

SCG PACKAGING SCGP TB

THAILAND / PACKAGING

BUY

Strengthening overseas for growth

- 3Q23 should mark the bottom of earnings. We expect a pickup in profit in 4Q23, though not yet to a normal level.
- Through expansion and M&Ps, we project revenue to grow 12.5% and 6.3%, while core profit should rise 26% and 17% in 2024-25.
- Initiate coverage with BUY call; TP of THB48.

TARGET PRICE	THB48.00
CLOSE	THB36.50
UP/DOWNSIDE	+31.5%
TP vs CONSENSUS	+12.3%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	146,068	130,593	146,863	156,114
Net profit	5,801	5,397	6,800	7,945
EPS (THB)	1.35	1.26	1.58	1.85
vs Consensus (%)	-	(3.4)	(0.1)	1.4
EBITDA	19,259	17,981	19,989	21,502
Recurring net profit	5,658	5,397	6,800	7,945
Core EPS (THB)	1.32	1.26	1.58	1.85
EPS growth (%)	(29.1)	(4.6)	26.0	16.8

Core P/E (x)	27.7	29.0	23.0	19.7
Dividend yield (%)	0.5	0.4	0.5	0.5
EV/EBITDA (x)	11.3	12.0	10.9	10.1
Price/book (x)	1.6	2.0	1.9	1.8
Net debt/Equity (%)	28.7	31.0	32.8	29.8
ROE (%)	5.8	6.1	8.5	9.6

Strengthening business growth via organic expansion & M&Ps

Despite headwinds in 2022, SCGP continued to expand its business in both upstream and downstream levels through mergers and partnerships (M&P) while entering new growing markets. Besides a capacity expansion in flexible packaging, the acquisition of the Dutch packaging material recycling business Peute and the US waste material trader Jordan will also strengthen SCGP's raw material sourcing going forward.

3Q23 should mark the bottom of earnings

The decline in 9M23 core profit was weighed down by the slower-than-expected recovery in China and other ASEAN export markets. The pressure on export prices and intense competition remained for packaging paper. Although some energy costs are rising during the winter season, it should have a limited impact on the company because it locked in some of its coal consumption and increased its usage of alternative fuels to reduce the proportion of coal consumption.

M&Ps to bear fruit from 2024 onwards

We expect SCGP's 2023 revenue and core profit to fall by 10.6% y-y and 4.6% y-y, respectively, owing to decreased sales volumes and average selling prices. With the company's capacity expansion and M&Ps throughout 2023, we expect SCGP's revenue to grow by 12.5% and 6.3% in 2024-25. We project its gross margin and EBITDA margin to remain healthy at around 18.1-18.7% and 13.6-13.8% in both years, respectively. Core profit is therefore estimated at THB6.8b (+26.0% y-y) in 2024 and THB7.9b (+16.8% y-y) in 2025.

Initiate with BUY call; TP of THB48

We initiate our coverage of SCGP with a BUY call and a DCF-based TP of THB48.0 (9.8% WACC, 3.5% LTG), which implies 15x 2024E EV/EBITDA. SCGP's share price is trading at only 9.8x 2023E EV/EBITDA, -1.5 SD of its four-year average. SCGP has only gained THB14b (+9%) in market cap since it was first listed on the SET in 2020, while its assets at end-3Q23 rose to THB28b (+16%). We anticipate its 2024 EBITDA to surge 17% from 2020.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.7	(6.4)	(36.8)
Relative to country (%)	1.8	5.0	(25.3)
Mkt cap (USD m)	4,396		
3m avg. daily turnover (USD m)	9.7		
Free float (%)	26		
Major shareholder	The Siam Cement (SCC TB) (72%)		
12m high/low (THB)	60.50/33.25		
Issued shares (m)	4,292.92		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We expect SCGP's 2023 revenue and core profit to fall by 10.6% y-y and 4.6% y-y, respectively, owing to decreased sales volumes and average selling prices. With the company's capacity expansion and M&Ps throughout 2023, we expect SCGP's revenue to grow by 12.5% and 6.3% in 2024-25. We project its gross margin and EBITDA margin to remain healthy at around 18.1-18.7% and 13.6-13.8% in both years, respectively. Core profit is therefore estimated at THB6.8b (+26.0% y-y) in 2024 and THB7.9b (+16.8% y-y) in 2025.

SCGP has only gained THB14b (+9%) in market cap since it was first listed on the SET in 2020, while its assets at end-3Q23 rose to THB28b (+16%), and we anticipate its 2024 EBITDA to surge 17% from 2020. Its valuations are demanding. We initiate coverage with a BUY call and a TP of THB48.

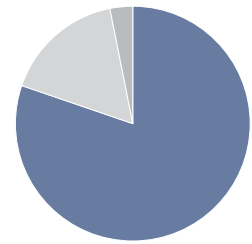
Company profile

SCGP is a leading multinational consumer packaging solutions provider in ASEAN providing fiber-based packaging, polymer packaging, food service products, design, printing, and other solutions for customers. The company's major businesses include: integrated packaging chain, fibrous chain, and recycling business.

www.scgpackaging.com

Principal activities (revenue, 2022)

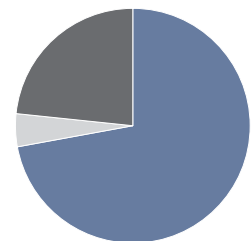
- Integrated packaging chain - 80.2 %
- Fibrous chain - 16.6 %
- Recycling business and others - 3.1 %



Source: SCG Packaging

Major shareholders

- The Siam Cement (SCC TB) - 72.1 %
- Thai NVDR - 4.5 %
- Others - 23.4 %



Source: SCG Packaging

Catalysts

Key potential catalysts include 1) strong recovery of China's economy; 2) lower costs of RCP and energy; and 3) more M&Ps.

Risks to our call

Downside risks to our DCF-based TP include 1) the slow demand for packaging; 2) the rising cost of recycled paper, other raw material, and energy; 3) the rising cost of funds; and 4) the fluctuation in foreign exchange currencies.

Event calendar

Date	Event
February 2024	4Q23/2023 earnings announcement

Key assumptions

	Unit	2023E (THB m)	2024E (THB m)	2025E (THB m)
Packaging paper sales volume	m ton	3.77	3.68	3.86
Packaging paper ASP	THB/ton	18,764	19,702	20,884
Fiber packaging sales volume	m ton	0.93	1.04	1.05
Fiber packaging ASP	THB/ton	35,936	35,936	36,295
Fibrous sales volume	m ton	0.62	0.65	0.67
Fibrous ASP	THB/ton	40,454	42,477	43,751

Source: FSSIA estimates

Earnings sensitivity

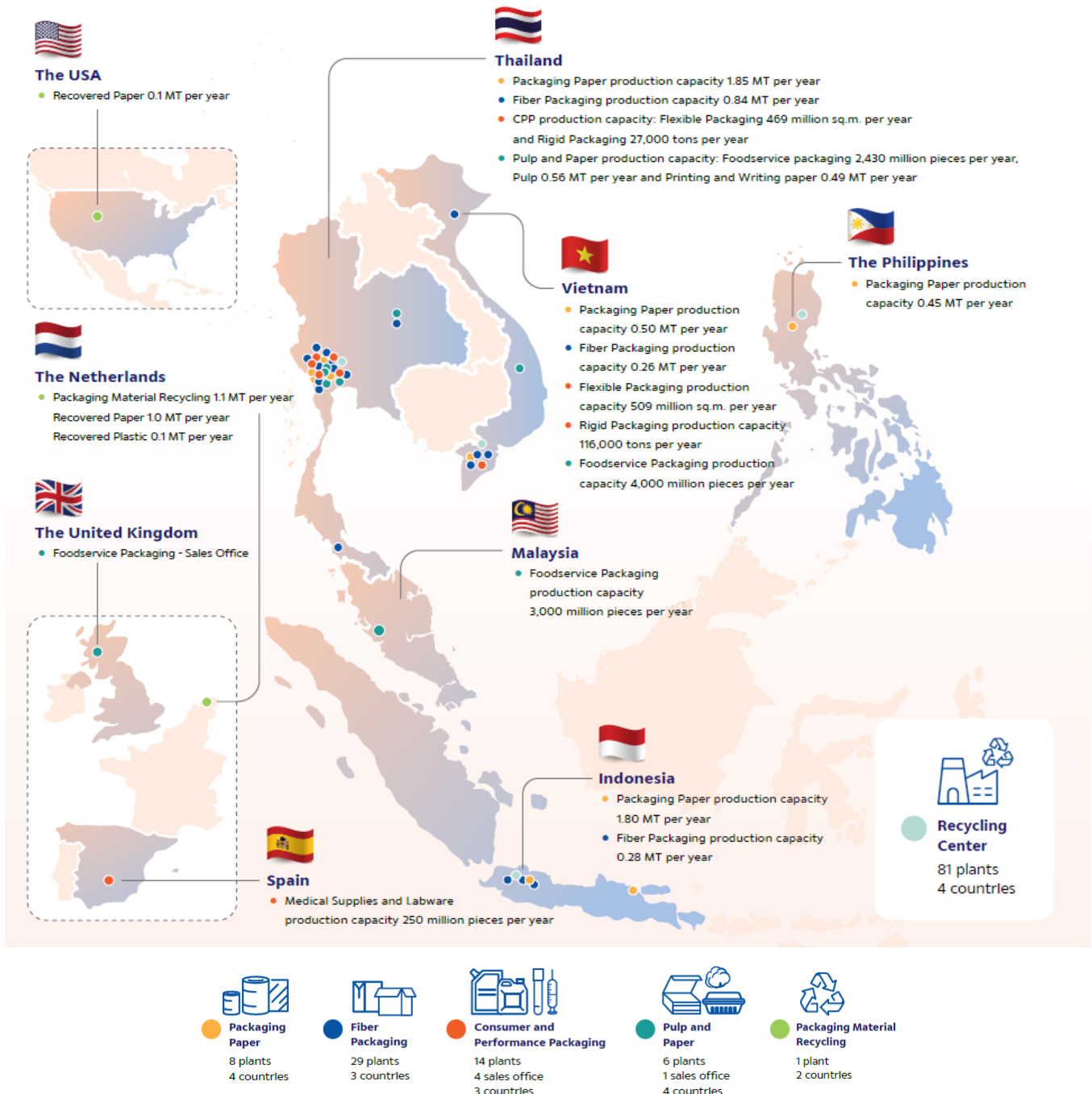
- For every 5% change in packaging paper ASP, we project SCGP's 2024 core profit to change by 2.7%, all else being equal.
- For every 5% change in fiber packaging ASP, we project SCGP's 2024 core profit to change by 1.5%, all else being equal.
- For every 0.5% change in blended gross margin, we project SCGP's 2024 core profit to change by 8%, all else being equal.

