Plastic Packaging

China: Involution on Price or Quality?

NEUTRAL

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Kenanga visited the Shanghai World of Packaging (SWOP) 2025 in China, and we observe that China's packaging industry is undergoing rapid transformation amid weak domestic demand and global headwinds. AI was a dominant theme, increasingly embedded across manufacturing automation, product development and quality control, signalling a shift from concept to execution.

Chinese manufacturers have also intensified overseas expansion, supported by export incentives and exhibition subsidies, resulting in aggressive price competition across regional markets. This has been a pressure point for Malaysian plastic packaging producers as Chinese players prioritise capacity utilisation, often operating at breakeven. The trend is consistent with the sharp rise in China's exports to Malaysia over the past five years (refer to Appendix 4).

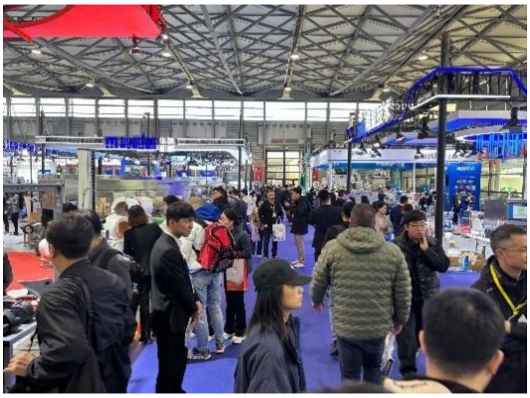
Structurally, our key takeaway is that China's prolonged price-based "involution" (内卷) is evolving into an "involution" on quality, as margin pressure and more demanding customers force competition beyond pricing, accelerating the need for quality breakthrough.

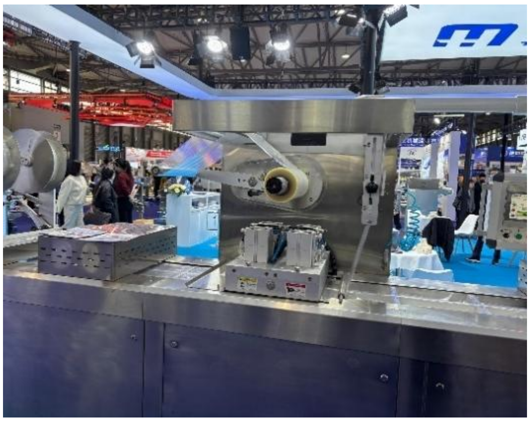
In response, Malaysian players have not been sitting on their laurels and have been adapting - TGUAN is diversifying, BPPLAS is enhancing value-add capacity, while SLP focuses on niche, higher-value products and selective market expansion. As for SCIENTX, its earnings base has long been strongly anchored by its growing property development across Malaysia while its earlier move of setting up a manufacturing plant in Arizona, USA has also turned out well, reaping fruits now especially amidst the US-Global trade war. Overall, the findings we have seem to suggest that the competitive and pricing pressures are likely to persist moving forward.

On the domestic front, we also observed more players venturing into the customized bags segment in recent years as a way to diversify their income streams. Having said the aforementioned developments in relation to shrinking margins and competing business expansion plans, we now foresee an increasing likelihood of potential M&A or consolidation initiatives within the sector moving forward. At the moment, we keep our NEUTRAL sector view and have an OUTPERFORM call for TGUAN [OP, TP: RM1.29].

We attended Shanghai World of Packaging (SWOP), a large-scale 3-day international packaging exhibition and forum hosted by event organizer Dusseldorf with Interpack Alliance in China on November 2025, a well-attended exhibition (photos attached in Appendix 1). This report dives into the key insights of the packaging industry as China navigates through global headwinds and domestic challenges since 2024 and the impacts it has on the Malaysian players in the sector.

Appendix 1: Photos Taken at the Exhibition





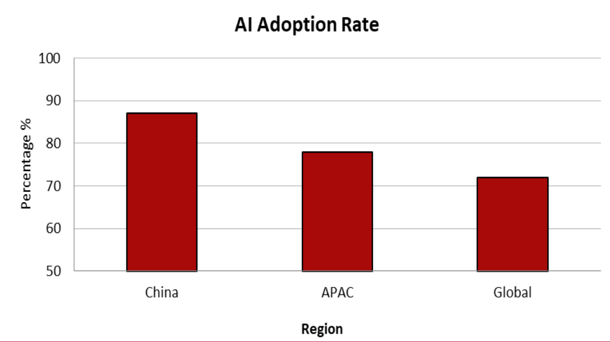
Source: Kenanga Research

1. AI and Technology Innovation - from 制造 to 智造

At the event, the term AI was repetitively mentioned and emphasized during the exhibitions and forums. No longer just a buzz word in China, AI is becoming central to businesses with regard to product advancements and technological innovation. Specific to China's packaging industry, AI is increasingly applied across numerous aspects from product design, quality filtration, production optimisation, manufacturing, to logistics and distribution, which we gathered from the event. This is evident also in a survey data suggesting that Chinese companies are at the forefront in adopting AI with an AI adoption rate of 87% versus APAC and Global at 78% and 72%, respectively, according to a report from Boston Consulting Group as of 2025 (refer to *Appendix 2*).

