

Thai Plaspac

TPAC TB / TPAC.BK

Superior 2023 outlook; substantial scope for future growth

Fast-growing demand for consumer-linked packaging and acquisitions set the scene for sustained long-term profit growth. And there's scope for upside to our forecasts and valuation from future new investments. We have re-initiated coverage of TPAC with a BUY call.

Consumer-linked plastic packaging provider...strong barrier to entry

TPAC is Thailand's leading rigid plastic packaging solutions provider. Its focus is everyday essential consumer categories (food & beverage, pharmaceuticals & personal care, and industrial & homecare). These categories require stringent hygiene standards—an implicit barrier to market entry that buttresses customer loyalty. TPAC has more than 1,500 clients across 50 countries, so its revenue base is broad and it isn't exposed to any significant customer concentration risk.

Substantial market opportunities for future growth

The company has expanded its footprint significantly over the past seven years from its Thailand base to India, the UAE, and Malaysia, which are fast-growing markets for FMCGs and pharmaceuticals. TPAC is strategically focused on industry niches for rigid plastic packaging in each country where it has a presence. Because these markets are expanding fairly rapidly, we see substantial growth opportunities going forward. The firm plans to expand its market shares in these countries through organic and inorganic expansion, new product development, and by building its customer base. Our sensitivity analysis suggests that for every 1% that TPAC's mean market share rises, its earnings would beat our forecasts by 7% for 2024 and by 5%, on average, for the long-term.

Expansive earnings profile and a strong balance sheet

Similarly to many other companies that operate in multiple jurisdictions, TPAC encountered cost inflation pressures in 2022, which squeezed its gross margin. GM was slimmest in 2Q22, then recovered QoQ, 3Q22-1Q23. The drivers were procurement cost savings and its ability to pass through cost increases to customers. Despite a slimmer gross margin, TPAC still delivered YoY core profit growth for 2022, led by top-line expansion (both organic volume growth and sales by recently-acquired subsidiaries).

Premised on greater sales volume to be brought about by broadly improving demand, a full-year contribution by Skypet, and a fatter GM (easing cost pressures), we expect TPAC to deliver 2023 core earnings of Bt522m, spectacular YoY growth of 75.7%. Looking further ahead, our model points to a 2024-25 core profit CAGR of 10.6%. And there's scope for upside to our revenue and earnings projections from new investments—greenfield and acquisitions. TPAC's balance sheet looks set to remain strong going forward. Hence, the company should have ample debt headroom to fund future organic investments and acquisitions.

Sector: Packaging

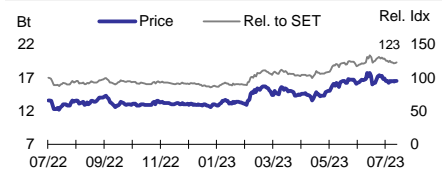
NEUTRAL

Rating: BUY

Target Price: Bt22.00

Price (Jul 20, 2023): Bt16.50

Price chart



Share price perf. (%)	1M	3M	12M
Relative to SET	(1.7)	19.4	23.8
Absolute	(1.8)	17.0	22.2

Key statistics

Market cap	Bt5.4bn	USD0.2bn
12-mth price range	Bt12.0/Bt18.4	
12-mth avg daily volume	Bt2m	USD0.0m
# of shares (m)	327	
Est. free float (%)	21.0	
Foreign limit (%)	100.0	

Financial summary

FY Ended 31 Dec	2022	2023E	2024E	2025E
Revenues (Btm)	6,997	7,183	7,665	8,108
Net profit (Btm)	319	522	604	638
EPS (Bt)	0.98	1.60	1.85	1.95
EPS growth (%)	+108.5%	+63.6%	+15.8%	+5.7%
Core profit (Btm)	297	522	604	638
Core EPS (Bt)	0.91	1.60	1.85	1.95
Core EPS growth (%)	+2.7%	+75.7%	+15.8%	+5.7%
PER (x)	14.3	10.3	8.9	8.4
PBV (x)	1.8	1.8	1.6	1.4
Dividend (Bt)	0.3	0.5	0.6	0.6
Dividend yield (%)	2.1	2.9	3.4	3.6
ROE (%)	14.7	21.5	21.1	19.3

CG / CAC Anti-Corruption Certification



Suppata Srisuk

Securities Fundamental Investment Analyst

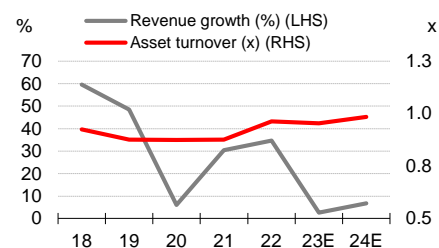
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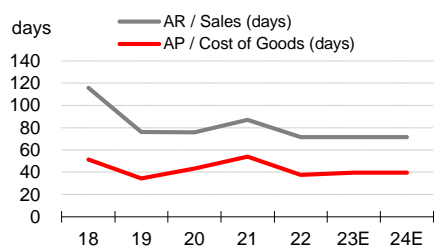
TPAC: Financial Tables – Year

