

INDORAMA VENTURES PLC

No. 195/2023
12 October 2023

CORPORATES

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

Last Review Date: 27/03/23

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 rating 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 factor in 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 as having a strong business profile reflecting the benefits from its large-scale operation, vertical integration, and geographic diversification. IVL's effective capacity was about 19.5 million metric tons annually (MTA) as of June 2023. The company's main products are produced 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). Currently, IVL is the world's largest combined PET producer. Besides the polyester value chain, between 2020-2022 IVL expanded its ethylene oxide/glycol segment into the integrated oxide and derivatives (IOD) segment, focusing on downstream specialty chemicals. This enabled IVL to provide more value-added products to its existing customers.

As an integrated producer, the company benefits from 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 2023, the company's effective capacity of 19.5 MTA comprised the combined PET (67%), IOD (21%), and fiber segments (12%).

Challenge in industry environment

The petrochemicals industry is expected to remain under pressure for 2023-2024. The gradually decreasing in oil price coupled with the easing of supply chain disruption since the fourth quarter of 2022 caused destocking along the chemicals supply chain. This has depressed volumes and the spread of most petrochemical products. High inflation and energy costs in Europe resulted in losses for chemicals companies in the continent.

IVL's profitability as measured in core earnings before interest, taxes, depreciation, and amortization (EBITDA) per tonne of production declined to USD155 per tonne in 2022, from its peak of USD184 per tonne for the first half of 2022. Also, the slower than expected recovery of the Chinese economy, combined with newly added capacity put pressure on product spread in Asia for the first half of 2023. IVL's core EBITDA per tonne decreased to USD102 per tonne for the first half of 2023.

IVL's total sales volume was about 14.6 million tonnes in 2022 slightly lower than 14.7 million tonnes in 2021. The destocking continued to impact IVL's sales volume for the first half of 2023. The sales volume decreased by 7.7%

year-on-year (y-o-y) to 7.0 million tonnes for the first half of 2023. However, IVL's overall earnings was partly cushioned by its operation in the US, which still had resilient demand and lower raw material cost. For the first six months of 2023, IVL delivered about THB21.3 billion in EBITDA, decreasing by 63% y-o-y from its unusually high level in 2022.

We view these challenges will likely continue into 2024. However, the pressure of destocking is expected to be relieved within 2023. This should allow IVL to gradually ramp up its production as most of IVL's products are related to consumer products, which have resilient demand. We still retain a cautious view of a probable global economic slowdown during 2023-2024, which potentially prolong the pressure on the industry spread.

Cost cutting, asset optimization focus

IVL plans to preserve cash and strengthen its balance sheet during this downturn period. IVL announced the cutting of its capital expenditures (CAPEX) of about USD100-USD140 million in 2023. The company also delayed its investment in the Corpus Christi project in the US, which will help reduce its CAPEX of about USD100-USD130 million in 2024. Also, IVL plans to optimize its operating assets in Europe, which may mothball some operating assets and fully utilize some operating assets, depending on the cost competitiveness of each asset. IVL also plans to re-locate some of its production from Europe to Asia, which has lower raw materials, labor, and utility costs. These plans are expected to bring down the overall fixed cost and improve production utilization rate.

IVL continued to improve its earnings quality under Project Olympus, since its implementation beginning from 2020. The project aims 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. As of June 2023, IVL was estimated to have run rate savings of USD481 million from this program. The company targeted annual run rate savings on sustainable basis of USD637 million by the end of 2024.

Pursuit of sustainability

Sustainability is one of IVL's key strategies. As PET is 100% recyclable, IVL aims to become a 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 US, Thailand, Indonesia, the Philippines, Brazil, and Europe. Currently, IVL can utilize recycled PET flakes in its virgin polymerization process, depending on customer requirements. IVL aims to increase its PET waste collected bottle recycling capacity to 750 kilo tonnes per annum (KTA) by 2025 from about 690 KTA in 2022.

