SCGP

SCG Packaging Public Company Limited ("SCGP")

Management Discussion and Analysis

Consolidated Financial Results: Q3/2020 & 9M/2020 (Unreviewed)

Overall market situation

The first nine months of 2020 witnessed volatile economic activity, both globally and in the ASEAN region. Within the ASEAN region, there was a sharp drop in ASEAN GDP during Q2/2020 as a result of the pandemic outbreak.

The ASEAN packaging industry in the first nine months of 2020 witnessed firm demand from the consumer related segments, particularly those related to food & beverage, hygiene related and E-commerce. However, the durable goods segment witnessed steep decline in demand y-o-y, especially from Electronics and Electrical products and automotive industry. Moreover, the closures of schools and offices related to reduce the spread of COVID-19 pandemic resulted in difficult challenges for the fibrous chain of SCGP.

During Q3/2020, there were signs of economic recovery q-o-q in some ASEAN markets such as Vietnam and Thailand, while Indonesia, the Philippines and Malaysia remained on close alter for the second wave pandemic which resulted in weak consumer spending. Moreover, within the packaging industry, there were also signs that the durable goods segment has already troughed, with early emerging recovery signs in the automotive and electronics segments, while exports to China began to ramp up due to the improved economic situation there. As for raw materials, the rise in freight costs continued, due to the lack of available ships compared to normal situation before the pandemic.

Consolidated Financial Performance

In 9M/2020, SCGP reported total revenue from sales of 69,190 MB, increased by 5% y-o-y mainly attributed to the continual growth in consumer and essential products with business expansion both in Thailand and ASEAN especially from the acquisition of packaging paper company in Indonesia and flexible packaging company in Thailand. EBITDA was 13,110 MB, increased 16% y-o-y to as a result from our strategy to offer diversified products and services solutions to customers and cost management while achieving an EBITDA margin of 19%. Similarly, Net profit also increased 22% y-o-y to 4,971 MB with net profit margin of 7%.

In Q3/2020, Revenue from Sales of SCGP registered at 23,287 MB, increased 8% q-o-q due to a slightly recovery in demand of durable goods such as Electronics and Electrical products and automotive industry, continual growth of demand in essential products and a recovery in export volume. While revenue decreased 5% y-o-y as a result of COVID-19 pandemic. Similarly, EBITDA was 4,121 MB, increased 4% q-o-q and decreased 1% y-o-y to while achieving an EBITDA margin of 18%, close to Q3/2019. Consolidated Profit for the period was 1,335 MB, decreased 30% q-o-q primarily due to unrealized foreign exchange of Indonesian Rupiah after tax and non-controlling interest amounted to 111 MB (In Q2/2020 : unrealized foreign exchange gain 482 MB) and decreased 9% y-o-y with net profit margin of 6%.

Table 1 - Consolidated financial summary of SCGP

	Q3/2020			Jan-Sep 2020	
Unit : MB	MB	%y-o-y	%q-o-q	MB	%y-o-y
Revenue from Sales	**23,287**	-5%	8%	**69,190**	5%
Net Profit	**1,335**	-9%	-30%	**4,971**	22%
EBITDA	**4,121**	-1%	4%	**13,110**	16%
Earnings per Share (Baht)	**0.4**	-9%	-30%	**1.6**	22%

Note : EBITDA = Earnings before interest, tax, depre & amortization (excluded dividend from associates)
Dividend from associates in Q3/2020 and 9M/2020 were 3 MB and 8 MB respectively.
Net profit = Profit for the period attributable to owners of the parent.

Business segments

Integrated packaging chain (IPC)

In 9M/2020, Revenue from sales amounted to 58,779 MB, an increase of 12% y-o-y due to the business expansion both in Thailand and overseas with resilient demand in consumer products. Similarly, EBITDA was 12,218 MB, increased 21% y-o-y while retaining EBITDA margin of 21% as a result of our comprehensive packaging solutions strategy to serve both large local companies and multinational companies in various industries.

