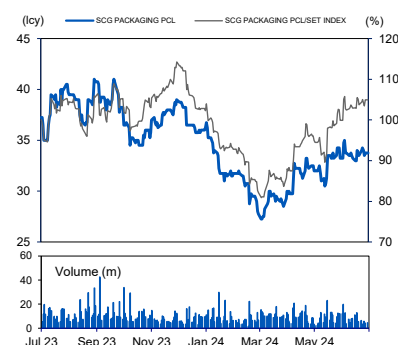
52-week high/low Bt41.00/Bt27.25

1mth	3mth	6mth	1yr	YTD
(2.2)	16.5	(6.9)	(6.9)	(6.9)

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (Bt)	15.34
FY24 Net Debt/Share (Bt)	2.91

PRICE CHART



Source: Bloomberg

ANALYST(S)

Benjaphol Suthwanish
 +662 659 8301
 Benjaphol@uobkayhian.co.th

- **The Fajar deal is expected to proceed as scheduled.** SCGP's acquisition of an additional 44.48% stake in Fajar, a publicly listed company in Indonesia, will increase its ownership to 99.7%, up from the current 55.23% shareholding. The process of exercising the option to purchase Fajar shares will commence on 28 Jun 24, with a payment period extending over 60 days and expected completion by 27 Aug 24. Furthermore, SCGP is currently in negotiations with 2-3 potential partners to form joint ventures involving Fajar.

STOCK IMPACT

• **Expect core profit in 2Q24 to be stable qoq even though it is a low season.** Based on SCGP's June data, we anticipate that the core profit for 2Q24 will reach Bt1.7b, stable qoq despite it being a low season, and up 14% yoy. Prices for short fibre and dissolving pulp in the fibrous business group are notably higher qtd, up 4% qoq and 10% qoq respectively. This segment represents 20% of total revenue and benefits from recovering demand in the clothing and fibre industries. Demand in the food, FMCG, and electrical appliances industries is rebounding, which supports both the fibre and polymer packaging businesses (making up 35% of total revenue). This recovery is expected to boost capacity utilisation rates qoq and yoy. The fibre packaging business has enhanced its production capacity with a new factory that commenced operations in Mar 24, contributing to increased output and operational efficiency.

EARNINGS REVISION/RISK

• **Earnings revision:** None.

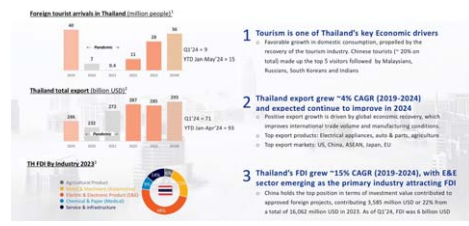
VALUATION/RECOMMENDATION

• **Maintain BUY with a target price of Bt38.00,** based on regional forward PE at -1.0SD of 28.3x. Short-term catalysts for SCGP include robust economic revival in China, increased demand for packaged goods in Thailand, Indonesia, and the Philippines, and improved operational performance. We believe that SCGP's stock price is a laggard. Despite the earnings trend showing signs of recovery in 2024, the share price ytd dropped by more than 8% and is currently trading at nearly -2SD below the mean. This indicates that the share price has limited downside and that it has yet to fully reflect the positive turnaround.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

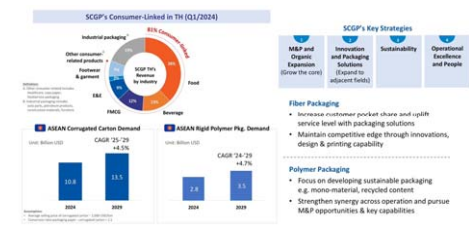
CG Report: 5
SET ESG Rating: AAA
<p>• Environmental</p> <ul style="list-style-type: none"> - Sustainable packaging solutions: SCGP focuses on developing eco-friendly packaging solutions to minimise environmental impact. This includes using recyclable materials and reducing packaging waste. - Energy efficiency: The company implements energy-efficient practices in its manufacturing processes and facilities to reduce carbon emissions and energy consumption.
<p>• Social</p> <ul style="list-style-type: none"> - Employee welfare: SCGP invests in the well-being and development of its employees through training programs, safety initiatives, and fostering a positive workplace culture. - Community engagement: The company engages with local communities through various social responsibility initiatives, supporting education, healthcare, and community development.
<p>• Governance</p> <ul style="list-style-type: none"> - Board oversight: The Board of Directors provides governance oversight, with committees focusing on audit, risk management and sustainability. - Compliance and ethics: SCGP adheres to legal and regulatory requirements in all jurisdictions where it operates, promoting a culture of integrity and ethical behavior.

