



SCG Packaging Public Company Limited and Subsidiaries (“SCGP”)
Management Discussion and Analysis
H1/2021 and Q2/2021 (Reviewed)

Executive Summary

H1/2021 and Q2/2021 performance

During H1/2021, the COVID-19 situation became more pronounced within ASEAN nations which resulted in challenges to the economic recovery. Globally, there was a mix bag of recovery and also recurring waves of the pandemic, while issues related to global logistics remain such as elevated sea freight and availability of raw materials, while energy costs were heightened.

Within the packaging industry during Q2/2021, demand improved y-o-y from the low base in the same period of last year, while the ASEAN export sectors saw recovery as there were improvement in the consumer sectors in US, and Europe. On a q-o-q basis, there were the effects from lower demand from the holiday period in several countries, but also coupled with positive global export opportunities.

For SCGP's H1/2021 performance, total revenue from sales was 57,148 MB, an increase of 24% y-o-y, mainly on business growth from M&P (SOVI and Go-Pak) and organic expansions, and similarly for EBITDA at 10,831 MB which increased 23% y-o-y. The EBITDA margin registered at 19%. Profit for the period was 4,398 MB, increased 21% y-o-y with net profit margin of 8%.

Similarly, SCGP's Q2/2021 performance, total revenue from sales registered 29,895 MB, an increase of 38% y-o-y mainly due to the business expansion from organic growth and M&P, while EBITDA was 5,564 MB, an increase of 9% y-o-y with an EBITDA margin of 19%. Profit for the period registered 2,263 MB, an increase of 19% y-o-y, with net profit margin of 8%. On a q-o-q basis, revenue grew 10% q-o-q in Q2/2021, while EBITDA increased 6% q-o-q and profit for the period expanded 6% q-o-q. This level of growth is despite the COVID-19 challenges in ASEAN and globally.

Interim dividend payment

On 27 July 2021, the Board of Directors of SCGP has approved a H1/2021 interim dividend payment of 0.25 Baht/Share (1,073 MB), which is payable on 25 August 2021 (XD-date on 9 August 2021, and record date on 10 August 2021).

Organic expansion and strengthening of T-Model across ASEAN

SCGP has continuously expand the 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 announced the acceleration of global foodservice packaging in Thailand and Vietnam. With this expansion, SCGP is able to serve customers beyond Asia. Moreover, the synergies from Go-Pak transaction also strengthen the global sourcing networks and supply chain collaborations.

Inorganic expansion by mergers and partnership (M&P)

SCGP announced of two strategic M&P during Q2/2021 as follows;

Firstly, the signing of a share purchase agreement in May 2021 to acquire a 75% stake in “Intan Group” which is one of Indonesia’s leading corrugated container producers which operates in 4 strategic locations in Indonesia. Their clients are mainly multi- national companies and local brand owners in the food, beverage and consumer segments. The acquisition is to expand SCGP’s downstream fiber-based packaging across Indonesia, enhancing SCGP’s capability to serve customers, and reaffirms SCGP’s commitment and belief in Indonesia’s strong economic growth prospects.

Secondly, the signing of a share purchase agreement in June 2021 to acquire an 85% stake in Deltalab, S.L. (or “Deltalab”), a medical supplies and labware specialist located in Spain. Deltalab is a recognized European manufacturer and distributor of high-quality medical supplies and labware, with over 15,000 SKUs and annual output of 250 million pieces. This is executing on the global mega trends such as preventive healthcare and aging of the society, both of which require laboratory diagnostic testing. The transaction helps elevating SCGP’s customers and products portfolio and enriching its global services capabilities, while adding synergy to its existing production related fundamentals.

