

INDORAMA VENTURES PLC

No. 153/2021
23 September 2021

CORPORATES

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Hybrid	A
Outlook:	Stable

Last Review Date: 16/10/20

Company Rating History:

Date	Rating	Outlook/Alert
16/10/20	AA-	Negative
26/09/19	AA-	Stable
09/08/19	AA-	Alert Developing
29/08/18	AA-	Stable
18/10/17	A+	Positive
09/09/11	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Indorama Ventures PLC (IVL) and the ratings on IVL's existing senior unsecured debentures at "AA-". TRIS Rating also affirms IVL's subordinated capital debentures at "A". In addition, TRIS Rating assigns the rating of "AA-" to IVL's proposed issue of up to THB6 billion and an additional greenshoe portion of up to THB4 billion in senior unsecured debentures. At the same time, TRIS Rating revises the rating outlook to "stable" from "negative".

The "stable" outlook reflects a strong recovery of petrochemicals and derivatives industry and IVL's improving performance and profitability.

The "AA-" ratings continue to reflect the company's leading position in the polyester value chain, a competitive edge stemming from its vertical integration of production, the variety of products, as well as diversification of production facilities and customers across six continents. The ratings also take into consideration the management team's capability and experience, as well as IVL's access to key technologies. However, the ratings are constrained by the volatile nature of the petrochemical industry.

KEY RATING CONSIDERATIONS

Improving performance in 2021

IVL's performance recovered strongly in the first half of 2021. Robust recovery for all petrochemicals demand followed the improvement in economic activities in major developed countries, coupled with a supply shortage and logistics constraints. IVL has benefited from strategy to diversify geographically, which has enabled it to continue supplies to customers in each region. This global supply/demand imbalance has spiked the margin for petrochemicals, benefiting IVL in all business segments. In addition, the integrated oxide and derivative (IOD) segment turned around in the first half of 2021. The earnings before interest, taxes, depreciation and amortization (EBITDA) from Spindletop's assets, acquired in January 2020, increased to USD124 million in the first half of 2021 from USD40 million in the first half of 2020. The improvement was mainly due to strong demand for downstream products such as surfactants, which are used in personal care, home care, crop solutions, and oilfield products. The normalizing consumption of gasoline following the lockdown ease in the second quarter of 2021 helped increase demand for methyl tertiary butyl ether (MTBE), one of the key products of Spindletop.

For the first half of 2021, the company's EBITDA increased by 157% year-on-year (y-o-y) to THB30.2 billion, including an inventory gain of THB6 billion. The effective working capital management helped IVL to maintain its adjusted debt at around THB216 billion as of June 2021. The company's debt to EBITDA ratio improved to 4.7 times (annualized with trailing 12 months) as of June 2021 from 7.5 times as of December 2020.

TRIS Rating forecasts the debt to EBITDA ratio of IVL to improve to around 3.5-4 times at the end of 2021, which is significantly better than our previous forecast of about 4-5 times in 2021-2022.

The Oxiteno acquisition to strengthen IOD segment

In August 2021, IVL announced its intention to acquire Oxiteno, a Brazilian multinational manufacturer of surfactants and chemicals, for USD1.3 billion.

Oxitenno will add an IOD production capacity of about 1.5 million tons per annum (MTA) to IVL, raising IVL's total capacity to about 19 MTA. The company expects the transaction to be completed by the first quarter of 2022. IVL will pay USD1.15 billion on the completion date and the remaining USD150 million in 2024.

TRIS Rating views the acquisition of Oxitenno as helping strengthen IVL's portfolio, especially in the IOD segment. Oxitenno's products focus on downstream specialty chemicals, enabling IVL to provide more product variety to its existing customers and also to access Latin American market. In 2020, Oxitenno's adjusted EBITDA was USD187 million. IVL expects to improve Oxitenno's EBITDA to about USD290 million within 2023 by leveraging its IOD marketing network to boost sales volumes as well as managing supply chain across the group to minimize operational cost.

In our base-case projection, we forecast Oxitenno to contribute about USD140-USD190 million in EBITDA per year to IVL during 2022-2024. We expect IVL's debt to EBITDA ratio to exceed 4 times in 2022 before improving to 3-4 times in the following years.

Sizeable and diverse portfolio

IVL is the world's largest combined polyethylene terephthalate (PET) producer. At the end of June 2021, IVL's effective capacity was about 17.2 MTA, comprising the combined PET segment (72%), IOD segment (15%), and fiber segment (13%). IVL's strategy is to expand its portfolio along the polyester value chain, from feedstock (paraxylene (PX), purified terephthalic acid (PTA), and monoethylene glycol (MEG)) to derivative products (PET, polyester fiber and yarn, chemical products, and packaging). After acquiring Spindletop in early 2020, the business scope of IVL's IOD expanded from producing only MEG and purified ethylene oxide (PEO) to its derivative downstream specialty chemicals. IVL has strengthened its IOD's downstream products portfolio by acquiring Oxitenno, which is expected to consolidate into IVL by the first quarter of 2022. As an integrated producer, the company is in a position to achieve a number of strategic objectives, including cost competitiveness, production efficiency, as well as geographically diversified production bases and wider market reach. Currently, IVL has production facilities in 33 countries across six continents: Asia, North America, South America, Europe, Africa, and Australia.

