

SCGP

Management Discussion and Analysis Q3/2022 (Unreviewed)



Executive Summary

SCGP's 9M/2022 and Q3/2022 performance

During 9M/2022, ASEAN economy showed signs of improvement due mainly to the recovery in domestic consumption particularly in Food & Beverage, daily consumer products along with export of processed food. Number of foreign tourists also increased after the easing of international travel restriction which led to recuperation of service sector. Nevertheless, Electronics and Automotive industries still faced with supply chain's difficulty from the shortage of microchip and semiconductors. Meanwhile, Asian economy has been affected by the prolonged lockdown in China related to COVID-19 prevention along with the escalation of property sector crisis. Furthermore, during Q3/2022, China encountered severe drought in the southern part of the country which directly affected energy and electricity supply. In order to conserve power, several manufacturing factories have been temporarily closed. Restrictions on operating hours of shopping centers were put in place. Subsequently, supply chain in the affected area was disrupted, leading to a slowdown of the country's overall economy. On a global scale, the heightened energy cost still persists while hyperinflation and interest rate hikes continue to put pressure on the economic recovery.

For packaging industry during Q3/2022, domestic demand for Food & Beverage in ASEAN continued to improve along with the exports of frozen food, canned food and pet food. Nonetheless, consumer's disposable income was curtailed by the rise of inflation. Consequently, demands, within the region and beyond, for non-essential products such as apparel, footwear and electronic goods were in contraction. As China's economy is not yet to be recovered, regional demand for packaging paper along with market price have become weaker. Meanwhile, freight and raw material cost have been decreasing across the industries while energy costs still remain at high level. With all before-mentioned moving parts, packaging is still a vital part of global and regional supply chains which essentially support the recovery and future growth of the economy.

For SCGP's 9M/2022 performance, total revenue from sales recorded at 112,559 MB, increased by 26% YoY supported by the commercial start-up of packaging paper plant in the Philippines (UPPC 3), financial consolidation of completed M&P in rigid packaging manufacturer (Duy Tan), corrugated carton producer (Intan Group), medical supplies and labware specialist (Deltalab) and international packaging material recycling business (Peute and Jordan) as well as product prices adjustment aligned with rise in costs. EBITDA reported at 15,848 MB, increased by 1% YoY with EBITDA margin 14%. Profit for the period was 5,351 MB, decreased by 13% YoY with net profit margin of 5% amidst higher energy and raw material costs across industries.

For SCGP's Q3/2022 performance, total revenue from sales registered at 37,943 MB, increased by 19% YoY, mainly due to product price adjustment in all categories, growth in fibrous business with major impact from the increase in pulp price, augmented demand of foodservice

packaging and the financial consolidation of the international packaging material recycling company - Peute Recycling B.V. (Peute) in Netherlands and a trader of recovered paper - Jordan Trading Inc. (Jordan) in USA which were consolidated in July and September 2022 respectively. EBITDA was at 5,483 MB, increased 12% YoY with EBITDA margin at 14%. Profit for the period reported at 1,837 MB, increased 3% YoY with net profit margin at 5%. YoY improvement was driven by the consolidation of completed M&P, rise of demand for Food & Beverage and consumer products in the region and non-operating FX gain. On QoQ basis, revenue from sales and EBITDA remained at the same level. Profit for the period decreased 1%. Core EBITDA and Core Profit decreased as a result of weaker demand across industries which impacted sale volume.

