

# Packaging

SET PKG Index Close: 21/11/2024 2,692.20 -50.93 / -1.86% Bt339mn  
 Bloomberg ticker: SETPKG

## Growth ahead for the long term

We expect the global packaging industry to continue to exhibit steady growth in the medium to long term, driven by paper and polymer packaging demand. We expect sector earnings to decline slightly YoY in 4Q24 due to lower sales volume because of weak Chinese demand, then recover in 2025. We maintain our Outperform rating on SCGP as we believe earnings have bottomed and expect 2025 core earnings to benefit from China's major economic stimulus package.

**Packaging industry to continue to grow.** The global packaging industry is poised for medium to long term growth. Paper packaging demand is expected to grow by 4.8% CAGR in 2023-2028, with flexible and rigid plastic packaging expected to grow at a CAGR of 5.0% and 4.5% respectively. In the regional packaging paper industry, China is the lead importer from ASEAN, taking 50-60% of total ASEAN export volume. The Chinese government's planned stimulus package is expected to lift its packaging paper import volume back to normal pre-COVID levels of ~800,000 tons per month against the 580,000 tons in October 2024.

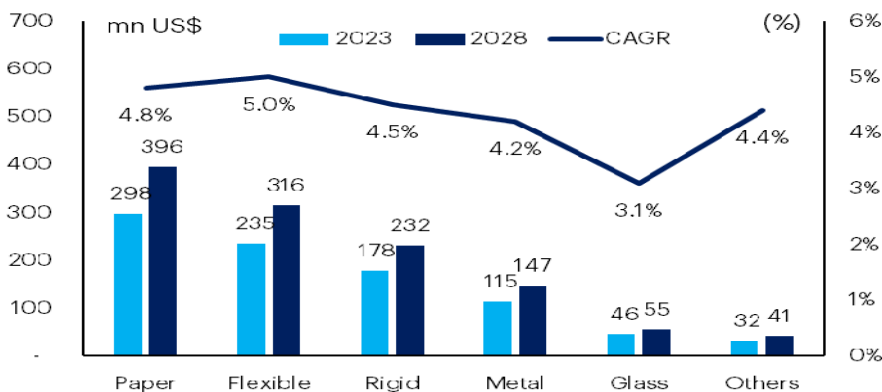
**Recovered paper costs expected to trend sideways down.** Typically, a major portion of raw materials at ~95% of total raw materials comes from recovered paper (RCP). The choice of RPC is backed by environmental concerns, cost-effectiveness and the increasing availability of recycled fiber. RCP prices are expected to move sideways down in the medium term due to the potential for lower crude oil prices and freight rates resulting from the incoming US president's policy to boost fossil fuel production.

**4Q24 earnings momentum.** We expect sector earnings, led by SCGP, which dominates at ~69% of total SET packaging earnings, to decline slightly YoY due to lower sales volume in the face of weak Chinese demand. However, on a YoY basis we expect average selling prices (ASP) to be stable, with prices for the raw material, RPC, to decline slightly. We also anticipate higher loss contribution from Fajar Paper after it bumped up its stake to 99.75% in September 2024 from 55%. This, coupled with a -Bt100mn rise in interest expense in 4Q24, will erode earnings.

**Maintain our Outperform rating on SCGP.** We recommend taking the opportunity to accumulate when share price drops in response to the poor 3Q24 results. We believe earnings bottomed in 3Q24 and expect 2025 core earnings to benefit from China's major economic stimulus package. Our 2025 target price is Bt38/share, based on -1SD of the 3-year PE mean.

**Key risks** are a continued slow pace in China's economy and geopolitical unrest raising coal cost. Key ESG risks are energy management, sustainability products, and high greenhouse gas emissions (E).