	2020	2021	2022	2023E	2024E
PROFIT & LOSS (Btm)					
Revenue	3,983	5,194	6,997	7,183	7,665
Cost of sales and services	(3,025)	(4,190)	(5,841)	(5,714)	(6,060)
Gross profit	957	1,004	1,156	1,469	1,606
SG&A	(473)	(535)	(669)	(687)	(733)
EBIT	485	469	487	782	873
Interest expense	(105)	(137)	(161)	(158)	(145)
Other income/exp.	51	59	77	85	93
EBT	430	390	404	709	821
Corporate tax	(83)	(78)	(75)	(132)	(153)
After-tax net profit (loss)	347	312	328	577	668
Minority interest	(31)	(22)	(31)	(55)	(64)
Equity earnings from affiliates	0	0	0	0	0
Extra items	6	(136)	22	0	0
Net profit (loss)	322	153	319	522	604
Reported EPS	0.99	0.47	0.98	1.60	1.85
Fully diluted EPS	0.99	0.47	0.98	1.60	1.85
Core net profit	316	289	297	522	604
Core EPS	0.97	0.89	0.91	1.60	1.85
EBITDA	856	955	1,047	1,308	1,439
KEY RATIOS					
Revenue growth (%)	6.0	30.4	34.7	2.7	6.7
Gross margin (%)	24.0	19.3	16.5	20.5	20.9
EBITDA margin (%)	21.5	18.4	15.0	18.2	18.8
Operating margin (%)	12.2	9.0	7.0	10.9	11.4
Net margin (%)	8.1	2.9	4.6	7.3	7.9
Core profit margin (%)	7.9	5.6	4.2	7.3	7.9
ROA (%)	7.1	2.6	4.4	6.9	7.8
ROCE (%)	8.4	3.1	5.5	8.8	9.8
Asset turnover (x)	0.9	0.9	1.0	1.0	1.0
Current ratio (x)	1.3	1.3	1.1	1.1	1.1
Gearing ratio (x)	1.0	1.3	1.3	1.0	0.8
Interest coverage (x)	4.6	3.4	3.0	5.0	6.0
BALANCE SHEET (Btm)					
Cash & Equivalent	196	394	287	264	250
Accounts receivable	826	1,239	1,373	1,409	1,504
Inventory	416	579	536	550	587
PP&E-net	1,476	2,139	2,342	2,501	2,428
Other assets	1,686	2,677	2,701	2,772	2,959
Total assets	4,723	7,127	7,404	7,667	7,909
Accounts payable	359	619	602	618	660
ST debts & current portion	764	1,021	1,377	1,403	1,472
Long-term debt	1,264	2,155	1,898	1,664	1,279
Other liabilities	166	725	867	890	950
Total liabilities	2,603	4,643	4,828	4,661	4,451
Paid-up capital	327	327	327	327	327
Share premium	1,027	1,027	1,027	1,027	1,027
Retained earnings	945	714	947	1,373	1,821
Shareholders equity	2,062	2,133	2,210	2,636	3,084
Minority interests	59	350	367	370	374
Total Liab.&Shareholders' equity	4,723	7,127	7,404	7,667	7,909
CASH FLOW (Btm)					
Net income	353	153	319	522	604
Depreciation and amortization	321	428	482	441	473
Change in working capital	(96)	(653)	(95)	(86)	(222)
FX, non-cash adjustment & others	184	0	0	0	0
Cash flows from operating activities	762	(72)	706	877	855
Capex (Invest)/Divest	(309)	(1,091)	(686)	(600)	(400)
Others	67	0	0	0	0
Cash flows from investing activities	(242)	(1,091)	(686)	(600)	(400)
Debt financing (repayment)	283	1,149	99	(208)	(316)
Equity financing	0	0	0	0	0
Dividend payment	(41)	(385)	(85)	(96)	(157)
Others	67	0	0	0	0
Cash flows from financing activities	242	1,359	(127)	(300)	(469)
Net change in cash	762	197	(107)	(23)	(14)
Free cash flow (Btm)	453	(1,162)	21	277	455
Key assumptions					
Sales volume (kt)	53,484	63,881	72,465	70,135	75,125
Overall utilization rate	70%	77%	70%	72%	73%

