

SCGP

SCG Packaging Public Company Limited and Subsidiaries (“SCGP”)

Management Discussion and Analysis

First quarter of 2021 (Unreviewed)

Executive Summary

Delivered growth in Q1/2021 performance

While the COVID-19 vaccination has been rolled out, many countries around the world still faced new wave of COVID-19 cases in early 2021 which hindered economic and business recovery. Nevertheless, ASEAN economy shows sign of recovery as a result of the effectiveness of control measure together with the China's economy has turnaround from the contraction supported by strong retail spending and industrial activities. Meanwhile, sea freight rate has stayed heightened and directly affected the recovered paper price amidst supply tightness in ASEAN. This consequently led to an increase in regional packaging paper and pulp price, on the back of demand pick-up.

In Q1/2021, SCGP's total revenue from sales registered at 27,253 MB, increased by 12% y-o-y. This was attributed to ASEAN consumer demand growth, regional paper price improvement and the consolidation of Go-Pak UK limited (or "Go-Pak") - foodservice packaging solution providers in UK and Bien Hoa Packaging Joint Stock Company (or "SOVI") - corrugated container producer in Vietnam. In addition, we continue to grow organically, SCGP's revenue from sales increased 8% y-o-y (if excluding SOVI and Go-Pak). EBITDA was 5,267 MB, increased 42% y-o-y with EBITDA margin of 19%, as SCGP has diversified consumer markets, and offer comprehensive packaging solutions to our customers through innovative and efferent products and services solutions such as shelf life extension of fresh fruit and vegetable by Optibreath® and protection from offensive odor by Odorlock™. As a result, Profit for the period was 2,135 MB, increased 23% y-o-y with net profit margin of 8%. SCGP adheres to serve demand from customers and ensures uninterrupted supply chain through our agile integrated packaging solutions business model.

Organically expansion and strengthen the T Model across ASEAN

SCGP has continuously expand its business with its experience, expertise and collaboration with partners in different countries to be the leader in packaging solutions in ASEAN.

For organic expansion, SCGP has started up a new production line of thermoformed barrier food packaging at Visy Packaging (Thailand) Limited (or "Visy") in March 2021 which increased by 347 million pieces or 15-20% of capacity supported by rising demand of processed/canned food. In addition, SCGP has started commercial operation of packaging paper operated by PT Fajar Surya (or "Fajar") in April 2021 which added total capacity of 400,000 tons per year to expand market coverage and better serve customers in Surabaya, Indonesia.

For inorganic expansion by mergers and partnership (M&P) strategy, SCGP announces the signing of a share purchase agreement in February 2021 to acquire a 70% stake in Duy Tan Plastics Manufacturing Corporation (or “Duy Tan”). Duy Tan is Vietnam’s top producer of rigid plastic packaging products, with B2B sales to multinational companies and local brand owners of consumer/FMCG products. This investment will strengthen company’s capability to dually serve the FMCG producers and the consumers in Vietnam, with a full suite of product offering, both polymer-based and paper-based packaging. This transaction is expected to complete around second quarter of 2021.

Table 1 - Consolidated financial summary of SCGP

Unit : MB	<u>Q1/2021</u>	<u>Q1/2020</u>	<u>%y-o-y</u>	<u>%q-o-q</u>
Reported Financials				
Revenue from sales	27,253	24,267	12%	15%
Integrated packaging chain	22,967	20,137	14%	13%
Fibrous chain	4,286	4,130	4%	31%
Cost of sales	21,204	18,526	14%	11%
Gross profit	6,049	5,741	5%	34%
<i>Gross profit margin (%)</i>	<i>22%</i>	<i>24%</i>		
SG&A	2,970	2,500	19%	13%
EBITDA	5,267	3,708	42%	25%
<i>EBITDA margin (%)</i>	<i>19%</i>	<i>15%</i>		
Profit for the period	2,135	1,732	23%	44%
<i>Net profit margin (%)</i>	<i>8%</i>	<i>7%</i>		
Earnings per Share (Baht)	0.50	0.55		
Core Financials				
Core EBITDA	5,471	5,014	9%	27%
Core profit	2,263	2,099	8%	39%
Note :	Revenue from sales by chain	= Revenue from sales after inter-segment elimination basis		
	EBITDA	= Earnings before finance cost, tax, depreciation & amortization (excluded dividend from associates and included FX gain/loss from loans)		
		In Q1/2021 and Q1/2020, Dividend from associates was at 6 MB and 5 MB, respectively.		
	Profit for the period	= Profit for the period attributable to owners of the parent.		