Pursuit of sustainability

Sustainability is one of IVL's key strategies. As PET is 100% recyclable, IVL is keen to become one of the leaders in the circular economy or full-cycle sustainable plastic sector. IVL entered into the recycling business in 2011, when it acquired Wellman International (Wellman) in Europe. Since then, the company has commenced the recycling of PET bottles, producing clean PET flake for use in fiber and sheet, and other applications. IVL has also leveraged knowhow from Wellman to introduce recycling capabilities at its plants in Mexico, the US, and Thailand. Currently, IVL can utilize up to 30% recycled PET flake in its virgin polymerization process, depending on customer requirements. IVL aims to increase its PET recycling capacity to 750 kilo tons per annum (KTA) by 2025 from about 330 KTA as of June 2021.

Focus more on improving earnings quality

IVL has pursued strategic initiative to improve its earnings quality through multiple acquisitions during the last five years. The strategies aim to increase plant utilization and reliability, optimize inventory level through supply chain management, as well as reduce unnecessary cost, and leverage its marketing network around the globe for cross selling. IVL plans to spend about USD600 million for the implementation program (under Project Olympus) in 2020-2023. In turn, IVL expects to reap the benefits of around USD610 million a year by 2023. In 2020, IVL gained about USD92 million in EBITDA from this program.

Enlarging EBITDA in 2022-2023

We forecast IVL's EBITDA to improve to about THB54-THB56 billion in 2021 from about THB27.7 billion in 2020. An improvement in EBITDA is reflected in the spike in the combined PET margin and inventory gain recorded in the first half of 2021.

We view that IVL's profitability will gradually return to normal levels from the second half of 2021 onwards, bringing its core EBITDA per ton of production down to about USD106-USD111 for the full year of 2021 from USD116 in the first half of 2021. We do not assume any inventory losses in the second half of 2021. Therefore, the company's debt to EBITDA ratio is expected to improve to around 3.5-4 times by the end of 2021.

For 2022-2023, we believe that IVL's core EBITDA per ton will decrease from the recent peaks, but it will benefit from consolidating Oxitenno in 2022. This consolidation is expected to increase IVL's EBITDA by USD140-USD190 per year. We forecast IVL's core EBITDA per ton to range between USD106-USD111, inclusive of Oxitenno's assets. IVL's production volume is expected to increase to around 15-17 MTA in 2022-2023 from about 15 MTA in 2021. Based on IVL's Olympus project, we hold the conservative view that IVL will gain USD250-USD350 million from this project in 2022-2023. Therefore, IVL's EBITDA

is forecast to increase to be THB58-THB64 billion per year in 2022-2023. We expect the company's debt to EBITDA ratio to temporarily exceed 4 times in 2022 before improving to 3-4 times in the following years.

Sufficient liquidity

We view that IVL has sufficient liquidity to manage its debt obligations. Over the next 12 months, IVL will have long-term loans and debentures due totaling about THB20 billion. This amount of maturing debt could be covered by its cash on hand of THB14.8 billion at the end of June 2021 and expected funds from operations (FFO) of about THB42 billion over the next 12 months. In addition, IVL has unutilized short-term credit facilities of about THB61 billion as of June 2021.

Debt structure

As of June 2021, IVL's consolidated debt was about THB219 billion (including hybrid debentures). IVL's priority debt consisted of THB20 billion in secured debt and THB59.4 billion in senior unsecured debt owed by IVL's subsidiaries. The ratio of priority debt to total debt was about 36% at the end of June 2021.

BASE-CASE ASSUMPTIONS

- Core EBITDA per ton to be about USD106-USD111 during 2021-2023.
- Gain from Olympus project of about USD250-USD350 million per year during 2022-2023.
- Total production volume to stand at about 15 MTA in 2021 and to increase to around 15-17 MTA during 2022-2023.
- To spend THB35-THB36 billion to acquire Oxiteno in the first quarter of 2022.
- Capital expenditures (CAPEX) to be about THB84 billion over 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our view that IVL will demonstrate a material turnaround for 2021-2022 following a strong recovery of the petrochemicals industry. IVL's strong business profile from its diversification and integration, as well as the expectation of the company's blending high-value added (HVA) products in its portfolio will help it cope with the volatility of the petrochemicals and derivatives industry. We also expect the company's debt to EBITDA ratio to remain in the range of 3-4 times in the medium term.