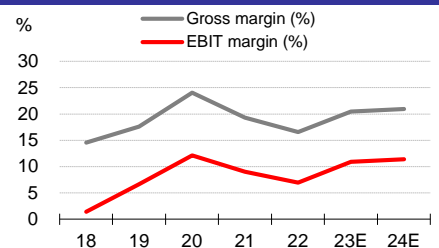
Revenue growth and asset turnover



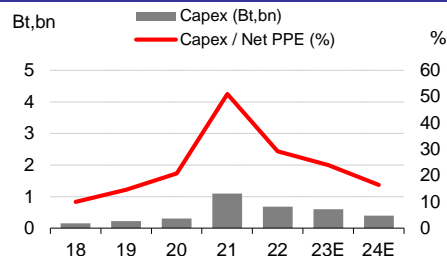
A/C receivable & A/C payable days



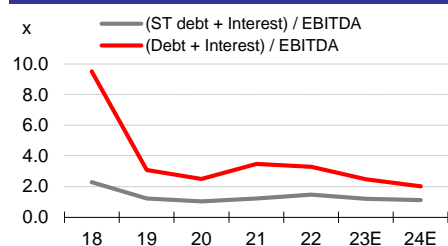
Profit margins



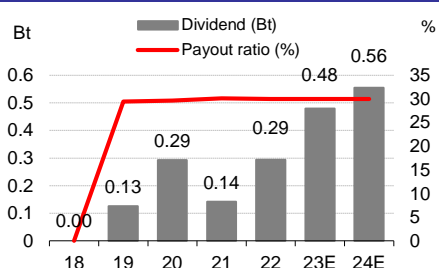
Capital expenditure



Debt serviceability



Dividend payout



TPAC: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q20	1Q21	2Q21	3Q21	4Q21
Revenue	982	1,089	1,138	1,397	1,570
Cost of sales and services	(752)	(815)	(926)	(1,147)	(1,301)
Gross profit	230	274	212	249	269
SG&A	(130)	(120)	(125)	(148)	(143)
EBIT	99	154	87	102	126
Interest expense	(26)	(26)	(30)	(38)	(44)
Other income/exp.	15	13	9	16	21
EBT	88	141	66	80	103
Corporate tax	(22)	(25)	(11)	(19)	(23)
After-tax net profit (loss)	66	116	55	61	80
Minority interest	(3)	(4)	(5)	(6)	(7)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(132)	0	(4)	(0)
Net profit (loss)	63	(20)	51	50	72
Reported EPS	0.19	(0.06)	0.16	0.15	0.22
Fully diluted EPS	0.19	(0.06)	0.16	0.15	0.22
Core net profit	63	112	51	55	72
Core EPS	0.19	0.34	0.16	0.17	0.22
EBITDA	175	237	177	213	270

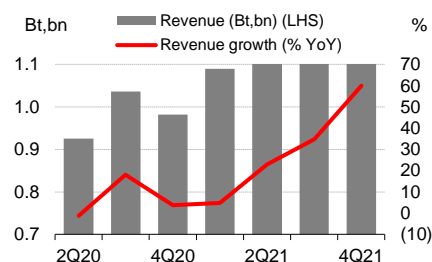
KEY RATIOS

Gross margin (%)	23.4	25.1	18.7	17.9	17.1
EBITDA margin (%)	17.8	21.8	15.6	15.2	17.2
Operating margin (%)	10.1	14.1	7.7	7.3	8.0
Net margin (%)	6.5	(1.8)	4.5	3.6	4.6
Core profit margin (%)	6.4	10.2	4.5	3.9	4.6
BV (Bt)	6.5	6.8	6.7	7.5	7.6
ROE (%)	12.3	(3.8)	10.1	10.2	13.6
ROA (%)	5.3	(1.7)	3.4	2.9	4.0
Current ratio (x)	1.3	1.4	1.2	1.2	1.3
Gearing ratio (x)	1.0	0.9	1.5	1.4	1.3
Interest coverage (x)	3.8	5.9	2.9	2.7	2.9

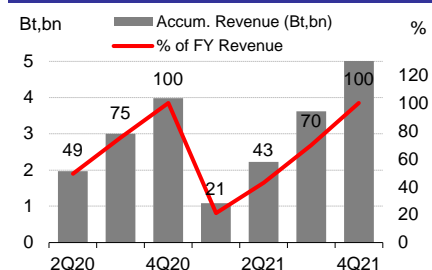
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	196	243	422	291	394
Accounts receivable	826	911	991	1,162	1,239
Inventory	416	517	552	641	579
PP&E-net	1,476	1,542	2,132	2,237	2,139
Other assets	1,686	1,736	2,565	2,660	2,677
Total assets	4,723	5,020	6,796	7,253	7,127
Accounts payable	359	344	521	562	619
ST debts & current portion	764	877	1,079	1,327	1,021
Long-term debt	1,264	1,191	2,282	2,162	2,155
Other liabilities	166	328	637	677	725
Total liabilities	2,603	2,799	4,601	4,812	4,643
Paid-up capital	327	327	327	327	327
Share premium	1,027	1,027	1,027	1,027	1,027
Retained earnings	945	926	607	642	714
Shareholders equity	2,062	2,155	1,870	2,097	2,133
Minority interests	59	66	326	344	350
Total Liab.&Shareholders' equity	4,724	5,020	6,796	7,253	7,127

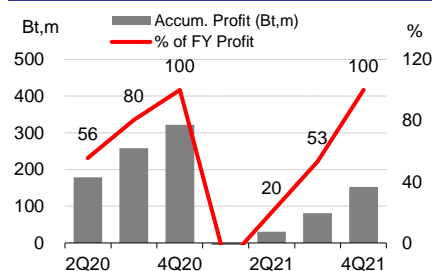
Revenue trend



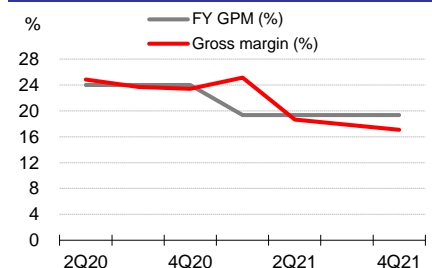
Revenue trend (accumulated)



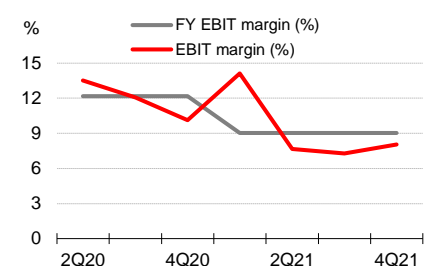
Net profit trend (accumulated)