Source: FSSIA estimates

Leading regional packaging paper manufacturer

SCGP is a subsidiary of its strong parent, The Siam Cement (SCC TB) which holds a 72.1% stake, and has been in the packaging paper business since 1975. The company has continued to expand its business in both upstream and downstream levels through M&Ps while entering new growing markets. Currently, SCGP is a leading multinational consumer packaging solution provider, operating 57 production bases in nine countries: Thailand, Vietnam, Indonesia, Malaysia, the Philippines, Spain, the UK, the Netherlands, and the US.

Exhibit 1: SCGP's production facilities locations



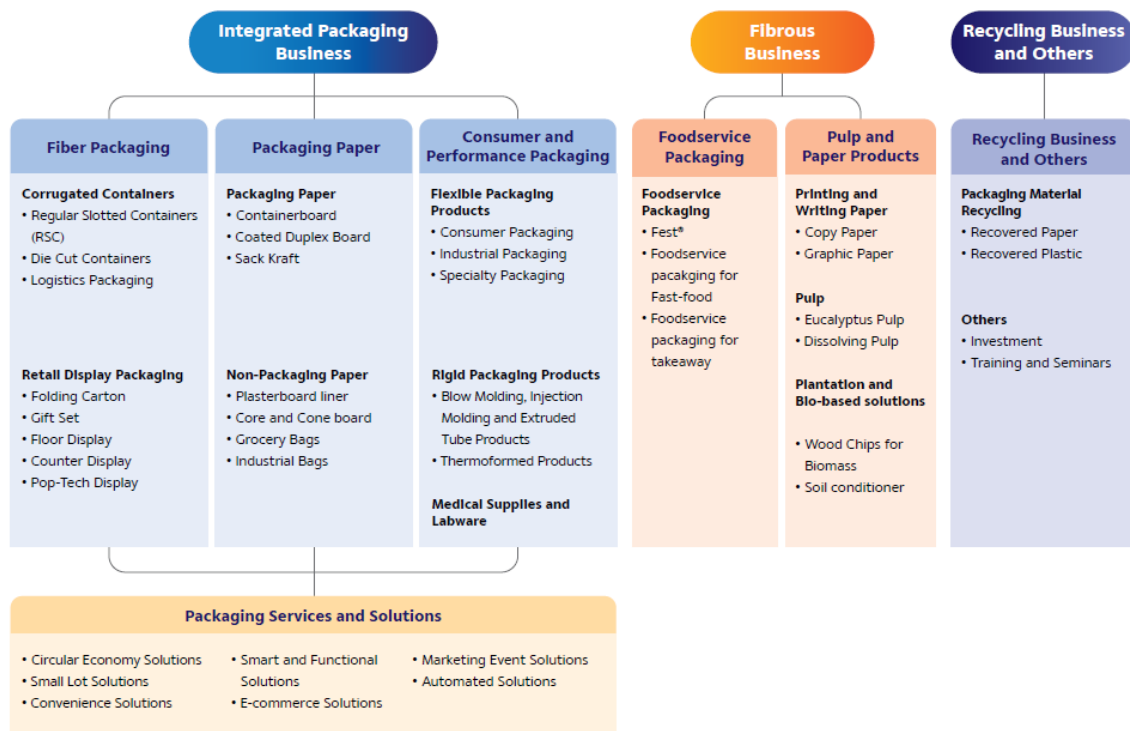
Sources: SCGP's one report, 2022, SCGP website

SCGP's business

SCGP's operations can be classified into three segments:

- Integrated packaging business.** SCGP offers fiber-based packaging, packaging paper, and performance and polymer packaging (PPP) to serve customers' needs. The company has more than 120,000 SKUs in its integrated packaging products including corrugated containers, display packaging, and grocery and industrial bags. The PPP line, operating since 2015, produces flexible and rigid packaging which is widely used for the fast-moving consumer goods (FMCG) industry such as food and consumer products.
- Fibrous business.** SCGP offers food service products and pulp and paper products mainly consisting of writing and printing paper. SCGP is one of a few packaging manufacturers in Southeast Asia which can access the upstream supply starting from eucalyptus research and development, planting, plantation consultation and procurement.
- Recycling business and others.** SCGP recently entered the recycling business via the merger of Peute Recycling B.V., in the Netherlands, and Jordan Trading Inc., in the US, in July and September 2022, respectively.

Exhibit 2: Nature of SCGP's business



Sources: SCGP's one report, 2022

Exhibit 3: SCGP's integrated packaging products



Sources: SCGP, FSSIA's compilation

Exhibit 4: SCGP's fibrous chain products



Sources: SCGP, FSSIA's compilation

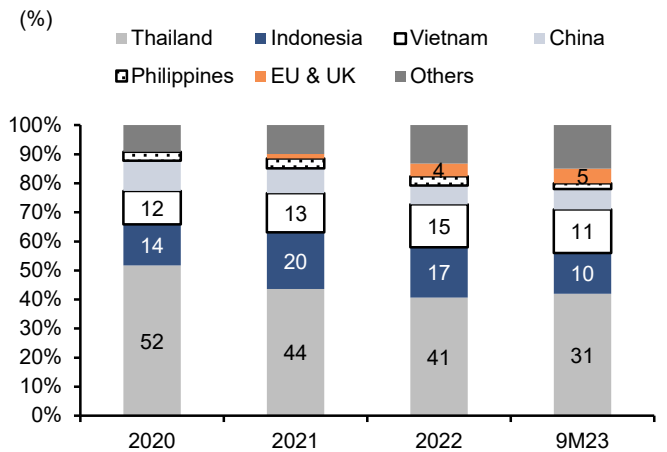
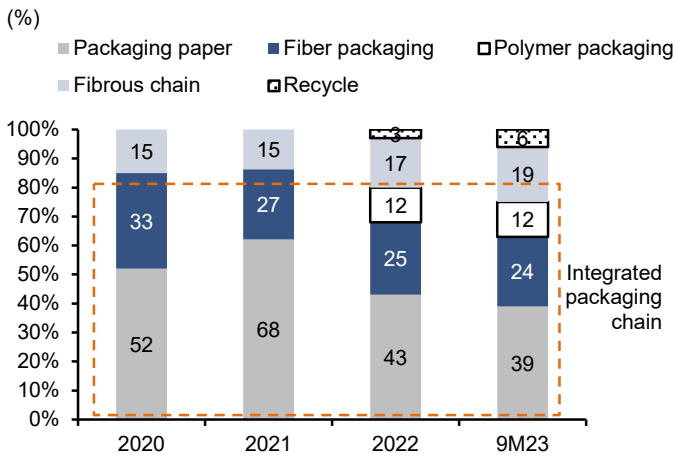
The integrated packaging business has been SCGP’s major source of revenue, contributing 80-95% during 2020-22 and 75% in 9M23, while the fibrous business accounted for 15-17% during 2020-22 and 19% in 9M23. The recycling business, which the company recently entered in 2022, accounted for only 6% of total revenue in 9M23.

In the integrated packaging business unit, the packaging paper available in a roll form plays a key part, with 52-68% of total revenue in 2020-21. The company successfully reduced the proportion of its packaging paper to 39% of total revenue in 9M23 by expanding the downstream products such as corrugated containers, display packaging and polymer packaging (rigid and flexible packaging).