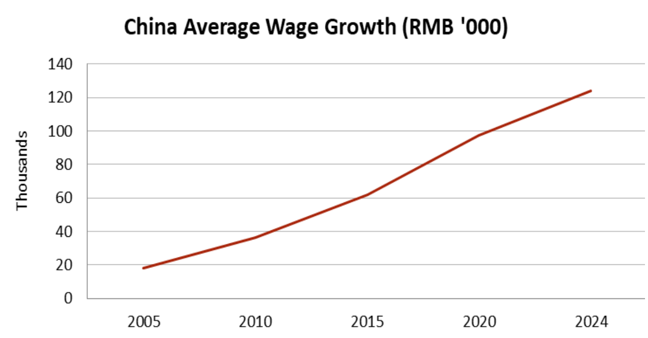
Interest and investment in the sector's innovation were focused specifically on automation for machineries and labour processes as China's labour costs have risen by more than 500% over the past two decades (refer to *Appendix 3*), eroding the historical low-cost labour advantage it used to enjoy.

***Appendix 2:* AI Adoption Rate Comparison 2025**



Source: Chinadaily, Kenanga Research

***Appendix 3:* China Average Wage Growth**



Source: stats.gov.cn, Kenanga Research

Based on what we gathered, technology catch-up has been rapid. Chinese machinery quality has improved significantly, narrowing the predominant performance gap with European producers while maintaining a competitive price advantage as European machines can cost up to 5x or more than Chinese alternatives. The trend abovementioned was particularly prominent post-Covid driven by subdued domestic demand, as businesses were desperately trying to get out of the country by looking for overseas markets, hence raising the urgency for quality enhancements. On the other hand, despite costly investments, Malaysian plastic packaging producers have broadly invested in European machinery in the past, which has contributed to the sector's strong reputation for its superior product quality and consistency.

Notwithstanding these technological gains, profitability remains thin. Industrial products net margins of 5%–6% imply that most efficiency gains might have been largely offset by the competitive environment. From our conversations, a few industry participants quipped, "improvisation is not done to gain more profits, but for the basic need to survive."

2. Pivoting Exports to South-East Asian Markets

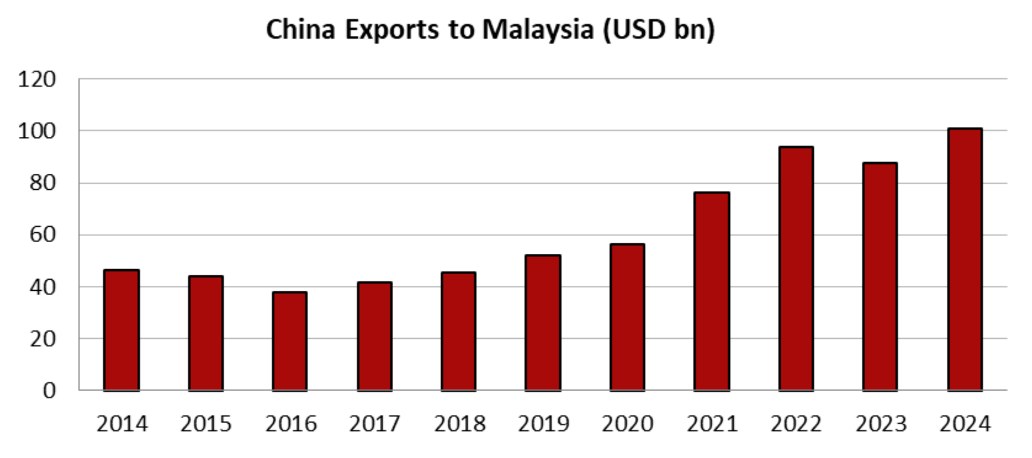
Chinese manufacturers have been accelerating the pivot to overseas markets, particularly into ASEAN including Malaysia, following major headwinds the country was facing as below:

1. Subdued internal consumption following China's property market crash and Covid aftermath given it being the first country who enforced national lockdown and the last to uplift the restrictions among its peers.
2. U.S. tariffs slapped on China imports have led to inevitable damages given U.S. being its largest trading partner.
3. Rejections from the European markets on EU's increasingly stricter requirements on ESG standards and accreditations.