Table 1 - SCGP's Consolidated Financial Statements

Unit: MB

	Q3				Jan - Sep		
	2022	2021	%y-o-y	%q-o-q	2022	2021	%y-o-y
Operating Results from Consolidated Financial Statements							
Revenue from sales	37,943	31,930	19%	0%	112,559	89,078	26%
Integrated Packaging Business	29,221	27,206	7%	-8%	91,966	75,224	22%
Fibrous Business	6,162	4,724	30%	0%	18,033	13,854	30%
Recycling Business and Others	2,560	-			2,560	-	
Cost of sales	31,518	26,417	19%	1%	93,166	71,369	31%
Gross profit	6,425	5,513	17%	-4%	19,393	17,709	10%
<i>Gross profit margin (%)</i>	<i>17%</i>	<i>17%</i>			<i>17%</i>	<i>20%</i>	
Distribution costs and administrative expenses	4,078	3,371	21%	-3%	12,269	9,263	32%
EBITDA	5,483	4,910	12%	0%	15,848	15,741	1%
<i>EBITDA Margin (%)</i>	<i>14%</i>	<i>15%</i>			<i>14%</i>	<i>18%</i>	
Profit for the period	1,837	1,781	3%	-1%	5,351	6,179	-13%
<i>Net profit margin (%)</i>	<i>5%</i>	<i>6%</i>			<i>5%</i>	<i>7%</i>	
Earnings per Share (Baht)	0.43	0.41			1.25	1.44	
Core Financials							
Core EBITDA	5,085	4,678	9%	-8%	15,574	15,742	-1%
Core Profit	1,512	1,536	-2%	-21%	5,140	6,086	-16%

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 Jan-Sep 2022 and 2021, Dividend from associates were 11 MB and 14 MB, respectively.

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

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

Unit: MB

	Core Profit		Core EBITDA	
	Q3		Q3	
	2022	2021	2022	2021
	1,512	1,536	5,085	4,678
Key Items				
1) FX Gain/Loss from Loan, Derivatives and Investment	244	280	276	269
2) Company restructurings	-	-	-	-
3) Changes to local regulations	-	-	-	-
4) Expenses related to M&Ps Transactions	(18)	(35)	(18)	(37)
5) Others	99	-	140	-
Total	325	245	398	232
Profit for the period and EBITDA	1,837	1,781	5,483	4,910

Key analysis on Core profit and Core EBITDA

In Q3/2022, SCGP's Core EBITDA amounted to 5,085 MB (+9% YoY, -8% QoQ) and Core Profit was 1,512 MB (-2% YoY, -21% QoQ). The above adjustment shows key non-operating items that affected SCGP's EBITDA and profit for the period with major portion in Q3/2022 from FX gain and an extra items from the adjustment of Intan Group's earn-out provision in accordance with the share purchase agreement.

Operating Results by Key Business Segments

Integrated Packaging Business (IPB)

For the performance of 9M/2022, IPB revenue from sales recorded at 92,179 MB (before inter-segment elimination), increased by 22% YoY, due mainly to the business expansion through M&Ps of Duy Tan, Intan Group, Deltalab and the ramping up of new packaging paper plant in the Philippines (UPPC3) as well as product price adjustment in all categories to align with rise in costs. EBITDA reported at 12,061 MB, decreased by 3% YoY with EBITDA margin of 13%. Profit for the period was 3,993 MB, decreased by 20% YoY, mainly due to the rise in raw materials, energy and freight costs across industries as well as the increase in depreciation and amortization expenses from commercial start-up of expansion projects during the year and M&Ps

For the performance of Q3/2022, IPB revenue from sales reported at 29,295 MB (before inter-segment elimination), increased by 7% YoY, which supported by the successful M&P and the completion of organic expansion project together with the increase in product prices within packaging industry. On QoQ basis, IPB revenue from sales decreased by 8%, mainly due to weaker demand especially in durable goods and exported goods to main markets such as USA and Europe, which were affected by lower consumers' disposable income from inflation and interest rate hike. Meanwhile, growing demand for F&B and consumer goods in ASEAN have positively contributed to the overall packaging demand. For Packaging Paper business, regional demand softened, mainly caused by the extended slowdown in Chinese economy which was linked to the drought situation and the re-lockdown of major cities.

EBITDA recorded at 3,913 MB with EBITDA margin of 13%. Profit for the period was 1,314 MB. On YoY basis, EBITDA increased by 9% and profit for the period increased by 14% mainly due to the improved performance of Fiber Packaging and Performance & Polymer Packaging businesses. On a QoQ basis, EBITDA and profit for the period were up 1% and 11% respectively. The improvement in profit was due mainly to the adjustment of M&P's earn-out provision in both Q2/2022 and Q3/2022. Yet, SCGP continues to proactively manage costs as well as strengthens chain integration and pursues operational excellence for future competitiveness.

