

05 October 2021

Plastics & Packaging

Taking an Expansive View

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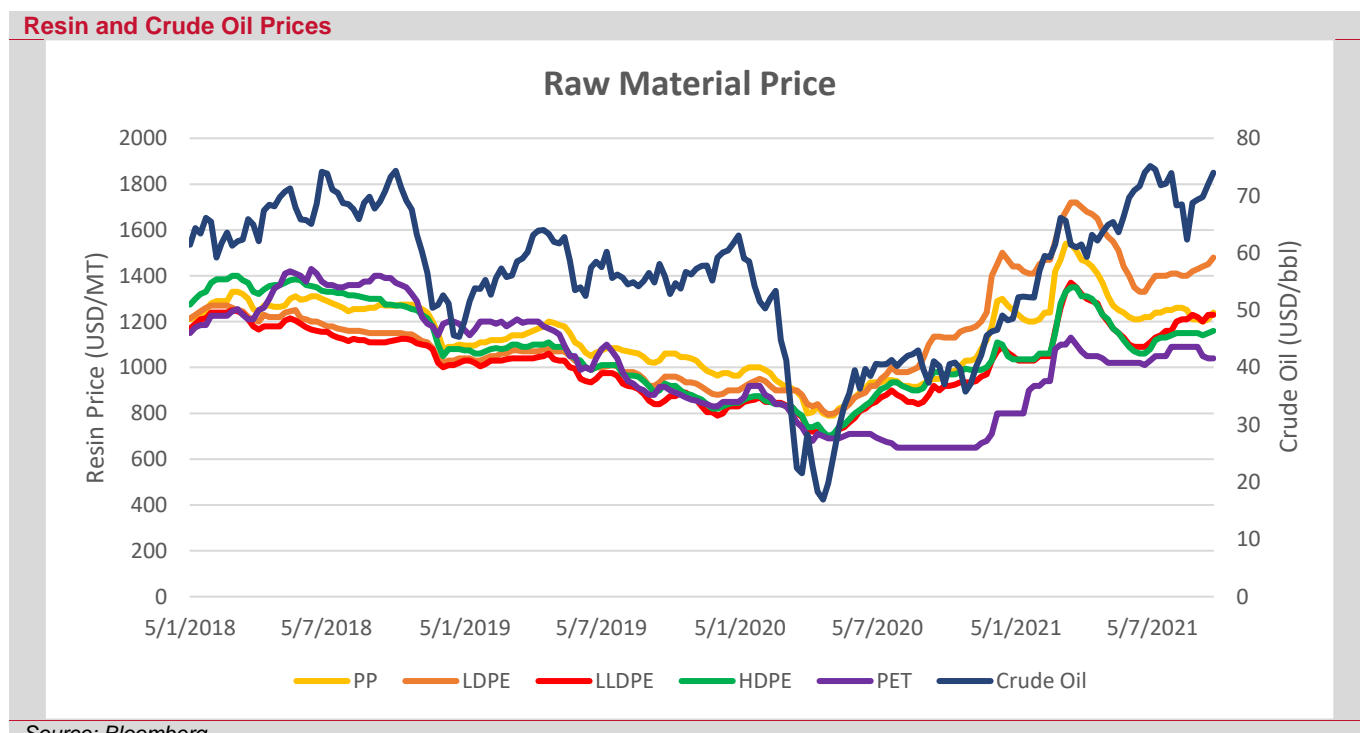
NEUTRAL



Maintain NEUTRAL. 2QCY21 results for stocks under coverage mostly exceeded our expectations, save for SLP and SCGM, which came within expectations. Looking ahead, we expect resin prices to continue trending downwards and ASPs to gradually decline, albeit at a slower rate. Looking ahead, we expect 3QCY21 results to be softer QoQ, due to the 60% workforce capacity limit that had likely lowered their sales volume during the quarter. While we maintain our NEUTRAL call on the sector, we continue to like TGUAN (TP: RM3.70), SCGM (TP: RM3.13), BPPLAS (TP: RM3.15) and SLP (TP: RM1.22). We think these players will continue to experience robust demand for their products and their continuous expansion of product range should continue fuelling future earnings growth.