Key analysis of Core profit and Core EBITDA

In Q1/2021, SCGP's Core profit amounted to 2,263 MB, an increase of 8% y-o-y and Core EBITDA was 5,471 MB, an increase of 9% y-o-y. The adjustments below showed key non-operating items that effected SCGP's profit for the period and EBITDA which mainly from expenses that related to the mergers and partnership (M&P) transactions of Go-Pak and minor impairment of unused assets.

Table 2 - Non-operating items adjustment for Core profit and Core EBITDA

Unit : MB	Core profit ¹		Core EBITDA ²	
	Q1/21	Q1/20	Q1/21	Q1/20
	2,263	2,099	5,471	5,014
Key Items				
1) FX Gain/Loss from Loan, Derivatives and Investment	56	(563)	52	(1,306)
2) Company restructurings	(35)	-	(41)	-
3) Changes to local regulations	-	196	-	-
4) Expenses related to M&Ps Transactions	(73)	-	(79)	-
5) Impairments and Others	(76)	-	(136)	-
Total	(128)	(367)	(204)	(1,306)
Profit for the period and EBITDA	2,135	1,732	5,267	3,708

Remarks : ¹ After tax and non-controlling interests ² Before tax and non-controlling interests

Revenue from sales by business segments

Integrated Packaging Chain (IPC)

In Q1/2021, IPC Revenue from sales amounted to 23,037 MB (before inter-segment elimination), an increase of 14% y-o-y primarily due to fiber-based packaging and packaging paper segment which have resilient consumption of consumer goods, regional demand pick up and supply tightness which resulting in upward regional paper pricing across industries and consolidation of SOVI corrugated container producer.

IPC Revenue from sales increase 13% q-o-q supported by recovery of Thailand and ASEAN consumption and inventory built up for food and beverages products ahead of holiday season in Thailand and Indonesia. Similarly, EBITDA was 4,644 MB, increased 44% y-o-y and increased 16% q-o-q with a solid EBITDA margin of 20%. Profit for the period was 2,128 MB increased 18% y-o-y and 22% q-o-q.

Fibrous Chain (FC)

In Q1/2021, FC Revenue from sales registered at 4,713 MB (before inter-segment elimination), an increase of 4% y-o-y primarily due to increasing regional pulp price, and the consolidation of Go-Pak foodservice packaging company.

FC Revenue from sales increased 30% q-o-q mainly from the rising demand for tissue paper and textile industry after the economic recovery in the region while supply was limited by logistics bottleneck and also the improvement of copy paper demand by stock replenishment. EBITDA was 611 MB, increased 33% y-o-y and increased 336% q-o-q with EBITDA margin of 13% from cost control and increased production efficiency. Profit for the period was 68 MB increased 209% y-o-y and increased 121% q-o-q.

For the revenue from foodservice packaging in Q1/2021 registered at 744 MB, increased 109% y-o-y and 91% q-o-q which in line with Fibrous Chain's transformation plan to accelerate proportion of foodservice packaging. As a result, revenue proportion of foodservice packaging increased from 8% to 16% of total revenue from sales of Fibrous Chain.

Table 3 - Business Segments of SCGP

Unit : MB				
Revenue from Sales	Q1/2021	Q1/2020	%y-o-y	%q-o-q
Consolidated SCGP	27,253	24,267	12%	15%
Integrated Packaging Chain	23,037	20,224	14%	13%
Fibrous Chain	4,713	4,540	4%	30%
Intersegment Elimination	(497)	(497)	0%	-15%
EBITDA	Q1/2021	Q1/2020	%y-o-y	%q-o-q
Consolidated SCGP	5,267	3,708	42%	25%
Integrated Packaging Chain	4,644	3,229	44%	16%
Fibrous Chain	611	459	33%	336%
Other	1,684	1,768	-5%	639%
Intersegment Elimination	(1,672)	(1,748)	4%	-855%
EBITDA Margins (%)	Q1/2021	Q1/2020		
Consolidated SCGP	19%	15%		
Integrated Packaging Chain	20%	16%		
Fibrous Chain	13%	10%		
Profit for the period	Q1/2021	Q1/2020	%y-o-y	%q-o-q
Consolidated SCGP	2,135	1,732	23%	44%
Integrated Packaging Chain	2,128	1,799	18%	22%
Fibrous Chain	68	22	209%	121%
Other	1,541	1,463	5%	n.a.
Intersegment Elimination	(1,602)	(1,552)	-3%	n.a.
Note:	EBITDA = Earnings before finance cost, tax, depreciation & amortization (excluded dividend from associates and included FX gain/loss from loans) In Q1/2021 and Q1/2020 there were dividend from associates amounted to 6 MB and 5 MB respectively EBITDA Margins = 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

