

SCGP

SCG Packaging Public Company Limited

Management Discussion and Analysis

Q1/2022 (Unreviewed)



Executive Summary

In Q1/2022, despite the continuous rise of COVID-19 cases, many countries have started the easing of COVID prevention measures or using “Living with COVID” policy in order to revive economic activities. Consequently, consumer demand gradually resumed in ASEAN. Nevertheless, a strict lockdown of major cities in China led to disruptions in several seaports, factories and also in the supply chain of goods. Furthermore, challenges remain on the elevated freight costs and shortage of semiconductors in electronic, electrical and automotive industries. Additionally, the sanctions related to Russia-Ukraine conflicts have affected the energy and commodity prices which led to accelerated global inflation and slowdown of economic recovery.

For the performance of Q1/2022, SCGP’s revenue from sales increased to 36,634 MB (+34% YoY and +4% QoQ) owing to (1) The consolidation of M&Ps in Duy Tan, Intan Group, and Deltalab (2) Revenue growth in the integrated packaging business which mainly came from customer segments of consumer products, exports of ready meals, frozen food and pet food (3) Surge of demands and pulp price amid concern on global supply chain disruption.

EBITDA was recorded at 4,887 MB (-7% YoY and -10% QoQ) with EBITDA margin of 13%. Profit for the period registered at 1,658 MB (-22% YoY and -22% QoQ) with net profit margin of 5%. The YoY decrease in performance was due mainly to global broad based increase in raw materials and energy costs. Yet, SCGP has proactively and effectively managed cost throughout the supply chain while product price adjustments were made to reflect the rise in costs. Meanwhile, QoQ drop in EBITDA and profit was due to non-recurring adjustment in Q4/2021 related to Go-Pak’s earn-out provision.

Core EBITDA was recorded at 4,988 MB (-9% YoY and +9% QoQ) and Core Profit was 1,722 MB (-24% YoY and +27% QoQ) with YoY movement as per above mentioned factors. QoQ improvement was due mainly to increase in product price and the recovery of packaging demand along with the economy.

Table 1 - SCGP's Consolidated Financial Statements

Unit : MB

	Q1		% y-o-y	% q-o-q
	2022	2021		
Operating Results from Consolidated Financial Statements				
Revenue from sales	36,634	27,253	34%	4%
Integrated Packaging Business	30,955	22,967	35%	2%
Fibrous Business	5,679	4,286	33%	18%
Cost of sales	30,346	21,204	43%	1%
Gross profit	6,288	6,049	4%	22%
<i>Gross profit margin (%)</i>	17%	22%		
Distribution costs and administrative expenses	3,989	2,970	34%	20%
EBITDA	4,887	5,267	-7%	-10%
<i>EBITDA margin (%)</i>	13%	19%		
Profit for the period	1,658	2,135	-22%	-22%
<i>Net profit margin (%)</i>	5%	8%		
Earnings per Share (Baht)	0.39	0.50		
Core Financials				
Core EBITDA	4,988	5,471	-9%	9%
Core Profit	1,722	2,263	-24%	27%

Note:

Revenue from sales by business = Revenue from sales after inter-segment elimination basis

EBITDA = Earnings before finance cost, tax, depreciation and amortization
(excluded dividend from associates and included FX gain/loss from loans)

In Q1/2022 and Q1/2021, Dividend from associates were 3 MB and 6 MB, respectively.

Profit for the period = Profit for the period attributable to owners of the parent

Table 2 – Non-operating Items Adjustment for Core Profit and Core EBITDA

Unit : MB

	Core Profit		Core EBITDA	
	Q1		Q1	
	2022	2021	2022	2021
	1,722	2,263	4,988	5,471
Key Items				
1) FX Gain/Loss from Loan, Derivatives and Investment	22	56	(38)	52
2) Company restructurings	(95)	(35)	(75)	(41)
3) Expenses related to M&Ps Transactions	9	(73)	12	(79)
4) Impairments and Others	-	(76)	-	(136)
Total	(64)	(128)	(101)	(204)
Profit for the period and EBITDA	1,658	2,135	4,887	5,267

Business Expansions to Capture Growing Consumer Demand

SCGP proceeded on building a robust growth with M&P which focus on mutual synergy creation with business partners and organic growth via production capacity expansion. The progresses in Q1/2022 are as follow.