Gross profit margin



EBIT margin



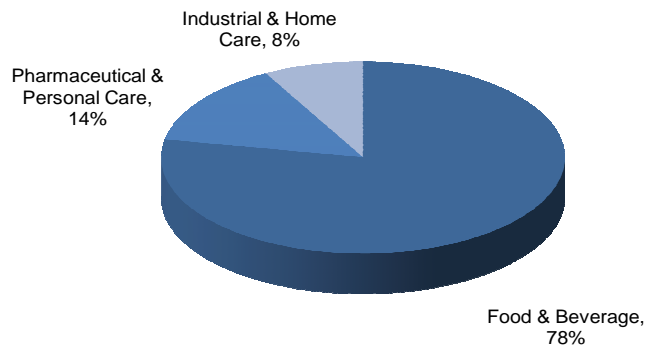
Company profile

Thai Plaspac Plc (TPAC) designs and manufactures rigid plastic packaging for clients in the food & beverage, FMCG, pharmaceutical, personal hygiene, and homecare industries. TPAC's packaging solutions use a selected range of plastic polymers that are all recyclable and/or made from recycled materials. It has a total of 16 production facilities in four countries—India (9), Thailand (4), Malaysia (1), and the United Arab Emirates (2).

Outlook

Consumer-linked plastic packaging provider: TPAC is Thailand’s leading rigid plastic packaging solutions provider. Its focus is everyday essential consumer categories—food & beverages (F&B) (78% of 1Q23 sales), pharmaceuticals & personal hygiene products (14%), and industrial & homecare (8%). Demand in these areas has proved resilient to the vagaries of the economic cycle. Moreover, most of the categories require stringent hygiene standards, which serve as an implicit barrier to market entry, buttressing customer loyalty. TPAC has more than 1,500 clients across 50 countries—global FMCG and pharmaceutical brands, leading Thai FMCG makers, and a range of small customers—so its revenue base is broad and it isn’t exposed to any significant customer concentration risk.

Figure 1 : TPAC’s 1Q23 sales breakdown, by category

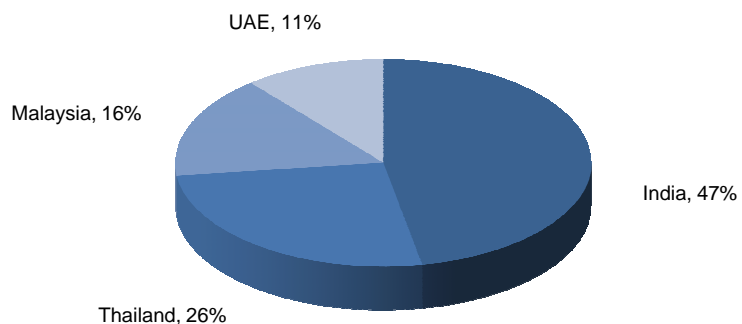


Source: Company data

Substantial market opportunities for future growth: The company has expanded its footprint significantly over the past seven years from its Thailand base to India, the UAE, and Malaysia, which are fast-growing markets for FMCGs and pharmaceuticals. TPAC focuses on rigid plastic packaging market niches in each country where it has a presence. In Thailand, it focuses on rigid packaging for the food & specialty beverages, pharmaceuticals, and home care industries, for which it estimates an aggregate market size of US\$401m in 2022 and forecasts a 2023-28 CAGR of 4.0% to US\$507m in 2028. TPAC has about a 14% mean market share of its industry niches in Thailand. In India, it focuses on rigid packaging for the food & specialty beverages and pharmaceuticals industries, for which it estimates a market size of \$1,363m in 2022 and forecasts a 2023-28 CAGR of 10.7% to \$2,509m in 2028. TPAC’s mean market share across its industry niches in India is about 7%.

In the UAE, the firm focuses on rigid packaging for the food and cosmetics & personal care industries, for which it estimates an aggregate market size at \$44m in 2022 and forecasts a 2023-28 CAGR of 5.0% to \$59m in 2028. TPAC has a mean market share of about 40% of these niches in the UAE. In Malaysia, it focuses on rigid packaging for the food industry, for which it estimates a market size of \$40m and forecasts a 2023-28 CAGR of 6.0% to \$57m in 2028. TPAC’s market share of rigid food packaging in Malaysia is about 75%.