SCGP’s major customers are multinational companies and brand owners mostly in the ASEAN region, including Thailand, Indonesia, Vietnam, and the Philippines, as well as China, Europe, and the UK.

Exhibit 5: Revenue breakdown by business unit

Exhibit 6: Revenue breakdown by market



Sources: SCGP, FSSIA's compilation

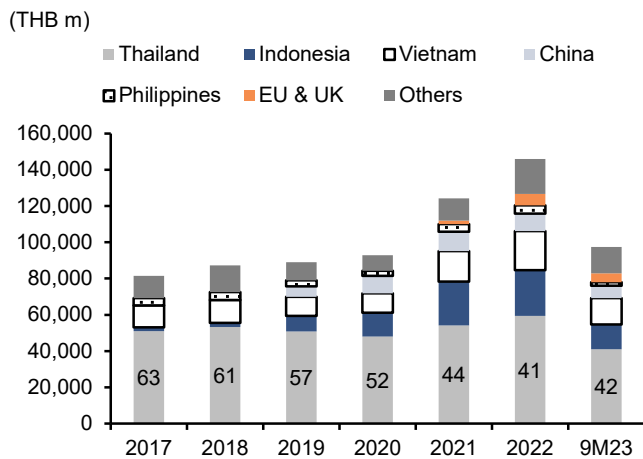
Sources: SCGP, FSSIA's compilation

Thailand – the most resilient market

During the past several years, SCGP’s sales revenue scaled from THB71b in 2015 to THB146b in 2022, or 11% CAGR, through capacity and market expansion. The company’s production facilities are located in nine countries with a combined population of 1,063 billion people and USD34t in consolidated GDP, or a 34% share of global GDP. Three main contributors, geographically, of SCGP’s revenue are Thailand, Indonesia, and Vietnam, making up a combined 71% of total revenue in 9M23. In Thailand, the company has the largest market share in packaging paper at 45% and a 34% share in the fiber packaging market. Thailand proves to be a resilient market for SCGP.

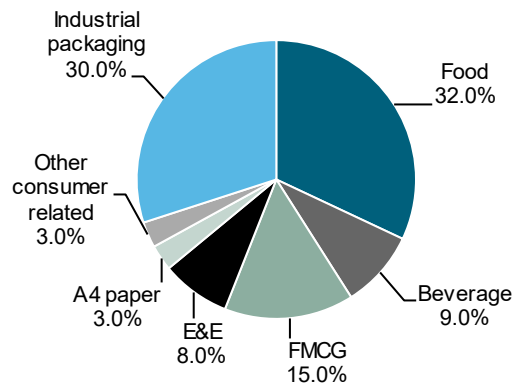
In 9M23, 70% of SCGP’s revenue came from consumer-related packaging products such as food and beverages (F&B), FMCG, e-commerce, and consumer healthcare.

Exhibit 7: Revenue breakdown by destination



Sources: SCGP, FSSIA’s compilation

Exhibit 8: Revenue breakdown by application (9M23)



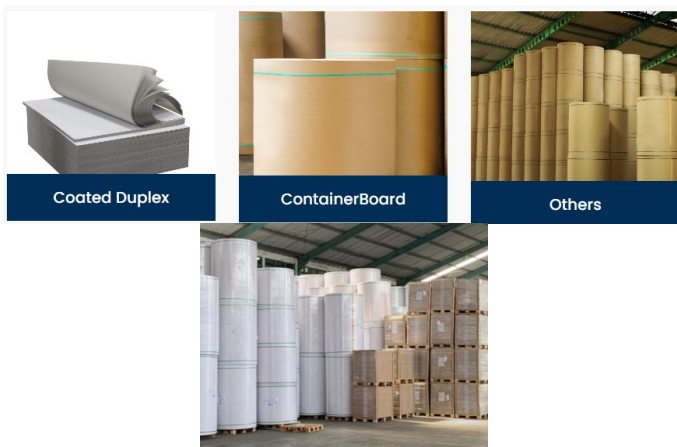
Sources: SCGP, FSSIA’s compilation

Indonesia remains a key asset for SCGP

SCGP first entered the Indonesian market through acquiring stakes in PTPM in 2013. The Indonesian market has been the second largest contributor of sales revenue following Thailand since 2020 after SCGP acquired a 55.2% stake in PT Fajar Surya Wisesa Tbk. (FASW IJ) in July 2019. Fajar is a leader in packaging paper in Indonesia, holding a market share of about 30% in the Indonesian containerboard industry. With an installed capacity over 1.5m tons per year, Fajar’s products include Kraft Liner Board (KLB), Corrugated Medium Paper (CMP) for carton-box packaging, and Coated Duplex Board (CDB) for display packaging.

Currently, SCGP has six corrugated container facilities, one corrugated container printing facility, two packaging paper facilities, and 12 recycling center facilities in Indonesia. With 270 million people and a growing middle class, Indonesia is an essential potential market in the Asia region and is one of the key assets for SCGP’s business.

Exhibit 9: Products from Fajar



Sources: PT Fajar Surya Wisesa Tbk. website

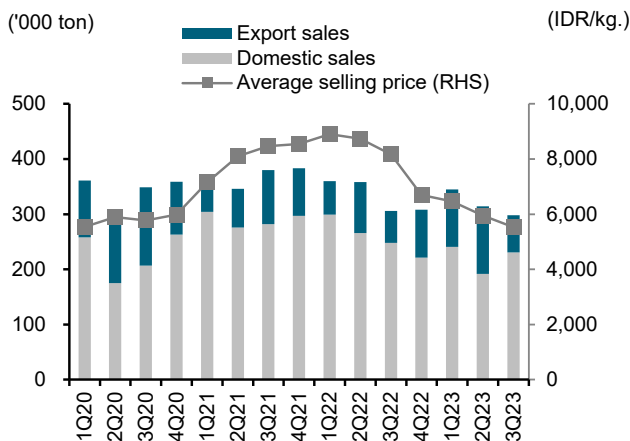
Exhibit 10: Revenue from Indonesia and % to total sales



Sources: SCGP, FSSIA's compilation

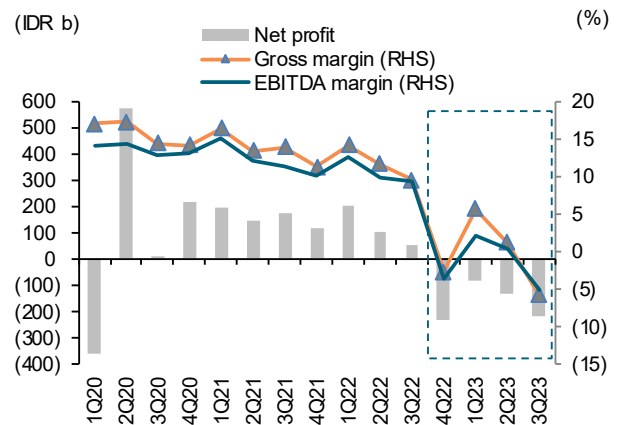
Revenue from Indonesia rose from THB8.6b in 2019 (10% of SCGP’s total revenue) to THB24.3b in 2021 (20% of total revenue). However, sales started to face a slowdown in 2022 in line with the packaging paper market in Indonesia, mainly attributable to the decreasing domestic selling prices. The weak demand in exports, together with the soft domestic purchasing power contributed to an oversupply of packaging paper products in Indonesia, causing the falling selling prices. The continued cost pressure from raw materials and energy led Fajar to experience a declining gross margin, and it has undergone losses since 4Q22.

