

05 July 2021

Plastics & Packaging

NEUTRAL

Resilient Momentum

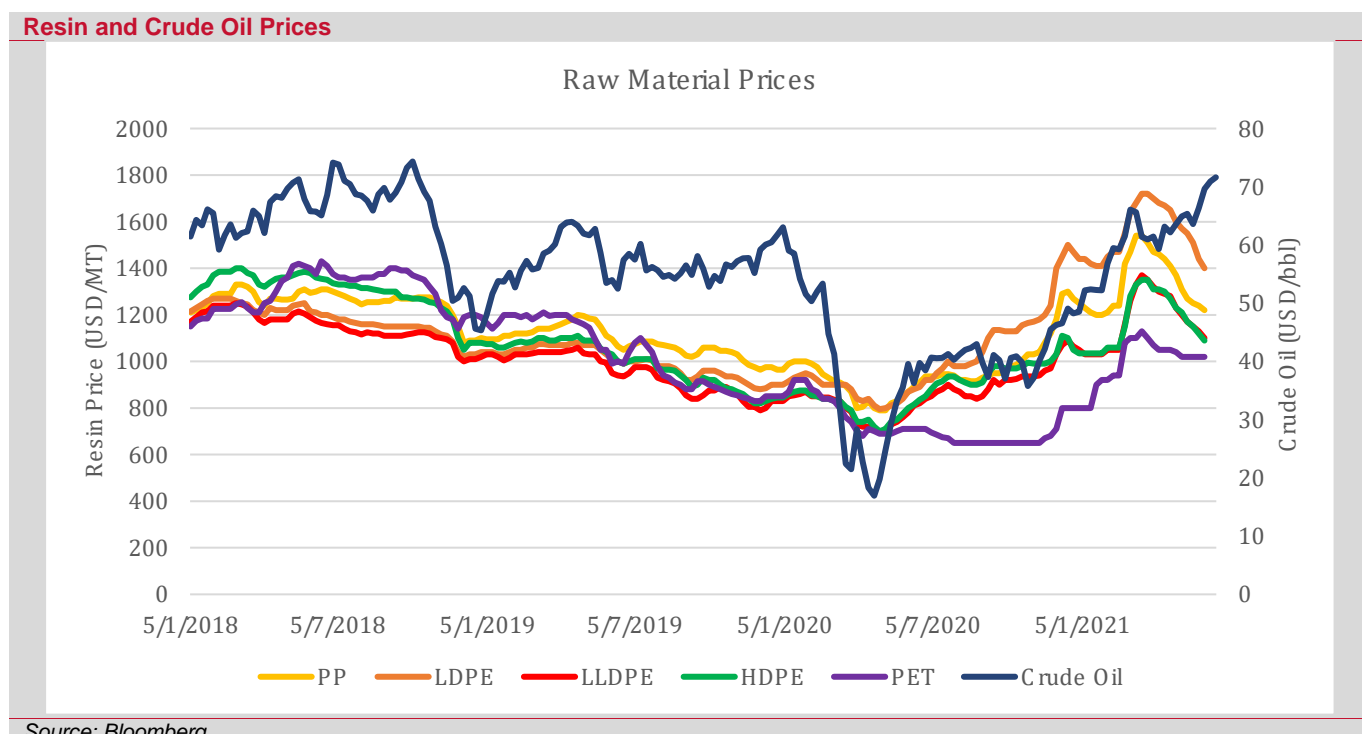


By Lim Khai Xiang | limkx@kenanga.com.my

Maintain NEUTRAL. 1QCY21 results for our stocks coverage came in mixed, with three coming in within expectation, one above (TOMYPAK) and one below (SCIENTX). Resin prices have fallen by 10-21% from the March 2021 peak and are expected to continue falling further in 2HCY21. While resin prices have softened, ASPs have not followed suit yet, as our channel checks indicate that the plastic packagers have been able to maintain their elevated ASPs. That said, we are expecting ASPs to gradually decline in 3QCY21. Looking ahead, we expect 2QCY21 results to be resilient on the back of: (i) favourable demand of mid/high-teens margin products, and (ii) elevated ASPs amidst falling resin prices, which should translate into higher margins. Maintain NEUTRAL on the sector, with TGUAN (OP; TP:RM3.38) and SCGM (OP; TP: RM3.02) as our top pick. Maintain MP on SCIENTX with higher TP of RM3.96 (from RM3.80).

