

PACKAGING INDUSTRY IN MALAYSIA – AN OVERVIEW

THE PACKAGING INDUSTRY ECOSYSTEM

The packaging business can be categorized based on: -

- (i) the **material it uses** to manufacture the packaging product
- (ii) **based on the market it serves.**

Under **material it uses**, it can be broadly classified into plastic based and non-plastic based. **Plastic based** ranges from the *high end*, i.e. using flexible packaging which is a type of thin, low density plastic, known as low density polyethylene used as stretch wraps in food industry and grocery bags. The *lower end* using rigid plastic (i.e. a high-density polyethylene), with fixed shape such as plastic bottle and food containers.

Non-plastic based which are paper based, metal based or glass based.

Plastic based materials are produced from extracts of crude oil. Hence, the cost of plastic based materials is related to crude oil prices. As for *non-plastic based*, such as paper cartons, its cost of production is dependent on price of pulps and papers.

Under the **market it serves**, the packaging materials may be used in industrial or for the fast-moving consumer goods such as food, drink, health care and cosmetic industries.

15 LISTED COMPANIES IN MALAYSIA – More than RM 6 billion industry, by annual revenue

In this article, I have studied 15 listed companies involved in packaging business. These companies in aggregate generates an annual revenue of **RM 6 billion** to the Malaysian economy and having a market capitalization of approximately **RM 8.4 billion**. In big picture, the packaging industry has a market capitalization of 1.4x for one-ringgit Malaysia of annual revenue generated.

The packaging industry also helps the Malaysian economy in earning foreign exchange currency as approximately **50%** of the revenue are from export

LISTED COMPANIES	Source of material	Market it serves	Annual revenue, RM millions	% exported
Plastic Based				
Scientex Bhd	Plastic - Flexible Packaging	Industrial and FMCG	2,201	72%
Thong Guan Industries Bhd	Plastic - Flexible Packaging	Industrial and FMCG	743	79%
Versatile Creative Bhd	Plastic food grade and Paper	Various, F&B, FMCG	47	15%
SLP Resources Bhd	Plastic e.g. polybags	Various sectors	169	62%
SCGM Bhd	Plastic used in thermo vacuum packaging	F&B	179	38%
Tomypak Holdings Bhd	End products from Flexible Packaging Materials	F&B	211	53%
Daibochi Plastic & Packaging Industry Bhd	End products from Flexible Packaging Materials	F&B	371	17%
BP Plastics Holding Bhd	Plastic - stretch films	Industrial	324	79%
Advanced Packaging Technology (M) Bhd	End products from Flexible Packaging Materials	FMCG, F&B and pharmaceuticals	27	5%
Non - Plastic Based				
	Source of material	Market it serves	Annual revenue, RM millions	% exported
Box-Pak (Malaysia) Bhd	Paper e.g. Cartons and paper pallet	FMCG	501	78%
Master-Pack Group Bhd	Paper e.g. Cartons and paper boxes	Various and F&B	82	1%
Ornapaper Bhd	Paper e.g. cartons boxes and papers	Various sectors	272	0%
Muda Holdings Bhd	Paper e.g. carton boxes	Industrial and Food	1,218	13%
Public Packages Holdings Bhd	End products from carton boxes	Various sectors	166	4%
Bright Packaging Industry Bhd	End products from aluminium foils	Tobacco, confectionary and liquor products	62	99%

Tabulated by AER

INVESTORS ARE PAYING MORE FOR EARNINGS FOR PLASTIC BASED THAN NON-PLASTIC BASED

Few listed companies which are plastic based, seem to be **priced higher than its fair price** which can be seen from its **trading price / earnings multiple above 20 times**. This is common observation as market pricing is determined by both fundamental indicators and non-fundamental factors known as behavioral motivations that affects our investment decision.

Behavioral motivation explains possible reasons market prices are not traded at its fair value due to human psychology factors in decision making (i.e. not rationale decision making, that affects all of us). Readers who are keen on this subject could refer to this field of study by author such as Michael M Pompian.

Tabulated below is a table of 15 listed companies in packaging business, categorized by source of materials used (i.e. plastic and non-plastic based), and further broken down into the annual returns for an investor for holding the stock from beginning of the year until 23 October 2017.