Exhibit 11: Fajar’s sales volume and average selling price



Sources: SCGP, FSSIA's compilation

Exhibit 12: Fajar’s margins and net profit

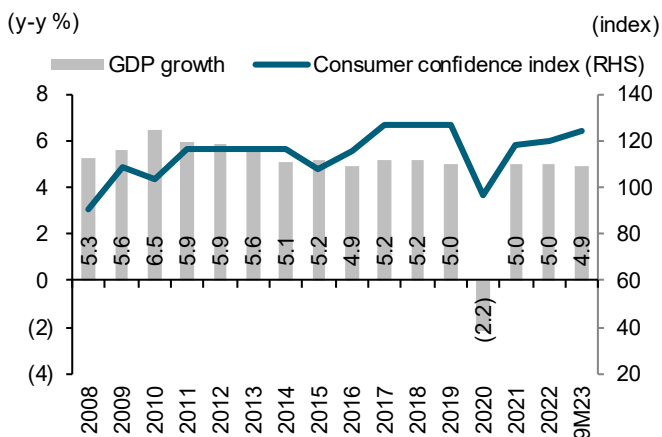


Sources: Bloomberg, FSSIA's compilation

Indonesia investment set to improve in 2024

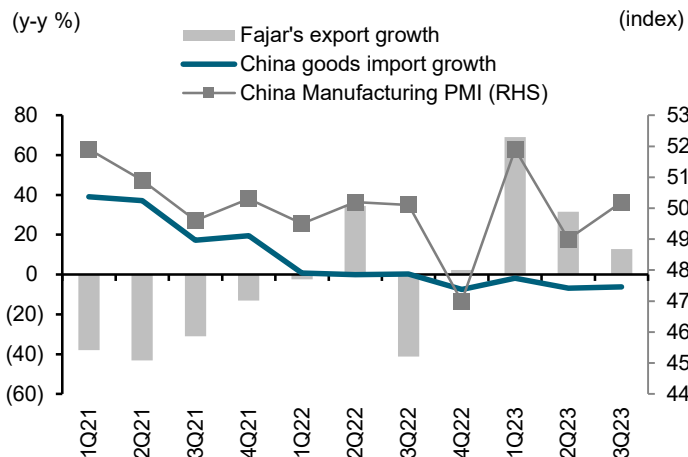
In 3Q23, Fajar continued its net loss of IDR220b, primarily due to the continued decreased in average selling prices and sales volume. We believe that Fajar's loss will be gradually reduced in 4Q23, with EBITDA turning positive in mid-2024 as China looks to shore up its economy. Although export sales contributed about 30% of Fajar's revenue, China is one of Fajar's key export markets. Moreover, the Indonesian general election in 2024 should push domestic consumption up, as well as the overall economy.

Exhibit 13: Indonesia's GDP growth and consumer confidence



Source: Bloomberg

Exhibit 14: Fajar's export vs China's economic data

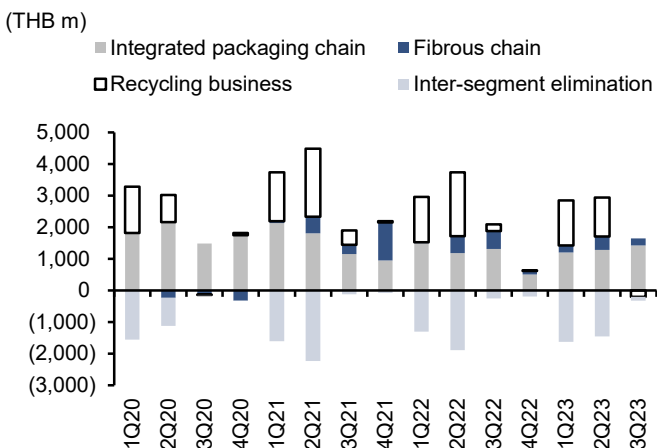


Sources: SCGP, PT Fajar Surya Wisesa Tbk. website, Bloomberg

3Q23 should mark the bottom of the earnings cycle

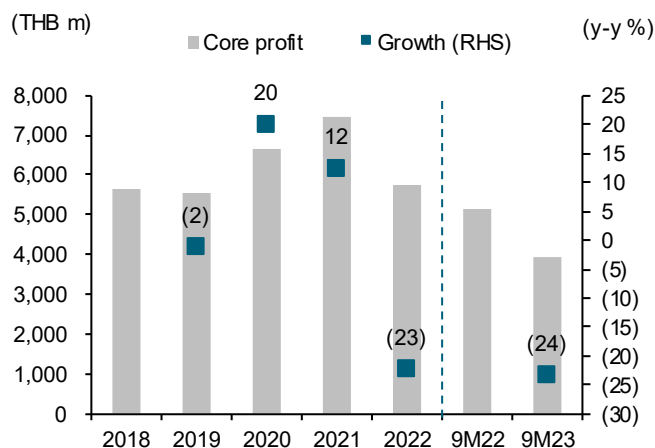
In 3Q23, SCGP delivered a core profit of THB1.3b (-9% q-q, -13% y-y), marking a 24% y-y decline in 9M23 core profit, weighed down by the slower-than-expected recovery in China and other ASEAN export markets, mainly Europe. The pressure on export prices and intense competition remained for packaging paper. Favorable factors, nevertheless, were the solid packaging demand in some products, namely foods, beverages, and consumer goods, and the decline in raw material, energy and logistic costs.

Exhibit 15: Net profit by business unit, quarterly



Sources: SCGP, FSSIA's compilation

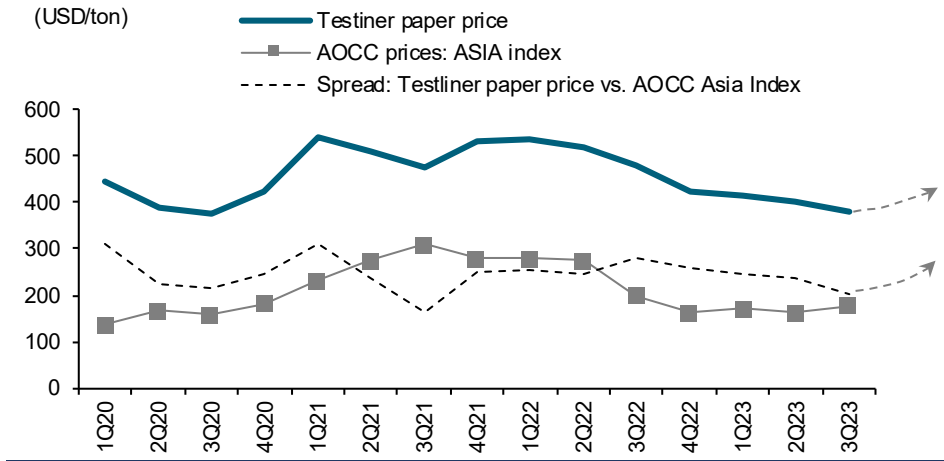
Exhibit 16: Core profit, yearly



Sources: SCGP, FSSIA's compilation

We expect SCGP's core profit to improve in 4Q23 because of the continued rise in tourism-related spending, especially on F&B and FMCG. Although some energy costs are currently rising during the winter season, it should have a limited impact on the company because it locked in some of its coal consumption and successfully increased its usage of alternative fuels such as biomass, biogas, and woodchips to reduce the proportion of coal consumption. Moreover, the price competition situation in the Indonesian packaging paper industry looks set to improve.

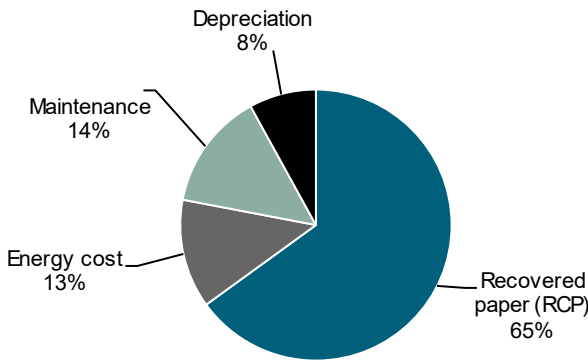
Exhibit 17: Packaging paper prices



Sources: SCGP, FSSIA estimates

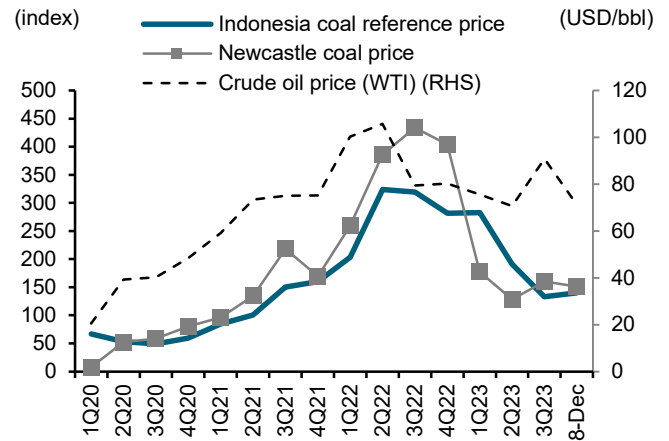
Recovered paper (RCP), the main source used in packaging paper production, accounted for 97% of the pulp needed in packaging paper production in 2022. 59% of SCGP's RCP intake is sourced from the company's recycling centers in the Asian region, while the balance is imported from the US, Europe, and Japan. The acquisition of Dutch packaging material recycling business Peute and the US waste material trader Jordan will strengthen SCGP's raw material sourcing going forward.