Table 1 - Consolidated financial summary of SCGP

Unit : MB	Q2/2021	Q2/2020	%y-o-y	%q-o-q	H1/2021	H1/2020	%y-o-y
Reported Financials							
Revenue from sales	29,895	21,636	38%	10%	57,148	45,903	24%
Integrated packaging chain	25,051	18,297	37%	9%	48,018	38,434	25%
Fibrous chain	4,844	3,339	45%	13%	9,130	7,469	22%
Cost of sales	23,748	17,028	39%	12%	44,952	35,554	26%
Gross profit	6,147	4,608	33%	2%	12,196	10,349	18%
<i>Gross profit margin (%)</i>	<i>21%</i>	<i>21%</i>			<i>21%</i>	<i>23%</i>	
SG&A	2,922	2,603	12%	-2%	5,892	5,103	15%
EBITDA	5,564	5,083	9%	6%	10,831	8,791	23%
<i>EBITDA margin (%)</i>	<i>19%</i>	<i>23%</i>			<i>19%</i>	<i>19%</i>	
Profit for the period	2,263	1,904	19%	6%	4,398	3,636	21%
<i>Net profit margin (%)</i>	<i>8%</i>	<i>9%</i>			<i>8%</i>	<i>8%</i>	
Earnings per Share (Baht)	0.53	0.61			1.02	1.16	
Core Financials							
Core EBITDA	5,593	4,075	37%	2%	11,064	9,089	22%
Core profit	2,287	1,461	57%	1%	4,550	3,560	28%
<p>Note : Revenue from sales by chain = Revenue from sales after inter-segment elimination basis</p> <p>EBITDA = Earnings before finance cost, tax, depreciation & amortization (excluded dividend from associates and included FX gain/loss from loans) In H1/2021 and H1/2020, Dividend from associates were 6 MB and 5 MB, respectively.</p> <p>Profit for the period = Profit for the period attributable to owners of the parent</p>							

Key analysis of Core profit and Core EBITDA

In Q2/2021, SCGP's Core profit amounted to 2,287 MB, an increase of 57% y-o-y and Core EBITDA was 5,593 MB, an increase of 37% 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 FX gain from loan, derivatives and investment, cost related to the mergers and partnership (M&P) transactions of Deltalab S.L. (Medical supplies and labware specialist in Spain).

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

Unit : MB	Core profit ¹		Core EBITDA ²	
	Q2/21	Q2/20	Q2/21	Q2/20
	2,287	1,461	5,593	4,075
Key Items				
1) FX Gain/Loss from Loan, Derivatives and Investment	111	482	116	1,118
2) Company restructurings	-	(110)	-	(110)
3) Changes to local regulations	-	71	-	-
4) Expenses related to M&Ps Transactions	(137)	-	(145)	-
5) Impairments and Others	2	-	-	-
Total	(24)	443	(29)	1,008
Profit for the period and EBITDA	2,263	1,904	5,564	5,083

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 H1/2021, IPC Revenue from sales amounted to 48,156 MB (before inter-segment elimination), an increase of 25% y-o-y primarily due to the improvement of consumer goods demand from easing of lock-down measures, heighten exports to US and EU, especially frozen, canned food and fruit along with the consolidation of SOVI. EBITDA was 9,001 MB, an increase of 10% y-o-y with EBITDA margin of 19%. Profit for the period was 3,939 MB, a decrease of 1% y-o-y. Excluding the change in Indonesia tax law of 267 MB in H1/2020, profit for the period in H1/2021 would be increased by 7% y-o-y.

In Q2/2021, IPC Revenue from sales amounted to 25,119 MB (before inter-segment elimination), an increase of 37% y-o-y with the same reason as above. EBITDA was 4,357 MB, a decrease of 12% y-o-y due to the upward trend of costs across industries amidst SCGP's active cost management from diversified sourcing model. The EBITDA margin was at 17%. (Excluding FX gain/loss from loans, EBITDA margin of Q2/2021 and Q2/2020 would be 17% and 21% respectively) and profit for the period was 1,811 MB, a decrease of 16% y-o-y. Excluding the change in Indonesia tax law of 71 MB in Q2/2020, profit for the period in Q2/2021 would be decreased by 14% y-o-y.

IPC Revenue from sales increased 9% q-o-q supported by the commercial start-up of packaging paper plant (Surabaya, Indonesia) in April 2021 and progressive growth of performance and polymer packaging products that export to US and EU while there was a normalization of regional pricing dynamics. On the other hand, EBITDA decreased 6% q-o-q and profit for the period decreased 15% q-o-q due mainly to the increase in raw materials costs.