Fibrous Business (FB)

For the performance of 9M/2022, FB revenue from sales recorded at 20,076 MB (before inter-segment elimination), increased by 30% YoY attributed to the improved demand for printing & writing paper and foodservice packaging in line with the recovery of economic activities from the improved COVID-19 pandemic situation. Revenue growth was also driven by capacity expansion of pressboard foodservice packaging in Thailand & Vietnam and also the increase in the overall product price especially pulp price. EBITDA recorded at 3,161 MB, increased by 16% YoY with EBITDA margin of 16%. Profit for the period was 1,138 MB, increased by 29% YoY.

For the performance of Q3/2022, FB revenue from sales reported at 6,852 MB (before inter-segment elimination), increased by 29% YoY mainly due to the rise in demand of all products especially foodservice packaging, printing & writing paper from school and workplace reopening as well as the rise in regional pulp price. Meanwhile on QoQ basis, FB revenue from sales decreased by 2% from weaker overall paper demand during semester school holidays along with less promotional activities of beverage product. Additionally, demand for dissolving pulp was lower from the slowdown of China's economy while demand for food packaging continued to grow (i.e. fiber-based food packaging - Pressboard, foodservice packaging for Quick Service Restaurant and food grade paper). SCGP continues to carry out product portfolio optimization to align with the evolving market situation.

EBITDA recorded at 1,278 MB with EBITDA margin of 19%. Profit for the period was 568 MB. On YoY basis, EBITDA increased by 32% and profit for the period increased by 95% mainly due to the increase in revenue from sales as mentioned earlier. QoQ EBITDA and profit for the period were up 3% and 6% accordingly, attributed to the extended high level of regional pulp price as well as the improvement in freight costs.

Table 3 - Operating Results by Business Segment

Unit: MB

	Q3				Jan - Sep		
	2022	2021	% y-o-y	% q-o-q	2022	2021	%y-o-y
Revenue from Sales							
Consolidated SCGP	37,943	31,930	19%	0%	112,559	89,078	26%
Integrated Packaging Business	29,295	27,256	7%	-8%	92,179	75,412	22%
Fibrous Business	6,852	5,315	29%	-2%	20,076	15,395	30%
Recycling Business and Others	2,560	-			2,560	-	
Intersegment Elimination	(764)	(641)	-19%	15%	(2,256)	(1,729)	-30%

	Q3				Jan - Sep		
	2022	2021	% y-o-y	% q-o-q	2022	2021	%y-o-y
EBITDA							
Consolidated SCGP	5,483	4,910	12%	0%	15,848	15,741	1%
Integrated Packaging Business	3,913	3,597	9%	1%	12,061	12,421	-3%
Fibrous Business	1,278	965	32%	3%	3,161	2,731	16%
Recycling Business and Others	520	562	-7%	-77%	4,138	4,753	-13%
Intersegment Elimination	(228)	(214)	-7%	88%	(3,512)	(4,164)	16%

	Q3		Jan - Sep	
	2022	2021	2022	2021
EBITDA Margin (%)				
Consolidated SCGP	14%	15%	14%	18%
Integrated Packaging Business	13%	13%	13%	16%
Fibrous Business	19%	18%	16%	18%

	Q3				Jan - Sep		
	2022	2021	% y-o-y	% q-o-q	2022	2021	%y-o-y
Profit for the period							
Consolidated SCGP	1,837	1,781	3%	-1%	5,351	6,179	-13%
Integrated Packaging Business	1,314	1,153	14%	11%	3,993	4,963	-20%
Fibrous Business	568	292	95%	6%	1,138	879	29%
Recycling Business and Others	208	453	-54%	-90%	3,658	4,280	-15%
Intersegment Elimination	(253)	(117)	-116%	87%	(3,438)	(3,943)	13%

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 Company

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

Cost of Sales

In 9M/2022, SCGP's cost of sales was 93,166 MB (+31% YoY) mainly from the consolidation of new M&P companies, the completion of organic expansions and the rise in energy and logistics costs. Meanwhile, cost of sales increased (+1% QoQ) mainly due to the consolidation of new M&P companies while there was improvement in raw material prices and freight costs.

