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Plastic Packaging

Restocking, Product Innovation Drive Sales

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OVERWEIGHT



We upgrade our sector call to **OVERWEIGHT** from **NEUTRAL**. Players have guided for stronger flow of orders over the immediate term, driven by customers restocking activities ahead of price hikes stemming from rising resin prices, and overwhelming response to their sustainable packaging materials. Also, local players have gained market share from their overseas peers, capitalising on lower energy cost and innovative products such as nano stretch film and mono film that tick the sustainability box. Our sector top picks are **TGUAN** (OP; TP: RM2.86) and **BPPLAS** (OP; TP: RM1.42).

We upgrade the plastic packaging sector to OVERWEIGHT from NEUTRAL. According to KPMG, the global plastic packaging market is projected to grow at a 5% CAGR from CY21 to CY26. Local producers will grow at a faster rate as they gain market shares from their overseas peers, capitalising on lower energy cost and innovative products such as nano stretch film and mono film that tick the sustainability box.

Local players have guided for a stronger flow of orders over the immediate term driven by customers restocking activities ahead of price hikes stemming from rising resin prices (see Exhibit 1) and overwhelming response to their sustainable packaging materials. The upward momentum in sales should sustain into 2HCY24 on the recovery of manufacturing activities and consumer spending globally.

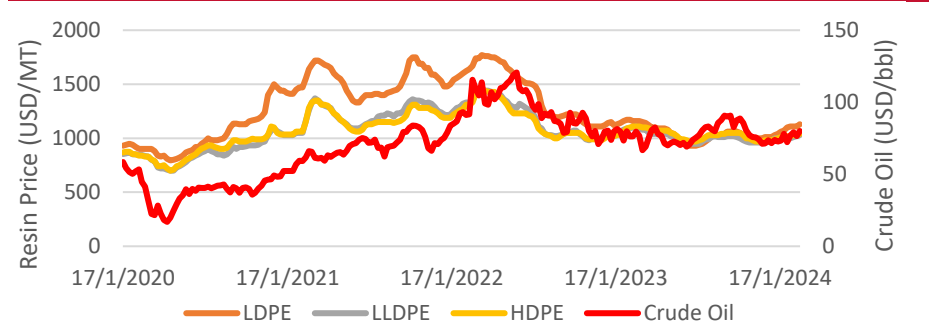
Nano stretch film and mono film are gaining traction, buoyed by the attention to sustainability in every step of the value chain. Nano stretch film is known for its thinner yet stronger properties which enable customers to reduce film consumption without compromising on load stability; while mono film is a fully recyclable film made up of a single type of plastic resin. **SLP** (OP; TP: **RM1.06**) has been drawing in new customers for its mono film, particularly in the ASEAN region, fuelled by the growing preference towards sustainable packaging and the stricter packaging waste regulations in Europe and Vietnam.

Local players are actively seeking out new customers both domestically and internationally by offering these innovative products and actively participating in international trade fairs (such as Interpack, Pack Expo and China Plas) to establish strategic partnerships and strengthen their market presence. Some companies have strategically expanded their capacity in high-margin premium stretch film and blown film products in recent years. **TGUAN**, for instance, commissioned its 9th nano stretch film line in FY23, whereas **BPPLAS** also introduced its 9th and 10th cast stretch film machines in Dec 2021 and Dec 2022, respectively. Note that these two machines mark BPPLAS's initial foray into nano stretch film production. Such long-term capacity expansion should reposition the players favourably to further capitalise on the ongoing post-pandemic economic recovery, as their increased production flexibility and capabilities should translate into more orders.

On a more cautious note, we acknowledge that there could be downside risk to margins due to: (i) increasing operating costs, including labour and electricity, as well as (ii) rising freight costs amidst the escalating Red Sea conflict. Despite this, a shift towards a greater proportion of premium products could potentially cushion the impact of the rising cost pressures. Furthermore, companies under our coverage have been focusing on optimising cost management through initiatives such as: (i) enhanced automation in production processes, and (ii) installing additional solar panels to mitigate higher electricity costs.

Our sector top picks are **TGUAN** for its aggressive push into the European and US markets with its environmentally-friendly, high-performing products, and expansion driven by premium products, such as nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags), and **BPPLAS** for its strong foothold in the fast-growing Southeast Asia market, and expansion driven by premium stretch film and blown film.

Exhibit 1: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

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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.				
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	OP	1.28	1.42	10.9%	360.3	Y	12/2024	14.2	16.4	19.7%	15.5%	9.0	7.8	1.3	14.6%	6.5	5.1%
SCIENTEX BHD	MP	4.13	3.68	-10.9%	6,406.7	Y	07/2024	35.3	36.5	32.1%	3.5%	11.7	11.3	1.6	14.5%	11.0	2.7%
SLP RESOURCES BHD	OP	0.955	1.06	11.0%	302.7	Y	12/2024	5.2	6.3	50.5%	21.3%	18.5	15.2	1.6	8.6%	6.0	6.3%
THONG GUAN INDUSTRIES BHD	OP	1.96	2.86	45.9%	783.6	Y	12/2024	25.8	30.0	22.2%	16.6%	7.6	6.5	0.8	10.3%	5.5	2.8%
Sector Aggregate					7,853.3					30.2%	6.5%	11.1	10.4	1.4	12.9%		4.2%

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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