Fibrous Chain (FC)

In H1/2021, FC Revenue from sales registered at 10,080 MB (before inter-segment elimination), an increase of 22% y-o-y primarily due to the internal synergy with Go-Pak and the rising pulp demand for tissue paper and textile industry after the economic recovery in specific regions while supply was limited by logistics bottleneck. EBITDA was 1,766 MB, an increase of 188% y-o-y with EBITDA margin of 18%. Profit for the period was 587 MB, an increase of 389% y-o-y.

In Q2/2021, FC Revenue from sales registered at 5,367 MB (before inter-segment elimination), an increase of 43% y-o-y. EBITDA was 1,155 MB, increased 645% y-o-y with EBITDA margin of 22% and profit for the period was 519 MB, an increase of 331% y-o-y primarily due to the transformation to foodservices packaging and the increase of tissue and textiles demand while printing and writing paper sales increased from the lowest point in Q2/2020.

FC Revenue from sales increased 14% q-o-q from global demand of foodservices packaging and upcycle of pulp industry. EBITDA increased 89% q-o-q and profit for the period increased 663% q-o-q due to the effective cost management and internal synergy through collaboration along the value chain.

For the revenue from foodservice packaging in Q2/2021 registered at 1,016 MB, increased 231% y-o-y and 37% q-o-q which in line with Fibrous Chain's transformation plan to increase proportion of foodservice packaging. As a result, revenue proportion of foodservice packaging was at 21% of total revenue from sales of FC in Q2/2021 from 9% in the same period of last year.

Table 3 - Business Segments of SCGP

Unit : MB							
Revenue from Sales	Q2/2021	Q2/2020	%y-o-y	%q-o-q	H1/2021	H1/2020	%y-o-y
Consolidated SCGP	29,895	21,636	38%	10%	57,148	45,903	24%
Integrated Packaging Chain	25,119	18,346	37%	9%	48,156	38,570	25%
Fibrous Chain	5,367	3,741	43%	14%	10,080	8,281	22%
Intersegment Elimination	(591)	(451)	-31%	-19%	(1,088)	(948)	-15%
EBITDA	Q2/2021	Q2/2020	%y-o-y	%q-o-q	H1/2021	H1/2020	%y-o-y
Consolidated SCGP	5,564	5,083	9%	6%	10,831	8,791	23%
Integrated Packaging Chain	4,357	4,967	-12%	-6%	9,001	8,196	10%
Fibrous Chain	1,155	155	645%	89%	1,766	614	188%
Other	2,330	1,073	117%	38%	4,014	2,841	41%
Intersegment Elimination	(2,278)	(1,112)	-105%	-36%	(3,950)	(2,860)	-38%
EBITDA Margins (%)	Q2/2021	Q2/2020			H1/2021	H1/2020	
Consolidated SCGP	19%	23%			19%	19%	
Integrated Packaging Chain	17%	27%			19%	21%	
Fibrous Chain	22%	4%			18%	7%	
Profit (loss) for the period	Q2/2021	Q2/2020	%y-o-y	%q-o-q	H1/2021	H1/2020	%y-o-y
Consolidated SCGP	2,263	1,904	19%	6%	4,398	3,636	21%
Integrated Packaging Chain	1,811	2,166	-16%	-15%	3,939	3,965	-1%
Fibrous Chain	519	(225)	331%	663%	587	(203)	389%
Other	2,157	858	151%	40%	3,698	2,321	59%
Intersegment Elimination	(2,224)	(895)	-148%	-39%	(3,826)	(2,447)	-56%
<p>Note: EBITDA = Earnings before finance cost, tax, depreciation & amortization (excluded dividend from associates and included FX gain/loss from loans)</p> <p>EBITDA Margins = EBITDA / Revenue from Sales</p> <p>Profit (loss) for the period = Profit (loss) for the period attributable to owners of the parent</p> <p>Consolidated SCGP's financial statement is presented after the intersegment elimination.</p>							

Cost of sales

In H1/2021, the Company's cost of sales was 44,952 MB, increased of 26% y-o-y in line with the increase in revenue from sales with the proportion of cost of sales to revenue from sales of 79% compared with 77% in H1/2020. High sea freight also effected cost of raw materials, however, SCGP was able to maintain competitive advantages in cost due to a diversified sourcing model of raw materials including owned recycling stations, local and import network coverage.