The push to overseas markets has been actively supported by the Chinese government since the pandemic, including tax rebates for exports and incentives for businesses participating in overseas exhibitions, allowing rooms for the Chinese products to be priced at cheaper levels for export sales, which explains why several plastic packaging producers in Malaysia were facing aggressive price cuts from Chinese rivals, as many Chinese firms would operate at breakeven rather than closing down factories and laying off workers which are deemed operationally disruptive. This observation is in line with the substantial growth in China's total exports to Malaysia over the past five years from USD56.3b in 2020 to USD101b in 2024 (as shown in *Appendix 4)*.

At the same time, based on our channel checks at the event, the same exhibition hosted by Dusseldorf & Interpack in Germany is also seeing a rising mix of Chinese exhibitors, indicating their growing aggressiveness and marketing initiatives in competing globally on both cost and quality.

Appendix 4: **Total China Exports to Malaysia**



Source: Tradingeconomics, Kenanga Research

3. Involution on Price or Quality?

China's manufacturing sector has been historically experiencing deep involution (内卷), leading to cheaper product prices for consumers at the expense of compressed margins for manufacturers.

However, apart from having razor-thin margins, consumers are also getting more demanding for the standard of product quality, hence accelerating the inevitable shift from the predominant involution on pricing to the involution on quality, which was further compounded by the need to expand overseas. In other words, Chinese manufacturers will likely be engaged in a race to quality breakthroughs while maintaining the same level of competitive pricings moving forward. On that note, the packaging producers in Malaysia, since CY24, have also flagged aggressive supplies being poured into the regional markets by the Chinese manufacturers at significant discounts while witnessing gradual pick-up in their product quality. Quality in the plastics and packaging segment are oftentimes measured including the metrics such as tensile strength, films transparency, texture regularity, protective properties, defect rate, colour accuracy and etc, which follows on from the advancements in the machine & equipment capabilities.

As China domestic involution continues, overseas expansion, technological advancement, and clear quality segmentation are no longer optional, but existential for its businesses.

4. ESG has been a hurdle although awareness has increased

Some Chinese business owners continue to see the European market as a sizeable and lucrative market and remain committed to penetrate into it. From our visits, we are getting an impression that ESG awareness and developments are progressing positively in the packaging industry. However, before any significant breakthroughs in ESG are achieved, it will likely remain as a barrier of entry with regard to more ESG-conscious markets for the Chinese players to penetrate.

Interestingly, industry views on sustainability are becoming more pragmatic. Knowing that the word "plastic" is conventionally not associated with environmental friendliness, on the flipside, one of the forums proposed that the use of plastic should not be judged solely based on the materials forming it but the resources it saves and the efficiency it offers, allowing it to qualify as an arguably "real ESG" solution. For example, a plastic container that can be safely reused multiple times may consume fewer resources than a paper-made container that is designed for only one-time-use.

5. Impact assessment and key takeaway

As a key takeaway, we see the competitive threat from China, from both oversea expansion and its technological innovation, will likely not abate in the near term. In turn, supply and pricing pressures could remain elevated, especially for the packaging industry in Malaysia.

Against the backdrop of a challenging macroeconomic environment and the aforementioned regional competitive pressures from China, we observe Malaysian plastic packaging producers responding through a range of strategic initiatives, including the following. For instance, TGUAN has geographically diversified into Europe and US markets, and have also grown their F&B business, while venturing into property development. Meanwhile, SCIENTEX has also long diversified and established a steady property arm. BPPLAS is investing in additional blown-film production lines to enhance product value-add for clients, while SLP continues to expand into niche, higher-value product segments and selectively entering markets where

Chinese penetration is currently more limited, such as New Zealand. On the domestic front, we also observed more players venturing into the bread bags segment as a way to diversify their income streams. Having said the above in relation to shrinking margins and competing business expansion plans, we now foresee an increasing likelihood of potential M&A or consolidation initiatives within the sector moving forward.

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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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	MP	0.620	0.630	1.6%	174.5	Y	12/2025	3.4	7.9	-63.5%	133.7%	18.4	7.9	0.6	3.5%	2.0	3.2%
SCIENTEX BHD	MP	3.95	3.60	-8.9%	6,147.3	Y	07/2026	31.5	33.4	-9.2%	6.0%	12.5	11.8	1.4	11.7%	11.0	2.8%
SLP RESOURCES BHD	MP	0.745	0.830	11.4%	236.1	Y	12/2025	3.5	4.6	-20.7%	31.5%	21.3	16.2	1.3	5.9%	4.0	5.4%
THONG GUAN INDUSTRIES BHD	OP	1.14	1.29	13.2%	450.6	Y	12/2025	17.4	20.2	3.9%	16.2%	6.6	5.7	0.5	7.1%	6.0	5.3%
SECTOR AGGREGATE					**7,008.5**					**-10.2%**	**9.8%**	**12.1**	**11.0**	**1.2**	**10.0%**		**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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