

# INDORAMA VENTURES PLC

No. 188/2022  
20 October 2022

## CORPORATES

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
Senior unsecured	AA-
Hybrid	A
<b>Outlook:</b>	Stable

**Last Review Date:** 16/03/22

### Company Rating History:

Date	Rating	Outlook/Alert
23/09/21	AA-	Stable
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-", and also affirms IVL's subordinated capital debentures at "A", with a "stable" outlook. 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, 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

### Solid business profile

We view IVL has a strong business profile reflecting the benefits from its large-scale operation, vertical integration, and geographic diversification. IVL's effective capacity increased to about 18.8 million metric tons annually (MTA) as of June 2022, from about 10.4 MTA in 2017, driven largely by IVL's expansion through merging and acquisition. The expansion along the polyester value chain from feedstock (paraxylene (PX), purified terephthalic acid (PTA), and monoethylene glycol (MEG)) to derivatives products (polyethylene terephthalate (PET), polyester fiber and yarn, chemical products, and packaging) has enabled IVL to become the world's largest combined PET producer. Besides the polyester value chain, between 2020-2022 IVL expanded its business scope from the ethylene oxide/glycol segment to the integrated oxide and derivatives (IOD) segment.

In April 2022, IVL completed the acquisition of Oxiteno, a Brazilian multinational manufacturer of surfactants and chemicals, for USD1.3 billion. We view the acquisition of Oxiteno as strengthening IVL's portfolio, especially in the IOD segment. Oxiteno's products focus on downstream specialty chemicals, enabling IVL to provide more value-added products to its existing customers and access the Latin American markets.

As an integrated producer, the company is able to achieve several strategic objectives, including cost competitiveness, production efficiency, as well as geographically diversified production bases and wider market reach. Currently, IVL has production facilities in 35 countries across six continents: Asia, North America, South America, Europe, Africa, and Australia. As of June 2022, the company's effective capacity of 18.8 MTA comprised the combined PET segment (67%), the IOD segment (21%), and the fiber segment (12%).

### Strong performance continues in 2022

IVL performed strongly during 2021 and up to the first half of 2022. Energy costs increase during this period were absorbed by the spike in margins due to the supply chain disruption coupled with the strong recovery in demand for all products. The combined PET demonstrated a wider margin with the earnings before interest, taxes, depreciation, and amortization (EBTIDA) per ton of USD160 for the first half of 2022, compared with USD103 in 2021. The IOD business also performed well. IOD's core EBITDA per ton increased to USD288 for the first half of 2022, from USD168 in 2021. A recovery in demand for methyl tertiary butyl ether (MTBE) and strong demand in the downstream segments boosted IOD's overall margin and helped offset the thin margin of

MEG. For the fiber segment, the core EBITDA per ton remained at around USD159 for the first half of 2022. Overall, IVL's core EBITDA per ton of production increased to an average of USD182 for the first half of 2022 from USD119 in 2021.

For the first half of 2022, the company's EBITDA increased by 92% year-on-year (y-o-y) to THB59.1 billion, including an inventory gain of THB11 billion. The acquisition of Oxiteno added about THB2.9 billion in core EBITDA to IVL in the second quarter of 2022 and increased IVL's adjusted debt to THB253.2 billion as of June 2022. However, the strong performance improved the company's debt to EBITDA ratio to 2.8 times (annualized with trailing 12 months) as of June 2022 from 3.6 times as of December 2021.

### **Pursuit of sustainability**

Sustainability is one of IVL's key strategies. As PET is 100% recyclable, IVL aims to become leader in the circular economy or full-cycle sustainable plastic sector. IVL entered the recycling business in 2011, when it acquired Wellman International (Wellman) in Europe. Since then, the company has recycled PET bottles, producing clean PET flakes 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 United States (US), Thailand, Indonesia, and the Philippines. Currently, IVL can utilize up to 30% recycled PET flakes 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 345 KTA as of June 2022.

### **Continually earnings quality improvement program**

IVL has pursued strategic initiative to improve its earnings quality through multiple acquisitions over 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 costs, 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 return, IVL expects to attain estimated benefits of around USD610 million a year by 2023. As of June 2022, IVL estimated to have gained USD462 million in EBITDA from this program.