Exhibit 18: Cost breakdown in 2022



Sources: SCGP, FSSIA's compilation

Exhibit 19: Indonesian coal reference price



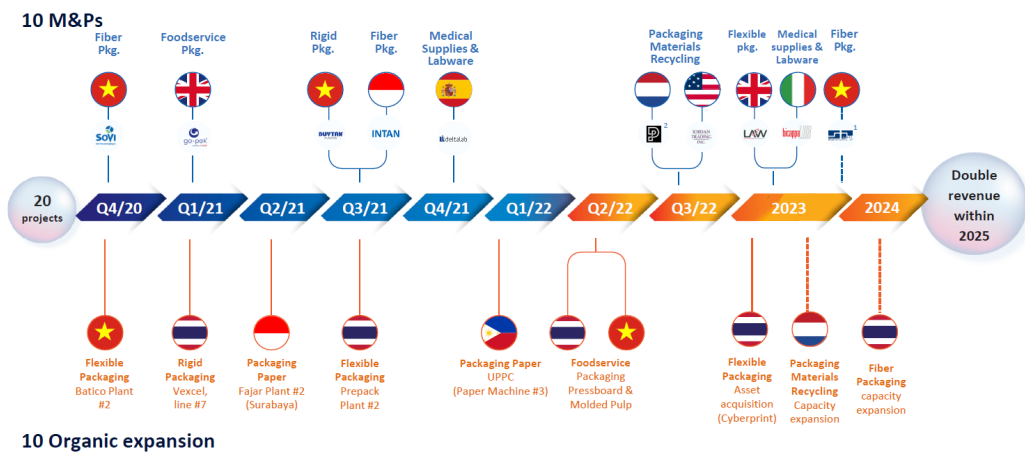
Sources: Bloomberg

Gradual recovery

The IMF forecasts the global recovery to remain slow from 3.0% in 2023 to 2.9% in 2024. Core inflation is also forecast to decline gradually, supporting consumption. Despite the headwinds, packaging demand has sequentially recovered since 2023, especially consumer-related segments. The significant increase in e-commerce led to a surge in packaging demand. Most raw material and energy prices, after an extraordinary spike in 2022, are expected to stabilize in the medium term. The energy transition should eventually affect the coal consumption demand and prices.

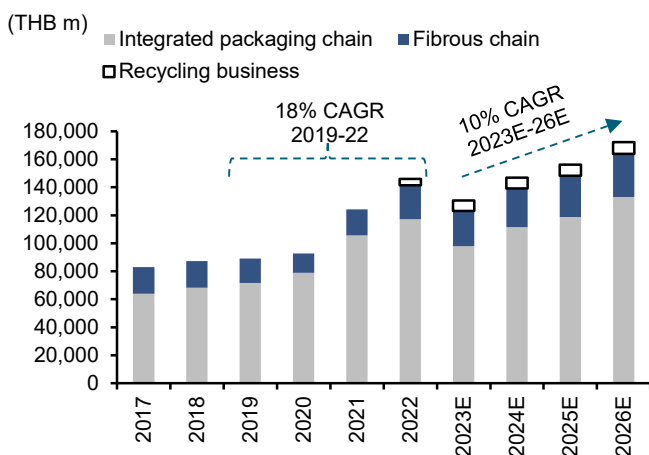
We expect SCGP's 2023 revenue and core profit to fall by 10.6% y-y and 4.6% y-y, respectively, owing to decreased sales volumes and average selling prices. With the company's capacity expansion and M&Ps throughout 2023, we expect SCGP's revenue to grow by 12.5% and 6.3% in 2024-25. We project its gross margin and EBITDA margin to remain healthy at around 18.1-18.7% and 13.6-13.8% in both years, respectively. Core profit is therefore estimated at THB6.8b (+26.0% y-y) in 2024 and THB7.9b (+16.8% y-y) in 2025.

Exhibit 20: SCGP's M&Ps and organic expansions



Sources: SCGP Presentation, December 2023

Exhibit 21: Revenue forecast



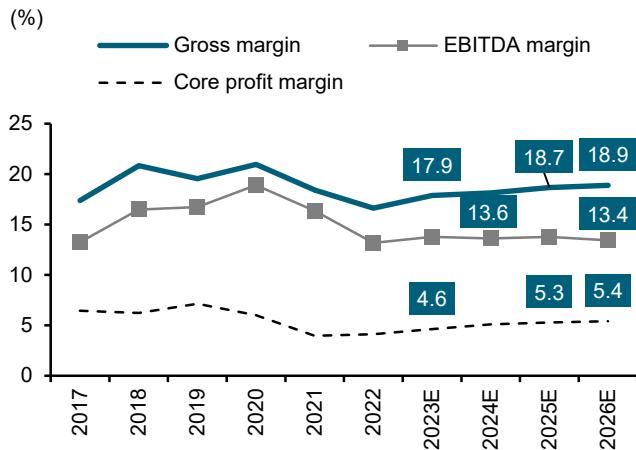
Sources: SCGP, FSSIA estimates

Exhibit 22: Recent projects



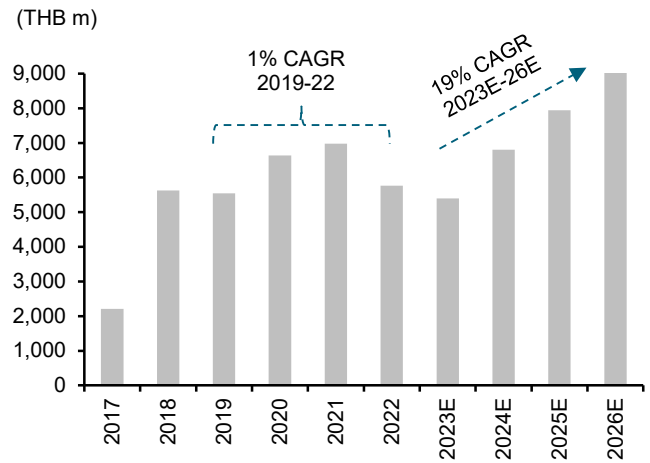
Sources: SCGP, FSSIA estimates

Exhibit 23: Margins



Sources: SCGP, FSSIA estimates

Exhibit 24: Core profit



Sources: SCGP, FSSIA estimates

Valuation

We derive a DCF-based TP of THB48.0 (9.8% WACC, 3.5% LTG), which implies 15x 2024E EV/EBITDA. SCGP’s share price is trading at only 9.8x 2023E EV/EBITDA, - 1.5 SD of its four-year average. SCGP has only gained THB14b (+9%) in market cap since it was first listed on the SET in 2020, while its assets at end-3Q23 rose to THB28b (+16%), and we anticipate its 2024 EBITDA to surge 17% from 2020. We initiate our coverage of SCGP with a BUY call.

Exhibit 25: DCF-based valuation

Cost of equity assumption	(%)	Cost of debt assumption	(%)
Risk free rate	3.0	Pre-tax cost of debt	4.0
Market risk premium	12.0	Tax rate	20.0
Stock beta	0.9		
Cost of equity, Ke	10.7	Cost of debt, Kd	4.0
Weight applied	65.6	Weight applied	34.4
WACC	9.8		
Terminal growth	3.5		
	(THB m)		
Sum of PV of FCF	80,432		
PV of Terminal value	86,499		
Enterprise value	166,931		
Net debt	38,939		
Equity value	205,870		
No. of shares	4,293		
Equity value per share (THB)	48.0		