### Global packaging demand breakdown by application



Source: PatSnap, Clarivate, SCGP and InnovestX Research

### Valuation summary

Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 24F	P/BV (x) 24F	P/E (x) 25F	P/BV (x) 25F
PJW	-	2.5	-	10.0	8.3	1.1	1.1
SCGP	Outperform	23.8	38.0	61.8	21.1	16.2	1.0
SFLEX	-	3.1	-	8.6	8.0	2.0	1.9
<b>Average</b>				<b>13.2</b>	<b>10.8</b>	<b>1.3</b>	<b>1.3</b>

Source: InnovestX Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
PJW	(3.8)	0.0	(34.9)	(1.9)	(6.9)	(36.1)
SCGP	(11.0)	(1.2)	(37.4)	(9.2)	(8.1)	(38.5)
SFLEX	0.6	(9.9)	(11.9)	2.7	(16.1)	(13.5)

Source: SET and InnovestX Research

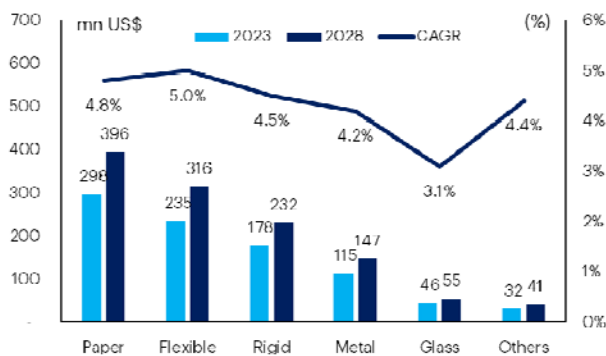
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**Packaging industry outlook is for steady growth.** The global packaging industry is expected to show steady growth in the medium to long term, driven by increased demand across various sectors, including food and beverages, healthcare, e-commerce, and sustainability-focused initiatives. Based on market reports (PatSnap and Clarivate), demand for both paper and polymer (flexible and rigid plastic) packaging is increasing. Demand for paper packaging, which accounts for 33% of global packaging demand, is expected to grow by 4.8% CAGR in 2023-2028, with demand for flexible (26% of total global packaging demand) and rigid (19% of total global packaging demand) plastic packaging expected to grow at a CAGR of 5.0% and 4.5% respectively.

**ASEAN players are important to packaging demand growth.** While the global packaging market is exhibiting steady growth, demand in the ASEAN region in particular is growing, especially in Vietnam and Indonesia. Driving this growth is solid domestic demand, improving contribution from the service sectors and export recovery. These factors will raise demand for consumer goods while also placing ASEAN as one of the most attractive regions for foreign investment with domestic consumption accounting for roughly 60% of GDP, coupled with a growing young middle-class income population group. For the regional packaging paper industry, China is the primary importer of ASEAN packaging paper, accounting for 50-60% of total ASEAN export volume. China's economic slowdown in 2023-2024, with a weak property market, declining exports and a sluggish consumer sector, hurt overall packaging demand in the region and led ASEAN's paper packaging producers to reduce utilization rates. However, the Chinese government's recent plans to launch a significant stimulus package that includes increased government spending on infrastructure projects, tax cuts to boost consumer spending and business investment and financial support for the property sector, along with monetary policy easing, are expected to boost China's import volume of packaging paper to the normal pre-COVID levels of ~800,000 tons per month, compared to the current level of 580,000 tons in October 2024.

**Figure 1: Global packaging demand breakdown by application**



Source: PatSnap, Clarivate, SCGP and InnovestX Research

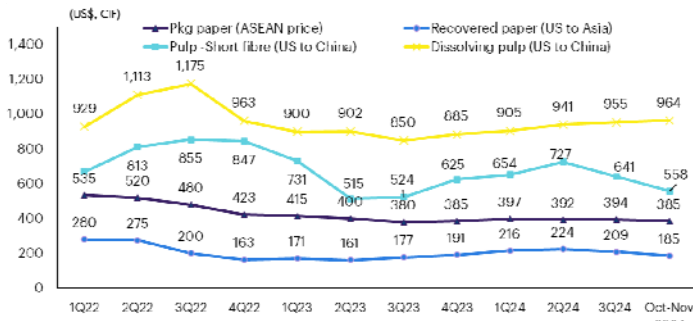
**Figure 2: Packaging market growth outlook for Thailand, Vietnam, Indonesia and the Philippines**

Average 2025-2029	Thailand	Vietnam	Indonesia	Philippine
Population (mn)	70	103	287	118
GDP growth (%)	2.8	5.9	4.8	5.8
<b>Market growth (% CAGR 2025-2029)</b>				
Fiber packaging	2.8	5.9	5.0	5.0
Polymer packaging	2.9	8.9	4.8	3.7