1QCY21 results mixed. Plastic packagers' results were mixed with three coming in within expectation (TGUAN, SCGM and SLP), one above (TOMYPAK) and one below (SCIENTX). Overall, plastic packagers had it better in 1QCY21 than 4QCY20, driven by: (i) higher ASPs which caught up with higher resin prices, and (ii) better product mix as higher margin products enjoyed encouraging growth. Notably, we have upgraded TOMYPAK to MP (from UP) with a higher TP of RM0.57, as it looks to be on track to consistently achieve profitability once again after posting a profit of only RM0.1m in FY20. Post results, we have also raised TP for TGUAN (from RM3.00 to RM3.38), SCIENTX (from RM3.75 to RM3.80) and SCGM (from RM2.62 to RM3.02). After our site-visit to SLP in April, we turned bullish on the stock and upgraded it to OUTPERFORM from MARKET PERFORM with a TP of RM1.22 (from RM0.95). We maintain our call and TP post results, which came in as expected.

Weakening plastic resin prices. As of end-June, resin prices have fallen by 10-21% from the peak in March 2021, as petrochemical production resumed post the deep winter freeze, resolving the shortage supply in the market. Moving forward, we expect resin prices to gradually decline in 2HCY21. For CY21, we maintain our resin price assumption of USD1,100/MT to USD1,200/MT, marginally below the YTD average of USD1,000/MT to USD1,300/MT.



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ASPs elevated. Throughout 1QCY21, the sharp hike in resin costs allowed the plastic packagers to pass on higher costs by increasing ASPs. Our channel checks indicate that plastic packagers are still holding on to their high ASPs mainly thanks to robust demand for plastic products. Notably, elevated ASPs and falling resin prices have allowed plastic packagers to expand their margins, as shown in SCGM's 4QFY21 (FYE April) results, where EBIT margin rose 2.1 ppt.

ASPs to decline in 2HCY21. As resin prices continue to decline, we expect ASPs to gradually follow suit from current levels. It's important to note that not all selling prices will decline by the same quantum. Generally, more commoditized products will experience faster declines compared to the non-commoditized products. As non-commoditized products tend to be customised for client-specific needs, selling prices tend to be stickier and would not fall as much, allowing plastic packagers to protect their margins. As we expect ASPs to gradually fall in 3QCY21 as they catch up with lower resin prices, we foresee a period of continued margin expansion followed by margin normalisation after ASPs fall in tandem.

Re-imposed lockdown. During MCO 3.0, manufactures faced a 60% workforce capacity limit, which has slowed down productivity and delayed shipments. However, across the board, demand remains resilient as customer orders continue coming in. With the re-imposed lockdowns and resurgent Covid-19 cases, SCGM is seeing strong order growth in both its F&B and personal protective equipment (PPE) segments. Continuing to witness strong demand for its premium stretch film and courier bags, TGUAN is maintaining its capacity ramp-up. SLP also is ramping up production further for its new medical device packaging, which began production in 2QCY21.

Expectations for 2QCY21 results. We expect plastic packagers' resilient earnings momentum to continue on the back of: (i) favorable demand for mid/high-teens margin products and (ii) elevated ASPs amidst falling resin prices, which should translate into higher margins. We expect the plastic packagers to ramp up their utilization rate to 60-75% (vs. 50%-60% currently due to MCO 3.0) and eventually improve their productivity to cope with demand.

Maintain NEUTRAL on the sector. Having risen 17% throughout 2QCY21, TGUAN (OP; RM3.38) continues to be our preferred sector pick, as it remains resilient against volatile resin prices while it continues to expand its products portfolio and capacity. We have added SCGM (OP; RM3.02) as our top pick, we are positive with its robust demand in its F&B packaging and Personal Protective Equipment (PPE) from export and local markets. SCGM had announced MoU with University of Nottingham Malaysia (UNM) to innovate and explore new solution for plastic material to enhance their product quality and reduce environmental harm. We maintain MP call for SCIENTX with higher TP of RM3.96 (from RM3.80) as we increase our FY22E revenue/CNP by 2%/4%. Notably, we marginally raise our property revenue assumptions, banking on more lumpy progress recognition in FY22 (ending July) due to extended lockdown in FY21. We have also raised tweaked our plastics revenue assumption upwards by 1% to RM2.9b, as our channel checks indicate that stretch film demand remains resilient.

Risks to our call include: (i) higher/lower-than-expected demand for plastic products, (ii) higher/lower-than-expected resin prices, and (iii) a sector re-rating due to macroeconomic factors.

