Plastic Packaging

4QCY22 Results Review: Slowdown Looms

NEUTRAL

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We reiterate our NEUTRAL view on the sector. The 4QCY22 results of plastic packaging players under our coverage were largely within our expectations - a turnaround from the preceding quarter where most results were largely below expectations. Sales volumes were generally weaker on the back of a slowdown in global economy, while margins also came under pressure due to escalating operating costs. We expect demand for plastic packaging to continue softening in 1HFY23 as there is no sign of the global economy coming out of its doldrums anytime soon. On the flipside, we expect margins to sustain, driven by the industry on-going positioning towards higher-margin products, and easing of certain cost pressures. Our top pick for the sector is TGUAN (OP; TP: RM3.28).

4QCY22 results primarily within expectations. The 4QCY22 results of plastic packaging players under our coverage came largely within our expectations (75% within with the remaining 25% below our forecasts) which was an improvement over the preceding quarter (25% beat but 75% disappointed). Generally, players' top lines contracted due to weaker sales volumes on the back of the slowdown in global economy. Certain players were impacted by margin erosion due to escalating operating cost, particularly, input and staff costs. However, TGUAN was able to defend its margins by focusing on high-margin products and improving operational efficiency via automation amidst labour shortage.

The demand outlook for plastic packaging sector in 2023 is not favourable in the first half of the year due to slower global economic growth and lingering supply chain disruptions affecting end-users' operation and hence the demand of plastic packaging. We foresee a moderate utilization rate of 50%-65% across the board in the first half despite the labour shortage issue being partially resolved.

Despite the soft patch in 1HFY23, we expect margins to sustain driven by: (i) the on-going positioning by players towards higher-margin products, and (ii) the declining cost of input resin. Meanwhile, the impact of the recent hike in electricity tariff is manageable, as typically electricity only makes up 4%-6% of the total production cost of plastic packaging players. Also helping, is the Green Electricity Tariff (GET) programme of **TENAGA (MP; TP: RM9.64)** that offers an exemption to Imbalance Cost Pass-Through (ICPT) surcharge of 20 sen/kWh via a subscription charge of 3.7 sen/kWh (resulting in an effective savings of 16.3 sen/kWh). However, this offer to buy renewable energy is capped at 30% of total electricity consumption, subject to the availability of quota and only valid for six months ending 31 Jun 2023 for now. We understand that **TGUAN, BPPLAS (MP; TP: RM1.23)** and **SCIENTX (UP; TP: RM2.99)** have signed up for the programme.

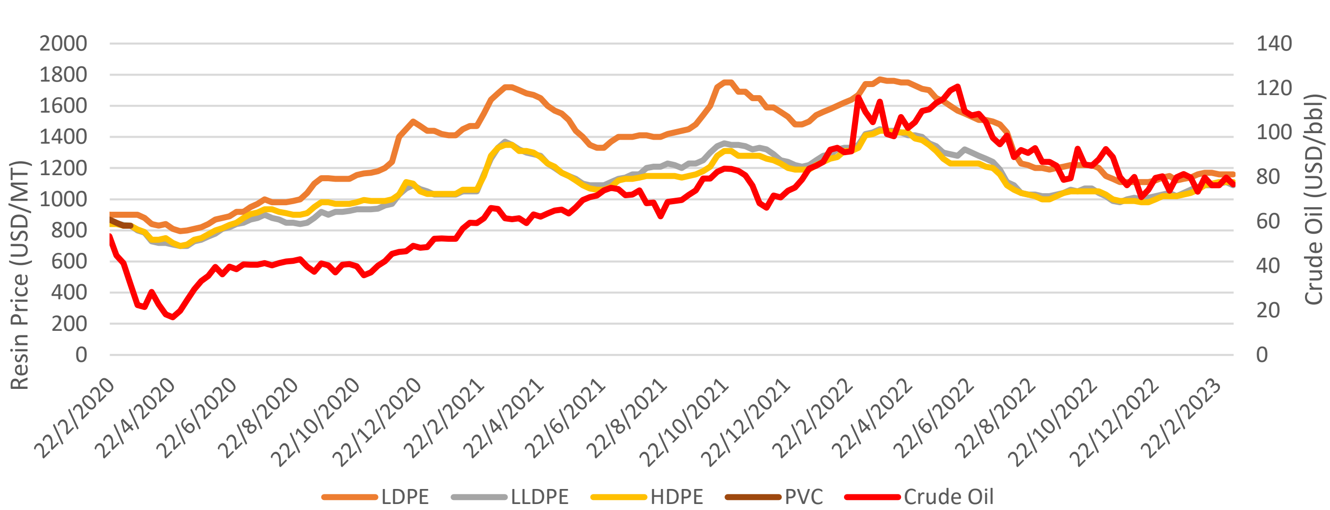
Our sector top pick is **TGUAN.** We like the company for: (i) its earnings stability underpinned by a more diversified product portfolio, (i) its earnings growth prospects underpinned by expansion in production capacity for premium products such as nano stretch films and courier bags, and a deeper penetration into the Europe and US markets, and (iii) its product innovation via R&D and collaboration with the likes of ExxonMobil to produce more environmentally-friendly products.

Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
BPPLAS		1			1				1			1
SCIENTX		1			1				1			1
SLP			1			1	1			1		
TGUAN		1			1				1			1
Total	**0**	**3**	**1**	**0**	**3**	**1**	**1**	**0**	**3**	**1**	**0**	**3**
Total (%)	**0**	**75**	**25**	**0**	**75**	**25**	**25**	**0**	**75**	**25**	**0**	**75**

Source: Kenanga Research, Bloomberg

Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
MANUFACTURING																	
BP PLASTICS HOLDINGS BHD	OP	1.17	1.63	39.32%	329.3	Y	12/2023	13.6	15.1	23.9%	10.7%	8.6	7.7	1.3	15.8%	5.5	4.7%
SCIENTEX BHD	UP	3.37	2.99	-11.28%	5,227.1	Y	07/2023	30.6	35.5	15.0%	16.0%	11.0	9.5	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.92	1.09	18.48%	293.2	Y	12/2023	6.8	7.4	33.3%	8.8%	13.5	12.4	1.5	11.5%	5.5	6.0%
THONG GUAN INDUSTRIES BHD	OP	2.21	3.28	48.42%	863.4	Y	12/2023	30.3	35.3	4.7%	16.4%	7.3	6.3	1.0	14.4%	5.5	2.5%

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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