RATING SENSITIVITIES

The rating upside will be limited over the next 12-18 months due to upcoming sizable acquisition. On the other hand, the ratings could be downgraded if IVL's financial profile is materially weaker than our forecast, which could occur due to weaker-than-expected earnings or an unexpected debt-funded acquisition.

COMPANY OVERVIEW

IVL was established by the Lohia family on 21 February 2003. As a holding company, the company invests mainly in businesses along the polyester value chain. IVL was listed on the Stock Exchange of Thailand (SET) on 5 February 2010. As of 30 June 2021, the Lohia family held a 64.7% stake in IVL. The company's core businesses comprise the combined PET segments (PET, PTA, PX, specialty chemicals, and packaging), integrated oxide and derivative product segment (EO/EG, MTBE, and surfactants), and fiber segment (Lifestyle, hygiene and mobility). At the end of June 2021, IVL's total effective capacity was 17.2 MTA.

IVL's production bases are well diversified geographically. Currently, IVL has 124 plants located in 33 countries across six continents: Asia, Europe, North America, South America, Africa, and Australia.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	210,272	333,602	354,672	348,255	287,335
Earnings before interest and taxes (EBIT)	20,169	7,406	11,391	32,053	20,939
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	30,258	27,750	29,098	46,437	33,788
Funds from operations (FFO)	23,333	20,175	19,406	36,381	29,803
Adjusted interest expense	3,703	8,818	8,157	6,244	5,385
Capital expenditures	10,266	18,129	16,800	16,543	20,055
Total assets	506,634	453,172	380,568	379,195	282,358
Adjusted debt	215,989	208,403	154,046	145,480	102,560
Adjusted equity	150,068	128,155	131,007	144,418	111,550
Adjusted Ratios					
EBITDA margin (%)	14.39	8.32	8.20	13.33	11.76
Pretax return on permanent capital (%)	6.91 **	2.27	3.85	12.41	9.97
EBITDA interest coverage (times)	8.17	3.15	3.57	7.44	6.27
Debt to EBITDA (times)	4.67 **	7.51	5.29	3.13	3.04
FFO to debt (%)	16.36 **	9.68	12.60	25.01	29.06
Debt to capitalization (%)	59.00	61.92	54.04	50.18	47.90

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Indorama Ventures PLC (IVL)

Company Rating:	AA-
Issue Ratings:	
IVL210A: THB37 million senior unsecured debentures due 2021	AA-
IVL210B: THB3,163 million senior unsecured debentures due 2021	AA-
IVL210C: THB300 million senior unsecured debentures due 2021	AA-
IVL224A: THB1,250.5 million senior unsecured debentures due 2022	AA-
IVL224B: THB2,649.5 million senior unsecured debentures due 2022	AA-
IVL225A: THB500 million senior unsecured debentures due 2022	AA-
IVL22DA: THB1,645 million senior unsecured debentures due 2022	AA-
IVL236A: THB1,100 million senior unsecured debentures due 2023	AA-
IVL236B: THB3,000 million senior unsecured debentures due 2023	AA-
IVL243A: THB1,400 million senior unsecured debentures due 2024	AA-
IVL245A: THB1,000 million senior unsecured debentures due 2024	AA-
IVL24NA: THB300 million senior unsecured debentures due 2024	AA-
IVL24DA: THB1,475 million senior unsecured debentures due 2024	AA-
IVL256A: THB1,500 million senior unsecured debentures due 2025	AA-
IVL25NA: THB4,000 million senior unsecured debentures due 2025	AA-
IVL25DA: THB1,150 million senior unsecured debentures due 2025	AA-
IVL260A: THB200 million senior unsecured debentures due 2026	AA-
IVL275A: THB2,000 million senior unsecured debentures due 2027	AA-
IVL27NA: THB700 million senior unsecured debentures due 2027	AA-
IVL27NB: THB1,990 million senior unsecured debentures due 2027	AA-
IVL286A: THB1,800 million senior unsecured debentures due 2028	AA-
IVL280A: THB2,200 million senior unsecured debentures due 2028	AA-
IVL295A: THB2,000 million senior unsecured debentures due 2029	AA-
IVL306A: THB5,000 million senior unsecured debentures due 2030	AA-
IVL30NA: THB3,010 million senior unsecured debentures due 2030	AA-
IVL310A: THB2,300 million senior unsecured debentures due 2031	AA-
IVL32NA: THB1,000 million senior unsecured debentures due 2032	AA-
IVL336A: THB3,200 million senior unsecured debentures due 2033	AA-
IVL19PA: THB15,000 million subordinated capital debentures	A
Up to THB6,000 million senior unsecured debentures and additional greenshoe portion of up to THB4,000 million due within 12 years	AA-
Rating Outlook:	Stable

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