2QCY21 results mostly above expectations. In 2QCY21, besides SLP and SCGM (which performed within range), all other plastic players under our coverage exceeded our expectations. Some plastic players performed well during this quarter, as higher sales volume drove revenue growth before the lockdown in April and May, while others were adversely affected by: (i) temporary production halts due to Covid cases, (ii) fluctuation in raw materials, and (iii) supply chain bottlenecks.

Downtrend of resin prices. After resin prices sharply declined since April, there has been an upturn - increase of 2-10% across the board since July. Based on our channel checks, we gathered that this marginal increase in resin costs is insignificant for the plastic players relative to the high resin prices in March this year, as they are well positioned to absorb the marginally higher costs without hurting their margins. During end of August, Hurricanes Ida and Nicholas affected Louisiana and Texas, temporarily halting some petrochemical productions. As the damages from these hurricanes were minimal and did not materially impact resin prices, we made no changes to our estimates. Moving forward, despite continued logistics disruptions and tight resin supply (fuelled by resilient consumer demand), we expect resin prices to continue trending downwards and gradually stabilize, as petrochemical producers gradually rebuild their resin inventory after the February deep freeze. For CY21, we maintain our resin price assumption of USD1,100/MT to USD1,200/MT, marginally below the YTD average of USD 1,000/MT to USD 1,400/MT.



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Stabilized ASPs. Despite said marginal increase in resin prices since July, resin prices have mostly been stable. As a result, ASPs are also stabilizing at a higher price level. Looking ahead, as resin prices are still on a long-term downtrend, we expect ASPs to continue softening. However, we believe the ASPs' rate of decline will be slower than that of resin prices, as the robust demand for the plastic players' products should continue providing cushion for ASPs.

Vaccination of workers and easing of lockdowns. As the National Immunization Programme continues making progress, most plastic players indicated that above 90% of their workers are fully vaccinated, and are back to their full workforce strength as of end-Sept. Moreover, the easing of lockdowns will help BPPLAS, TGUAN and SLP with their local sales. Thus, we believe that in 4QCY21, the plastic players will ramp up their utilization rates from an average of 65% to 75%. Despite the easing of lockdowns, we think that demand for SCGM's F&B packaging and PPE products will remain resilient, driven by: (i) continued customer preference for takeaways and ready-to-eat meals packaging, (ii) heightened hygiene awareness for food packaging in supermarkets and bakeries, (iii) new packaging products for overseas markets, and (iv) continued usage of face masks in the near-future.

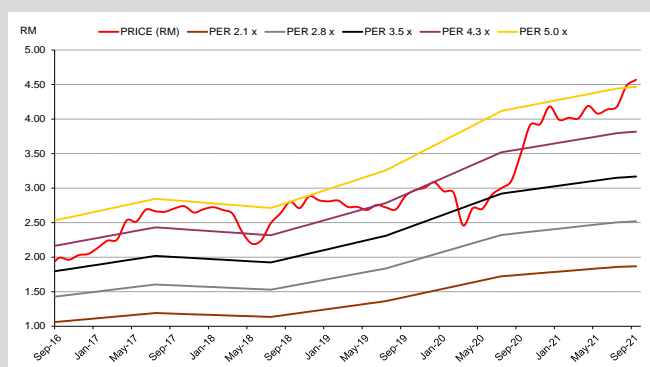
3QCY21 results expectations. We expect softer earnings across the board for 3QCY21 due to the strict lockdown (which lasted from June to September this year) and limited workforce capacity and thus lower output. However, given that SCGM and SCIENTX have both just released their results, we expect their next set of report cards (to be announced mid-December) to show earnings improvement, fuelled by the aforementioned factors. We estimate that the manufacturers were operating at a utilization rate of 55-65% in 3QCY21, (vs. 50-60% in 2QCY21).