1) Integrated Packaging Business (IPB)

The Philippines - The capacity expansion of packaging paper will strengthen market-leading position of SCGP while support the increase of domestic purchasing power and overall economic growth. Production capacity increased by 220,000 tons per year which equal to 95% of previous capacity. Investment size of this project was 5,388 MB which started to commercial operation in March 2022.

2) Fibrous Business (FB)

Thailand and Vietnam - SCGP enhanced production capacity for foodservice packaging from paper and natural pulp to deliver high quality food grade products for domestic demand as well as purchasing orders from global customers.

This project leads to expansion in the production capacity of 1,838 million units per year which equal to 25% of previous capacity. The expansions of pressboard production capacity of 1,615 million pieces per year were completed at factories in Ratchaburi in Thailand and Binh Duong in Vietnam with commercial run since Q1/2022.

SCGP is committed to sustainable development and ESG principles

SCGP has been incorporating its business practices with the concepts of good governance, social responsibility and environment (ESG) throughout all operations. The company constantly aims to deliver transparency, accountability, and fairness to all stakeholders. As part of ESG commitment, SCGP has set long-term target in greenhouse gas emission from company's operation to be net zero by 2050. The efforts to achieve this target include the increase in proportion of renewable energy sources such as biomass, solar cell as a replacement of coal in production processes.

In Q1/2022, SCGP has officially submitted our intention to join Science Based Targets initiative (SBTi), a renowned international multi-stakeholders climate initiative which help clearly-defined pathway for more than 2,000 businesses around the world to reduce greenhouse gas (GHG) emissions while prevent the worst impacts of climate change in line with the Paris Agreement goals. This is part of our long-term efforts to embed science-based targets in the fundamental of sustainability management along with the Net Zero commitment.

In February 2022, SCGP has entered into collaboration with Ministry of Industry of Thailand to launch the project "80 Years of Ministry of Industry, 8,000 Kilograms of Recycling and Returning to the Society". Other projects launched in early 2022 include "reBOX#3" with Thailand post, project with Uniqlo Thailand, to encourage efficient use of resources and recycle wasted paper into new products for public use such as Copy Paper, Paper Field Hospital Bed, Student Desk Set, Dining Table Set.

Additionally, SCGP has been certified as member of Thai Private Sector Collective Action against Corruption (CAC) on 31 March 2022. This is a testament to the company's notable corporate governance, transparency and anti-corruption compliance standard at all level of operations.

Revenue from Sales by Key Business Segments

Integrated Packaging Business (IPB)

For the performance of Q1/2022, IPB revenue from sales reported at 31,022 MB (before inter-segment elimination), increased by +35% YoY with main contribution from financial consolidation of completed M&Ps of rigid plastic packaging manufacturer (Duy Tan), corrugated carton producer (Intan Group), and medical supplies and labware specialist (Deltalab). On a QoQ basis, revenue from sales grew +2% mainly from higher sales to customers in the segments of processed and frozen food export (especially to Europe and America where there are growing demand). Furthermore, manufactures of consumer products in Thailand and Indonesia were stocking up inventory as part of preparation prior to holiday seasons.

EBITDA recorded at 4,269 MB, decrease -6% YoY and increase +17% QoQ with EBITDA margin of 14%. Profit for the period was 1,495 MB, a drop of -27% YoY caused mainly by a broad based heightened in freight and raw material costs across the industry. On a QoQ basis, profit for the period increase +57% which attributed to the adjustment in product prices in the midst of continuous surge in costs in the industry. Meanwhile, packaging paper export decreased as a result of economic slowdown in China.

Fibrous Business (FB)

For the performance of Q1/2022, FB revenue from sales recorded at 6,208 MB (before inter-segment elimination), increased +32% YoY and +18% QoQ. These are consequences of (1) recovered demand of printing and writing paper following school and workplace reopening along with augmented demand of industrial and specialty paper (i.e. Food grade) (2) Customer's restocking of pulp amid concern on supply chain disruption as a result of geopolitical conflict in Europe.

EBITDA recorded at 637 MB, an increase of +4% YoY due to higher market price of short fiber pulp while the challenge of heightened freight cost still remained. On a QoQ basis, EBITDA dropped -65%, Nonetheless, excluding non-recurring adjustment in Q4/2021 related to Go-Pak's earn-out provision, EBITDA would be increase +4% QoQ mainly from the increased in paper sale volume and higher short fiber pulp price. EBITDA margin for the period was 10%. Profit for the period was 32 MB (decrease of -53% YoY and -97% QoQ).