Amidst the YoY rise in costs, SCGP continued to operate production facilities and the supply chain to fulfill customers' needs and requirements. The company proactively managed costs through a diversified sourcing model of key raw materials (RCP), which include 82 own recycling stations across Thailand, Vietnam, the Philippines and Indonesia, direct collection from primary sources and local suppliers as well as various import sources from the USA, Europe, Japan and Oceania. The recent M&P (Jordan) would enhance the company with direct access to the source of high quality American Old Corrugated Containers (AOCC) and strengthen all levels of packaging operations from raw material sources, production operation through to the integrated packaging solutions.

Table 4 - Cost of Sales by Business Segment

Unit: MB

	Q3				Jan - Sep		
	2022	%	% y-o-y	% q-o-q	2022	%	%y-o-y
Integrated Packaging Business	24,697	78%	8%	-7%	76,690	82%	26%
Fibrous Business	5,576	18%	29%	-3%	16,815	18%	34%
Recycling Business and Others	2,070	7%			2,070	2%	
Intersegment Elimination	(825)	-3%	11%	-8%	(2,409)	-2%	20%
Consolidated SCGP	31,518	100%	19%	1%	93,166	100%	31%

Summary of Financial Positions as of 30 September 2022

Total assets were equal to 208,227 MB or an increase of 1,403 MB (+1% from December 2021) which was mainly due to

1. M&Ps of Peute and Jordan which lead to increase total assets by of 5,427 MB as a result of the recognition of fair value and Goodwill increased by 1,659 MB and 1,416 MB respectively.
2. The decrease of investments in short-term debt instruments of 11,625 MB which mainly due to the retirement of short-term investments which was further used to repay short-term bank loan.
3. The increase in other key items, which included Inventories 1,708 MB, Property, Plant and Equipment 1,663 MB and Goodwill 1,162 MB which mainly from foreign exchange differences.

Total liabilities were equal to 78,981 MB or a decrease of 5,543 MB (-7% from December 2021) which was primary due to

1. Repayment of short-term bank loans in amount of 11,660 MB, while the increase in borrowing from digital debentures issuance No.1/2022, value of 5,000 MB, along with 1,390 MB of foreign exchange differences, resulting to a net decrease of 5,124 MB.
2. Consolidation of Peute and Jordan which contributed to an increase by 2,400 MB while the decrease was from the payment of Duy Tan's earn-out provision of 3,527 MB.

Total shareholders' equity reported at 129,246 MB or an increase of 6,946 MB (+6% from December 2021). The change was mainly attributed to profit for the period of 6,393 MB, along with 3,489 MB of foreign exchange differences from Thai baht depreciation, while the decrease was from dividend payment of 3,612 MB.

Capital Structure

In Q3/2022, total debt to equity ratio was at 0.6 times which was lower than 0.7 times in Q3/2021. Net debt to EBITDA was at 2.0 times which was higher than 1.6 times in Q3/2021 mainly from investment activities. Interest-bearing debt to equity ratio was at 0.4 times with no change from Q3/2021.

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

Unit: MB

	September	December	Change	
	2022	2021	MB	%
Total Assets	208,227	206,824	1,403	1%
Current Assets	63,374	69,186	(5,812)	-8%
Cash and cash equivalents	8,863	7,310	1,553	21%
Investments in short-term debt instruments	1,287	12,912	(11,625)	-90%
Trade and other current receivables	26,947	24,910	2,037	8%
Inventories	25,075	23,308	1,767	8%
Investments in associates	1,040	873	167	19%
Property, plant and equipment	99,132	97,181	1,951	2%
Goodwill	30,608	29,483	1,125	4%
Other intangible assets	11,262	7,750	3,512	45%
Total Liabilities	78,981	84,524	(5,543)	-7%
Trade and other current payables	16,573	15,261	1,312	9%
Loans	51,647	56,771	(5,124)	-9%
Total Shareholders' Equity	129,246	122,300	6,946	6%
Total equity attributable to owners of the Company	101,813	96,837	4,976	5%
Non-controlling interests	27,433	25,463	1,970	8%

