Plastic Packaging

Sustained Orders

OVERWEIGHT
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We maintain OVERWEIGHT for the sector. Plastic packaging players guided for sustained orders for their products during the remainder of CY24 backed by the recovery in manufacturing activities and consumer spending globally, following restocking by their customers during the early part of the year. Over the long term, local players are poised to gain market shares from overseas producers given local player's low cost structure, better economies of scale and product innovation especially sustainable plastic packaging materials. Our sector top pick is TGUAN (OP; TP: RM2.86).

The OECD Environmental Directorate projects plastic packaging usage to triple from current level by 2060. Similarly, KPMG forecasts plastic packaging consumption to record a CAGR of 5% over the next 3 to 5 years. We believe local players could grow at a faster pace through gaining market share from overseas producers due to: (i) local players' lower input, land, labour and energy costs, (ii) their better economies of scale (given that Malaysian plastic packaging players have significantly grown in size over the past decade), and (iii) product innovation such as the more environmentally friendly nano stretch film and mono film.

Having experienced a pick-up in orders since the beginning of the year on restocking by stockists and end-users, local players guided for the uptrend to sustain during the remainder of CY24 backed by the recovery in manufacturing activities and consumer spending globally. Plastic packaging is widely used across sectors from F&B to trading and logistics, and hence its demand hinges on the health of the global economy. Nonetheless, we expect a seasonal dip in production during 2Q due to the Hari Raya break.

In addition, sales growth is expected to be driven by local players stepping up their marketing efforts, particularly, active participation in international trade fairs (such as Interpack, China Plas and Pack Expo East) to introduce their innovative products like nano stretch film and mono film. 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. The products have strong appeal especially in developed markets as sustainability regulations become more stringent.

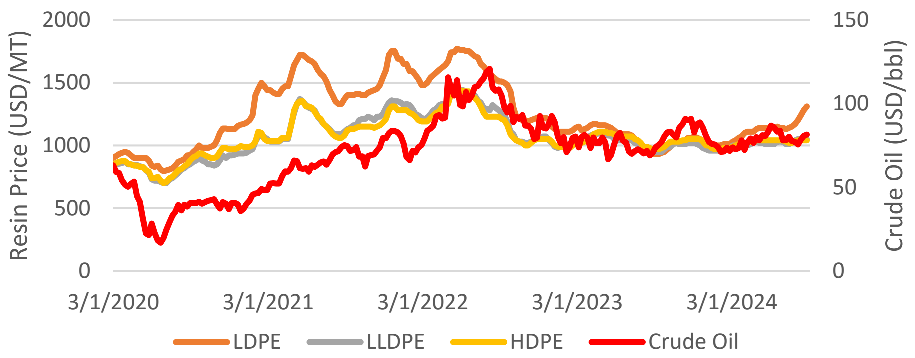
Players also see tremendous opportunities in their backyard in South-East Asia. The demand for plastic packaging in the region is rising amidst a "manufacturing renaissance" as multi-national companies diversify away from China for various reasons such as rising costs and supply-chain de-risking. **SLP (OP; TP: RM1.16),** for instance, is going all out to garner a slice of action in ASEAN countries with its fully recyclable mono film. It recently promoted its sustainable packaging solutions such as its mono film, also known as machine direction-oriented (MDO) PE film, in a regional circular packaging seminar.

To enhance their profitability, some players have ventured into higher-margin niche products. **BPPLAS (MP; TP: RM1.42)**, for instance, is putting onto the market a new blown film packaging product used in the F&B sector, backed by state-of-the-art printing and cutting machines. Meanwhile, **TGUAN** is collaborating with ExxonMobil to produce a new thinner, lighter stretch hood film that enhances logistics efficiency without compromising on stability. These stretch hoods are commonly used to secure palletised items like cement and resins for outdoor use.

We acknowledge potential downside risks to margins due to: (i) increasing operating costs, including labour and electricity, and (ii) rising freight costs on shipping diversion from the Red Sea. However, a shift towards high-margin premium products, increased automation and investment in solar energy installation could partially mitigate these cost pressures.

Our sector top pick is **TGUAN**. We like the company for: (i) its earnings growth prospects underpinned by expansion plans for premium products, such as nano stretch films, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags), (ii) its aggressive push into the European and US markets with high-performing products, and (iii) its product innovation via R&D and collaboration with the likes of ExxonMobil to produce more environmentally-friendly products.

Exhibit 1: 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	1.38	1.42	2.9%	388.4	Y	12/2024	12.1	14.1	1.5%	16.8%	11.4	9.8	1.4	12.5%	6.5	4.7%
SCIENTEX BHD	UP	4.38	4.00	-8.7%	6,794.6	Y	07/2024	35.3	36.6	32.2%	3.6%	12.4	12.0	1.7	14.5%	12.0	2.7%
SLP RESOURCES BHD	OP	0.960	1.16	20.8%	304.3	Y	12/2024	5.8	7.0	68.8%	20.7%	16.5	13.7	1.6	9.6%	6.0	6.3%
THONG GUAN INDUSTRIES BHD	OP	1.98	2.86	44.4%	795.2	Y	12/2024	25.5	29.8	22.1%	16.6%	7.8	6.7	0.8	10.3%	5.5	2.8%
Sector Aggregate					**8,282.5**					**29.5%**	**6.6%**	**11.8**	**11.1**	**1.5**	**12.9%**		**4.1%**

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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