Table 3 - Operating Results by Business Segment

Unit : MB

	Q1			
Revenue from Sales	2022	2021	% y-o-y	% q-o-q
Consolidated SCGP	36,634	27,253	34%	4%
Integrated Packaging Business	31,022	23,037	35%	2%
Fibrous Business	6,208	4,713	32%	18%
Intersegment Elimination	(596)	(497)	-20%	-11%

	Q1			
EBITDA	2022	2021	% y-o-y	% q-o-q
Consolidated SCGP	4,887	5,267	-7%	-10%
Integrated Packaging Business	4,269	4,542	-6%	17%
Fibrous Business	637	611	4%	-65%
Others	1,404	1,786	-21%	875%
Intersegment Elimination	(1,423)	(1,672)	15%	-661%

	Q1			
EBITDA Margin (%)	2022	2021		
Consolidated SCGP	13%	19%		
Integrated Packaging Business	14%	20%		
Fibrous Business	10%	13%		

	Q1			
Profit for the Period	2022	2021	% y-o-y	% q-o-q
Consolidated SCGP	1,658	2,135	-22%	-22%
Integrated Packaging Business	1,495	2,053	-27%	57%
Fibrous Business	32	68	-53%	-97%
Others	1,435	1,616	-11%	n.a.
Intersegment Elimination	(1,304)	(1,602)	19%	n.a.

Note:

EBITDA = Earnings before finance cost, tax, depreciation and amortization
(excluded dividend from associates and included FX gain/loss from loans)

EBITDA Margin = EBITDA / Revenue from Sales

Profit for the Period = Profit for the period attributable to owners of the parent

Consolidated SCGP's financial statement is presented after the intersegment elimination.

Cost of Sales

In Q1/2022, total cost of sales was 30,346 MB, an increase of +43% YoY as a result of the (1) consolidation of new M&P companies along with organic expansions (2) heightened freight and energy costs (3) limited supply of recycled paper during the height of the COVID-19 pandemic in many countries, leading to surge in raw material prices. Meanwhile, QoQ cost of sales was slightly increased +1% QoQ.

Amidst the rise in costs, SCGP has continuously operated production facilities and fulfilled the customers' requirements as usual. The company's efforts to actively manage costs include the increase in proportion of local recycled paper as raw materials, expansion of own recycling centers with current total of 73 centers across Thailand, Vietnam and the Philippines, the adjustment of import and export transactions to be more toward FOB (Free On Board) format. Moreover, cross borders logistics through truck delivery was being used to replace some sea transportation routes to avoid high freight rate.

Table 4 - Cost of Sales by Business Segment

Unit : MB

	Q1				% y-o-y	% q-o-q
	2022	(%)	2021	(%)		
Integrated Packaging Business	25,560	84%	17,874	84%	43%	-1%
Fibrous Business	5,473	18%	3,924	19%	39%	18%
Intersegment Elimination	(687)	-2%	(594)	-3%	16%	32%
Consolidated SCGP	30,346	100%	21,204	100%	43%	1%

Summary of Financial Positions as of 31 March 2022

- Total assets were equal to 198,399 MB or a decrease of 8,425 MB (-4% from December 2021) which was mainly due to
 1. The increase in cash and cash equivalents of 2,865 MB while Investments in short-term debt instruments decreased 12,018 MB resulting a net decrease of 9,153 MB.
 2. Trade account receivables and other current receivables increased by 1,262 MB as a result of higher sales.
- Total liabilities were equal to 77,193 MB or a decrease of 7,331 MB (-9% from December 2021) which was due to the decrease in net total borrowings of 10,152 MB mainly from the repayment of short-term bank loan.
- Total shareholders' equity reported at 121,206 MB or a decrease of 1,094 MB (-1% from December 2021). The change was primarily due to profit for the period of 1,992 MB, the decrease from dividend payment of 2,340 MB, along with 800 MB of foreign exchange differences from translation of financial statement.

Capital Structure

In Q1/2022, total debt to equity ratio was at 0.6 times with no change from Q1/2021. Net debt to EBITDA was at 1.7 times which was higher than 0.8 times in Q1/2021. Interest-bearing debt to equity ratio was at 0.4 times with no change from Q1/2021.

