Plastics & Packaging

Confidence Intact

NEUTRAL

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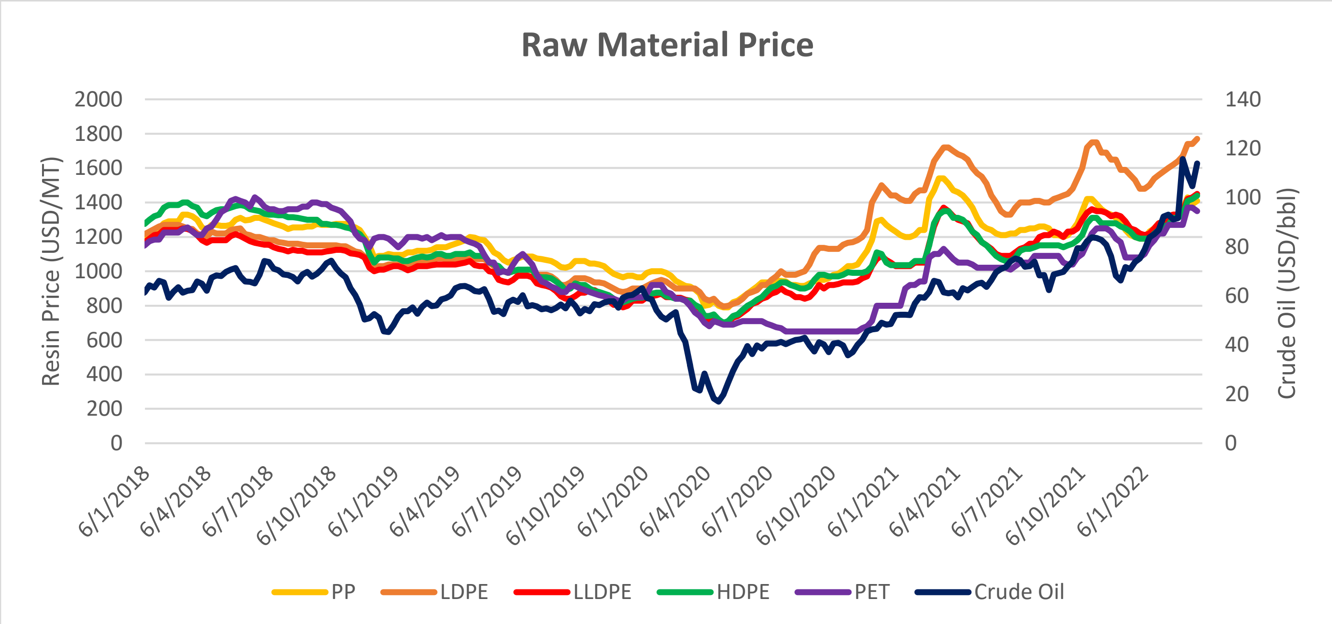
Reiterate NEUTRAL. For the latest 4QCY21 results season, two stocks under coverage came in within, while other three performed below expectation. Resin prices continue to rise due to geopolitical tension and prolonged supply chain disruption, though we believe plastic players will be able to adjust their ASPs upwards. We expect 1QCY22 results to be sustained on the back of resilient demand and elevated ASPs. We remain neutral on the sector despite the robust market demand as we are cautious on the downside risk arising from labour shortage and higher production costs. Within the sector, our top picks are TGUAN (OP; TP RM3.90) and BPPLAS (OP; TP RM2.07).

4QCY21 outcome. BPPLAS' set of results was spot on, TGUAN came within, while the other players' results came below our expectation. All players' revenue rose during this quarter thanks to: (i) higher sales volume, (ii) elevated ASPs in tandem with higher resin costs, and (iii) resumption of economic activities, while the bottom-line of most players rose in tandem with revenue. However, we observe that some players faced margin squeeze, due to higher raw material costs and higher operating costs. This, in turn, has affected their share prices with TGUAN (down 16.1% YTD) and SCGM (-10.4% YTD) being the worst hit.