- Revenue from sales of Performance and Polymer Packaging was 5,176 MB, increased 40% y-o-y mainly driven by surge demand in hygienic care products, food, frozen food, canned food and the acquisition of flexible packaging company in Thailand, along with SCGP's continual new product and services roll outs, such as EzySteam pouch, FybroZeal - high strength and stretchable - for dry products.
- Revenue from sales of Fiber-Based Packaging was 17,536 MB, decreased 6% y-o-y, attributed to the drop in demand for durable goods and lower export of apparel and footwear which effected from COVID-19 pandemic.

- Revenue from sales of Packaging Paper was 35,857 MB, increased 19% y-o-y mainly from the acquisition of packaging paper companies in Indonesia which led SCGP to have the second largest market share for packaging paper in Indonesia.

In Q3/2020, Revenue from sales amounted to 20,209 MB, an increase of 10% q-o-q in accordance with the increased in demand for consumer products and demand recovery for durable goods while decrease 1% y-o-y. Similarly, EBITDA was 3,832 MB, flatted q-o-q and decreased 4% y-o-y, while retaining a solid EBITDA margin of 18%.

- Revenue from sales of Performance and Polymer Packaging was 1,685 MB, decreased 12% q-o-q mainly driven by soft demand of agricultural products and slowdown of consumer hoarding during lockdown period in Q2/2020, while increased 29% y-o-y due to the acquisition of flexible packaging company in Thailand.
- Revenue from sales of Fiber-Based Packaging was 5,887 MB, increased 9% q-o-q due to demand recovery for durable goods and decreased 3% y-o-y, attributed to the dropped in demand for durable goods and decreased in demand for festive products which effected from COVID-19 pandemic.
- Revenue from sales of Packaging Paper was 12,563 MB, increased 15% q-o-q mainly from emerging sign of economy and a recovery in export volume, while slightly decreased 2% y-o-y mainly driven by the slowdown of demand in durable goods.

<u>Fibrous chain (FC)</u>

In 9M/2020, Revenue from sales registered at 11,817 MB, a decreased of 20% y-o-y, primarily due to lower demand of pulp, printing and writing paper products from schools and offices closure policy. EBITDA was 886 MB, decreased 20% y-o-y to with EBITDA margin of 7%. In addition, the transformation of business model into Food services packaging is ongoing in accordance with consumer trend.

In Q3/2020, Revenue from sales registered at 3,536 MB, a decreased of 5% q-o-q and 22% y-o-y, due to the pandemic control measures resulted in lower demand for printing and writing paper. While, EBITDA was 263 MB, increased 70% q-o-q and 57% y-o-y with EBITDA margin of 7% from our cost management and control.

SCGP

Table 2 - Segments of SCGP

Unit : MB

Revenue from Sales	Q3/2020	%y-o-y	%q-o-q	Jan-Sep 2020	%y-o-y
Consolidated Packaging	**23,287**	**-5%**	**8%**	**69,190**	**5%**
Integrated Packaging Chain	20,209	-1%	10%	58,779	12%
Fibrous Chain	3,536	-22%	-5%	11,817	-20%
Other	-	-	-	-	-
Intersegment Elimination	(458)	13%	2%	(1,406)	1%
EBITDA	**Q3/2020**	**%y-o-y**	**%q-o-q**	**Jan-Sep 2020**	**%y-o-y**
Consolidated Packaging	**4,121**	**-1%**	**4%**	**13,110**	**16%**
Integrated Packaging Chain	3,832	-4%	0%	12,218	21%
Fibrous Chain	263	57%	70%	886	-20%
Other	201	-41%	-81%	3,042	34%
Intersegment Elimination	(175)	47%	84%	(3,036)	-37%
EBITDA Margins (%)	**Q3/2020**	**Q3/19**	**Q2/20**	**Jan-Sep 2020**	**Jan-Sep 2019**
Consolidated Packaging	**18%**	**17%**	**18%**	**19%**	**17%**
Integrated Packaging Chain	19%	20%	21%	21%	19%
Fibrous Chain	7%	4%	4%	7%	7%
Net profit	**Q3/2020**	**%y-o-y**	**%q-o-q**	**Jan-Sep 2020**	**%y-o-y**
Consolidated Packaging	**1,335**	**-9%**	**-30%**	**4,971**	**22%**
Integrated Packaging Chain	1,488	-14%	-31%	5,453	19%
Fibrous Chain	(133)	28%	41%	(336)	-82%
Other	(1)	98%	-100%	2,320	65%
Intersegment Elimination	(19)	21%	98%	(2,466)	-43%