Table 6 - SCGP's Net Debt

Unit: MB

	September 2022	December 2021
Short-term Loans	21,498	30,547
Foreign	15,201	12,711
Baht	6,297	17,836
% of Total Loans	42%	54%
Long-term Loans	30,149	26,224
Foreign	8,562	9,706
Baht	21,587	16,518
% of Total Loans	58%	46%
Average cost of debt (%)	2.5%	2.3%
Total Loans	51,647	56,771
Cash and Cash Under Management	10,171	20,242
Cash and cash equivalents	8,863	7,310
Investments in debt instruments	1,308	12,932
Net Debt	41,476	36,529



Table 7 - Key Financial Ratio

		Q3		
			2022	2021
Profitability Ratio				
1	Gross Profit Margin	(%)	16.9	17.3
2	EBITDA Margin	(%)	14.5	15.4
3	Net Profit Margin	(%)	4.8	5.6
4	Core EBITDA Margin	(%)	13.4	14.7
5	Core Profit Margin	(%)	4.0	4.8
6	Return on Assets	(%)	4.2	5.2
7	Return on Equity	(%)	7.6	10.8
8	Return on Invested Capital	(%)	6.2	7.5
Liquidity Ratio				
9	Current Ratio	(times)	1.5	1.4
10	Quick Ratio	(times)	0.8	0.8
Activity Ratio				
11	Account Receivable Turnover	(times)	6.5	6.5
12	Account Payable Turnover	(times)	10.4	9.8
13	Cash Cycle	(days)	92	91
14	Total Asset Turnover	(times)	0.7	0.7
15	Inventory Turnover	(times)	5.1	5.2
Leverage Ratio				
16	Net Debt to EBITDA	(times)	2.0	1.6
17	Net Debt to Equity	(times)	0.3	0.3
18	Debt to Equity	(times)	0.6	0.7
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 company 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 company (LTM) divided by average shareholders' equity attributable to owners of the company
- 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 30 September 2022

In 9M 2022, SCGP's net cash flows provided by operating activities amounted to 12,414 MB including the operating cash flows of 14,045 MB and tax payment of 1,631 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 324 MB with main reasons from the proceeds of the retirement of short-term investments of 11,612 MB while used for the M&P investments of 6,413 MB and the capital expenditure of 5,160 MB.

Net cash flows used in financing activities amounted to 11,716 MB from a decrease in net borrowings of 7,713 MB, dividend payment 3,612 MB and interest & other finance costs payment amounted to 981 MB.

Table 8 - Summary of Cash Flows Statement

	Unit: MB		
	Jan – Sep		
	2022	2021	Change
Cash flows from operating activities	12,414	5,702	6,712
Cash flows from investing activities	324	(26,130)	26,454
Cash flows from financing activities	(11,716)	(5,333)	(6,383)
Net increase (decrease) in cash and cash equivalents	1,022	(25,761)	26,783
Free cash flows	7,254	1,379	5,875

Business Expansions to Capture Growing Consumer Demand

SCGP proceeded on building a strong growth with merger and partnership (M&P) which focus on mutual synergy creation with business partners and organic growth via production capacity expansion. The company announced 2 new projects in Q3/2022 with details as follow;

1. The Netherlands (Packaging materials recycling, Dordrecht) - The signing of share purchase agreement and completion of M&P of 100% stake in Peute Recycling B.V. (Peute) with the investment size of approximately 2,875 MB. Peute is the largest independent packaging materials recycling and trading company of recovered paper and plastic in the Netherlands. This transaction would enable SCGP to expand into the rapidly growing international packaging materials recycling business while also be an important pillar for SCGP's long-term strategic direction to strengthen all levels of packaging business from strategic raw material sources through to the offering of integrated packaging solutions to customers. Peute currently poses the ability to competitively source 1.0 million tons per year of recovered paper (RCP) and 0.1 million tons per year of recovered plastics at their facility

in Dordrecht with ongoing project to relocate the facility to Alblisserdam, nearby Rotterdam port, in order to double the sourcing capacity and improve cost efficiency.