Table 5 - Summary of SCGP's Consolidated Statement of Financial Position

Unit : MB

	March	December	Change	
	2022	2021	MB	%
Total Assets	198,399	206,824	(8,425)	-4%
Current assets	61,409	69,186	(7,777)	-11%
Cash and cash equivalents	10,175	7,310	2,865	39%
Investments in short-term debt instruments	894	12,912	(12,018)	-93%
Trade and other current receivables	26,172	24,910	1,262	5%
Inventories	23,407	23,308	99	0%
Investments in associates	878	873	5	1%
Property, plant and equipment	96,467	97,181	(714)	-1%
Goodwill	27,487	29,483	(1,996)	-7%
Other intangible assets	9,575	7,750	1,825	24%
Total Liabilities	77,193	84,524	(7,331)	-9%
Trade and other current payables	17,269	15,261	2,008	13%
Loans	46,619	56,771	(10,152)	-18%
Total Shareholders' Equity	121,206	122,300	(1,094)	-1%
Total equity attributable to owners of the parent	96,147	96,837	(690)	-1%
Non-controlling interests	25,059	25,463	(404)	-2%

Table 6 - SCGP's Net Debt

Unit : MB

	March 2022	December 2021
Short-term Loans	21,265	30,547
Foreign	14,475	12,711
Baht	6,790	17,836
% of Total Loans	46%	54%
Long-term Loans	25,354	26,224
Foreign	8,888	9,706
Baht	16,466	16,518
% of Total Loans	54%	46%
Average cost of debt (%)	2.2%	2.3%
Total Loans	46,619	56,771
Cash and Cash Under Management	11,088	20,242
Cash and cash equivalents	10,175	7,310
Investments in debt instruments	913	12,932
Net Debt	35,531	36,529



Table 7 - Key Financial Ratio

			Q1/2022	Q1/2021
Profitability Ratio				
1	Gross Profit Margin	(%)	17.2	22.2
2	EBITDA Margin	(%)	13.3	19.3
3	Net Profit Margin	(%)	4.5	7.8
4	Core EBITDA Margin	(%)	13.6	20.1
5	Core Profit Margin	(%)	4.7	8.3
6	Return on Assets	(%)	4.8	5.0
7	Return on Equity	(%)	8.4	10.3
8	Return on Invested Capital	(%)	7.2	7.8
Liquidity Ratio				
9	Current Ratio	(times)	1.4	1.3
10	Quick Ratio	(times)	0.8	1.0
Activity Ratio				
11	Account Receivable Turnover	(times)	6.5	5.9
12	Account Payable Turnover	(times)	10.9	9.2
13	Cash Cycle	(days)	87	90
14	Total Asset Turnover	(times)	0.7	0.6
15	Inventory Turnover	(times)	5.7	5.4
Leverage Ratio				
16	Net Debt to EBITDA	(times)	1.7	0.8
17	Net Debt to Equity	(times)	0.3	0.1
18	Debt to Equity	(times)	0.6	0.6
19	Interest-bearing Debt to Equity	(times)	0.4	0.4

Note:

- 1) Gross Profit Margin is calculated by Gross profit divided by revenue from sales
- 2) EBITDA Margin is calculated by EBITDA divided by revenue from sales
- 3) Net Profit Margin is calculated by Profit for the period attributable to owners of the parent divided by revenue from sales
- 4) Core EBITDA Margin is calculated by Core EBITDA divided by revenue from sales
- 5) Core Profit Margin is calculated by Core Profit divided by revenue from sales
- 6) Return on Assets is calculated by Profit for the period (LTM) divided by average total assets
- 7) Return on Equity is calculated by Profit for the period attributable to owners of the parent (LTM) divided by average shareholders' equity attributable to owners of the parent
- 8) Return on Invested Capital is calculated by Profit from operations minus tax expense, divided by the sum of net debt and shareholders' equity
Net Debt is calculated by Total interest bearing debt less cash and cash under management
- 9) Current Ratio is calculated by Current assets divided by current liabilities.
- 10) Quick Ratio is calculated by Sum of cash and cash equivalents plus short-term investment and trade and other receivables, divided by current liabilities
- 11) Account Receivable Turnover is calculated by Revenue from sales divided by average trade receivables
- 12) Account Payable Turnover is calculated by Cost of sales divided by average trade payables
- 13) Cash Cycle is calculated by adding collection period and inventory turnover period minus payment period
- 14) Total Asset Turnover is calculated by Revenue from sales divided by average total assets
- 15) Inventory Turnover is calculated by Cost of sales divided by average inventory
- 16) Net Debt to EBITDA is calculated by Net debt divided by EBITDA (LTM)
- 17) Net Debt to Equity is calculated by Net debt divided by total equity
- 18) Debt to Equity is calculated by Total debt divided by total equity
- 19) Interest-bearing Debt to Equity is calculated by Interest-bearing debt divided by total equity