Note: *EBITDA* *= Earnings before interest, tax, depre & amortization (excluded dividend from associates). Dividend from associates in Q3/2020 and 9M/2020 were 3 MB and 8 MB respectively.*

EBITDA Margins *= EBITDA / Revenue from Sales.*

Net profit *= Profit for the period attributable to owners of the parent.*

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

Financials

As at the end of September, 2020 SCGP had total assets of 144,494 MB, increased 4,981 MB from December 2019 due to the capacity expansion in ASEAN. Cash, cash equivalent and short-term investments of 8,518 MB, compared to the 4,959 MB in December, 2019. And total liabilities was 78,214 MB, increased 1,517 MB from December 2019. SCGP's Net debt to EBITDA ratio was at 3.0 times and Debt to equity was at 0.9 times.

In 9M/20, SCGP generated EBITDA of 13,110 MB, compared to cash outflow of 10,777 MB comprised of capital expenditure (CAPEX) and investments 6,305 MB, dividend payment 1,966 MB, interest payment 1,107 MB and corporate tax 1,399 MB.

Table 3 - Statement of Financial Position of SCGP

Unit : MB	Sep/2020	Dec/2019	Sep/2019	% from Dec/2019
Total Assets	**144,494**	**139,513**	**138,504**	4%
Current assets				
Cash, cash equivalent and				
Short-term investments	8,518	4,959	5,030	72%
Trade and other receivables	15,410	15,198	16,725	1%
Inventory	11,982	13,276	13,749	-10%
Long-term investment	819	787	762	4%
Property, plant and equipment	86,311	82,864	79,502	4%
Total Liabilities	**78,214**	**76,697**	**77,586**	2%
Trade and other payables	13,203	10,059	11,010	31%
Loans	58,404	59,584	60,293	-2%
Total Shareholders' Equity	**66,280**	**62,816**	**60,918**	6%
Total equity attributable to owners of the parent	46,836	42,952	42,013	9%
Non-controlling interests	19,444	19,864	18,905	-2%

Table 4 - Debt Profile of SCGP

Unit : MB	Q3/2020	Q2/2020	Q1/2020	Q3/2019
Short Term	**28,200**	**34,724**	**37,880**	**52,843**
Foreign	5,764	6,163	6,737	4,867
Baht	22,436	28,561	31,143	47,976
% of Total Loan	48%	59%	62%	88%
Long Term	**30,204**	**24,091**	**23,655**	**7,450**
Foreign	8,960	7,866	7,462	7,114
Baht	21,244	16,225	16,193	336
% of Total Loan	52%	41%	38%	12%
Total Loan	**58,404**	**58,815**	**61,535**	**60,293**
Cash & Cash Under Management	**8,518**	**7,174**	**9,278**	**5,030**
Cash and cash equivalents	7,020	6,532	8,335	4,883
Short-term investments	1,498	642	943	147
Total Loans to related parties	0	0	7	2
Total Net Debt	**49,886**	**51,641**	**52,250**	**55,261**

Table 5 - Financial ratios

	Q3/2020	Q2/2020	Q1/2020	Q3/2019
EBITDA on Assets (%)	12%	12%	11%	11%
Current Ratio (times)	0.6	0.6	0.7	0.5
Quick Ratio (times)	0.4	0.3	0.4	0.3
Interest Coverage (times)	12.4	10.9	10.4	6.6
Net Debt to EBITDA (times)	3.0	3.1	3.2	3.7
Net Debt to Equity (times)	0.8	0.8	0.8	0.9
Debt to Equity (times)	1.2	1.2	1.4	1.3
Interest-bearing liabilities to equity ratio (times)	0.9	0.9	1.0	1.0
Return on Equity (%)	14%	16%	13%	14%
Return on Assets (%)	4%	5%	4%	5%