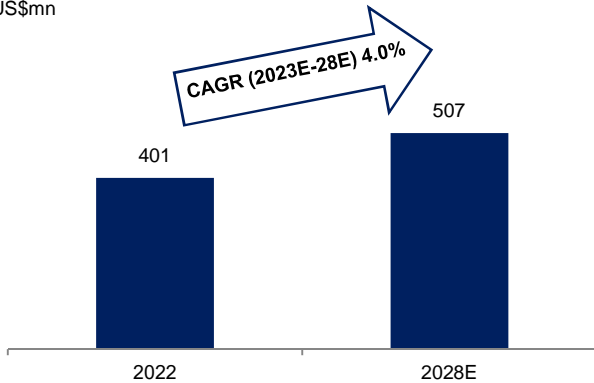
Figure 2 : TPAC’s 1Q23 sales breakdown, by geography



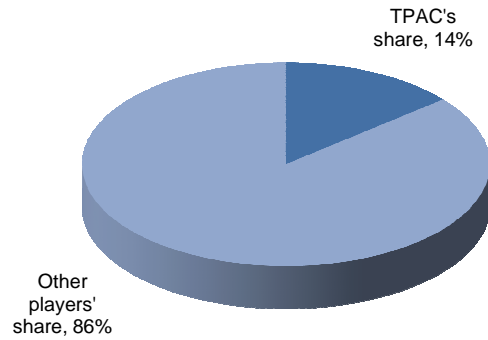
Source: Company data

Figure 3 : Market size and TPAC's market share in its rigid packaging niches in Thailand, India, the UAE, and Malaysia

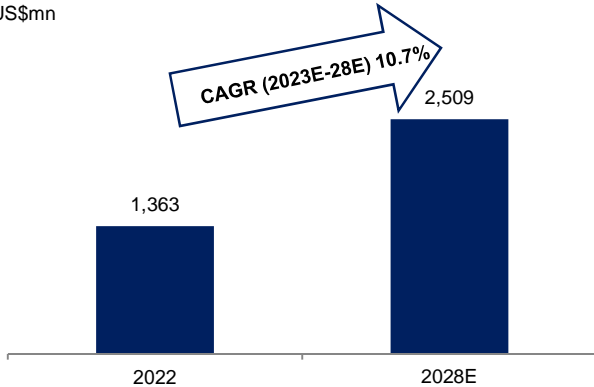
Market size of TPAC's packaging niches in Thailand
US\$m



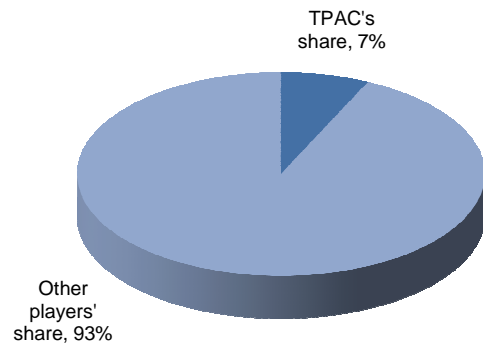
TPAC's mean market share of its packaging niches in Thailand



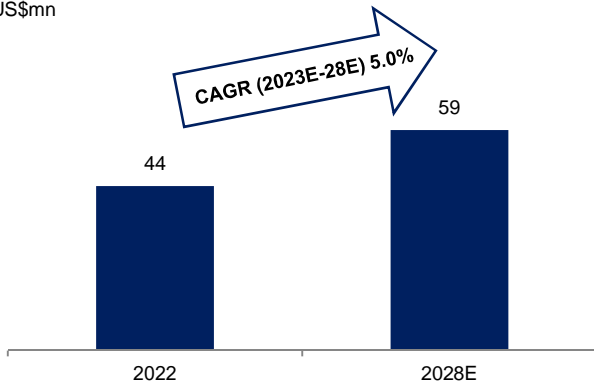
Market size of TPAC's packaging niches in India
US\$m



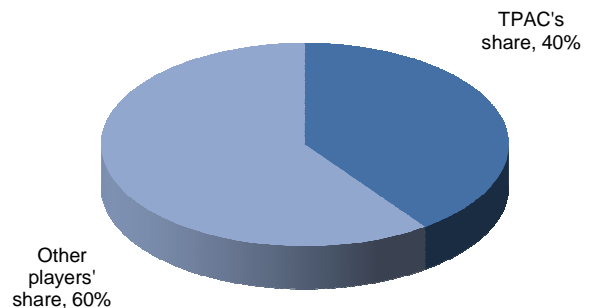
TPAC's mean market share of its packaging niches in India



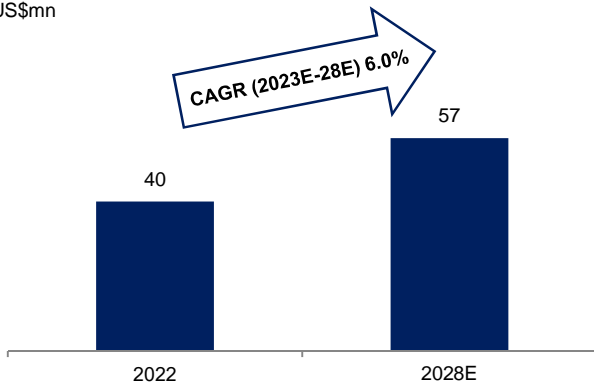
Market size of TPAC's packaging niches in the UAE
US\$m



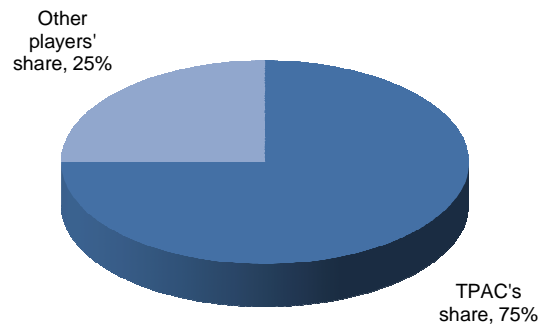
TPAC's mean market share of its packaging niches in UAE



Market size of TPAC's packaging niche in Malaysia
US\$m



TPAC's mean market share of its packaging niche in Malaysia



Sources: Company data, Bualuang Research

These markets—Thailand, India, the UAE, and Malaysia—are all expanding fairly quickly, so we see substantial growth opportunities for TPAC. The firm plans to expand its market shares of rigid plastic packaging in these countries through organic and inorganic expansion, new product development, and by building its customer base. Our sensitivity analysis suggests that every 1% increase in its mean market share would add 7% to our 2024 earnings forecast and an average of 5% to our long-term projections. Apart from rigid plastic packaging, TPAC has expanded its product range to paper packaging for the food industry.