Astronomical resin prices. To recap, we mentioned that resin prices rose due to global logistic disruption and electricity crunch in China while expecting resin prices to soften in 2QCY22 *(refer to 1Q22 Strategy report)*. However, the unexpected Russian-Ukraine war has caused a surge in crude oil prices *(feedstock for resins)*, plus the prolonged supply chain disruption continues to drive resin prices skyrocketing, YTD c.19-23% across the board. Notably, resin prices have exceeded the peak by c.2-7% compared to March 2021 due to the hurricane and winter storm, causing a temporary halt in petrochemical production back then. We envisage resin prices will continue to stay elevated until 1HCY22 due to the abovementioned concerns, and there is also time lag between the crude oil prices and resin prices' movements. Our channel checks reiterate that sharply risen resin prices will pass through the cost-plus mechanism. We now expect resin prices to soften in the 3QCY22 on the back of: (i) new resin capacity continuing to come onstream driven by petrochemical players' expansion, and (ii) excess resin holding-inventory from China due to festive break and recent lockdown. For CY22, we raise our resin prices assumption from USD1,100/MT to USD1,350/MT due to sustained vigorous demand, marginally below the YTD average of USD1,300/MT to USD1,600/MT. This compares with CY21 average resin prices of USD1,100/MT – USD1,250/MT.

Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Elevated ASPs. Based on our channel checks, we reiterate that as resin prices rose sharply, plastic players will be able to adjust upwards on ASPs for their products. We continue to expect an increase in/elevated ASPs which will allow plastic players to sustain their margins. Notably, plastic players that use B2B market strategy will find it easier to pass on the cost, while those with B2C market strategy may not enjoy similar mechanism to easily adjust their ASPs due to a longer locked-in contract review period. In our assumptions, we have factored in YoY increases ranging between 5% to 10% in ASPs for CY22.

Sustainable outlook. As for the resumption of economic activities, the plastic players have proven their results sustainable during the latest quarter. We anticipate their revenue growth will continue to improve as they ramp up their utilization rate with an average estimate of 65-75% on the downside of labour shortage issue. We estimate the labour shortage issue will be able to be resolved in the 2HCY22 as the government has announced the reopening of the nation's border, which will help plastic players to recruit more workers and enhance their operation. Nonetheless, we are careful on plastic players' margins on the back of: (i) higher production costs, mainly raw material and freight costs, and (ii) higher operating costs. The government implemented new regulation on increasing the labour minimum wages from RM1.2k to RM1.5k starting from 1st May 2022; our channel checks find this has minor impact on their operating cost, as it will only increase <0.5% to the cost of goods sold.

1QCY22 results expectation. We estimate better revenue growth on the back of resilient demand and elevated ASPs. However, we are cautious about their margins, which will be adversely affected by higher raw material costs and higher operating costs. We maintain our utilization rate estimation at 65-75% due to the labour shortage issue. On a net-net basis, we are projecting weaker YoY margins for CY22 – ranging between 0.4 and 3 percentage points – for selected companies under our coverage (namely SCGM, BPPLAS and SCIENTX). Despite the higher raw material costs, we are projecting higher YoY margins for TGUAN and SLP due to better product mix.

Maintain NEUTRAL on the sector as upside potential from better product mix and capacity expansion is somewhat dampened by the downside risk of global supply chain issue and higher operating cost. We especially like: (i) TGUAN (OP; TP: RM3.90) for resilient demand for its premium products, namely nano stretch film, courier bags, and premium packaging, and its long-term expansion plans *(its 16-acre new factory has been completed),* and (ii) BPPLAS (OP; TP RM2.07) due to better product mix and capacity expansion on its premium stretch film.

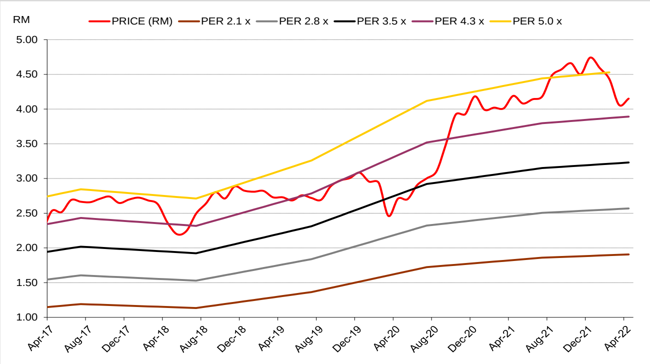
Risks to our call include: (i) lower-than-expected demand for plastic products, (ii) higher-than-expected resin prices, (iii) labour shortage, (iv) higher-than-expected operating cost, and (vi) foreign currency risk.