Maintain NEUTRAL on the sector. In the near-term, we expect continued resilient earnings ahead for the plastic players, fuelled by their capacity expansion and resumption of full workforce, allowing them to fulfil their strong orders. In terms of long-term catalysts, we expect that plastic players will expand their margins by: (i) pursuing growth in high margin products (premium and niche products), (ii) achieving higher operational efficiencies with higher speed or automated machineries, and (iii) expansion in new products. That said, we remain cautious on potential downside risks such as: (i) disruption in supply chain leading to volatility of raw materials and freight charges, (ii) labour shortage, and (iii) exposure to foreign currency risk. Despite our neutral call on the sector, we continue to favour TGUAN (Maintain OP; TP: RM3.70) for its long-term growth plans, especially that of its premium-stretch films. We also maintain our OP call on SCGM (TP: RM3.13) for (i) its capacity expansion plans, and (ii) the robust demand for its F&B packaging and PPE products. We also continue to like BPPLAS for: (i) robust demand for its products, (ii) capacity expansion for its premium stretch film, and (iii) attractive dividend yield of 3.6%. Furthermore, we think its recently announced bonus shares and extra warrants will improve the stock's trading liquidity, encouraging further participation in the stock.

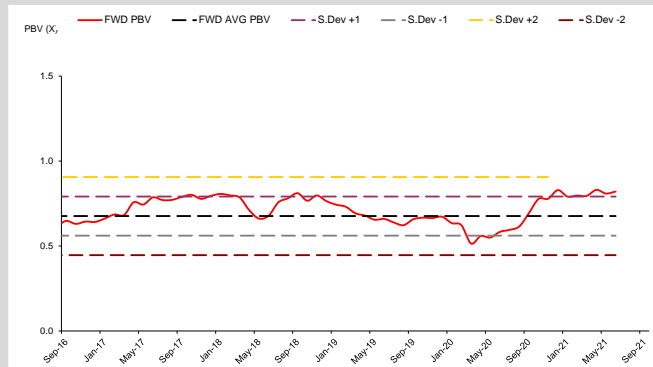
Valuations							
Company	Last Price	Valuation Method	Valuation Basis	Current TP	Current Call	Previous TP	Previous Call
Consumer							
SLP	0.95	PER	17.2x PER (-0.5SD to 5-year historical average) on FY22E EPS of 7.1sen	1.22	OP	0.95	MP
SCGM	2.44	PER	15.5x PER (5-year historical average) on FY22E EPS of 20.2 sen	3.13	OP	3.02	OP
TOMYPAK	0.595	PBV	1.26x PBV (-1.0SD to 5-year historical average) on FY21E BVPS of RM0.45	0.57	MP	0.415	UP
Industrial							
SCIENTX	4.57	PER	15.5x PER on manufacturing segment	4.62	MP	3.96	MP
TGUAN	2.69	PER	14x PER (+1.5SD to 5-year historical average) on 12-month Fwd. FY22 FD EPS of 26.4sen.	3.70	OP	3.38	OP
BPPLAS	2.56	PER	13x PER (+1SD to 5-year historical average) on FY21E EPS of 24.1 sen	3.15	OP	2.50	OP