Note:
- *Net Debt = Total debt (interest bearing), less cash and cash under management*
- *EBITDA = Earnings before interest, tax, depre & amortization (excluded dividend from associates)*
- *EBITDA on Assets = Trailing-12-month EBITDA, to Total Consolidated Assets*
- *Current Ratio = Current assets, to current liabilities*
- *Quick Ratio = Cash + short term investments + receivable, to current liabilities*
- *Interest Coverage = EBITDA, to interest expense*
- *Net Debt to EBITDA = Net debt, to Trailing-12-month EBITDA*
- *Net Debt to Equity = Net Debt, to equity & non-controlling interest*
- *Interest-bearing liabilities to equity ratio = Interest-bearing liabilities, to equity & non-controlling interest*
- *Debt to Equity = Total Liabilities, to equity & non-controlling interest*
- *Return on Equity = Trailing-12-month Net profit, to average total shareholders' equity (not including non-controlling interest)*
- *Return on Assets = Trailing-12-month Net profit, to average Total Consolidated Assets*

Existing Project Expansions - Updates

As at third quarter of 2020, SCGP has four projects under construction with total capital expenditures of 8,266 MB located in Vietnam, Indonesia, Philippines and Thailand;

Vietnam, Long An city (BATICO#2) - Project expansion of flexible packaging - This project is expected to add capacity of capacity by 84 million m^2 per year or increased 20% from existing capacity. Capital expenditures estimated to amount to 543 MB and expected to start operations in Q4/2020

Indonesia, Surabaya city (Fajar#2) - Project expansion of containerboard and duplex paper - This project is expected to add capacity of 400,000 tons per year or increased 29% from existing capacity. Capital expenditures estimated to amount to 1,735 MB and expected to start operations in Q1/2021.

The Philippines, Bulacan city (UPPC#3) - Project expansion of containerboard - This project is expected to add capacity of 220,000 tons per year or increased 88% from existing capacity. Capital expenditures estimated to amount to 5,388 MB and expected to start operations in the Q3/2021.

Thailand, Samut Sakorn province (Prepack#2) - Project expansion of flexible packaging - This project is expected to add capacity by 53 million m^2 per year or increased 14% from existing capacity. Capital expenditures estimated to amount to 600 MB and expected to start operations in the Q3/2021.

Merger and Partnership (M&P) - Updates

For the updates details on the acquisition of Bien Hoa Packaging Joint Stock Company (or "SOVI"), a listed company in Vietnam that specializes in corrugated containers, the transaction is being processed of stocktaking and expected to be concluded within December 2020. This acquisition will raise SCGP's downstream fiber-based packaging capacity in Vietnam as a result of SOVI's clients are mainly high growth consumer brands that are multinationals and national champions.

Outlook (3-4 months)

As the COVID-19 pandemic continues to affect the global and regional economy, packaging remains a resilient essential in everyday life, especially in the segments related to health and hygiene, food and beverage, and e-commerce. At the same time, demand recovery of durable goods continues to be challenging.

SCGP adhere to develop and offer comprehensive packaging solutions to our customers and expand the business through ASEAN to strengthen our integrated packaging business model. There are four projects in the pipelines in the integrated packaging chain, which will begin to generate revenue for SCGP beginning from second half of 2020 to 2021. In addition, the acquisition of SOVI (corrugated box and offset laminated packaging business in Vietnam) is expected to be consolidated in December 2020.

Listed on the Stock Exchange of Thailand in 22 October 2020, with market capitalization of 150,000 MB (as at IPO price), the proceeds from IPO (included over-allotment shares) approximately 45,000 MB will be utilized to finance business expansion projects, capital restructuring and working capital.