Summary of Cash Flows Statement Ended 31 March 2022

In Q1/2022, SCGP's net cash flows provided by operating activities amounted to 2,809 MB including the operating cash flows of 3,105 MB and tax payment of 296 MB. Cash flows generated from operations were comprised of profit for the period adjusted by items such as depreciation and amortization, tax expense, and change in operating assets and liabilities.

Net cash flows provided by investing activities amounted to 10,404 MB which was mainly from the proceeds from Investments in short-term debt instruments of 12,010 MB, and the capital expenditure of 1,642 MB.

Net cash flows used in financing activities amounted to 10,316 MB with a decrease in net borrowings of 10,021 MB while interest and other finance costs payment amounted to 295 MB.

Table 8 - Summary of Cash Flows Statement

	Unit : MB		
	Q1/2022	Q1/2021	Change
Cash flows from operating activities	2,809	1,629	1,180
Cash flows from investing activities	10,404	(17,493)	27,897
Cash flows from financing activities	(10,316)	437	(10,753)
Net increase (decrease) in cash and cash equivalents	2,897	(15,427)	18,324
Free cash flows	1,167	211	956

Business Development - Key Project Progress

At the end of Q1/2022, SCGP has 2 ongoing expansion projects with details as follows.

1. Thailand (Foodservice Packaging) - This expansion is part of the abovementioned project to increase foodservices packaging capacity by 25%. Additional capacity of molded pulp will be 223 million pieces per year at Kanchanaburi plant, Thailand. Commercial start is expected to be in Q2/2022.

2. Vietnam (VKPC, North Vietnam) - A new production base in the northern region of Vietnam under Vina Kraft Paper Company Limited (VKPC) will support the packaging market growth driven by higher needs in national industrial & export sectors, and rise in FDI as a result of investment promotion policy. This project will add packaging paper capacity of 370,000 tons per year or an increase of 75% from existing capacity with capital expenditures amounted to 11,793 MB. Commercial start is expected to be in 2024.

Management Outlook

Looking forward to Q2/2022, many countries proceed with the easing of COVID prevention measures leading to expedition of cross-border travelling while domestic consumptions and economic activities gradually recover. Export sectors would continue to be key support of the economies in this region. Nonetheless, risks still remain from (1) the effects of strict lockdown in China which slow down economic and demand growths (2) unresolved conflict between Russia-Ukraine which could lead to prolonged heightened energy and commodity prices

Yet, packaging is still a key component of global and regional supply chain. The diversified products and services of SCGP, which include both fiber and polymer, broadly cover ASEAN and other strategic markets. Currently, SCGP poses a total of 56 production sites with more than 7,000 customers in our network in which 70% are in consumer linked industries such as consumer staples, FMCG, food and beverage. The broad diversification and deep integration enable SCGP to have flexibility and agility in production operation and also in the prompt responses to customers' requirements. Furthermore, the company always aim to expand customer network to new strategic markets with high growth opportunity.

Heading toward the rest of 2022, SCGP would continuously aims to expand business operation through organic and M&Ps investment with an annual capital expenditure budget of 20,000 MB. Moreover, the financial consolidation of latest completed M&P deals would be in a full year basis while the company is pursuing gradual ramping up of the commissioned organic expansions. At the same time, SCGP relentlessly develops and offers unique packaging solutions and services for customers and the evolving consumer trends.

Under the ongoing volatile economic and business environment, SCGP commits to a proactive business continuity management to minimize external and internal risk exposures. The company also focuses on operational excellence through Digitization, Automation, Artificial Intelligence and Production Optimization Projects. Prudent cost management is emphasized throughout the supply chain while synergy extraction is core to post merger integration plan. As part of SCGPs' efforts to execute short and long term business plans, the company cautiously considers investment decisions with prioritization on strategic investments while carries out a vigilant cash and working capital management amid rising interest rate outlook.

SCGP

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