2. USA (Packaging materials recycling, New York) - The signing of share purchase agreement and completion of M&P of 90.1% stake in Jordan Trading Inc. (Jordan) with the investment size of approximately 73 MB. Jordan is an established RCP trader with a sourcing network that largely spans from Mid to East coast of the USA, the largest exporting country of high-quality RCP. Together with Peute, the addition of Jordan would enhance SCGP sourcing capabilities and international network of recovered materials. This investment would also augment the company with direct access to the source of high quality American Old Corrugated Containers (AOCC), which is key raw material that adds premium strength to packaging paper and fiber packaging production. Jordan's current sourcing capability is 0.1 million tons per year of RCP with logistics management system that cover both inland transportation and sea freight.

Business Development - Key Project Progress

At the end of Q3/2022, SCGP has 2 ongoing organic expansion projects with details as follows;

1. Thailand (Fiber packaging, Samutprakan and Samutsakorn) - Organic expansion of corrugated cartons to serve Thailand's growing demand with the latest available technology of production and printing capabilities. With the project location that is in the center of customer's production bases, this expansion would support the growing purchase orders from customers along with improvement in logistics cost competitiveness. The project will add 75,000 tons per year of production capacity which equal to 9% of total capacity in Thailand with investment size of 2,450 MB and expected to commercially start-up in 2023. The structural work of the project has been completed while the construction and installation of machinery are ongoing.

2. Vietnam (Packaging paper, 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 which driven by rising demand of national industrial & export sectors, and surge 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. With the assessment of overall market demand-supply, commercial start-up of the project has been extended to 2025. Currently, Environmental Impact Assessment (EIA) and land preparation are on process.

SCGP is committed to sustainable development and ESG principles

SCGP has recently been invited to join Dow Jones Sustainability Index (DJSI) Corporate Sustainability Assessment (CSA) for the first time in 2022. This is an important step to demonstrate SCGP commitment in conducting the business with ESG 4 plus principle consisting of “1. Set Net-Zero 2. Go Green 3. Reduce Inequality 4. Embrace Collaboration, plus harnessing good governance”. SCGP has also committed to develop environmental friendly innovation, optimize resource efficiency under the circular economy guidelines, and meet the needs of businesses and consumers who care for the environment. Sustainable operations are set in place in accordance with the principle of transparent governance as well as a long-term target of net-zero greenhouse gas emissions (Net Zero) by 2050.

In September 2022, MSCI has upgraded SCGP’s ESG ratings to BBB from last year’s BB. Meanwhile, The Stock Exchange of Thailand (SET) announced that SCGP is included as one of Thailand Sustainability Investment (THSI) list of 2022, which is the 2nd year in a row. This is an evidences that SCGP adopts ESG practices in its core operations, poses good risk management practices as well as creates competitiveness through innovations. This also reflects the dedication of all SCGP employees to support sustainable business growth while emphasize on value chain management with responsibility for the economy, society and environment along with business operations.

SCGP designed and developed “Khudin by SCGP” organic fertilizer capsule, an innovation for households and communities to enhance convenience and environmental responsibility by converting food waste into organic fertilizer, reducing household disposal and increasing soil nutrients. “Khudin by SCGP” organic fertilizer capsule also won the Design Excellence Award 2022 (DEmark) in the category of industrial product with special design that provide versatile solutions that include odor retention and expedite biodegradation. Plants can be grown around the organic fertilizer capsule, receive the nutrients and provide good yields. This product design development is part of the zero waste community project.



