20 MAR, 2023

Plastic packaging firms to see softer demand

The Star, Malaysia

Plastic packaging firms to see softer demand

PETALING JAYA: The demand for plastic packaging will likely be weaker this year, weighed down by the anticipated slowdown in the global economy.

Nevertheless, plastic packaging players will likely see some relief, as sustainable margins and easing cost pressures could help their bottom lines.

Given the muted outlook, Kenanga Research reiterated its "neutral" view on the sector.

"The demand outlook for plastic packaging sector in 2023 is not favourable in the first half of the year due to slower global economic growth and lingering supply chain disruptions affecting end-users' operation and hence the demand of plastic packaging," the brokerage said in a recent report.

"We foresee a moderate utilisation rate of 50%-65% across the board in the first half despite the labour shortage issue being partially resolved," it added.

According to Kenanga Research, despite the soft patch in the first half of this year, plastic packaging players would likely maintain their margins as a result of the companies' ongoing positioning towards higher-margin products, and the declining cost of input resin.

On the recent hike in electricity tariff, the impact would likely be manageable, as electricity only made up 4%-6% of the total production cost of plastic packaging players, it noted.

"Also helping, is the Green Electricity Tariff programme of Tenaga Nasional Bhd that offers an exemption to imbalance cost pass-through surcharge of 20 sen per kilowatt-hour (kWh) via a subscription charge of 3.7 sen per kWh (resulting in an effective savings of 16.3 sen per kWh)," Kenanga Research said.

However, it conceded that the offer to buy renewable energy was capped at 30% of total electricity consumption, subject to the availability of quota and only valid for six months ending June 31, 2023 for now.

Among the plastic packaging players, Thong Guan Industries Bhd and Scientex Bhd had signed up for the renewable energy programme, the brokerage said.

It named Thong Guan as its top sector pick.

"We like the company for its earnings stability underpinned by a more diversified product portfolio and its earnings growth prospects underpinned by expansion in production capacity for premium products such as nano stretch films and courier bags

We also like the company for its deeper penetration into the European and US markets and its product innovation via research and development and collaboration with the likes of ExxonMobil to produce more environmentally-friendly products," Kenanga Research explained.