Table 4 - Cost of sales by segments

Unit : MB	Q2/2021		% y-o-y		% q-o-q		H1/2021		% y-o-y	
Integrated packaging chain	20,158	85%	6,196	44%	2,284	13%	38,032	85%	9,040	31%
Fibrous chain	4,266	18%	678	19%	342	9%	8,190	18%	544	7%
Intersegment Elimination	(676)	-3%	(154)	30%	(82)	14%	(1,270)	-3%	(186)	17%
Total SCGP's cost of sales	23,748	100%	6,720	39%	2,544	12%	44,952	100%	9,398	26%

Summary of Financial Positions as of June 30, 2021

- Total assets were equal to 187,061 MB, an increase of 14,632 MB or 8% from December 2020 mainly due to the consolidation in subsidiaries and goodwill of 7,276 MB. An increase in trade and other receivables of 4,940 MB and an increase in inventories of 5,309 MB, both of which were related to revenue growth. A decrease in cash and cash equivalents was essentially related to an increase in short-term investments.
- Total liabilities were equal to 71,668 MB, an increase of 9,080 MB or 15% from December 2020 mainly due to an increase in trade and other payables of 2,825 MB which mainly related to the procurement of raw materials, an increase in bank loans of 2,832 MB with major portion related to working capital from overseas operation, and the consolidation of Go-Pak of 1,255 MB.
- Total shareholders' equity were 115,393 MB, an increase of 5,552 MB or 5% from December 2020, primarily from profit for the period attributable to owners of the parent of 4,398 MB.

Capital structure

As of Q2/2021, total debt to equity ratio was 0.6 times, lower from Q2/2020 at 1.2 times. Net debt to EBITDA was 0.9 times, lower from Q2/2020 at 3.1 times after IPO raising. Interest-bearing debt to equity ratio was at 0.4 times compared with Q2/2020 at 0.9 times.

Table 5 – Consolidated Statement of Financial Position of SCGP

Unit : MB	Jun-2021	Dec-2020	Change	
			MB	%
Total Assets	187,061	172,429	14,632	8%
Current assets	69,829	62,919	6,910	11%
Cash and cash equivalents	14,408	31,256	(16,848)	-54%
Short-term investments	15,454	1,630	13,824	848%
Trade and other receivables	21,274	16,334	4,940	30%
Inventories	18,069	12,760	5,309	42%
Long-term investment	863	829	34	4%
Property, plant and equipment	89,184	87,271	1,913	2%
Goodwill	21,759	18,624	3,135	17%
Total Liabilities	71,668	62,588	9,080	15%
Trade and other payables	13,190	10,365	2,825	27%
Loans	47,760	44,928	2,832	6%
Total Shareholders' Equity	115,393	109,841	5,552	5%
Total equity attributable to owners of the parent	93,149	88,738	4,411	5%
Non-controlling interests	22,244	21,103	1,141	5%

Table 6 - Debt profile of SCGP

Unit : MB	Q2/2021	Dec-2020
Short Term	24,497	15,080
Foreign	9,497	5,769
Baht	15,000	9,311
% of Total Loan	51%	32%
Long Term	23,263	29,848
Foreign	8,740	8,630
Baht	14,523	21,218
% of Total Loan	49%	66%
Average cost of debt (%)	2.5%	2.8%
Total Loan	47,760	44,928
Cash & Cash Under Management	29,881	32,886
Cash and cash equivalents	14,408	31,256
Investments in debt instruments	15,473	1,630
Total Net Debt	17,879	12,042