### **Sizable EBITDA in 2022-2024**

We forecast IVL's profitability to be gradually normalized from the second half of 2022 onwards, bringing its core EBITDA per ton of production down to about USD160-USD165 for the full year of 2022 from USD182 in the first half of 2022. We expect IVL to record inventory loss in the second half of 2022 as prices of many products have softened. We forecast IVL's EBITDA to reach about THB90-THB95 billion in 2022. For 2023-2024, we forecast IVL's core EBITDA per ton will continue to normalize from the unusually high level. We incorporate a full year contribution from the acquisition of Oxiteno, the recovery of MTBE, and the benefits from Project Olympus in our base-case assumptions, bringing IVL's core EBITDA per ton to the range between USD130-USD135 over 2023-2024. IVL's production volume is forecasted at around 15.5-16.5 MTA during 2023-2024, resulting in projected EBITDA of THB70-THB80 billion per year in 2023-2024. We expect the company's debt to EBITDA ratio to remain in the 3-3.5 times range during 2022-2024.

### **Sufficient liquidity**

We view IVL as having sufficient liquidity to manage its debt obligations. Over the next 12 months, IVL will have long-term loans and debentures due totaling about THB31.8 billion. This amount of maturing debt could be covered by its cash on hand of THB26.5 billion at the end of June 2022 and expected funds from operations (FFO) of about THB55-THB60 billion over the next 12 months. In addition, IVL has unutilized short-term credit facilities of about THB75 billion as of June 2022.

### **Debt structure**

As of June 2022, IVL's consolidated debt was about THB270 billion (including hybrid debentures). IVL's priority debt consisted of THB49.5 billion in secured debt and THB52.8 billion in senior unsecured debt owed by IVL's subsidiaries. The ratio of its priority debt to total debt was about 38% at the end of June 2022.

### **BASE-CASE ASSUMPTIONS**

- Core EBITDA per ton to be range between USD160-USD165 in 2022 and USD130-USD135 during 2023-2024.
- Total production volume of around 15.5-16.5 MTA during 2022-2024.
- Capital expenditures (CAPEX), including acquisition of Oxiteno, to be about THB154.5 billion over 2022-2024.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that IVL will deliver strong performance during the forecast period. The blending of high value-added products in its portfolio will help it cope with the volatile petrochemicals and derivatives industry. We also expect the company's debt to EBITDA ratio to remain in the 3-4 times range in the next few years.

## RATING SENSITIVITIES

A rating upgrade could occur if the company's net debt to EBITDA ratio stays below 2 times on a sustained basis. On the other hand, the ratings could be revised downward if IVL's financial profile is materially weaker than our forecast, which could occur due to materially weaker-than-expected earnings or an unexpected large-scale 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 2022, 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 derivatives product segment (EO/EG, MTBE, and surfactants), and fiber segment (lifestyle, hygiene, and mobility). At the end of June 2022, IVL's total effective capacity was 18.8 MTA.

IVL's production bases are well diversified geographically. Currently, IVL has 145 plants located in 35 countries across six continents: Asia, Europe, North America, South America, Africa, and Australia.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	335,920	470,555	333,602	354,672	348,255
Earnings before interest and taxes (EBIT)	46,762	40,408	7,614	11,391	32,053
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	59,144	62,995	28,879	29,098	46,437
Funds from operations (FFO)	47,123	49,880	19,774	20,068	36,034
Adjusted interest expense	4,401	8,151	9,026	8,157	6,244
Capital expenditures	13,797	23,198	18,129	16,800	16,543
Total assets	683,071	541,828	453,172	380,568	379,195
Adjusted debt	253,257	224,504	209,388	154,046	145,480
Adjusted equity	204,292	163,551	128,155	131,007	144,418
<b>Adjusted Ratios</b>					
EBITDA margin (%)	17.61	13.39	8.66	8.20	13.33
Pretax return on permanent capital (%)	15.48 **	10.62	2.33	3.85	12.41
EBITDA interest coverage (times)	13.44	7.73	3.20	3.57	7.44
Debt to EBITDA (times)	2.77**	3.56	7.25	5.29	3.13
FFO to debt (%)	28.89**	22.22	9.44	13.03	24.77
Debt to capitalization (%)	55.35	57.85	62.03	54.04	50.18

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

**Indorama Ventures PLC (IVL)**

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
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-
IVL26OA: THB200 million senior unsecured debentures due 2026	AA-
IVL26NA: THB3,000 million senior unsecured debentures due 2026	AA-
IVL274A: THB4,300 million senior unsecured debentures due 2027	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-
IVL28OA: THB2,200 million senior unsecured debentures due 2028	AA-
IVL28NA: THB2,000 million senior unsecured debentures due 2028	AA-
IVL294A: THB2,700 million senior unsecured debentures due 2029	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-
IVL31OA: THB2,300 million senior unsecured debentures due 2031	AA-
IVL324A: THB5,000 million senior unsecured debentures due 2032	AA-
IVL325A: THB5,000 million senior unsecured debentures due 2032	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
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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