Source: Statista, Euromonitor, SCB EIC, SCGP and InnovestX Research

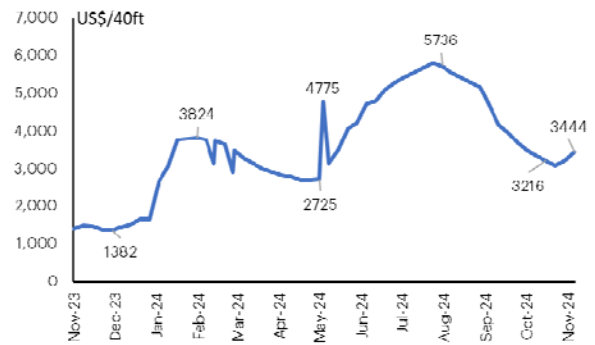
**Recovered paper costs expected to trend sideways or decline.** Typically, recovered paper forms a major portion of packaging paper production at ~95% of total raw materials. The choice of RPC is underwritten by environmental concerns, cost-effectiveness and the increasing availability of recycled fiber. RCP prices are expected to move sideways or decline in the medium term due to the potential for lower crude oil prices and freight rates arising out of the incoming US president's policy to boost fossil fuel production. Note that average AOCC (American Old Corrugated Containers) price is US\$185/ton in Oct-Nov 2024, vs US\$191/ton in 4Q23 and US\$209/ton in 3Q24.

**Figure 3: SCGP product price and raw material cost trend**



Source: Fastmarkets RISI, CCF Group, SCGP, and InnovestX Research

**Figure 4: World Container Index (WCI)**



Source: Drewry, and InnovestX Research

**4Q24 earnings.** We expect sector earnings, dominated by SCGP, which accounts for ~69% of total SET packaging earnings, to decline slightly YoY in 4Q24 due to lower sales volume from weak Chinese demand. On a YoY basis, we expect average selling price (ASP) to be stable with and raw material (RPC) price to decline slightly. Earnings will also be impacted by higher losses from Fajar Paper after it raised its stake to 99.75% in September 2024 from 55%. This, coupled with a rise in interest expense of ~Bt100mn in 4Q24, will further erode earnings.

On a QoQ basis, we expect slight improvement in core earnings in 4Q24, backed by the absence of floods in northern Thailand and the depreciation of the baht against the US dollar. Additionally, after a channel check with the company, the October and November buying season is looking good. However, these positives may be in part offset by increased losses from Fajar Paper after lifting its shareholding to 99.75% in September.

**SCGP's strategy.** SCGP's management is focusing on turning Fajar Paper around via operational improvements such as optimizing raw material supply and adjusting the energy mix (using more coal to replace gas with no increase in carbon emission) to reduce energy costs. It also plans to increase sales volume through supply chain integration, including M&A of downstream facilities to broaden the value chain and expand its customer portfolio. SCGP believes Fajar's operations have bottomed out and will gradually move up month by month. Packaging paper demand from China is expected to remain weak in 4Q24, despite the government's stimulus measures, with these having greater effect from 1Q25 onwards. Additionally, the projected decrease in global interest rates in 2025 is expected to stimulate spending and investment, positively impacting overall demand.

**Maintain our Outperform on SCGP.** We recommend taking the opportunity to accumulate when share price drops in response to the poor 3Q24 results. We believe earnings bottomed in 3Q24 and expect 2025 core earnings to benefit from China's major economic stimulus package. Our 2025 target price is Bt38/share, based on -1SD of the 3-year PE mean.