Table 7 - Key Financial Ratio

	Q2/2021	Q2/2020
Profitability ratio		
Gross Profit Margin (%)	21%	21%
EBITDA margin (%)	19%	23%
Net Profit margin (%)	8%	9%
Core EBITDA margin (%)	19%	19%
Core Profit margin (%)	8%	7%
Return on Assets (%)	5%	6%
Return on Equity (%)	10%	16%
Return on Invested Capital (%)	8%	8%
Liquidity ratio		
Current ratio (times)	1.5	0.6
Quick ratio (times)	1.1	0.3
Activity Ratios		
Account Receivable Turnover (times)	6.4	6.5
Account Payable Turnover (times)	10.0	9.9
Cash cycle (days)	91	90
Total Asset Turnover (times)	0.6	0.7
Inventory Turnover (times)	5.2	5.2
Leverage ratio		
Net Debt to EBITDA (times)	0.9	3.1
Net Debt to Equity (times)	0.2	0.8
Debt to Equity (times)	0.6	1.2
Interest-bearing liabilities to equity ratio (times)	0.4	0.9

Table 7 - Key Financial Ratio (Con't)

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 attributable 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 June 2021

In H1/2021, SCGP's net cash flows generated from operating activities amounted to 3,352 MB. The operating cash flow before changes in operating assets and liabilities amounted to 10,947 MB while net operating assets and liabilities increase of 6,580 MB.

Net cash flows used in investing activities amounted to 19,130 MB mainly from an increase in short term investments of 13,389 MB and the payment paid to purchase subsidiaries of Go-Pak and SOVI amounted to 3,441 MB.

Net cash flows used in financing activities amounted to 1,467 MB from dividends payment of 2,287 MB. Net borrowings of 1,377 MB.

Table 8 - Summary of cash flows statement

Unit : MB	H1/2021	H2/2020	Change
Cash flows from operating	3,352	8,864	(5,512)
Cash flows from investing	(19,130)	(3,870)	(15,260)
Cash flows from financing	(1,467)	(2,905)	1,438
Net increase (decrease) in cash and cash equivalents	(17,245)	2,089	(19,334)
Free cash flows	456	4,648	(4,192)

Business Development - Key project progress

As of the end of Q2/2021, SCGP completed two key expansion projects in Thailand and Indonesia and has three remaining projects in Thailand and the Philippines. These five projects are expected to generate annualized revenue from sales of approximately of 11,000 MB.

1. **Thailand, the expansion of global foodservice packaging of 1,838 million pieces per year or 25% from existing capacity to serve new customer's demand beyond ASEAN;**
 - 1.1 **Pressboard foodservice packaging expansion**, with additional capacity of 1,615 million pieces per year at Banpong plant, Thailand and at Binh Duong plant, Vietnam. Commercial start up is expected to be in Q3/2021.
 - 1.2 **Molded pulp packaging expansion**, with additional capacity of 223 million pieces per year at Wangsala plant, Thailand. Commercial start up is expected to be in Q2/2022.
2. **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 15% from existing capacity. Capital expenditures amount to 600 MB and expected to start operations in the Q4/2021.
3. **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 90% from existing capacity. Capital expenditures amount to 5,388 MB and expected to start operations in the Q4/2021.
4. **Indonesia, Surabaya city (Fajar#2)** - Project expansion of containerboard and duplex paper - This project added capacity of 400,000 tons per year or increased 30% from existing capacity. With capital expenditures amounted to 1,735 MB, the new plant successfully start operation in April 2021.

5. **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.

Management Outlook

Going into second half of 2021, there are still unsettled effects of COVID-19 on economic activities and recoveries globally. Packaging will continue to be critical and essential parts of consumers' consumptions in ASEAN. The more advanced economic recoveries in North America and Europe would positively support exporting sectors of manufacturing countries. Sea freight cost is expected to remain heightened over into the end of the year while industrial sectors attentively monitor energy & raw material costs.

With abovementioned external outlooks, SCGP continues to pursue business expansions through on-progress merger & partnership deals while also ramping-up our brownfield expansions throughout the year. The company will continue to enhance competitiveness with innovative R&D and ESG focused business model while emphasize on post-merger synergies and acceleration of end markets growth. With dynamic COVID- 19' s situation and business environments, SCGP continuously evaluates business operation to agilely address the evolving new normal.

Within ASEAN, SCGP remains steadfast in its contribution to society through the delivery of its innovative "Paper Field Bed" that are used at makeshift hospitals. SCGP further acknowledges all of the public and corporates providers who have given the company vast supplies of waste paper which have been subsequently recycled and converted into the beds.