Source: Bloomberg, Kenanga Research

SCIENTX - Fwd PER Band

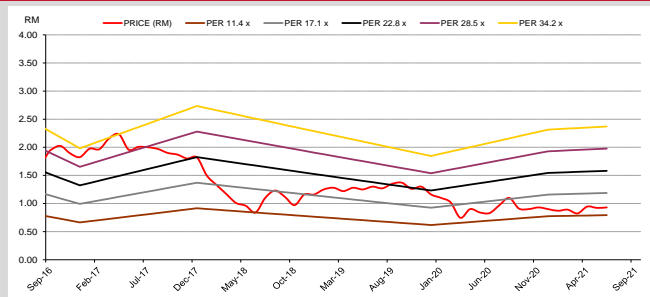


SCIENTX - Fwd PBV Band

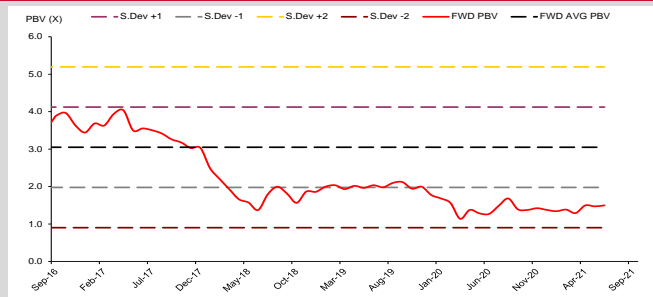


Source: Bloomberg, Kenanga Research

SLP - Fwd PER Band



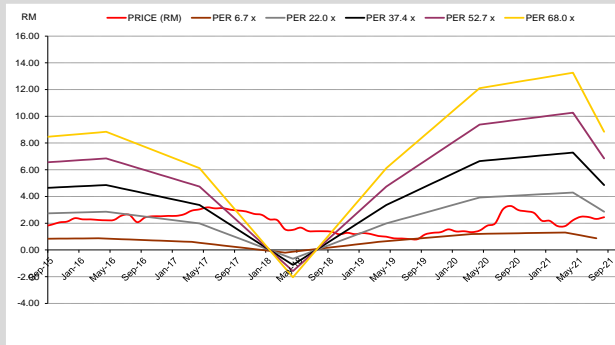
SLP - Fwd PBV Band



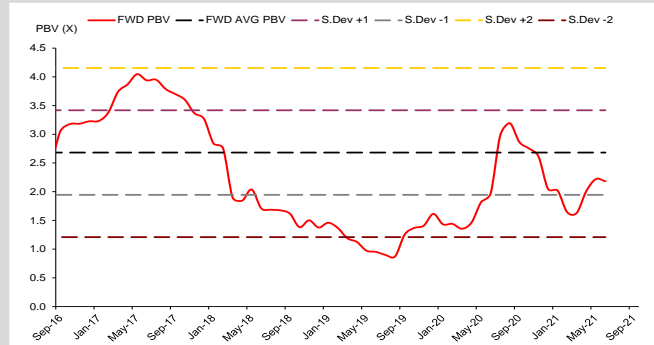
Source: Bloomberg, Kenanga Research



SCGM - Fwd PER Band

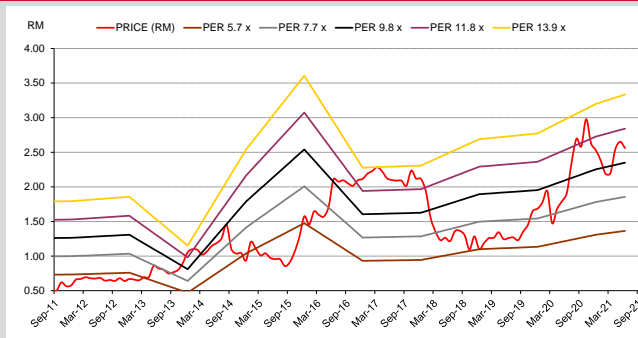


SCGM - Fwd PBV Band

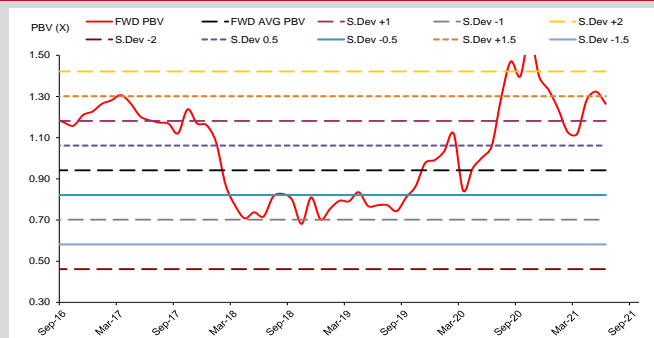


Source: Bloomberg, Kenanga Research

TGUAN - Fwd PER Band

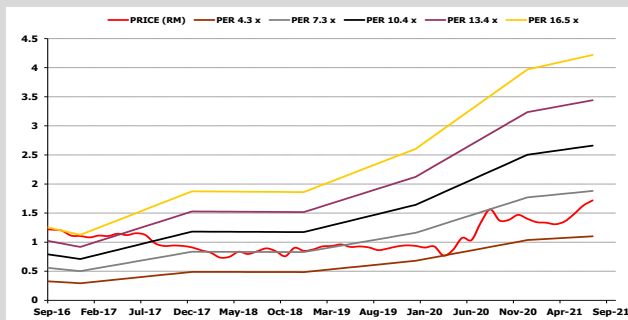


TGUAN - Fwd PBV Band

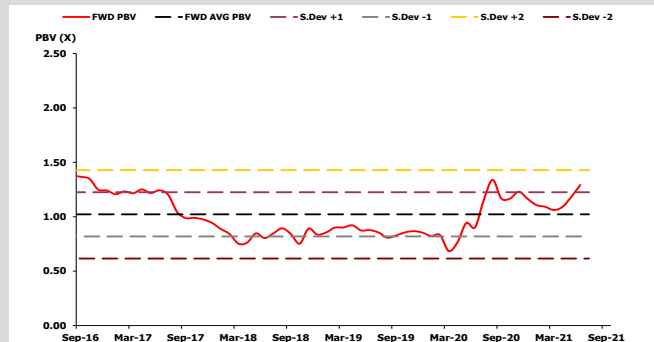


Source: Bloomberg, Kenanga Research

BPPLAS - Fwd PER Band

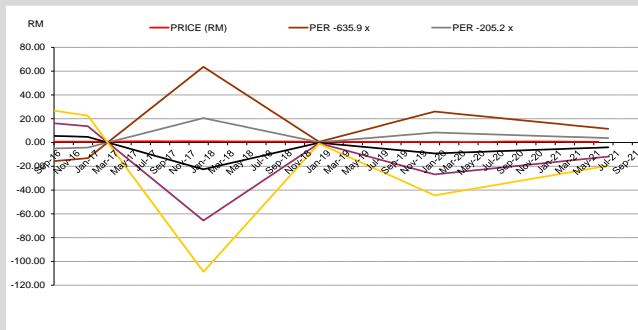


BPPLAS - Fwd PBV Band

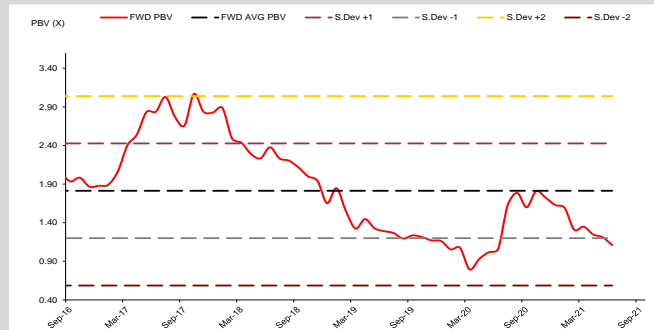


Source: Bloomberg, Kenanga Research

TOMYPAK - Fwd PER Band