**Figure 5: Summary of investment theme and valuation**

	Rating	End-2025 TP	Investment theme	Valuation	SET ESG ratings
<b>SCGP</b>	Outperform	Bt38/share, based on -1SD of the 3-year PE mean	We expect earnings to have bottomed out in 3Q24, with a gradual improvement in the next couple of quarters driven by the better overall packaging demand following the effectiveness of the Chinese government's stimulus package.	SCGP is trading at 17.6x 2024PE, nearly -2SD of its 3-Year historical PE mean. Also trading at 0.77x 2024 PBV, nearly -2SD of its 3-Year historical PBV mean.	AAA

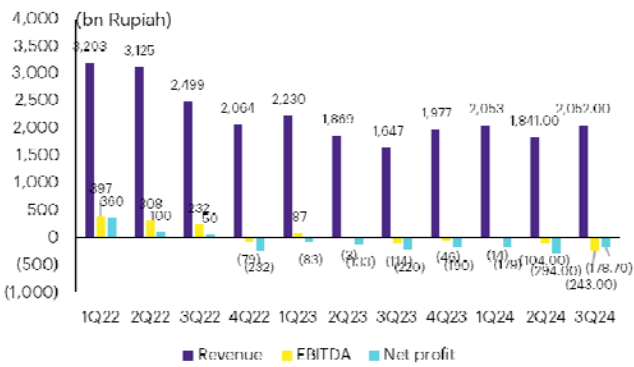
Source: InnovestX Research

**Figure 6: ESG summary**

	<b>SCGP</b>
<b>SET ESG ratings</b>	AAA
<b>Bloomberg ESG Financial Materiality Score (2022)</b>	7.3
<b>Rank in Sector</b>	2/15
<b>Environmental Issue</b>	<ul style="list-style-type: none"> <li>By 2025, SCGP targets a 13% reduction in energy consumption from 2007 (vs 5.8% in 2021). It targets GHG emission reduction of 25% from 2020 in 2030 (vs 2.4% in 2021) and achieve net zero in 2050.</li> <li>By 2025, it targets 5% reduction in air emissions per product compared to 2020 (vs 6.7% reduction in specific dust in 2021), 35% reduction of water withdrawal compared to 2014 (vs 26.3% in 2021), 100% reduction of waste disposal by incineration without energy recovery in Thailand compared to 2024 (vs 99.9% in 2021), and it targets to have biodiversity conservation area certified by FSC standard of at least 10% of agroforestry area (vs 12.9% in 2021).</li> <li>By 2025, SCGP targets the volume of recyclable, reusable, or compostable packaging at 100% from the volume of total packaging (vs 99.7% in 2021).</li> <li>In 2021, SCGP signed a long-term sustainability Linked Loan (SLL) worth Bt5bn, with interest rate linked to its sustainability performance targets including reducing GHG emissions and water withdrawal and increasing the sales portion of eco-friendly goods and services.</li> <li>We anticipate stricter corporate greenhouse gas emission regulations to be a materializing environmental factor impacting SCGP's future operations. While SCGP has a significant greenhouse gas emission footprint of 5mn tonnes as of 2020, its commitment to ambitious reduction targets and clear environmental policies distinguishes its ESG score from its peers.</li> </ul>
<b>Social Issue</b>	<ul style="list-style-type: none"> <li>By 2030, it targets sales revenue of products, services, and solutions with the SCG green choice label to reach 66.7% of total revenue (vs 45% in 2021) and sales revenue of products, services, and solutions providing directly value to customers with the SCG green choice label to reach 33.3% of total sales revenue (vs 13% in 2021).</li> <li>SCGP aims to be a role model in human rights, both directly through business activities, and indirectly by providing support and encouraging business partners in the value chain and targets no human rights violations (already zero in 2021 and all employees taking human rights e-Testing with 100% passing rate in 2021).</li> <li>It targets a 90% community satisfaction index (vs 89% in 2021), 100% for customer satisfaction (vs 80% in 2021), 78% employee engagement rate (vs 76% in 2021), and 0.08cases/1mn hours worked for lost time injury frequency rate of employees and contractors (vs 0.608 in 2021).</li> <li>SCGP stands out among its peers by demonstrating leadership in safety measures, employee well-being, and supply chain management</li> </ul>
<b>Governance Issue</b>	<ul style="list-style-type: none"> <li>SCGP aims to disseminate and communicate the understanding of SCGP's code of conduct with all companies in the group (100% achievement in 2021) with no corruption (zero violation of anti-corruption policy in 2021).</li> <li>In 2021, SCGP's board of directors consists of 12 directors. Of this, 11 were non-executive directors (92% of the entire board), 8 were independent directors (67% of the entire board), and 3 were female (25% of the entire board).</li> <li>In 2021, CG rating was excellent and anti-corruption progress indicator was certified.</li> <li>SCGP has publishing its overall corporate governance framework, we believe they should enhance the clarity of Board of Director roles, particularly concerning the representation of minority shareholders, which still below the industry average.</li> </ul>

