

SCG Packaging Pcl (SCGP TB) - SELL, Price Bt40.00, TP Bt33.00**Results Comment**

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2Q23 – in-line

- SCGP reported 2Q23 profit of Bt1.49bn (-20% y-y and +22% q-q). This is-line with our initial estimate. Q-Q profit improvement is mainly supporting be lower cost primarily from lower freight cost, energy and raw material. Despite q-q recovery, 1H23 accounts only 44% of our FY2023F profit and 42% of Bloomberg consensus.
- Better margin due to lower cost.** Overall EBITDA margin came in at 14% vs 13% in 1Q23 and 14% in 2Q22. Both integrated packaging and fibrous chain margin improved in this quarter. However, revenue continues to decline q-q and y-y amid weak demand.
- Packaging paper sale volume dropped** by 5% q-q to 0.92mt. According to SCGP, the extended high inflation and interest rates particularly in Europe remained the key factor that constrained consumer's spending power which hampered ASEAN export sectors.
- Fibrous chain EBITDA improved** to Bt1.1bn in 2Q23, up 28.4% q-q due to higher sale in dissolving pulp which allow SCGP to record higher margin. EBITDA margin rose to 16.1% in 2Q23 vs 12.6% in 1Q23. We think this could be one-off as dissolving pulp has already start to decline in Jul 2023.
- SCGP prepared to raise its stake in Fajar to 99.7%** from 55.2% by Jun 24 because existing partner decide to use put option to sell their stake at Bt23.2bn, implying 25x 2022 EV/EBTIDA which is more expensive than the first transaction of 10x 2019F EV/EBTIDA. According to SCGP, this is part of its original acquisition transaction made in 2019.
- Outlook.** We expect improvement to be gradual in 2H23F. Industry benchmark test liner price has continued to drop to US\$388/t in Jul 2023 from US\$400 in 2Q23 and US\$415/t in 1Q23. We think this shows that the demand dynamic remains challenging.

Income Statement						Income Statement					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(Bt m)	q-q%	y-y%	% 2023F	2023F	2024F
Revenue	37,982	37,943	33,509	33,729	32,216	Revenue	(4)	(15)	54	121,518	141,618
Gross profit	6,679	6,335	5,028	5,948	5,866	Gross profit	(1)	(12)	49	24,077	28,705
SG&A	3,823	4,077	4,149	4,220	3,754	SG&A	(11)	(2)	52	15,190	17,702
Operating profit	2,856	2,258	879	1,729	2,112	Operating profit	22	(26)	43	8,887	11,003
EBITDA	5,267	4,735	3,390	4,085	4,405	EBITDA	8	(16)	46	18,575	21,136
Other income	262	422	342	232	161	Other income	(31)	(38)	27	1,464	1,464
Other expense	0	0	0	0	0	Other expense			na	0	0
Interest expense	311	404	467	497	510	Interest expense	3	64	60	1,668	1,709
Profit before tax	2,807	2,276	754	1,464	1,762	Profit before tax	20	(37)	37	8,684	10,758
Income tax	541	470	223	296	305	Income tax	3	(44)	38	1,563	1,937
Equity & invest. income	20	33	(6)	(17)	6	Equity & invest. income	na	(69)	na	0	0
Minority interests	(380)	(327)	103	(84)	(94)	Minority interests	na	na	18	(999)	(1,238)
Extraordinary items	(50)	325	(179)	153	115	Extraordinary items	(25)	na	na	0	0
Net profit	1,856	1,837	449	1,220	1,485	Net profit	22	(20)	44	6,121	7,584
Normalized profit	1,906	1,512	628	1,067	1,370	Normalized profit	28	(28)	40	6,121	7,584
EPS (Bt)	0.43	0.43	0.10	0.28	0.35	EPS (Bt)	22	(20)	44	1.43	1.77
Normalized EPS (Bt)	0.44	0.35	0.15	0.25	0.32	Normalized EPS (Bt)	28	(28)	40	1.43	1.77

Balance Sheet						Financial Ratios					
(consolidated)						2022					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(%)	2Q22	3Q22	4Q22	1Q23	2Q23
Cash & ST investment	10,995	10,150	12,339	13,348	13,506	Sales growth	27.1	18.8	(4.7)	(7.9)	(15.2)
A/C receivable	27,466	26,948	23,254	23,618	23,948	Operating profit growth	(16.3)	(1.3)	7.7	(26.6)	(26.1)
Inventory	24,733	25,075	23,281	22,470	21,561	EBITDA growth	(1.5)	5.9	8.8	(12.2)	(16.4)
Other current assets	958	1,202	1,280	1,406	1,604	Norm profit growth	(16.7)	(1.6)	(48.2)	(38.0)	(28.1)
Investment	900	1,040	1,034	1,014	1,019	Norm EPS growth	(16.7)	(1.6)	(48.2)	(38.0)	(28.1)
Fixed assets	97,111	99,132	94,585	94,718	95,655	Gross margin	17.6	16.7	15.0	17.6	18.2
Other assets	40,403	44,681	41,506	41,933	43,705	Operating margin	7.5	5.9	2.6	5.1	6.6
Total assets	202,566	208,227	197,280	198,506	200,998	EBITDA margin	13.9	12.5	10.1	12.1	13.7
S-T debt	22,467	23,215	17,726	16,790	16,574	Norm net margin	5.0	4.0	1.9	3.2	4.3
A/C payable	19,765	16,573	14,282	14,241	14,471	D/E (x)	0.3	0.4	0.4	0.4	0.4
Other current liabilities	3,168	1,544	1,471	3,883	25,018	Net D/E (x)	0.3	0.3	0.3	0.3	0.3
L-T debt	21,107	25,822	29,935	29,562	29,302	Interest coverage (x)	16.9	11.7	7.3	8.2	8.6
Other liabilities	10,914	11,828	10,899	10,938	11,247	Interest rate	2.8	3.5	3.9	4.2	4.4
Minority interest	26,399	27,433	25,766	25,517	26,092	Effective tax rate	19.3	20.6	29.5	20.2	17.3
Shareholders' equity	98,746	101,813	97,200	97,575	78,295	ROA	3.8	2.9	1.2	2.2	2.7
Working capital	32,434	35,450	32,253	31,847	31,038	ROE	7.8	6.0	2.5	4.4	6.2
Total debt	43,574	49,037	47,661	46,352	45,876						
Net debt	32,580	38,887	35,322	33,003	32,370						

Sources: Company data, Thanachart estimates

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