Valuations

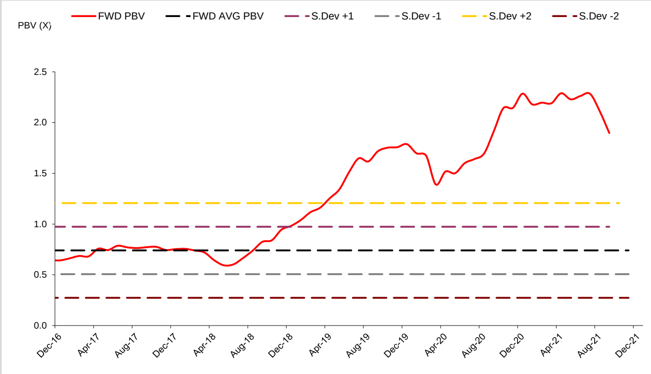
Company	Last Price	Valuation Method	Valuation Basis	Current TP	Current Call	Previous TP	Previous Call
Consumer							
SLP	0.915	PER	16.6x PER (-0.5SD to 5-year historical average) on FY22E EPS of 7.1sen	1.18	OP	1.18	OP
SCGM	2.14	PER	13x PER (5-year historical average)on FY23E EPS of 18.0sen	2.34	MP	2.80	OP
Industrial							
SCIENTX	3.93	PER	14.3x PER on manufacturing segment	4.15	MP	4.42	MP
TGUAN	2.31	PER	13x PER (+1.5SD to 5-year historical average) on FY22E EPS of 30.0sen.	3.90	OP	3.68	OP
BPPLAS	1.42	PER	12x PER (+1SD to 5-year historical average) on FY22E EPS of 17.2sen	2.07	OP	2.22	OP

Source: Bloomberg, Kenanga Research

SCIENTX - Fwd PER Band



SCIENTX - Fwd PBV Band



Source: Bloomberg, Kenanga Research

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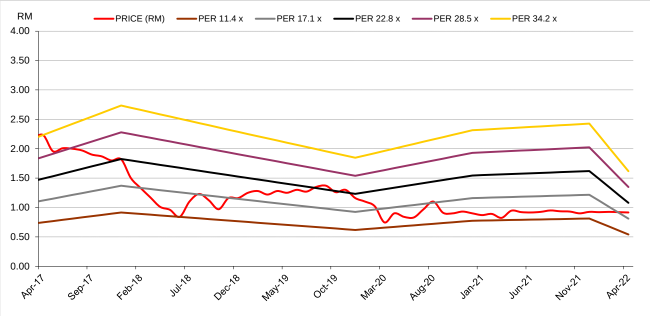

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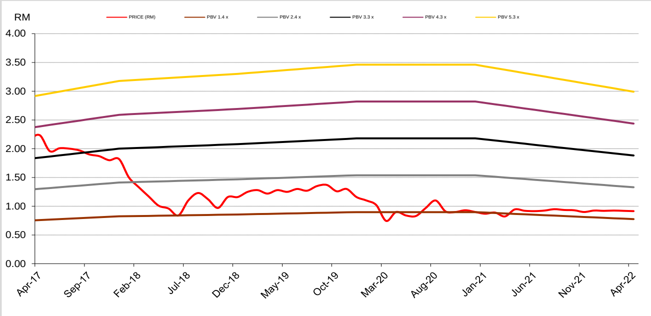
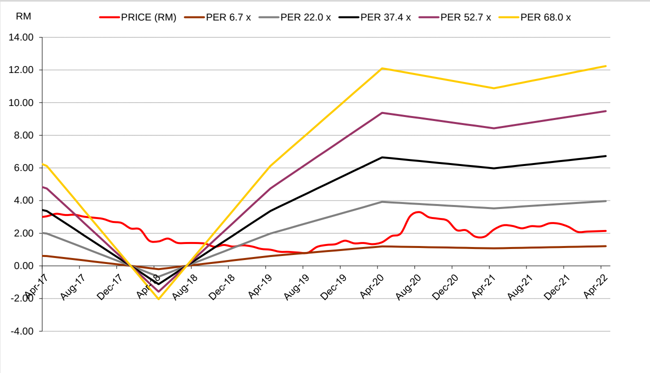
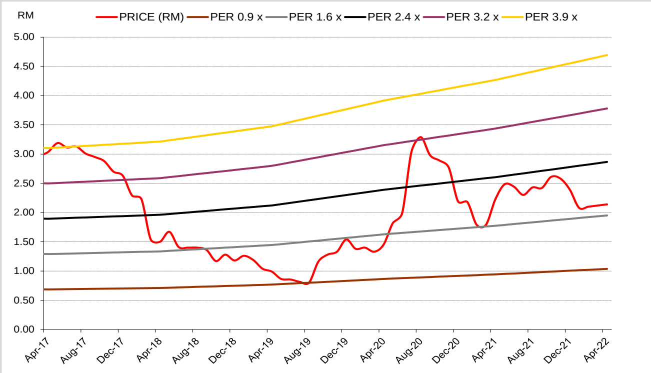