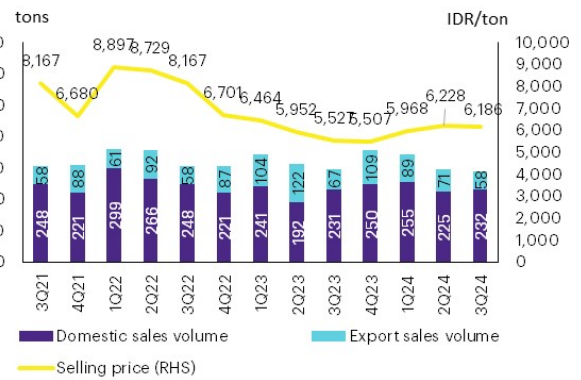
Source: Company data and InnovestX Research

**Figure 7: Fajar Paper Earnings performance**



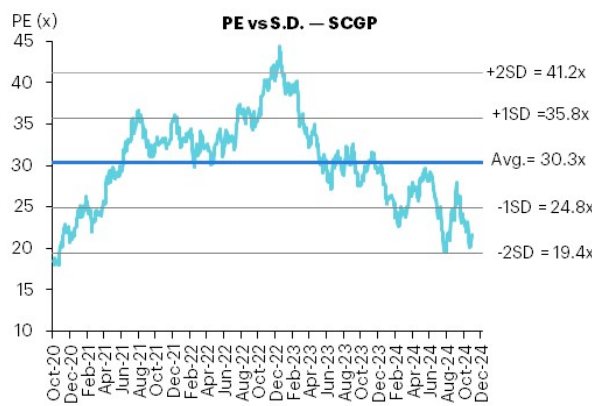
Source: Company data and InnovestX Research

**Figure 8: Fajar paper Sale volume & ASP**



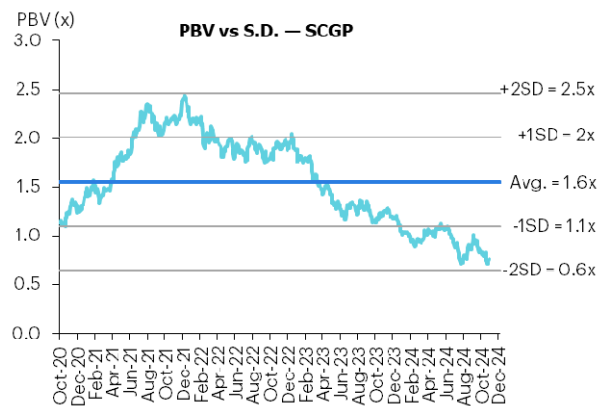
Source: Company data and InnovestX Research

**Figure 9: SCGP PE Band**



Source: InnovestX Research

**Figure 10: SCGP PBV band**



Source: InnovestX Research

**Figure 11: Valuation summary** (price as of Nov 21, 2024)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F
PJW	-	2.50	-	-	13.2	10.0	8.3	(23)	32	20	1.1	1.1	1.1	9	11	13	3.6	5.2	6.0	6.7	6.0	5.6
SCGP	Outperform	23.80	38.0	61.8	19.8	21.1	16.2	(10)	(6)	31	1.0	1.0	0.9	5	5	6	2.3	2.1	2.8	7.1	7.6	6.6
SFLEX	-	3.10	-	-	9.7	8.6	8.0	39	13	8	2.2	2.0	1.9	24	24	23	4.2	4.7	4.5	9.4	8.2	7.4
<b>Average</b>					<b>14.2</b>	<b>13.2</b>	<b>10.8</b>	<b>2</b>	<b>13</b>	<b>19</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>3.4</b>	<b>4.0</b>	<b>4.4</b>	<b>7.7</b>	<b>7.3</b>	<b>6.6</b>

Source: InnovestX Research, noted that: consensus estimates for PJW and SFLEX.

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