Figure 4 : Sensitivity analysis of effect of changes in TPAC’s market share on our profit forecasts

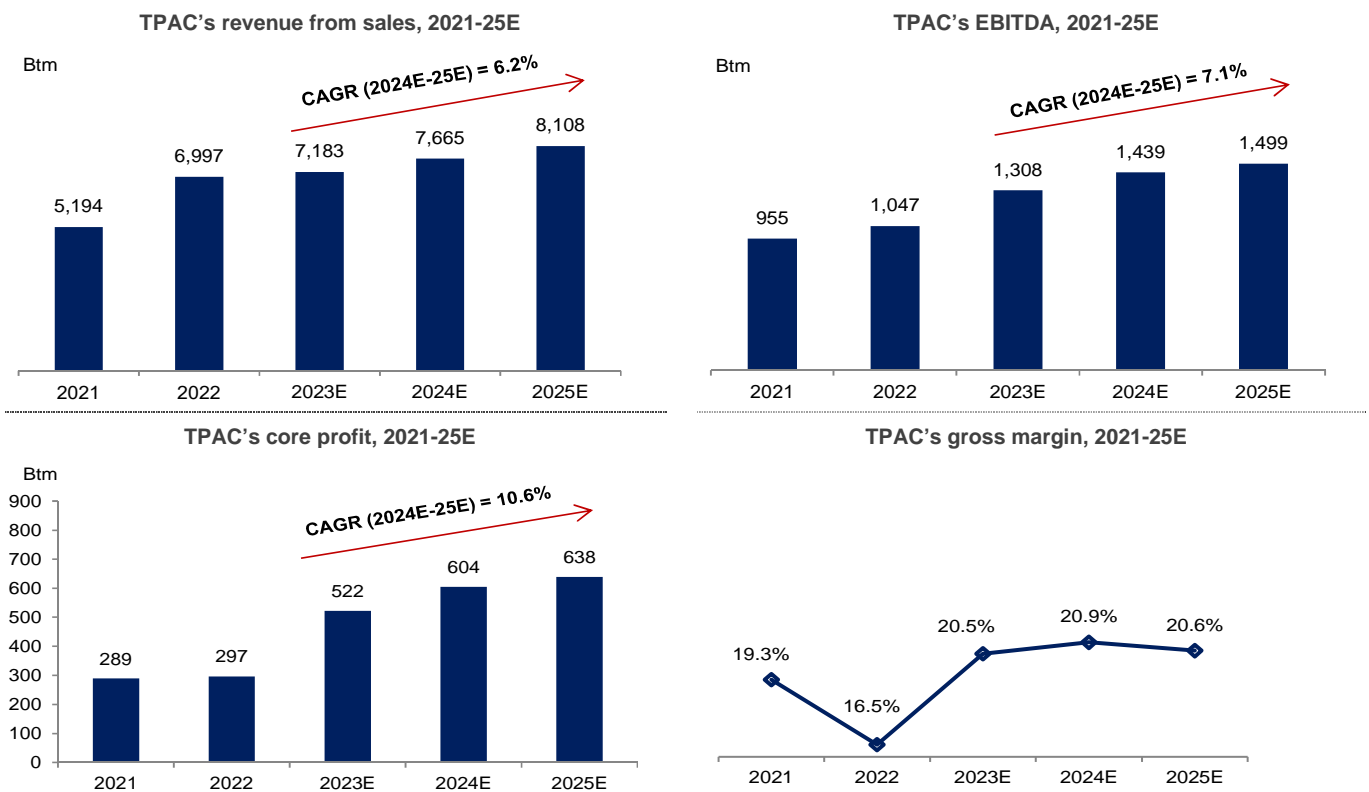
	Change in market share			
	Base case	+1%	+2%	+3%
2024 net profit (Btm)	604	642	682	722
Change		7%	13%	20%

Source: Bualuang Research estimates

Expansive earnings profile with a strong balance sheet: Similarly to many other companies that operate in multiple jurisdictions, TPAC encountered cost inflation pressures in 2022, which squeezed its gross margin. GM was slimmest in 2Q22, then recovered QoQ, 3Q22-1Q23. The GM expansion drivers were procurement cost savings and the company’s ability to pass through cost increases to customers. Despite a slimmer gross margin, TPAC still delivered YoY core profit growth for 2022, led by top-line expansion, underpinned by organic volume growth, a contribution by Skypet India (acquired on April 1, 2022), and the full-year consolidation of Combi-Pack Malaysia.