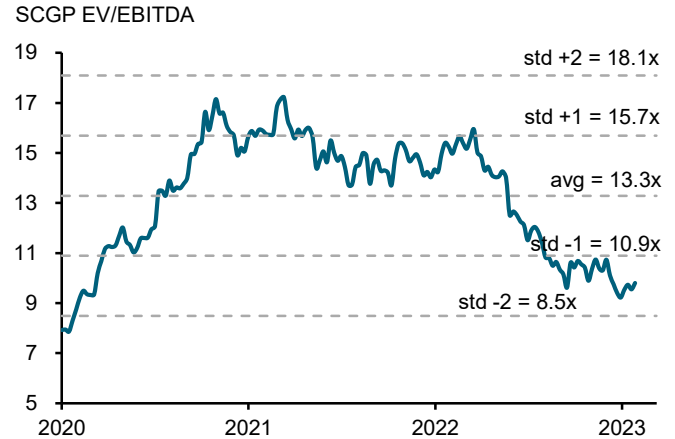
Sources: SCGP, FSSIA estimates

Exhibit 26: Rolling one-year forward P/E band



Sources: Bloomberg, FSSIA estimates

Exhibit 27: Rolling one-year forward EV/EBITDA band



Sources: Bloomberg, FSSIA estimates

Exhibit 28: Peers comparison as of 12 Dec 2023

Company	BBG	Rec	Share price			Market Cap (USD m)	PE		ROE		PBV		EV/EBITDA	
			Current (LCY)	Target (LCY)	Upside (%)		23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)	23E (x)	24E (x)
Thailand														
SCG packaging	SCGP TB	BUY	36.50	48.00	32	4,396	29.0	23.0	6.1	8.5	2.0	1.9	12.0	10.9
Starflex	SFLEX TB	BUY	3.52	5.60	59	78	16.0	12.6	17.7	20.9	2.7	2.6	10.7	10.5
Eastern Polymer Group	EPG TB	n/a	7.10	n/a	n/a	556	16.2	14.3	10.5	11.3	1.6	1.6	10.7	10.1
Thailand average						5,030	20.4	16.7	11.4	13.6	2.1	2.0	11.1	10.5
Regional														
Packagin Corp	PKG US	n/a	161.74	n/a	n/a	14,496	19.3	19.4	19.6	19.0	3.7	3.7	10.4	10.4
Amcor	AMCR US	n/a	9.44	n/a	n/a	13,644	13.0	13.7	26.6	24.2	3.4	3.3	10.3	10.4
Smurfit kappa	SKG LN	n/a	3,012.00	n/a	n/a	9,838	10.0	10.7	16.7	14.3	1.6	1.5	6.0	6.2
Mondi	MNDI LN	n/a	1,466.50	n/a	n/a	8,933	16.7	16.4	8.2	9.2	1.4	1.4	8.4	8.1
Graphic packaging	GPK US	n/a	22.91	n/a	n/a	7,012	8.0	8.4	36.1	25.1	2.6	2.2	6.6	6.7
Sonoco products	SON US	n/a	53.77	n/a	n/a	5,267	10.3	10.2	23.6	21.3	2.2	2.2	7.8	7.6
DS dmith	SMDI LN	n/a	295.40	n/a	n/a	5,105	6.9	8.8	13.5	10.8	0.9	1.0	5.3	5.9
Sealed Air	SEE US	n/a	33.05	n/a	n/a	4,774	11.3	10.9	93.7	72.7	10.2	6.3	8.5	8.2
Silgan holdings	SLGN US	n/a	41.87	n/a	n/a	4,459	12.6	11.5	20.0	19.9	2.5	2.3	9.3	8.9
Huhtamaki	HUH1V FH	n/a	35.20	n/a	n/a	4,092	16.4	14.3	9.8	12.6	1.9	1.8	9.0	8.3
Nine dragons	2689 HK	n/a	3.62	n/a	n/a	2,139	n/a	32.1	(4.3)	1.6	0.3	0.3	17.9	10.8
Henan mingtai industrial	601677 CH	n/a	11.23	n/a	n/a	1,858	7.0	6.5	11.4	11.9	0.9	0.8	5.7	5.0
Winpak	WPK CT	n/a	38.30	n/a	n/a	1,829	12.2	11.9	11.2	10.2	1.4	1.2	5.8	5.6
Shenzhen leaguer	002243 CH	n/a	8.29	n/a	n/a	1,402	18.7	15.5	7.4	8.1	1.4	1.3	n/a	n/a
Xiamen jihong technology	002803 CH	n/a	23.33	n/a	n/a	1,204	20.1	16.1	17.2	18.1	3.5	2.9	12.9	10.8
Shanghai baosteel packaging	601968 CH	n/a	5.31	n/a	n/a	840	21.3	19.7	7.1	7.2	1.5	1.4	11.0	9.9
Sunrise group	002752 CH	n/a	5.34	n/a	n/a	727	15.3	12.9	11.4	12.2	1.7	1.5	8.4	7.3
Ningbo homelink	301193 CH	n/a	18.78	n/a	n/a	497	31.9	24.3	7.3	8.8	2.2	2.1	13.8	11.4
Time technoplast	TIME IN	n/a	179.35	n/a	n/a	488	17.2	n/a	10.9	n/a	1.9	n/a	8.4	n/a
Regional average						88,602	14.9	14.6	18.3	17.1	2.4	2.1	9.2	8.3
Overall average						93,632	15.7	14.9	17.3	16.6	2.4	2.1	9.5	8.7

Sources: Bloomberg; FSSIA estimates

Financial Statements

SCG Packaging

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	124,223	146,068	130,593	146,863	156,114
Cost of goods sold	(101,345)	(121,791)	(107,249)	(120,244)	(126,941)
Gross profit	22,878	24,277	23,343	26,619	29,173
Other operating income	2,214	1,322	1,182	1,182	1,256
Operating costs	(12,575)	(16,039)	(15,645)	(17,110)	(18,422)
Operating EBITDA	20,833	19,259	17,981	19,989	21,502
Depreciation	(8,315)	(9,699)	(9,101)	(9,298)	(9,494)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	12,518	9,560	8,880	10,691	12,008
Net financing costs	(1,180)	(1,468)	(1,995)	(1,998)	(1,851)
Associates	57	55	13	19	22
Recurring non-operating income	57	55	13	19	22
Non-recurring items	317	143	0	0	0
Profit before tax	11,712	8,289	6,898	8,713	10,179
Tax	(2,065)	(1,550)	(1,342)	(1,695)	(1,981)
Profit after tax	9,647	6,739	5,555	7,018	8,199
Minority interests	(1,353)	(939)	(158)	(217)	(254)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	8,294	5,801	5,397	6,800	7,945
Non-recurring items & goodwill (net)	(317)	(143)	0	0	0
Recurring net profit	7,977	5,658	5,397	6,800	7,945
Per share (THB)					
Recurring EPS *	1.86	1.32	1.26	1.58	1.85
Reported EPS	1.93	1.35	1.26	1.58	1.85
DPS	0.17	0.17	0.16	0.19	0.20
Diluted shares (used to calculate per share data)	4,293	4,293	4,293	4,293	4,293
Growth					
Revenue (%)	33.9	17.6	(10.6)	12.5	6.3
Operating EBITDA (%)	21.8	(7.6)	(6.6)	11.2	7.6
Operating EBIT (%)	26.2	(23.6)	(7.1)	20.4	12.3
Recurring EPS (%)	19.4	(29.1)	(4.6)	26.0	16.8
Reported EPS (%)	28.4	(30.1)	(7.0)	26.0	16.8
Operating performance					
Gross margin inc. depreciation (%)	18.4	16.6	17.9	18.1	18.7
Gross margin exc. depreciation (%)	25.1	23.3	24.8	24.5	24.8
Operating EBITDA margin (%)	16.8	13.2	13.8	13.6	13.8
Operating EBIT margin (%)	10.1	6.5	6.8	7.3	7.7
Net margin (%)	6.4	3.9	4.1	4.6	5.1
Effective tax rate (%)	17.6	18.7	19.5	19.5	19.5
Dividend payout on recurring profit (%)	9.4	13.1	12.6	11.7	10.8
Interest cover (X)	10.7	6.5	4.5	5.4	6.5
Inventory days	70.8	75.9	81.5	69.1	67.3
Debtor days	60.6	60.2	65.0	59.9	56.2
Creditor days	50.3	48.1	53.3	48.1	47.4
Operating ROIC (%)	8.6	6.0	6.2	8.0	8.7
ROIC (%)	6.8	4.6	4.5	5.7	6.2
ROE (%)	8.6	5.8	6.1	8.5	9.6
ROA (%)	5.4	3.8	3.6	4.3	4.8
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Integrated packaging chain	105,562	117,219	98,005	111,523	118,839
Fibrous chain	18,660	24,273	25,082	27,610	29,313
Recycling business and others	0	4,576	7,505	7,731	7,963

Sources: SCG Packaging; FSSIA estimates

Financial Statements

SCG Packaging

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	7,977	5,658	5,397	6,800	7,945
Depreciation	8,315	9,699	9,101	9,298	9,494
Associates & minorities	(57)	(55)	(13)	(19)	(22)
Other non-cash items	3,637	4,021	26	(2,234)	(1,363)
Change in working capital	(12,371)	(2,089)	3,228	(1,648)	2,995
Cash flow from operations	7,501	17,234	17,738	12,197	19,049
Capex - maintenance	0	0	0	0	0
Capex - new investment	(20,194)	(14,212)	(4,876)	(5,342)	(5,345)
Net acquisitions & disposals	(11,018)	10,886	(5,706)	(5,000)	(5,700)
Other investments (net)	216	206	(258)	229	(56)
Cash flow from investing	(30,995)	(3,119)	(10,840)	(10,113)	(11,101)
Dividends paid	(3,522)	(3,612)	(2,159)	(2,720)	(3,178)
Equity finance	0	0	0	0	0
Debt finance	5,070	(7,253)	(6,246)	1,397	(4,418)
Other financing cash flows	(2,591)	(737)	(1,995)	(1,998)	(1,851)
Cash flow from financing	(1,042)	(11,602)	(10,401)	(3,321)	(9,447)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	11,873	0	5,000	0	0
Net other adjustments	11,873	(10,390)	5,000	(5,300)	(1,000)
Movement in cash	(12,664)	(7,877)	1,498	(6,537)	(2,499)
Free cash flow to firm (FCFF)	(22,314.42)	15,582.69	8,893.93	4,081.29	9,799.08
Free cash flow to equity (FCFE)	(9,142.19)	(4,265.73)	3,656.78	(3,816.87)	678.73

Per share (THB)

FCFF per share	(5.20)	3.63	2.07	0.95	2.28
FCFE per share	(2.13)	(0.99)	0.85	(0.89)	0.16
Recurring cash flow per share	4.63	4.50	3.38	3.22	3.74