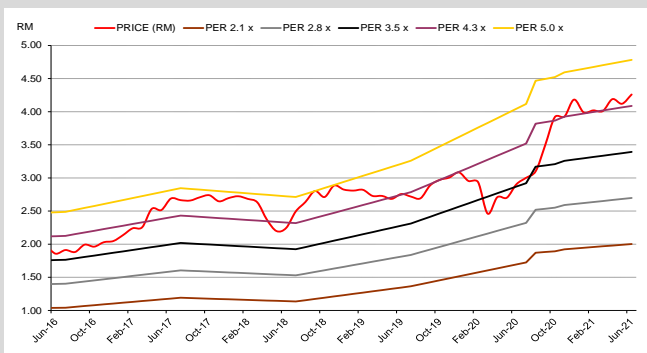
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Valuations

Company	Last Price	Valuation Method	Valuation Basis	Current TP	Current Call	Previous TP	Previous Call
Consumer							
SLP	1.05	PER	18x PER (-0.5SD to 5-year historical average) on FY21E EPS of 6.7sen	1.22	OP	0.95	MP
SCGM	2.48	PER	15.5x PER (5-year historical average) on FY22E EPS of 19.5 sen	3.02	OP	2.62	OP
TOMYPAK	0.540	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	4.26	PER	14.5x PER on manufacturing segment	3.96	MP	3.80	MP
TGUAN	2.64	PER	13.5x PER (+1.5SD to 5-year historical average) on 12-month Fwd. FY22 FD EPS of 25.0sen.	3.38	OP	3.00	OP