THAILAND'S KEY ECONOMICS DRIVER



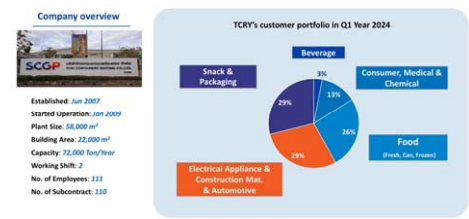
Source: SCGP and UOB Kay Hian

GROWING PACKAGING DEMAND AND SCGP'S STRATEGIES IN THAILAND



Source: SCGP and UOB Kay Hian

COMPANY PROFILE: THAI CONTAINERS RAYONG (TCRY)



Source: SCGP and UOB Kay Hian

COMPANY PROFILE: VEXCEL



Source: SCGP and UOB Kay Hian

REGIONAL FORWARD PE



Source: Bloomberg and UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Net turnover	129,398	142,903	156,459	164,201
EBITDA	17,689	19,746	19,575	19,140
Deprec. & amort.	9,206	10,632	9,765	8,983
EBIT	8,483	9,114	9,810	10,157
Associate contributions	39	50	50	50
Net interest income/(expense)	(2,020)	(2,005)	(2,061)	(1,845)
Pre-tax profit	6,582	7,159	7,798	8,361
Tax	(1,153)	(1,255)	(1,404)	(1,505)
Minorities	(180)	(190)	(208)	(218)
Net profit	5,248	5,715	6,187	6,638
Net profit (adj.)	5,169	5,715	6,187	6,638

CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Operating	21,482	23,625	18,996	18,815
Pre-tax profit	6,582	7,159	7,798	8,361
Tax	(1,153)	(1,255)	(1,404)	(1,505)
Deprec. & amort.	9,206	10,632	9,765	8,983
Working capital changes	5,347	7,089	2,836	2,975
Other operating cashflows	1,501	0	0	0
Investing	(13,060)	(18,039)	(5,206)	(3,727)
Investments	(6,888)	(14,603)	(1,757)	(1,757)
Others	(6,172)	(3,436)	(3,449)	(1,970)
Financing	(8,366)	(6,860)	(13,643)	(15,853)
Dividend payments	(3,286)	(2,361)	(2,543)	(2,753)
Issue of shares	0	0	0	0
Proceeds from borrowings	(5,080)	(4,498)	(11,100)	(13,100)
Net cash inflow (outflow)	56	(1,273)	146	(765)
Beginning cash & cash equivalent	17,258	9,889	8,615	8,762
Changes due to forex impact	(133)	0	0	0
Ending cash & cash equivalent	17,181	8,615	8,762	7,996

BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	94,279	98,251	90,243	83,016
Other LT assets	44,010	48,344	52,694	55,179
Cash/ST investment	17,181	8,615	8,762	7,996
Other current assets	43,091	45,318	47,236	47,192
Total assets	198,561	200,528	198,934	193,384
ST debt	7,162	3,100	3,100	3,100
Other current liabilities	59,229	63,916	60,669	53,601
LT debt	21,117	18,017	14,917	11,817
Other LT liabilities	8,604	9,502	10,404	10,919
Shareholders' equity	62,493	65,846	69,490	73,375
Total liabilities & equity	198,561	200,528	198,934	193,384

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.7	13.8	12.5	11.7
Pre-tax margin	5.1	5.0	5.0	5.1
Net margin	4.1	4.0	4.0	4.0
Net profit (adj.)	(8.6)	10.6	8.3	7.3
Leverage				
Debt to total capital	21.6	16.6	14.1	11.6
Debt to equity	45.3	32.1	25.9	20.3
Net debt/(cash) to equity	17.8	19.0	13.3	9.4
Interest cover (x)	8.8	9.8	9.5	10.4

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W