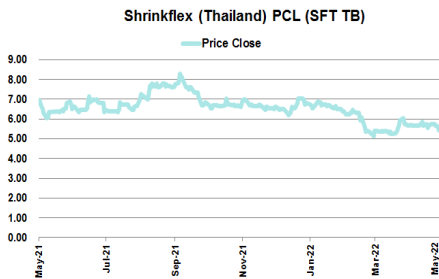


SHRINKflex Shrinkflex (Thailand)

Riding Resilient Demand

Fair value: THB7.50-7.80

Price: THB5.75



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SFT TB
Avg Turnover (THB/USD)	2.40m/0.10m
Net Gearing (%)	Net Cash
Market Cap (THBm)	2,354m
Beta (x)	0.78
BVPS (THB)	1.68
52-wk Price low/high (THB)	4.86 – 8.45
Free float (%)	27.20

Major Shareholders (%)

Sung Cheong Tsoi	23.6
Jurairat Pongsorn	16.9
Sukanya Tsoi	14.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	(5.31)	(16.41)	(21.90)	(20.15)
Relative	(1.96)	(12.09)	(21.77)	(22.96)

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Investment Merits

- Increasing demand for shrink labels should boost sales to achieve 15% growth target and act as key 2022F earnings driver
- Initiatives to increase customers, and opening of new production facility to boost growth from 2H22F
- Operational economies of scale may limit impact of production cost hikes and keep profit margins manageable.

Company Profile

Shrinkflex (Thailand) or SFT is a leading manufacturer and distributor of shrink sleeve label printing. It currently offers one-stop solutions that meet all of its customers' needs. Key products include: i) Gravure shrink labels for mass-produced work (93% of sales), ii) digital shrink labels for low-volume printing jobs (4%), iii) gravure cylinders for in-house customers (2%), and iv) stretch film (0.3%). Its well-diversified customer portfolio in 2021 included manufacturers in the beverage industry (50%), food (26%), cosmetics (8%), household products (4%), and pharmaceutical (1%). Some of its key strengths are: i) Relatively low competition but high barrier-to-entry for the shrink label business, ii) a strong customer base with recurring projects from new and existing clients, and iii) its own product development team to facilitate and attract large clients.

Highlights

Robust demand continues. SFT maintained its targeted sales growth of 15% for 2022F, backed by Thailand's shrink label market which is forecasted to grow 12.2% this year. Increasing purchase orders, mainly among F&B customers should enhance its utilisation rate and act as the key revenue driver. This is in tandem with local consumption recovery, easing COVID-19 restrictions, and SFT's planned launches of new products in 2Q-3Q22F. The opening of a new factory in 4Q22F should also support SFT's new businesses. It should see improving quarterly sales momentum throughout this year.

New customers and investments to provide additional support. The scheduled opening of SFT's new freehold plant in 2H22F and the installation of its sixth Gravure printing machine this year should unlock long-term business expansion opportunities. Resumed exhibitions and events may also allow it to capture new customers domestically and abroad. Possible launches of new premium products post pandemic, should enable SFT to obtain more orders for high-GPM digital shrink labels, aside from the ongoing expansions in flexible packaging sales.

GPM likely manageable. Prices of SFT's key material, polyethylene terephthalate (PET) plastic is rising, while PVC has corrected from its peak in Oct 2021. Higher PET costs could impact 2022F GPM, as SFT may partially pass through the ASP hikes. Still, the impact may be limited by improving demand for shrink labels, which would enhance

operational economies-of-scale, in our view.

Company Report Card

Latest results. FY21 net profit grew strongly by 43% YoY to THB112m, on strong sales, better cost management, and higher FX gains from the THB's depreciation. Core profit rose 24% YoY to THB97m. Total sales rose 17% YoY, above its 15% target, driven by the Gravure printing business – thanks to robust purchase orders from F&B customer segments, as well as a material jump in stretch film sales after the launch in 2020. Average GPM was 28.4%, slightly down from 29.2% in 2020 due to an increase in raw material costs in 2H21. Opex-to-sales ratio declined 0.6ppts to 12.3%, due to a stronger topline growth and efficient controls over selling and administrative expenses.

Balance sheet/cash flow. SFT is in a net cash position, which should strongly support its long-term business expansion. There was an 87% hike in inventory due to the higher purchase of raw materials to support clients' orders and 32% increase in fixed assets related to investments in new printing machines. Its financing cash flow fell to THB56m on repayment of lease liabilities and long-term loans, as well as dividend payments. Capex was at THB133m last year, and is likely rise to above THB199m on its factory expansion (75%) and new machines (25%).

ROE. SFT's ROE declined slightly to 16.0% in 2021, from 17.7% during the previous year. However, NPM increased by 2.5ppts to 14.1%.

Dividend. The company's policy is to pay no less than 30% of net profit after tax, based on its separate financial statement, and legal reserves and other reserves. It paid annualised DPS of THB0.10 for FY21, vs THB0.07 for FY20 post IPO, implying 1-2% yields. We expect yields to stay around 2% this year and the next.

Management. SFT was established in 2007, and listed in the Market for Alternative Investment (MAI) in Oct 2020. Company founder Sung Cheong Tsoi (24% stake) is the CEO, and President of the Executive Board.

Investment Case

Topline-driven earnings. We expect SFT's earnings growth to continue in 2022F, driven by sales expansion. This should be supported by resilient demand for shrink labels – mainly in the food business – an increase in total production capacity by 25%, and the planned opening of its new factory by 4Q22. This is amidst challenging raw material costs and higher oil prices. Based on consensus, we assume FY22F THB0.30 EPS (+19%) and FY23F THB0.36 (+19%).

FV range of THB7.50-7.80, derived from applying 25-26x prospective P/E or the packaging sector's average level. We expect earnings momentum to recover in 1Q22F before entering a high season in 2Q-3Q22.

Key risks. Slowdown in consumption, fluctuation in raw material prices and FX rates, supply chain disruptions, and rising competition from new players.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (THBm)	585	677	794
Reported net profit (THBm)	57	78	112
Recurring net profit (THBm)	57	78	97
Recurring net profit growth (%)	84.5	37.4	24.0
Recurring EPS (THB)	0.28	0.18	0.22
DPS (THB)	0.50	0.32	0.10
Dividend Yield (%)	8.7	5.6	1.8
Recurring P/E (x)	20.2	32.4	26.1
Return on average equity (%)	25.3	17.7	16.0
P/B (x)	5.0	3.8	3.4
P/CF (x)	17.3	20.4	33.1

Source: Company data, RHB

Balance Sheet (THBm)	Dec-19	Dec-20	Dec-21
Total current assets	231	526	560
Total assets	425	843	944
Total current liabilities	141	115	140
Total non-current liabilities	56	71	65
Total liabilities	197	185	206
Shareholder's equity	228	658	738
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	425	843	944
Total debt	115	92	89
Net debt	110	(19)	(10)

Source: Company data, RHB

Cash Flow (THBm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	66	124	77
Cash flow from investing activities	(57)	(260)	(32)
Cash flow from financing activities	(14)	242	(56)
Cash at beginning of period	10	5	111
Net change in cash	(5)	106	(12)
Ending balance cash	5	111	99

Source: Company data, RHB