Earnings likely gradual recovered in 2024-2025

We forecast IVL's earnings to soften in 2023 and gradually recover during 2024-2025. We expect the company's core EBITDA per tonne in the second half of 2023 to fall within the same range as the first half of 2023. We forecast IVL's EBITDA to be in the THB45-THB50 billion range in 2023 and gradually improve to about THB60-THB70 billion in 2024-2025. The improvement in EBITDA reflects our view that the impact from destocking to ease in 2024, ramping up the company's production to near normal levels by 2025. The company plans to spend about THB70-THB73 billion over 2023-2025 on its CAPEX: THB37-THB40 billion on maintenance and the rest on improving and debottlenecking its production facilities. The company's debt to EBITDA ratio is forecasted to temporarily increase to the 5.0-5.5 times range in 2023 and improve to the 3.0-4.0 times range in 2024-2025.

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 maturing debentures totaling about THB32.4 billion. This amount of maturing debt could be covered by its cash on hand of THB20.7 billion at the end of June 2023 and expected funds from operations (FFO) of about THB35-THB40 billion over the next 12 months. Also, IVL has unutilized short-term credit facilities of about THB65 billion as of June 2023.

Debt structure

At the end of June 2023, IVL's consolidated debt was about THB267 billion (including hybrid debentures). IVL's priority debt consisted of THB41.9 billion in secured debt and THB68.8 billion in senior unsecured debt owed by its subsidiaries. The ratio of its priority debt to total debt was about 42% at the end of June 2023.

BASE-CASE ASSUMPTIONS

- Core EBITDA per tonne to be in the USD95-USD105 range in 2023, USD115-USD125 in 2024 and USD130-USD140 in 2025.
- Total sales volume of around 14.0 MTA in 2023 and 15.0-15.5 MTA during 2024-2025.
- CAPEX to be about THB70-THB73 billion over 2023-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that IVL will be able to recover its performance during the forecast period. The high proportion of necessity products in its portfolio will help sustain demand during the weak market conditions. We also expect the company’s debt to EBITDA ratio to be in the 3-4 times range in the next few years.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited over the next 12-18 months. Conversely, 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 as a result of the longer duration of the downturn 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 2023, 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 2023, IVL’s total effective production capacity was 19.5 MTA.

IVL’s production bases are well diversified geographically. Currently, IVL has 147 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 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	275,580	660,378	470,555	333,602	354,672
Earnings before interest and taxes (EBIT)	7,836	55,403	40,395	7,614	11,391
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	20,928	81,819	62,995	28,879	29,098
Funds from operations (FFO)	13,416	62,896	49,893	19,783	20,068
Adjusted interest expense	7,512	11,787	8,138	9,018	8,157
Capital expenditures	13,441	28,561	23,198	18,129	16,800
Total assets	637,693	623,878	541,828	453,172	380,568
Adjusted debt	256,269	248,059	224,128	209,388	154,046
Adjusted equity	196,886	193,433	163,551	128,155	131,007
Adjusted Ratios					
EBITDA margin (%)	7.59	12.39	13.39	8.66	8.20
Pretax return on permanent capital (%)	3.44 **	12.78	10.62	2.33	3.85
EBITDA interest coverage (times)	2.79	6.94	7.74	3.20	3.57
Debt to EBITDA (times)	5.85 **	3.03	3.56	7.25	5.29
FFO to debt (%)	11.47 **	25.36	22.26	9.45	13.03
Debt to capitalization (%)	56.55	56.19	57.81	62.03	54.04

* 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)

Company Rating:	AA-
Issue Ratings:	
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-
IVL265A: THB2,950 million senior unsecured debentures due 2026	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-
IVL285A: THB3,500 million senior unsecured debentures due 2028	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-
IVL335A: THB1,550 million senior unsecured debentures due 2033	AA-
IVL336A: THB3,200 million senior unsecured debentures due 2033	AA-
IVL355A: THB2,000 million senior unsecured debentures due 2035	AA-
IVL19PA: THB15,000 million subordinated capital debentures	A
Rating Outlook:	Stable

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