Plastic Packaging

2QCY23 Report Card: Less Disappointing

NEUTRAL

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We maintain NEUTRAL on the sector. The earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season was less disappointing vs. the preceding quarter. Despite weaker sales volumes and lower ASPs, plastic packaging players were able to sustain their margins, underpinned by a better product mix with increased higher-margin products. We see a slight pick-up in demand in 2HCY23 as buyers rush to stock up ahead of price hikes driven by higher resin prices. Higher electricity cost appears inevitable from Aug 2023 but this is manageable. Our top pick for the sector is TGUAN (OP; TP: RM3.05).

Fewer disappointments. The earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season was less disappointing vs. the preceding quarter, with 50%/50% coming in within/below our forecasts vs. 25%/75% coming in within/below in the preceding quarter (see table below).

Navigating market challenges. Generally, players' top lines contracted due to: (i) weaker sales volume amidst global economic slowdown, and (ii) lower ASPs (in tandem with falling resin prices which is the main input costs). The demand for plastic packaging remained subdued as there was no significant pick-up in demand despite China's reopening of its economy early in 2023. We note that China plays a significant role in the global plastics industry as it is the world's largest producer and consumer of plastic products.

Better product mix mitigated cost inflation. The industry continued to feel the impact of rising operating cost in 2QCY23, notably from higher labour and utility costs. However, it managed to maintain margins QoQ thanks to better product mix as well as a tighter cost control. There was a bright spot in higher-margin products particularly the thinner types as they are more environmentally friendly.

Slightly better demand outlook. We see a slight pickup in demand in 2HCY23 as buyers rush to stock up ahead of price hikes driven by higher resin prices. Resin prices have inched up by about 5% since July 2023. However, we foresee utilization rate to stay range bound and lacklustre, at between 50%-65% across the board in the second half of the year.

Meanwhile, electricity cost is rising. We expect **BPPLAS (MP; TP: RM1.23)**, **SCIENTX (UP; TP: RM3.65)** and **TGUAN** to face higher electricity costs in 2HCY23 as they opt out from the Green Energy Electricity (GET) program, due to the higher GET rate of 21.8 sen/kWh (from 3.7 sen/kWh), compared to conventional Imbalance Cost Pass-Through (ICPT) surcharge of 17.0 sen/kWh. Nevertheless, the impact of higher electricity costs should be manageable as: (i) electricity typically makes up only 4% to 6% of total production cost, (ii) players are embarking on solar panel installation, and (iii) they are gradually raising prices to pass on the higher cost to end-customers. We believe the higher cost of electricity will be cushioned by better orders in 2HCY23.

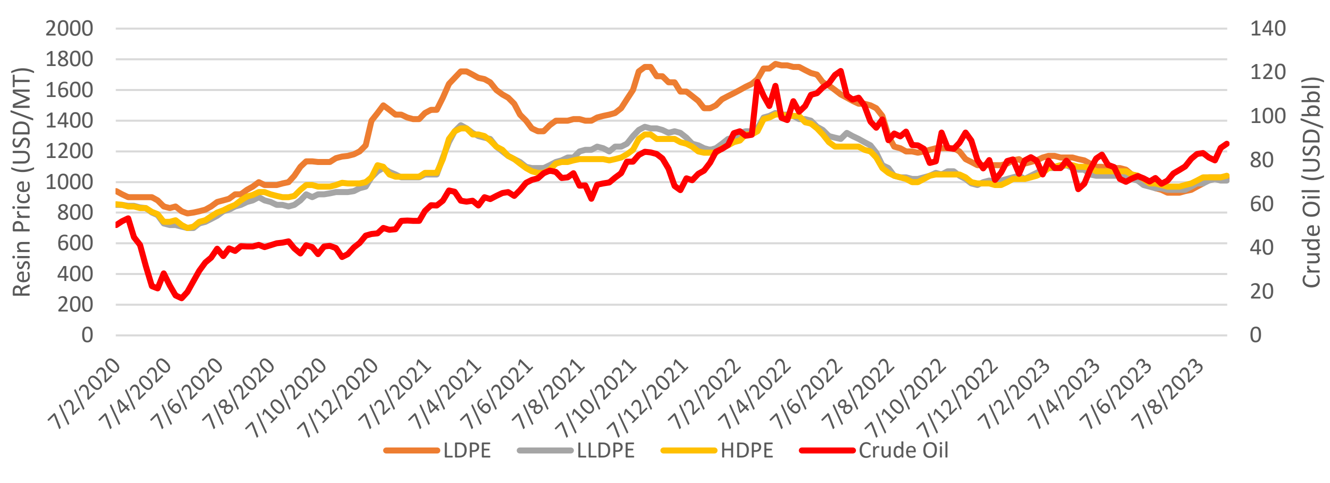
Our top pick for the sector is **TGUAN**. We continue to like the company for: (i) its earnings stability underpinned by a more diversified product portfolio, (i) its earnings growth prospects underpinned by expansion in production capacity for premium products such as nano stretch films and courier 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

	2QCY23						1QCY23					
	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**	**2**	**2**	**0**	**2**	**2**	**0**	**1**	**3**	**0**	**2**	**2**
Total (%)	**0**	**50**	**50**	**0**	**50**	**50**	**0**	**25**	**75**	**0**	**50**	**50**

Source: Kenanga Research, Bloomberg. Bursa Malaysia

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.
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	MP	1.27	1.23	-3.1%	357.5	Y	12/2023	11.8	13.7	7.1%	16.3%	10.8	9.3	1.4	13.6%	5.5	4.3%
SCIENTEX BHD	UP	3.61	2.99	-17.2%	5,599.3	Y	07/2023	30.6	35.5	15.0%	16.0%	11.8	10.2	1.7	15.5%	7.4	2.1%
SLP RESOURCES BHD	MP	0.815	0.900	10.4%	258.3	Y	12/2023	4.8	5.9	-6.8%	23.8%	17.1	13.8	1.4	7.9%	5.5	6.7%
THONG GUAN INDUSTRIES BHD	OP	2.00	3.05	52.5%	788.2	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.7	7.2	0.9	10.2%	4.8	2.4%
Sector Aggregate					**7,003.3**					**7.6%**	**16.8%**	**11.4**	**9.8**	**1.5**	**13.3%**		**3.9%**

Source: 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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