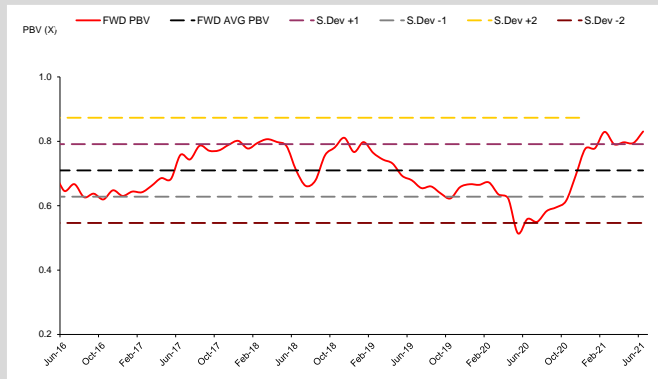
Source: Bloomberg, Kenanga Research

SCIENTX - Fwd PER Band

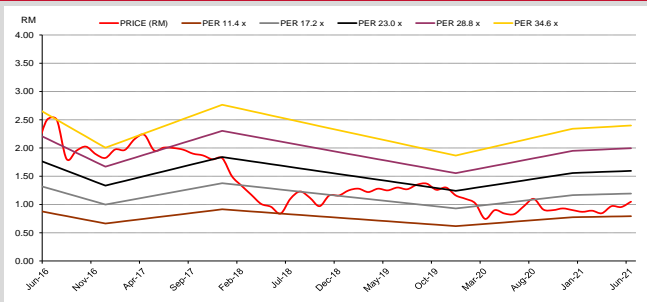


Source: Bloomberg, Kenanga Research

SCIENTX - Fwd PBV Band

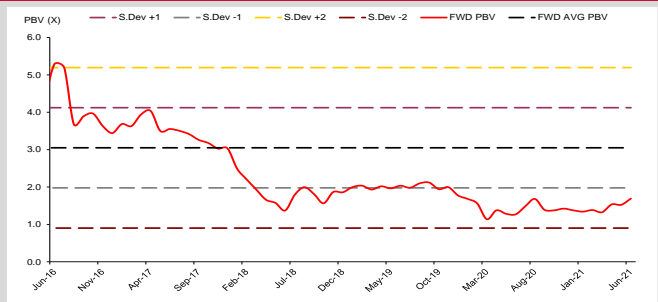


SLP - Fwd PER Band

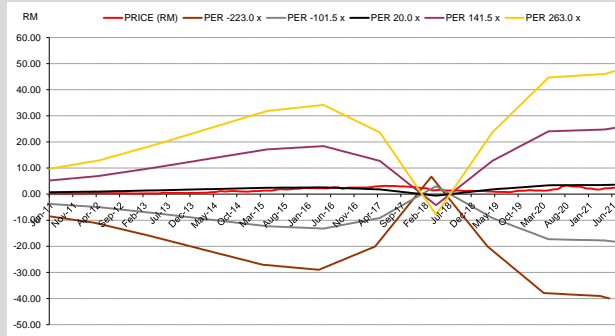


Source: Bloomberg, Kenanga Research

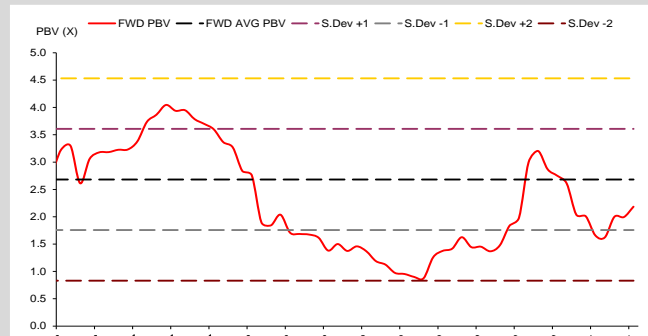
SLP - Fwd PBV Band



SCGM - Fwd PER Band

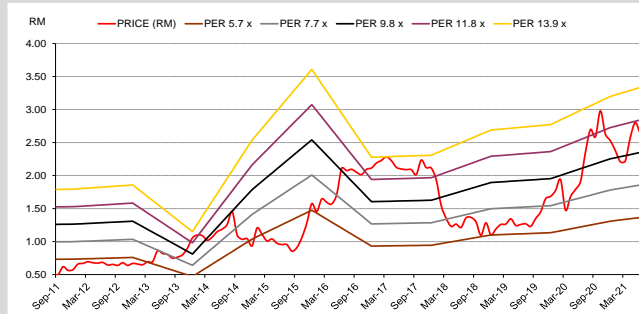


SCGM - Fwd PBV Band

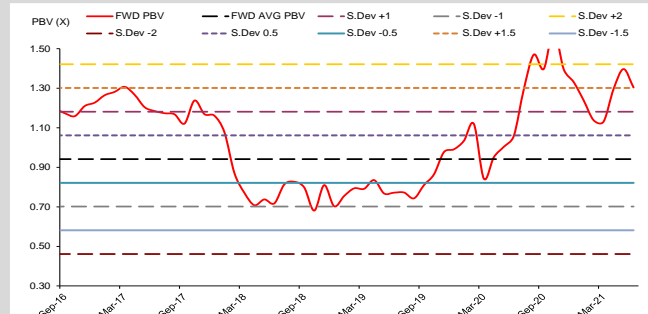


Source: Bloomberg, Kenanga Research

TGUAN - Fwd PER Band

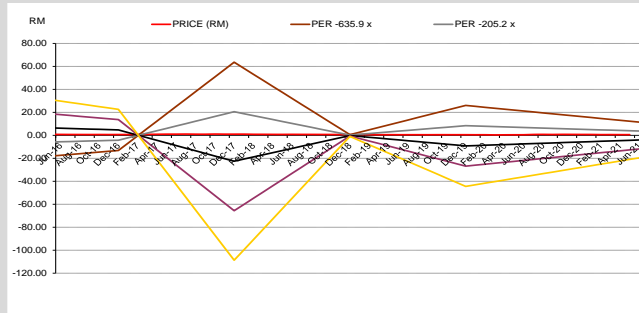


TGUAN - Fwd PBV Band

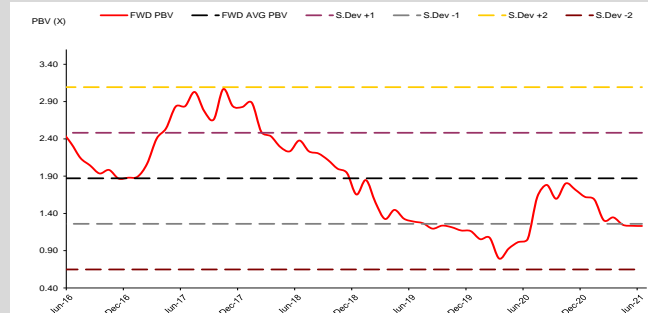


Source: Bloomberg, Kenanga Research

TOMYPAK - Fwd PER Band



TOMYPAK - Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (23/06/21)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.		
STOCKS UNDER COVERAGE																	
SCGM BHD	2.48	475.0	Y	04/2021	13.1%	16.1%	88.2%	1.8%	27.2	14.4	14.2	2.8	2.5	18.3%	2.8%	2.62	OP
SCIENTEX BHD	4.26	6,605.5	Y	07/2021	3.2%	10.7%	-3.8%	11.5%	16.2	16.8	15.1	2.7	2.3	16.1%	1.8%	3.96	MP
SLP RESOURCES BHD	1.05	332.8	Y	12/2021	22.3%	3.1%	33.3%	4.9%	20.7	15.5	14.8	1.8	1.8	11.8%	5.2%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.64	1,000.1	Y	12/2021	12.8%	8.6%	14.5%	8.5%	13.1	11.4	10.5	1.5	1.4	12.8%	1.7%	3.38	OP
TOMYPAK HOLDINGS	0.540	232.6	Y	12/2021	12.8%	3.8%	4790.0%	7.2%	2,325.2	47.6	44.4	1.3	1.2	2.6%	0.0%	0.570	MP
Simple Average					12.8%	8.5%	984.5%	6.8%	480.5	21.2	19.8	2.0	1.9	12.3%	2.3%		

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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Published and printed by:

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