Premised on greater sales volume to be brought about by broadly improving demand, a full-year contribution by Skypet, and a fatter GM (easing cost pressures), we expect TPAC to deliver 2023 core earnings of Bt522m, spectacular YoY growth of 75.7%. Looking further ahead, our model points to a 2024-25 core profit CAGR of 10.6%. And there’s scope for upside to our revenue and earnings projections from new investments—greenfield and acquisitions.

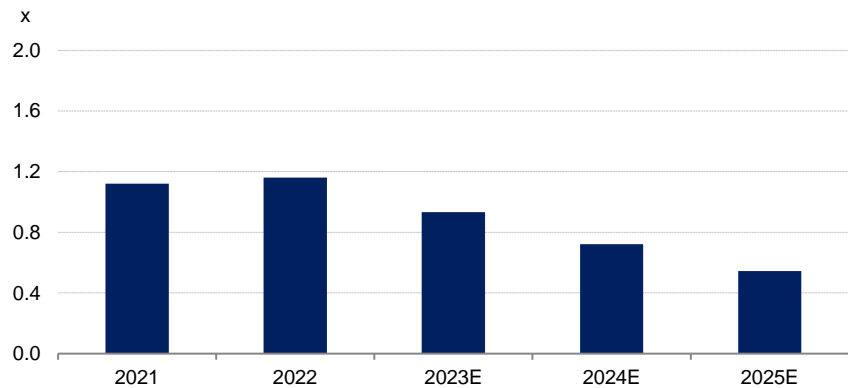
Figure 5 : TPAC’s revenue, EBITDA, core profit, and GM, reported performances (2021-22) and forecasts (2023-25E)



Sources: Company data, Bualuang Research estimates

TPAC's balance sheet looks set to remain strong going forward. Due to debt-financing for an asset acquisition in 2021, its net debt/equity ratio rose from 1.1x at YE21 to 1.2x at YE22 (still far below its creditor covenant of 2.0x). From there, its net debt/equity ratio will gradually decline, due to debt repayment and greater equity (generated by rising earnings). We project an EBITDA CAGR of 7.1% for 2024-25. Hence, the company should have ample debt headroom to fund future organic investments and acquisitions.

Figure 6 : TPAC's net debt/equity ratio, YE21-25E



Sources: Company data, Bualuang Research estimates

Valuation and recommendation

BUY to a YE23 DCF-derived target price of Bt22: We have re-initiated coverage on TPAC with a BUY call. In order to determine its value, we applied the discounted cashflow (DCF) approach (as TPAC generates steady cashflows from business operations) to arrive at a YE23 target price of Bt22 (WACC of 10.5%, terminal growth rate of 2.0%).

We expect the company to deliver superior earnings growth through 2025. But the market hasn't yet anticipated or priced in its rapid profit growth expansion profile, we believe. The stock currently trades at low valuation metrics compared with its peers—a 2023 PER of only 10.3x (a 47% discount to the peer mean of 19.6x), a YE23 PBV of 1.8x (35% below the peer mean PBV of 2.7x), and a 2023 EV/EBITDA ratio of 6.3x (45% below the peer mean of 11.4x).

Figure 7 : TPAC looks set to deliver superior financial performances, but the stock trades at deep valuation discounts to its peers



Financial summary

	APTAR	AMCOR	SFLEX	SCGP	TPAC
Core EPS growth (2023E)	12.3%	-9.8%	218.6%	9.0%	75.8%
EBITDA margin (2023E)	19.2%	13.5%	12.3%	13.9%	18.2%
ROE (2023E)	13.5%	26.8%	17.7%	6.2%	19.8%

Valuation summary

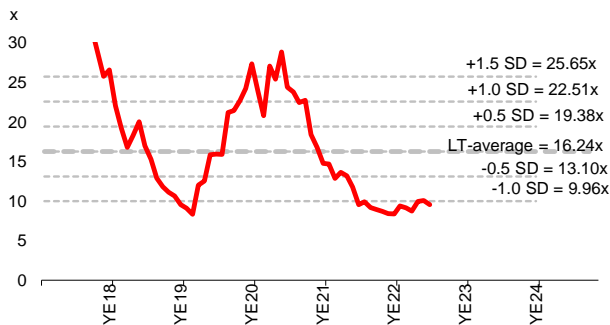
PER (x) (2023E)	28.0	13.8	19.3	26.5	10.3
PEG (x) (2023E)	1.9	2.6	1.0	4.0	1.0
PBV (x) (2023E)	3.5	3.6	3.2	1.7	1.8
PBV/ROE (x) (2023E)	0.3	0.1	0.2	0.3	0.1
EV/EBITDA (x) (2023E)	13.4	10.8	15.5	11.1	6.3

