SCG Packaging Pcl (SCGP TB) - BUY, Price Bt53.75, TP Bt63.00

Results Comment

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Disappointing 3Q22 on weak demand

- SCGP reported 3Q22 net profit of Bt1.84bn (EPS Bt0.43/sh), +3% y-y, -1% q-q. Excluding items, core profit was Bt1.51bn, -2% y-y, -21% q-q. The result was below expectation mainly due to weak packaging demand especially from China and persistently high cost. Looking forward, however, we expect lower OCC and freight costs to help drive margin expansion from 4Q22F onward. Maintain BUY.
- **Overview:** Revenue grew 19% y-y and was flat q-q. The y-y improvement was driven by both chains while q-q comparison was driven by weak packaging sales and offset by new business (recycling). EBITDA margin fell to 14% in 3Q22 from 15% in 3Q21 but roughly unchanged q-q. SG&A grew 21% y-y and 7% q-q as SCGP still has to contend with lingering impact of high distribution (freight) costs.
- **Integrated Packaging:** Packaging revenue grew 7% y-y but declined 8% q-q to Bt29.3bn. The q-q movement was due to weak demand especially from China and export sector. Management comments that demand within ASEAN remains strong. Packaging EBITDA was Bt3.9bn, +9% y-y and +1% q-q.
- **Fibrous chain:** Fibrous chain sales revenue was Bt6.85bn, +29% y-y, -2% q-q. EBITDA improved 32% y-y and 3% q-q to Bt1.28bn. The y-y improvement was due to strong demand for printing and writing paper as well as food packaging and higher pulp price.
- **Non-operating items:** Non-operating items totaled Bt325m gain, most of which was Bt244 gain from FX.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22
Revenue	31,930	35,144	36,634	37,982	37,943
Gross profit	**5,660**	**4,127**	**6,345**	**6,679**	**6,335**
SG&A	3,372	3,311	3,990	3,823	4,077
Operating profit	2,288	816	2,355	2,856	2,258
EBITDA	**4,472**	**3,116**	**4,655**	**5,267**	**4,735**
Other income	192	1,390	296	262	422
Other expense	0	0	0	0	0
Interest expense	283	329	286	311	404
Profit before tax	**2,197**	**1,877**	**2,365**	**2,807**	**2,276**
Income tax	407	480	316	541	470
Equity & invest. income	18	10	8	20	33
Minority interests	(272)	(195)	(334)	(380)	(327)
Extraordinary items	245	904	(64)	(50)	325
Net profit	**1,781**	**2,116**	**1,658**	**1,856**	**1,837**
Normalized profit	**1,536**	**1,212**	**1,722**	**1,906**	**1,512**
EPS (Bt)	0.41	0.49	0.39	0.43	0.43
Normalized EPS (Bt)	0.36	0.28	0.40	0.44	0.35

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(0)	19	78	144,895	149,482
Gross profit	**(5)**	**12**	**71**	**27,365**	**33,023**
SG&A	7	21	77	15,516	16,022
Operating profit	(21)	(1)	63	11,850	17,001
EBITDA	**(10)**	**6**	**68**	**21,668**	**26,871**
Other income	61	120	84	1,159	1,196
Other expense			na	0	0
Interest expense	30	43	59	1,700	1,609
Profit before tax	**(19)**	**4**	**66**	**11,309**	**16,588**
Income tax	(13)	15	69	1,922	2,820
Equity & invest. income	68	89	na	0	0
Minority interests	na	na	72	(1,453)	(2,131)
Extraordinary items	na	33	na	0	0
Net profit	**(1)**	**3**	**67**	**7,934**	**11,637**
Normalized profit	**(21)**	**(2)**	**65**	**7,934**	**11,637**
EPS (Bt)	(1)	3	67	1.85	2.71
Normalized EPS (Bt)	(21)	(2)	65	1.85	2.71

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22
Cash & ST investment	19,310	20,222	10,175	10,995	10,150
A/C receivable	23,706	24,910	26,172	27,466	26,948
Inventory	23,097	23,308	23,407	24,733	25,075
Other current assets	956	746	1,655	958	1,202
Investment	863	873	878	900	1,040
Fixed assets	97,349	97,181	96,466	97,111	99,132
Other assets	36,902	39,583	39,646	40,403	44,681
Total assets	**202,183**	**206,824**	**198,399**	**202,566**	**208,227**
S-T debt	26,772	32,412	22,949	22,467	23,215
A/C payable	16,115	15,261	14,931	19,765	16,573
Other current liabilities	5,593	4,303	6,861	3,168	1,544
L-T debt	22,724	22,164	21,549	21,107	25,822
Other liabilities	10,325	10,383	10,902	10,914	11,828
Minority interest	25,405	96,837	25,059	26,399	27,433
Shareholders' equity	**95,248**	**25,463**	**96,147**	**98,746**	**101,813**
Working capital	30,688	32,957	34,648	32,434	35,450
Total debt	49,496	54,576	44,498	43,574	49,037
Net debt	**30,186**	**34,354**	**34,323**	**32,580**	**38,887**

Financial Ratios					
(%)	3Q21	4Q21	1Q22	2Q22	3Q22
Sales growth	37.1	48.9	34.4	27.1	18.8
Operating profit growth	5.6	(57.0)	(23.5)	(16.3)	(1.3)
EBITDA growth	12.4	(16.2)	(6.5)	(1.5)	5.9
Norm profit growth	12.0	(23.3)	(23.0)	(16.7)	(1.6)
Norm EPS growth	12.0	(23.3)	(23.0)	(16.7)	(1.6)
Gross margin	17.7	11.7	17.3	17.6	16.7
Operating margin	7.2	2.3	6.4	7.5	5.9
EBITDA margin	14.0	8.9	12.7	13.9	12.5
Norm net margin	4.8	3.4	4.7	5.0	4.0
D/E (x)	0.4	0.4	0.4	0.3	0.4
Net D/E (x)	0.3	0.3	0.3	0.3	0.3
Interest coverage (x)	15.8	9.5	16.3	16.9	11.7
Interest rate	2.5	2.5	2.3	2.8	3.5
Effective tax rate	18.5	25.6	13.4	19.3	20.6
ROA	3.2	2.4	3.4	3.8	2.9
ROE	6.5	8.0	11.3	7.8	6.0

Sources: Company data, Thanachart estimates

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