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	210,592	211,928	219,791	227,655	235,519
Less: Accumulated depreciation	(113,410)	(117,342)	(121,274)	(125,206)	(129,138)
Tangible fixed assets (net)	97,181	94,585	98,517	102,449	106,381
Intangible fixed assets (net)	37,233	38,807	39,747	41,147	42,547
Long-term financial assets	879	883	1,072	1,140	1,066
Invest. in associates & subsidiaries	873	1,034	1,039	1,049	1,063
Cash & equivalents	20,222	12,344	13,842	7,305	4,806
A/C receivable	24,910	23,254	23,256	24,947	23,096
Inventories	23,308	23,281	20,568	21,413	21,910
Other current assets	746	1,275	1,131	1,272	1,352
Current assets	69,186	60,154	58,798	54,938	51,165
Other assets	1,471	1,815	1,971	1,850	1,810
Total assets	206,824	197,280	201,145	202,572	204,032
Common equity	96,837	97,200	78,520	81,400	84,967
Minorities etc.	25,463	25,766	25,925	26,142	26,396
Total shareholders' equity	122,300	122,967	104,445	107,542	111,363
Long term debt	22,164	29,935	24,626	25,421	20,611
Other long-term liabilities	10,383	10,899	10,798	12,182	13,407
Long-term liabilities	32,547	40,834	35,424	37,603	34,019
A/C payable	15,261	14,282	14,398	14,825	15,650
Short term debt	32,412	17,726	21,618	17,117	17,329
Other current liabilities	4,303	1,471	25,259	25,486	25,671
Current liabilities	51,977	33,479	61,275	57,427	58,650
Total liabilities and shareholders' equity	206,824	197,280	201,145	202,572	204,032
Net working capital	29,400	32,057	5,299	7,322	5,038
Invested capital	167,038	169,182	147,645	154,956	157,904

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	22.56	22.64	18.29	18.96	19.79
Tangible book value per share	13.88	13.60	9.03	9.38	9.88

Financial strength

Net debt/equity (%)	28.1	28.7	31.0	32.8	29.8
Net debt/total assets (%)	16.6	17.9	16.1	17.4	16.2
Current ratio (x)	1.3	1.8	1.0	1.0	0.9
CF interest cover (x)	10.4	7.8	5.3	1.8	4.3

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	19.6	27.7	29.0	23.0	19.7
Recurring P/E @ target price (x) *	25.8	36.4	38.2	30.3	25.9
Reported P/E (x)	18.9	27.0	29.0	23.0	19.7
Dividend yield (%)	0.5	0.5	0.4	0.5	0.5
Price/book (x)	1.6	1.6	2.0	1.9	1.8
Price/tangible book (x)	2.6	2.7	4.0	3.9	3.7
EV/EBITDA (x) **	10.4	11.3	12.0	10.9	10.1
EV/EBITDA @ target price (x) **	12.8	13.9	14.7	13.4	12.4
EV/invested capital (x)	1.3	1.3	1.5	1.4	1.4

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: SCG Packaging; FSSIA estimates

SCG Packaging PCL (SCGP TB)

FSSIA ESG rating

★★★★★

81.93 /100

Exhibit 29: FSSIA ESG score implication

Rating	Score	Implication
★★★★★	>79-100	Leading its industry peers in managing the most significant ESG risks which not only better cost efficiency but also lead to higher profitability.
★★★★	>59-79	A mixed track record of managing the most significant ESG risks and opportunities relative to industry peers.
★★★	>39-59	Relevant ESG materiality matrix has been constructively addressed, well-managed and incorporated into day-to-day operations, in which targets and achievements are evaluated annually.
★★	>19-39	Relevant ESG materiality matrix has been identified with key management in charge for progress to be followed up on and to provide intensive disclosure. Most targets are conventional and achievable.
★	1-19	The company has adopted the United Nations Sustainable Development Goals (UN SDGs), established sustainability management guidelines and fully complies with regulations or ESG suggested guidance from related organizations such as the SET and SEC.

Source: FSSIA estimates

Exhibit 30: ESG – peer comparison

	FSSIA ESG score	Domestic ratings						Global ratings					--- Bloomberg ---		
		DJSI	SET THSI	THSI	CG score	AGM level	Thai CAC	Morningstar ESG risk	ESG Book	MSCI	Moody's	Refinitiv	S&P Global	ESG score	Disclosure score
SET100	69.20	5.34	4.40	4.40	4.76	4.65	3.84	Medium	51.76	BBB	20.87	58.72	63.91	3.72	28.17
Coverage	67.12	5.11	4.15	4.17	4.83	4.71	3.53	Medium	52.04	BB	16.97	56.85	62.09	3.40	31.94
PSL	55.45	--	Y	Y	5.00	5.00	Certified	Medium	59.76	BB	--	--	51.00	--	--
SCGP	81.93	Y	Y	Y	5.00	5.00	Certified	Low	60.36	BBB	--	65.07	86.00	3.67	--
TTA	65.35	--	Y	Y	5.00	5.00	Certified	Medium	56.56	AA	--	50.79	25.00	3.31	56.20

Sources: SETTRADE.com; FSSIA's compilation

Exhibit 31: ESG score by Bloomberg

FY ending Dec 31	FY 2020	FY 2021	FY 2022
ESG financial materiality scores - ESG score	—	3.56	—
BESG environmental pillar score	—	3.33	—
BESG social pillar score	—	1.90	—
BESG governance pillar score	—	4.53	—
ESG disclosure score	28.79	71.10	75.73
Environmental disclosure score	0.00	67.53	77.26
Social disclosure score	3.14	56.41	60.58
Governance disclosure score	83.02	89.28	89.28
Environmental			
Emissions reduction initiatives	No	Yes	Yes
Climate change policy	No	Yes	Yes
Climate change opportunities discussed	No	No	No
Risks of climate change discussed	No	Yes	Yes
GHG scope 1	—	4,366	3,778
GHG scope 2 location-based	—	508	632
GHG Scope 3	—	2,167	1,459
Carbon per unit of production	—	—	—
Biodiversity policy	No	Yes	Yes
Energy efficiency policy	No	Yes	Yes
Total energy consumption	—	17,964	16,961
Renewable energy use	—	3,742	4,085
Electricity used	—	738	951
Fuel used - natural gas	—	—	146,676

Sources: Bloomberg; FSSIA's compilation

Exhibit 32: ESG score by Bloomberg (cont.)

FY ending Dec 31	FY 2020	FY 2021	FY 2022
Fuel used - crude oil/diesel	No	No	No
Waste reduction policy	No	Yes	Yes
Hazardous waste	—	64	48
Total waste	—	1,553	1,515
Waste recycled	—	1,520	1,469
Waste sent to landfills	—	18	12
Environmental supply chain management	No	Yes	Yes
Water policy	No	Yes	Yes
Water consumption	—	—	—
Social			
Human rights policy	No	Yes	Yes
Policy against child labor	No	Yes	Yes
Quality assurance and recall policy	No	Yes	Yes
Consumer data protection policy	No	Yes	Yes
Equal opportunity policy	No	Yes	Yes
Gender pay gap breakout	No	Yes	Yes
Pct women in workforce	18	18	22
Pct disabled in workforce	—	0	0
Business ethics policy	No	Yes	Yes
Anti-bribery ethics policy	No	Yes	Yes
Health and safety policy	No	Yes	Yes
Lost time incident rate - employees	—	0	0
Total recordable incident rate - employees	—	0	0
Training policy	No	Yes	Yes
Fair remuneration policy	No	No	No
Number of employees – CSR	—	23,341	22,289
Employee turnover pct	—	5	6
Total hours spent by firm - employee training	—	46,682	334,335
Social supply chain management	No	Yes	Yes
Governance			
Board size	12	12	12
No. of independent directors (ID)	7	8	8
No. of women on board	2	3	3
No. of non-executive directors on board	11	11	11
Company conducts board evaluations	No	No	No
No. of board meetings for the year	10	8	9
Board meeting attendance pct	100	100	99
Board duration (years)	3	3	3
Director share ownership guidelines	No	No	No
Age of the youngest director	51	52	53
Age of the oldest director	73	69	70
No. of executives / company managers	8	7	7
No. of female executives	1	0	0
Executive share ownership guidelines	No	No	No
Size of audit committee	3	3	3
No. of ID on audit committee	3	3	3
Audit committee meetings	8	5	6
Audit meeting attendance %	100	100	100
Size of compensation committee	3	3	3
No. of ID on compensation committee	2	2	2
No. of compensation committee meetings	4	7	6
Compensation meeting attendance %	100	100	100
Size of nomination committee	3	3	3
No. of nomination committee meetings	5	6	6
Nomination meeting attendance %	100	100	100
Sustainability governance			
Verification type	No	Yes	Yes