Unit : MB	Q1/2021		Q1/2020		% y-o-y		% q-o-q	
Integrated packaging chain	17,874	84%	15,030	81%	2,844	19%	1,756	11%
Fibrous chain	3,924	19%	4,058	22%	(134)	-3%	478	14%
Intersegment Elimination	(594)	-3%	(562)	-3%	(32)	6%	(108)	22%
Total SCGP's cost of sales	21,204	100%	18,526	100%	2,678	14%	2,126	11%

In Q1/2021, the Company's cost of sales was 21,204 MB, increased of 14% y-o-y in line with the increase in revenue from sales with the proportion cost of sales to revenue from sales of 78% compared with 76% in Q1/2020. High sea freight also effected cost of raw materials, however, SCGP was able to optimize its cost due to diversified sources of raw materials including owned recycling stations, local and import network coverage.

Summary of Financial Positions as of March 31, 2021

- Total assets were equal to 183,192 MB, an increase of 10,763 MB or 6% from December 2020 due to additional 6,800 MB from the consolidation of Go-Pak, increasing trade and other current receivables 3,199 MB from revenue growth.
- Total liabilities were equal to 71,639 MB, an increase of 9,051 MB or 14% from December 2020 from the consolidation of Go-Pak amounted to 3,400 MB. In addition, SCGP has accrued annual dividends of 1,931 MB, and loan from bank institution increasing of 1,632 MB mainly from working capital loan for Surabaya expansion project of Fajar in Indonesia.
- Total shareholders' equity were 111,553 MB, an increase of 1,712 MB or 2% from December 2020, primarily from profit for the period of 2,135 MB.

Capital structure

As of Q1/2021, total debt to equity ratio was 0.6 times lower from Q1/2020 at 1.4 times. Net debt to EBITDA was 0.8 times lower from Q1/2020 at 3.5 times after equity raising and interest-bearing debt to equity ratio was at 0.4 times compared with Q1/2020 at 1.0 times.

Table 4 – Consolidated Statement of Financial Position of SCGP

Unit : MB	Q1/2021	Dec-20	Change	
			MB	%
Total Assets	183,192	172,429	10,763	6%
Current assets	66,855	62,919	3,936	6%
Cash and cash equivalent	16,030	31,256	(15,226)	-49%
Short-term investments	15,141	1,630	13,511	829%
Trade and other receivables	19,533	16,334	3,199	20%
Inventory	15,493	12,760	2,733	21%
Long-term investment	848	829	19	2%
Property, plant and equipment	88,505	87,271	1,234	1%
Goodwill	21,349	18,624	2,725	15%
Total Liabilities	71,639	62,588	9,051	14%
Trade and other payables	14,151	10,365	3,786	37%
Loans	46,560	44,928	1,632	4%
Total Shareholders' Equity	111,553	109,841	1,712	2%
Total equity attributable to owners of the parent	89,846	88,738	1,108	1%
Non-controlling interests	21,707	21,103	604	3%

Table 5 - Debt profile of SCGP

Unit : MB	Q1/2021	Dec-20
Short Term	16,581	15,080
Foreign	7,519	5,769
Baht	9,062	9,311
% of Total Loan	36%	34%
Long Term	29,979	29,848
Foreign	8,928	8,630
Baht	21,051	21,218
% of Total Loan	64%	66%
Average cost of debt (%)	2.3%	2.8%
Total Loan	46,560	44,928
Cash & Cash Under Management	31,171	32,886
Cash and cash equivalents	16,030	31,256
Short-term investments	15,141	1,630
Total Net Debt	15,389	12,042

Table 6 - Key Financial Ratio

	<u>Q1/2021</u>	<u>Q1/2020</u>
Profitability ratio		
Gross Profit Margin (%)	22%	24%
EBITDA margin (%)	19%	15%
Net Profit margin (%)	8%	7%
Core EBITDA margin (%)	20%	21%
Core Profit margin (%)	8%	9%
Return on Assets (%)	5%	5%
Return on Equity (%)	10%	13%
Return on Invested Capital (%)	8%	8%
Liquidity ratio		
Current ratio (times)	1.3	0.7
Quick ratio (times)	1.0	0.4
Activity Ratios		
Account Receivable Turnover (times)	5.9	6.8
Account Payable Turnover (times)	9.2	11.1
Cash cycle (days)	89	83
Total Asset Turnover (times)	0.6	0.8
Inventory Turnover (times)	5.4	5.8
Leverage ratio		
Net Debt to EBITDA (times)	0.8	3.5
Net Debt to Equity (times)	0.1	0.8
Debt to Equity (times)	0.6	1.4
Interest-bearing liabilities to equity ratio (times)	0.4	1.0