TOMYPAK - Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (29/09/21)	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
	2.56	480.4	Y	12/2021	29.8%	9.0%	53.7%	10.6%	16.3	10.6	9.6	2.3	2.1	20.7%	3.9%	3.15	OP
SCGM BHD	2.44	467.3	Y	04/2022	18.5%	12.6%	13.5%	6.0%	13.7	12.1	11.4	2.5	2.2	19.2%	3.3%	3.13	OP
SCIENTEX BHD	4.57	7,086.5	Y	07/2022	16.5%	10.4%	13.0%	15.5%	16.0	14.1	12.2	2.4	2.2	16.4%	2.1%	4.62	MP
SLP RESOURCES BHD	0.945	299.5	Y	12/2021	22.3%	3.1%	33.5%	4.7%	18.6	13.9	13.3	1.6	1.6	11.8%	5.8%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.69	1,029.7	Y	12/2021	14.9%	10.9%	21.4%	8.6%	13.4	11.1	10.2	1.5	1.4	13.8%	1.7%	3.70	OP
TOMYPAK HOLDINGS	0.595	256.5	Y	12/2021	15.0%	5.5%	5800.0%	5.1%	2,565.0	43.5	41.4	1.4	1.4	3.1%	0.0%	0.570	MP
Simple Average					19.5%	8.6%	989.2%	8.4%	440.5	17.6	16.4	2.0	1.8	14.2%	2.80%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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