Sources: Bloomberg; FSSIA's compilation

Disclaimer for ESG scoring

ESG score	Methodology	Rating																											
The Dow Jones Sustainability Indices (DJSI) By S&P Global	The DJSI World applies a transparent, rules-based component selection process based on the companies' Total Sustainability Scores resulting from the annual S&P Global Corporate Sustainability Assessment (CSA). Only the top-ranked companies within each industry are selected for inclusion.	Be a member and invited to the annual S&P Global Corporate Sustainability Assessment (CSA) for DJSI. Companies with an S&P Global ESG Score of less than 45% of the S&P Global ESG Score of the highest scoring company are disqualified. The constituents of the DJSI indices are selected from the Eligible Universe.																											
Sustainability Investment List (THSI) by The Stock Exchange of Thailand (SET)	THSI quantifies responsibility in Environmental and Social issues by managing business with transparency in Governance, updated annually. Candidates must pass the preemptive criteria, with two crucial conditions: 1) no irregular trading of the board members and executives; and 2) free float of >150 shareholders, and combined holding must be >15% of paid-up capital. Some key disqualifying criteria include: 1) CG score of below 70%; 2) independent directors and free float violation; 3) executives' wrongdoing related to CG, social & environmental impacts; 4) equity in negative territory; and 5) earnings in red for > 3 years in the last 5 years.	To be eligible for THSI inclusion , verified data must be scored at a minimum of 50% for each indicator, unless the company is a part of DJSI during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality. SETTHSI Index is extended from the THSI companies whose 1) market capitalization > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.																											
CG Score by Thai Institute of Directors Association (Thai IOD)	An indicator of CG strength in sustainable development, measured annually by the Thai IOD, with support from the Stock Exchange of Thailand (SET). The results are from the perspective of a third party, not an evaluation of operations.	Scores are rated in six categories: 5 for Excellent (90-100), 4 for Very Good (80-89), 3 for Good (70-79), 2 for Fair (60-69), 1 for Pass (60-69), and not rated for scores below 50. Weightings include: 1) the rights; 2) and equitable treatment of shareholders (weight 25% combined); 3) the role of stakeholders (25%); 4) disclosure & transparency (15%); and 5) board responsibilities (35%).																											
AGM level By Thai Investors Association (TIA) with support from the SEC	It quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and information is transparent and sufficiently disclosed. All form important elements of two out of five the CG components to be evaluated annually. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). <i>(The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.)</i>	The scores are classified into four categories: 5 for Excellent (100), 4 for Very Good (90-99), 3 for Fair (80-89), and not rated for scores below 79.																											
Thai CAC By Thai Private Sector Collective Action Against Corruption (CAC)	The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. The Certification is good for three years. <i>(Companies deciding to become a CAC certified member start by submitting a Declaration of Intent to kick off an 18-month deadline to submit the CAC Checklist for Certification, including risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.)</i>	The document will be reviewed by a committee of nine professionals. A passed Checklist will move for granting certification by the CAC Council approvals whose members are twelve highly respected individuals in professionalism and ethical achievements.																											
Morningstar Sustainalytics	The Sustainalytics' ESG risk rating provides an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. <i>Sources to be reviewed include corporate publications and regulatory filings, news and other media, NGO reports/websites, multi-sector information, company feedback, ESG controversies, issuer feedback on draft ESG reports, and quality & peer reviews.</i>	A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored. <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>NEGL</th> <th>Low</th> <th>Medium</th> <th>High</th> <th>Severe</th> </tr> </thead> <tbody> <tr> <td>0-10</td> <td>10-20</td> <td>20-30</td> <td>30-40</td> <td>40+</td> </tr> </tbody> </table>	NEGL	Low	Medium	High	Severe	0-10	10-20	20-30	30-40	40+																	
NEGL	Low	Medium	High	Severe																									
0-10	10-20	20-30	30-40	40+																									
ESG Book	The ESG score identifies sustainable companies that are better positioned to outperform over the long term. The methodology considers the principle of financial materiality including information that significantly helps explain future risk-adjusted performance. Materiality is applied by over-weighting features with higher materiality and rebalancing these weights on a rolling quarterly basis.	The total ESG score is calculated as a weighted sum of the features scores using materiality-based weights. The score is scaled between 0 and 100 with higher scores indicating better performance.																											
MSCI	MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. <table border="1" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td>AAA</td> <td>8.571-10.000</td> <td>Leader:</td> <td>leading its industry in managing the most significant ESG risks and opportunities</td> </tr> <tr> <td>AA</td> <td>7.143-8.570</td> <td></td> <td></td> </tr> <tr> <td>A</td> <td>5.714-7.142</td> <td></td> <td></td> </tr> <tr> <td>BBB</td> <td>4.286-5.713</td> <td>Average:</td> <td>a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</td> </tr> <tr> <td>BB</td> <td>2.857-4.285</td> <td></td> <td></td> </tr> <tr> <td>B</td> <td>1.429-2.856</td> <td></td> <td></td> </tr> <tr> <td>CCC</td> <td>0.000-1.428</td> <td>Laggard:</td> <td>lagging its industry based on its high exposure and failure to manage significant ESG risks</td> </tr> </tbody> </table>	AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities	AA	7.143-8.570			A	5.714-7.142			BBB	4.286-5.713	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers	BB	2.857-4.285			B	1.429-2.856			CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks
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CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks																										
Moody's ESG solutions	Moody's assesses the degree to which companies take into account ESG objectives in the definition and implementation of their strategy policies. It believes that a company integrating ESG factors into its business model and relatively outperforming its peers is better positioned to mitigate risks and create sustainable value for shareholders over the medium to long term.																												
Refinitiv ESG rating	Designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data. The score ranges from 0 to 100 on relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly. <i>(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)</i>																												
S&P Global	The S&P Global ESG Score is a relative score measuring a company's performance on and management of ESG risks, opportunities, and impacts compared to its peers within the same industry classification. The score ranges from 0 to 100.																												
Bloomberg	ESG Score	Bloomberg score evaluating the company's aggregated Environmental, Social and Governance (ESG) performance. The score is based on Bloomberg's view of ESG financial materiality. The score is a weighted generalized mean (power mean) of Pillar Scores, where the weights are determined by the pillar priority ranking. Values range from 0 to 10; 10 is the best.																											
Bloomberg	ESG Disclosure Score	Disclosure of a company's ESG used for Bloomberg ESG score. The score ranges from 0 for none to 100 for disclosure of every data point, measuring the amount of ESG data reported publicly, and not the performance on any data point.																											

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "CG Score"; 2) "AGM Level"; 3) "Thai CAC"; and 4) THSI. The ratings are updated on an annual basis. FSSIA does not confirm nor certify the accuracy of such ratings.

Source: FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Jitra Amornthum FSS International Investment Advisory Securities Co., Ltd

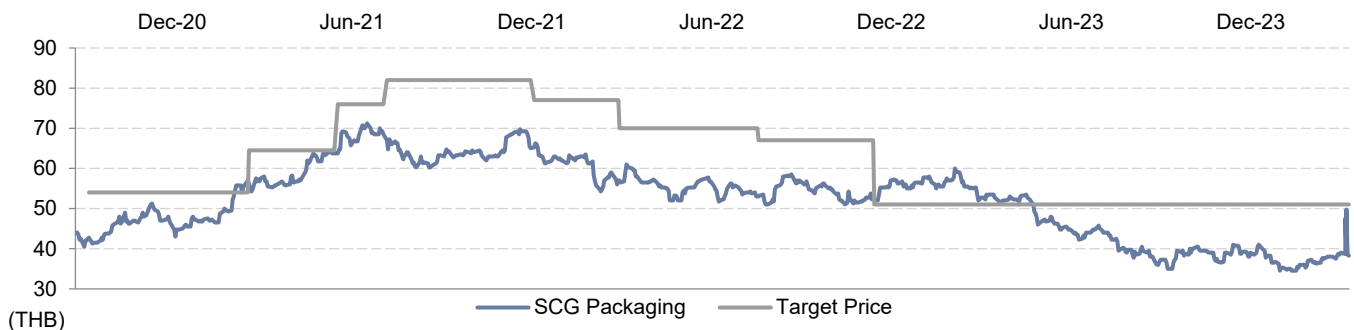
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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History of change in investment rating and/or target price

SCG Packaging (SCGP TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
24-Dec-2020	BUY	54.00	03-Sep-2021	BUY	82.00	20-Jul-2022	BUY	67.00
10-May-2021	BUY	64.50	07-Jan-2022	BUY	77.00	27-Oct-2022	HOLD	51.00
23-Jul-2021	BUY	76.00	23-Mar-2022	BUY	70.00			

Jitra Amornthum started covering this stock from 13-Dec-2023

Price and TP are in local currency

Source: FSSIA estimates

Starflex (SFLEX TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
10-Mar-2023	BUY	4.70	12-Jun-2023	BUY	5.50	04-Dec-2023	BUY	5.60

Jitra Amornthum started covering this stock from 10-Mar-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
SCG Packaging	SCGP TB	THB 36.50	BUY	Downside risks to our DCF-based TP include 1) the slow demand for packaging; 2) the rising cost of recycled paper, other raw material, and energy; 3) the rising cost of funds; and 4) the fluctuation in foreign exchange currencies.
Starflex	SFLEX TB	THB 3.52	BUY	Downside risks to our P/E-based TP include 1) a sharp rise in crude oil prices; 2) rising inflation pressuring consumers' purchasing power; and 3) baht depreciation.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited.

All share prices are as at market close on 12-Dec-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.