Note: Gross Profit Margin (%)	= Gross profit divided by revenue from sales
EBITDA margin (%)	= EBITDA divided by revenue from sales
Net Profit margin (%)	= Profit for the period attributable to owners of the parent divided by revenue from sales
Core EBITDA margin (%)	= Core EBITDA divided by revenue from sales
Core Profit margin (%)	= Core Profit divided by revenue from sales
Return on Assets (%)	= Profit for the period (LTM) divided by average total assets
Return on Equity (%)	= Profit for the period (LTM) divided by average shareholders' equity (attributed to owners of the parent)
Return on Invested Capital (%)	= Profit from operations minus tax expense, divided by the sum of interest-bearing debt minus cash and shareholders' equity
Current ratio (times)	= Current assets divided by current liabilities.
Quick ratio (times)	= Sum of cash and cash equivalents plus short-term investment and trade and other receivables, divided by current liabilities
Account Receivable Turnover (times)	= Revenue from sales divided by average trade receivables
Account Payable Turnover (times)	= Cost of sales divided by average trade payables
Cash cycle (days)	= Sum of average collection period plus inventory days minus accounts payable day
Total Asset Turnover (times)	= Revenue from sales divided by average total assets
Inventory Turnover (times)	= Cost of sales divided by average inventory
Net Debt	= Total debt (interest bearing), less cash and cash under management
Net Debt to EBITDA (times)	= Net Debt divided by EBITDA (LTM)
Net Debt to Equity (times)	= Net Debt divided by Equity
Debt to Equity (times)	= Total debt divided by total equity
Interest-bearing liabilities to equity ratio (times)	= Interest bearing debt divided by total equity

Summary of cash flow statement ended March 2021

In Q1/2021, SCGP's net cash generated from operating activities amounted to 1,629 MB. The operating cash flow before changes in operating assets and liabilities amounted to 5,355 MB while net operating assets and liabilities increase of 3,543 MB.

Net cash used in investing activities amounted to 17,493 MB. This was mainly from the increase in short term investment of 13,063 MB and the purchase of subsidiary (Go-Pak) amounted to 3,160 MB.

Net cash from financing activities amounted to 437 MB from the net increase in borrowing of 690 MB for working capital.

Unit : MB	Q1/2021	Q1/2020	Change
Cash flow from operating	1,629	4,851	(3,222)
Cash flow from investing	(17,493)	(2,837)	(14,656)
Cash flow from financing	437	1,806	(1,369)
Net increase (decrease) in cash and cash equivalents	(15,427)	3,820	(19,247)
Free cash flow	211	2,340	(2,129)

Business Development - Key project progress

As at Q1/2021, SCGP completed two key expansion projects in Thailand and Indonesia and has two remaining projects in Thailand and Philippines. These four projects is expected to generate annualized revenue from sales of approximately of 10,000 MB.

Thailand, Rayong province (Visy Line#7) - Project expansion of rigid packaging - This project added capacity by 347 million pieces or 15-20%, depending upon the product mix at any given period. The machine has commercially started up in March 2021 while the new automated warehouse is expected to complete at the end of 2021.

Indonesia, Surabaya city (Fajar#2) - Project expansion of containerboard and duplex paper - This project added capacity of 400,000 tons per year or increased 29% from existing capacity. With capital expenditures amounted to 1,735 MB, the new plant successfully start operation in April 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 amount to 5,388 MB and expected to start operations in the Q4/2021 (*Shifted from Q3/2021*)

Thailand, Samut Sakorn province (Prepack#2) - Project expansion of flexible packaging - This project is expected to add capacity by 53 million m² per year or increased 14% from existing capacity. Capital expenditures amount to 600 MB and expected to start operations in the Q4/2021 (*Shifted from Q3/2021*).

Management Outlook

ASEAN economic recovery in 2021 is expected to remain slow as the new outbreak of pandemic re-emerged in many countries, while consumer segments remain to be quite resilient. “At-home” measure trends remain intact such as work from home, travel control and delivery services. In Q2/2021, the holiday season in Thailand (Songkran) and Indonesia (Hari Raya) may result in seasonal soft demand. In addition, the energy and raw materials costs still in upward trend while sea freight remains elevated.

Nevertheless, SCGP will continue to execute its growth plan, both organic and inorganic expansion in ASEAN, and focus on M&P synergy creation while proactively implement COVID preventive measure, operational flexibility and cost management to cope with customer's demand dynamic.