LISTED COMPANIES	Closing price as at 23 October 2017, RM	TWR, % from 3 January 2017	Trading P/E	Trading P/B	Fair P/B	Net margin,%	Net Cash / (borrowings) RM millions	Altman Z-Score	Average annual dividend yield, past three years,%
Plastic Based									
Scientex Bhd	8.69	40%	17	2.6	3.1	11%	(276)	4.6	2%
Thong Guan Industries Bhd	4.44	8%	11	1.3	1.9	7%	62	4.7	4%
Versatile Creative Bhd	0.86	-43%	93	1.6	0.5	2%	(16)	2.8	0%
SLP Resources Bhd	1.88	6%	24	4.3	2.9	14%	32	24.0	2%
SCGM Bhd	2.87	22%	21	4.6	2.1	12%	(28)	7.5	3%
Tomyapak Holdings Bhd	0.96	70%	20	2.2	1.5	10%	(27)	5.1	4%
Daiibochi Plastic & Packaging Industry Bhd	2.30	21%	32	3.8	1.8	6%	(43)	5.1	3%
BP Plastics Holding Bhd	1.17	-17%	18	1.3	1.2	4%	14	8.9	5%
Advanced Packaging Technology (M) Bhd	2.14	-2%	23	1.3	0.9	7%	9	5.1	3%
Non - Plastic Based									
Box-Pak (Malaysia) Bhd	1.50	-49%	Loss	0.6	0.5	-3%	(55)	1.6	0%
Master-Pack Group Bhd	0.72	71%	11	0.5	0.5	4%	(9)	2.3	0%
Ornapaper Bhd	1.39	63%	9	0.7	1.0	4%	(45)	2.6	2%
Muda Holdings Bhd	1.48	5%	18	0.5	0.5	2%	(491)	1.6	2%
Public Packages Holdings Bhd	0.71	40%	8	0.7	1.1	10%	(36)	3.3	0%
Bright Packaging Industry Bhd	0.29	10%	Loss	0.5	0.5	-6%	39	3.9	0%

Tabulated by AER

GUIDANCE OF INTERPRETATION OF ALTMAN Z-SCORE

When analyzing the Altman Z-Score of a company, as a general rule of thumb, stocks below a score of 1.8 has a higher probability of bankruptcy / liquidity risk. However, readers are advised to use this indicator together with other indicators for a conclusive decision.

WITHIN THE PLASTIC BASED CATEGORY

1. SCIENTEK BHD – Fairly valued

It is involved in two main activities

- (i) Manufacturing division comprises mainly of its packaging focusing on **industrial segment** by producing flexible packaging for pallet wrapping and **consumer packaging segment** by producing consumer bags.
- (ii) Property division comprises of a few property development projects of the **affordable housing segment** at Ipoh, Melaka and Johor.

Its financial position is strong with Altman Z-Score at 4.6 i.e. a positive sign indicating a company with very negligible financial risk.

2. THONG GUAN INDUSTRIES BHD – Present price is below its fair value

Thong Guan Industries Bhd, with a 75 years history of operation, with its business focus from export of approximately 79% of its annual revenue, shall benefit from the present currency exchange rate. The Company is involved in stretch films, garbage bags, industrial bags and PVC that makes up 89% of its annual revenue. The company has reasonable strong Altman Z-Score at 4.7, which means negligible risk of bankruptcy, and presently it is trading below its fair price.

On 2 October 2017, the Company has announced in the media of its intention to further expand its production capacity in Sungai Petani, with a total estimated capital expenditure of RM 650 million, which means a more conclusive investment decision could only be made after assessing the potential proposed capital expansion.

WITHIN THE NON-PLASTIC BASED – NEUTRAL VIEW

Within the non-plastic based, two companies, namely Ornapaper Bhd and Public Packages Holdings Bhd, seem to be trading at low multiple (i.e undervalued). It is also noted that both companies do not get the attention by investors, possibly that both companies are selling their end products predominantly in Malaysia.

Also, a study of price of raw materials, the pricing of wood pulp has been increasing from 2012 at RM 2,100 per MT to RM 3,700 per MT recently, which may have a have negative effects on net margin.

FACTORS THAT ARE POSITIVE TO THE INDUSTRY

1. **Exchange currency returns from exports** - For packaging companies that are export orientated will benefit from the positive currency exchange rate due to the ability to earn in foreign currencies such United States Dollars.
2. **Organic growth of the packaging industry** - As a general point, packaging industry is a business that expands with growth in population and the world economy.

FACTORS THAT ARE NEGATIVE TO THE INDUSTRY

1. **Pressures on operating cost** due to new legislations which is expected to come into effect in 2018. This requires employers to pay levy on foreign workers which is a cost for most labor-intensive industry.
2. **Any instability of raw material cost such as destabilization of prices of plastic resins**, which is a raw material for packaging products which are plastic based affects the net margin, either positively or negatively, depending on price movement.

END

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