Source: Bloomberg, Bualuang Research estimates

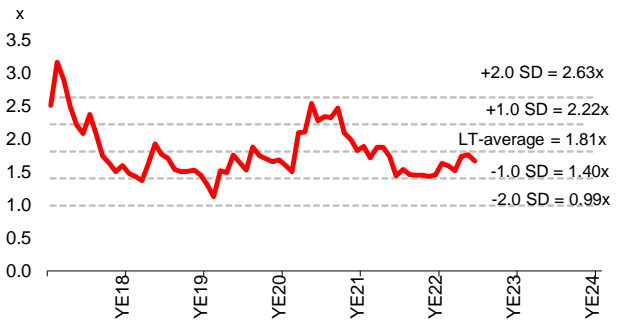
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Packaging Corp	PKG US	USD136.0	12,229	16.6	17.0	-26.2	-2.2	3.3	3.1	19.6	18.6	3.7	3.6
International Paper	IP US	USD31.6	10,970	14.7	16.5	-45.7	-16.2	1.3	1.3	8.5	6.5	5.8	5.9
Graphic Packaging Holding	GPK US	USD23.8	7,313	8.1	8.0	62.9	1.1	2.6	2.0	35.0	27.0	1.6	4.7
Westrock	WRK US	USD30.4	7,774	12.3	12.7	-239.5	-149.9	0.8	0.7	5.7	6.8	3.6	3.7
Sonoco Products	SON US	USD58.4	5,721	10.3	9.9	12.7	2.3	2.4	2.1	24.8	22.5	3.5	3.6
Berry Global Group	BERY US	USD66.6	7,941	9.0	8.1	26.1	11.2	2.4	2.1	25.5	25.5	1.5	1.3
Silgan Holdings	SLGN US	USD47.8	5,269	12.1	11.2	27.5	7.6	2.7	2.3	22.5	20.0	1.5	1.5
Myers Industries	MYE US	USD19.8	728	11.9	10.9	-1.8	9.8	2.4	2.1	22.7	21.4	2.7	2.7
Sealed Air Corp	SEE US	USD46.0	6,636	13.4	11.6	-5.4	23.4	10.0	5.9	93.6	62.8	1.8	1.8
Crown Holding	CCK US	USD91.5	10,994	14.5	12.6	-12.7	17.8	4.6	4.1	32.5	32.8	0.8	0.8
Aptargroup	ATR US	USD119.3	7,819	28.0	24.6	16.3	14.0	3.5	3.3	13.5	15.3	1.3	1.4
Winpak	WPK CN	CAD41.1	2,026	13.6	13.4	16.1	2.0	1.5	1.4	11.3	10.3	0.3	0.3
CCL Industries	CCL/B CN	CAD65.1	8,772	17.5	16.5	6.3	5.4	2.4	2.2	14.9	14.3	1.6	1.8
SCG Packaging	SCGP TB	THB38.25	4,800	26.2	21.2	7.9	23.7	1.3	1.2	6.3	7.5	1.7	2.1
Starflex	SFLEX TB	THB4.24	98	18.7	14.1	238.0	32.2	3.1	2.6	17.6	20.1	2.4	3.2
Thai Plaspac	TPAC TB	THB16.50	158	10.3	8.9	63.6	15.8	1.8	1.6	21.5	21.1	2.9	3.4
Simple average				14.8	13.6	9.1	-0.1	2.9	2.4	23.5	20.8	2.3	2.6

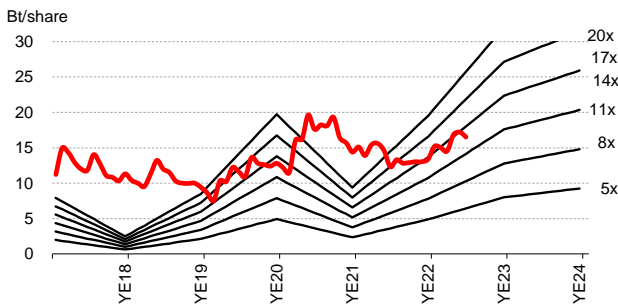
PER band versus SD (next 12 months)



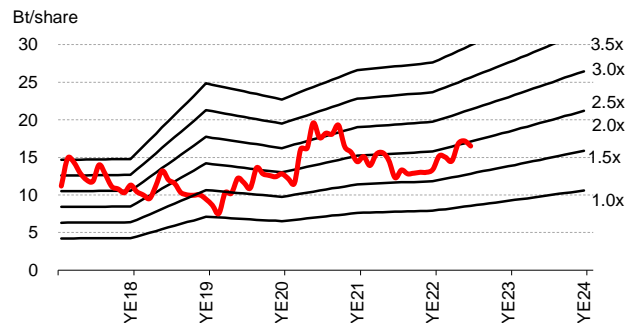
PBV band versus SD (next 12 months)



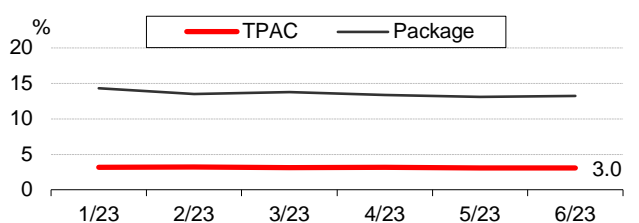
PER band and share price



PBV band and share price



Foreign holdings



Bualuang Securities Public Company Limited

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CPN	HANA	HIMPRO	I/L	OSP	SAWAD	BANFU	BCH	BTS	SCC	TU	INTUCH	VGI	SCGP	COM7
DOHOME	JMT	CHG	TTB	BAM	BCP	AP	KTB	KKP	OR	BEM	GUNKUL	EA	RBF	STGT
JMART	BEC	KEX	RCL	SINGER	TIDLOR	FORTH	AAV	DELTA	SABUY	CKP	TRUE	PSL	SIRI	TQM
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80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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