Continuous development of innovative products and solutions to serve evolving trend of customer needs

Dezpax, a foodservice packaging solutions startup that SCGP co-sponsors, has successfully raised funds (Series A) to drive online growth for F&B packaging business. Dezpax is an online platform for foodservice packaging incubated from the ZERO TO ONE project by SCG since 2018. It has developed technology to offer comprehensive food packaging solutions for restaurants and F&B outlets of all sizes. The outstanding services of Dezpax help small operators add value to their products with customized, unique and appealing packages. Orders can be made in small quantities via online platform. Dezpax can grow its business in line with the changing behavior of restaurants and F&B outlets adapting to the digital world. The startup has provided foodservice packaging for more than 5,000 customers, covering all 77 provinces across the country. In addition to small & medium-sized food operators, the company also serves top F&B brands.

In addition, SCGP entered into a partnership with 3 leading distributors of medical supplies and labware in Thailand including Meditop company limited, Affinitech company limited and PCL holding public company limited. These collaborations will broaden Deltalab's customer network while expand the business across ASEAN in response to the growing demand of healthcare and medical supplies products.

SCGP continues to support packaging design contest project at university level for the 6th consecutive year under the concept of RETHINK FOR BETTER NORMAL, EASY to RECYCLE, and UPCYCLE. SCGP has continuously received notable design awards in Asia and at national level with total of 13 prizes including 3 prizes from AsiaStar 2021 Awards in the Consumer Package category held by ASIAN PACKAGING FEDERATION, 9 prizes from ThaiStar Packaging Awards 2022 under the theme "Sustainability for next Normal" organized by Ministry of Industry, and 1 prize from Design Excellence Award 2022 (DEmark) in Industrial category held by the Department of International Trade Promotion, Ministry of Commerce.

From September 1, 2022 onwards, Visy Packaging (Thailand) Limited, wholly owned subsidiary of SCGP has changed the company's name to Vexcel Pack Co., Ltd. (Vexcel Pack). Vexcel Pack is a leading manufacturer of high-barrier and high performance Rigid Food Packaging - the packaging that can undergo high sterilization (retort) temperature, which helps maintain freshness, prevent bacteria contamination and odor leakage, as well as extend shelf life of products without being refrigerated, thereby reducing the amount of waste and carbon footprint. All the company's products are also certified by Food Safety System Certification (FSSC) and have gained recognition and confidence from the world's leading companies in the fruit and food processing industry.

Management Outlook

Looking forward into the rest of 2022 and through to early 2023, ASEAN's domestic consumptions are heading toward a continued recovery with post COVID-19 cross-border traveling and resumption of tourism. Demand of essential goods that related to daily consumption, such as food & beverage, is expected to grow while other consumer products are gearing toward orders' preparations prior to year-end festivities. Packaging would continue to be an important part of supply chain continuity to serve the growing consumer consumption in the region.

Nevertheless, exporting sectors in ASEAN will be contingent to global economy amidst prolonged inflation, interest rate hikes and looming recession in destination markets (i.e. USA and Europe). General demand for durable goods would also be affected by lower consumers' disposable incomes. Moreover, the recovery of weaker than expected China's economy will be vital factor that effect ASEAN packaging industry especially for packaging paper.

With respect to cost factor, global energy cost is expected to remain at high level in the midst of the extended geopolitical conflict in Europe, while freight and raw material costs, especially recovered paper, have been continuously declining in H2/2022 with normalization of supply chain bottleneck.

With the abovementioned factors, SCGP continues to actively pursue business growth with quality. Relentless efforts on margin optimization are carried out through chain integration, competitive cost management and operational excellence along with the expedition of synergies among new and existing companies. Cash and CAPEX management are prudently planned and executed while strategic Merger & Partnership (M&P) with systematic evaluation process continues to be pathway for business expansion. Moreover, SCGP is aiming to continuously strengthen market presence in ASEAN with enhanced innovative & sustainable packaging solutions while enlarging export networks in new growth destinations.

Furthermore, commitment on ESG is a quintessential core throughout SCGP's operations. The company continues to support and develop the value of the individual, communities and national society. Clear targets and timeframes are in place as part of the execution plan to improve on the 99.7% recyclability of packaging products along with the progress toward Net Zero GHG emission in 2050.

SCGP

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