Source: Bloomberg, Kenanga Research

SCGM - Fwd PER Band

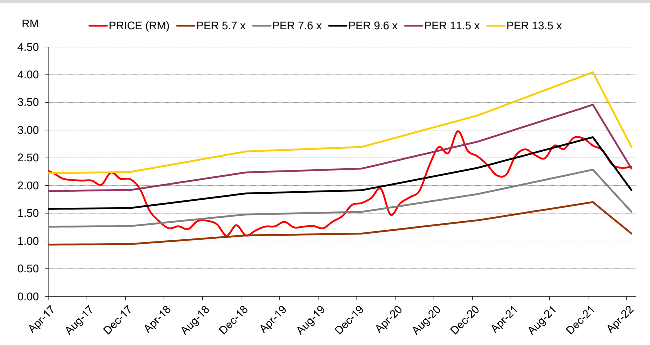


SCGM - Fwd PBV Band

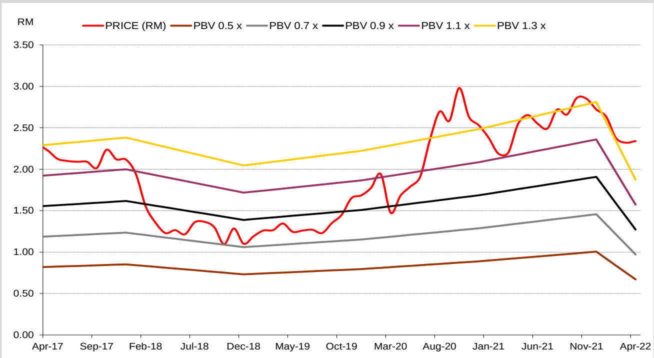


Source: Bloomberg, Kenanga Research

TGUAN - Fwd PER Band

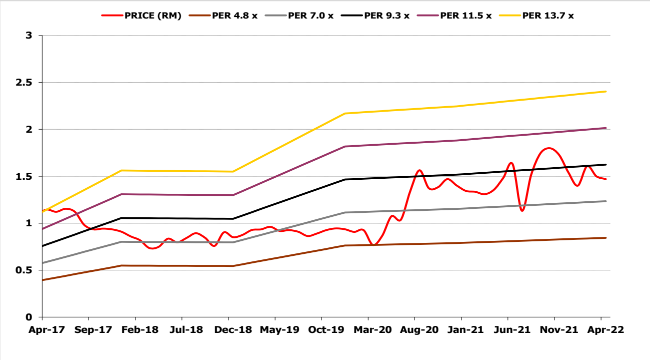


TGUAN - Fwd PBV Band

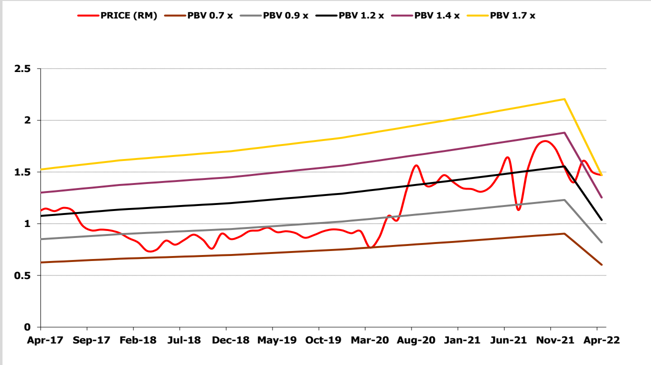


Source: Bloomberg, Kenanga Research

BPPLAS - Fwd PER Band



BPPLAS - Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price@ 16/3/2022 (RM)	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
					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																	
BP PLASTIC HOLDING BHD	1.42	399.7	Y	12/2022	8.9%	12.7%	4.5%	5.4%	8.6	8.2	7.8	1.7	1.6	19.8%	7.7%	2.07	OP
SCGM BHD	2.14	412.1	Y	04/2022	15.1%	16.0%	-10.3%	13.4%	12.1	13.5	11.9	2.2	1.9	15.1%	2.9%	2.34	MP
SCIENTEX BHD	3.93	6,095.4	Y	07/2022	12.4%	10.7%	6.1%	17.6%	13.7	12.9	11.0	2.1	1.9	15.4%	2.4%	4.15	MP
SLP RESOURCES BHD	0.915	290.0	Y	12/2022	9.7%	5.5%	28.6%	9.3%	16.6	12.9	11.8	1.6	1.5	12.0%	6.0%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.31	896.9	Y	12/2022	19.7%	20.4%	22.2%	21.2%	9.4	7.7	6.3	1.2	1.0	14.3%	2.4%	3.90	OP
Simple Average					13.1%	13.1%	10.2%	13.4%	12.1	11.1	9.8	1.7	1.6	15.3%	4.30%		

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.***

Published and printed by:

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