SCG Packaging Pcl (SCGP TB) - HOLD, Price Bt56.00, TP Bt63.00

Results Comment

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1Q22 a miss on distribution costs

- SCGP reported 1Q22 net profit of Bt1.66bn (EPS Bt0.39/sh), down 22% y-y and 22% q-q. Excluding items, core profit was Bt1.72bn, down 24% y-y but up 27% q-q. While the q-q improvement was as expected, the result missed our forecast due to the sharp jump in distribution cost.
- Revenue grew 34% y-y and 4% q-q due to both volume (new paper capacity in the Philippines, acquisitions) and prices. However, EBITDA margin fell to 13% from 19% and 15% in 1Q21 and 4Q21, respectively. This was due to strong increases in raw material and energy costs.
- Packaging: Packaging revenue was Bt31bn, +35% y-y, 2% q-q and made up 83% of sales. Segment profit was Bt1.5bn -27% y-y, +57% q-q due to higher ASP. We also believe OCC cost (old corrugated cardboard, a key raw material) may have fallen q-q as well.
- Fibrous chain: Revenue from fibrous chain was up 32% y-y and 18% q-q to Bt6.2bn. However, segment profit fell 53% y-y to Bt32m due to the sharp increase in raw material and freight costs.
- Distribution cost jumped 63% y-y to Bt2.29bn and was the key culprit of earnings miss. We believe this was due to the sharp increases in sea freight. In response, the company is moving towards FOB (free on board) transactions and utilizes more cross-border trucking to replace some sea routes.
- Outlook: Management maintains its capex (including M&A) budget of Bt20bn.
- Our view: The 1Q22 result shows the worst is over, but high cost pressure could lead to downside risks to our earnings forecast. Maintain HOLD.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Revenue	27,253	29,895	31,930	35,144	36,634
Gross profit	**6,049**	**6,336**	**5,514**	**4,274**	**6,345**
SG&A	2,970	2,922	3,372	3,311	3,990
Operating profit	3,079	3,414	2,142	963	2,355
EBITDA	**4,979**	**5,346**	**4,326**	**3,262**	**4,655**
Other income	390	242	192	1,390	296
Other expense	0	0	0	0	0
Interest expense	261	307	283	329	286
Profit before tax	**3,208**	**3,349**	**2,051**	**2,023**	**2,365**
Income tax	559	620	407	480	316
Equity & invest. income	23	7	18	10	8
Minority interests	(436)	(450)	(272)	(195)	(334)
Extraordinary items	(102)	(24)	391	758	(64)
Net profit	**2,135**	**2,263**	**1,781**	**2,116**	**1,658**
Normalized profit	**2,236**	**2,287**	**1,390**	**1,358**	**1,722**
EPS (Bt)	0.50	0.53	0.41	0.49	0.39
Normalized EPS (Bt)	0.52	0.53	0.32	0.32	0.40

Income Statement			3M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	4	34	30	123,693	123,701
Gross profit	**48**	**5**	**22**	**29,078**	**31,019**
SG&A	20	34	30	13,379	13,383
Operating profit	145	(24)	15	15,698	17,636
EBITDA	**43**	**(6)**	**20**	**23,357**	**25,337**
Other income	(79)	(24)	24	1,237	1,237
Other expense			na	0	0
Interest expense	(13)	10	18	1,585	893
Profit before tax	**17**	**(26)**	**15**	**15,350**	**17,980**
Income tax	(34)	(43)	14	2,302	2,697
Equity & invest. income	(20)	(66)	na	0	0
Minority interests	na	na	16	(2,077)	(2,433)
Extraordinary items	na	na	na	0	0
Net profit	**(22)**	**(22)**	**15**	**10,970**	**12,850**
Normalized profit	**27**	**(23)**	**16**	**10,970**	**12,850**
EPS (Bt)	(22)	(22)	15	2.56	2.99
Normalized EPS (Bt)	27	(23)	16	2.56	2.99

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Cash & ST investment	31,171	29,862	19,310	20,222	10,175
A/C receivable	19,533	21,274	23,706	24,910	26,172
Inventory	15,493	18,069	23,097	23,308	23,407
Other current assets	658	624	956	746	1,655
Investment	848	862	863	873	878
Fixed assets	88,505	89,185	97,349	97,181	96,466
Other assets	26,983	27,186	36,902	39,583	39,646
Total assets	**183,192**	**187,061**	**202,183**	**206,824**	**198,399**
S-T debt	32,825	29,000	26,772	32,412	22,949
A/C payable	1,199	13,190	16,115	15,261	14,931
Other current liabilities	16,386	3,128	5,593	4,303	6,861
L-T debt	11,971	11,468	22,724	22,164	21,549
Other liabilities	9,257	14,882	10,325	10,383	10,902
Minority interest	21,707	22,244	25,405	96,837	25,059
Shareholders' equity	**89,846**	**93,149**	**95,248**	**25,463**	**96,147**
Working capital	33,827	26,152	30,688	32,957	34,648
Total debt	44,796	40,468	49,496	54,576	44,498
Net debt	**13,625**	**10,605**	**30,186**	**34,354**	**34,323**

Financial Ratios					
(%)	1Q21	2Q21	3Q21	4Q21	1Q22
Sales growth	12.3	38.2	37.1	48.9	34.4
Operating profit growth	(5.0)	70.3	(1.2)	(49.3)	(23.5)
EBITDA growth	(1.5)	42.7	8.7	(12.2)	(6.5)
Norm profit growth	17.4	25.4	1.3	(14.1)	(23.0)
Norm EPS growth	17.4	25.4	1.3	(14.1)	(23.0)
Gross margin	22.2	21.2	17.3	12.2	17.3
Operating margin	11.3	11.4	6.7	2.7	6.4
EBITDA margin	18.3	17.9	13.5	9.3	12.7
Norm net margin	8.2	7.7	4.4	3.9	4.7
D/E (x)	0.4	0.4	0.4	0.4	0.4
Net D/E (x)	0.1	0.1	0.3	0.3	0.3
Interest coverage (x)	19.1	17.4	15.3	9.9	16.3
Interest rate	2.4	2.9	2.5	2.5	2.3
Effective tax rate	17.4	18.5	19.8	23.7	13.4
ROA	5.0	4.9	2.9	2.7	3.4
ROE	10.0	10.0	5.9	9.0	11.3

Sources: Company data, Thanachart estimates

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