TPI POLENE PLC

No. 17/2024
29 February 2024

CORPORATES

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

Last Review Date: 15/11/23

Rating History:

Date	Rating	Outlook/Alert
24/02/23	A-	Stable
04/10/22	BBB+	Positive
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
02/10/12	BBB+	Stable

Contacts:

Rapeepol Mahapant

rapeepol@trisrating.com

Supasith Tiensuksai, CFA

supasith@trisrating.com

Parat Mahuttano

parat@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the ratings on its outstanding senior unsecured debentures at “A-”, with a “stable” outlook.

The ratings continue to reflect TPIPL’s competitive strength in the domestic cement market, its leading position in the ethylene vinyl acetate (EVA) market, reliable cash flows from its power business, and the benefits gained from business diversification. Conversely, the ratings are held back by the gradual phase-out of additional tariffs (adder), the pre-investment spending associated with the Special Economic Zone (SEZ) project, as well as a rise in the company’s debt load during its plant improvement and business expansion.

KEY RATING CONSIDERATIONS

Merits of business diversification

TPIPL’s main businesses include construction materials, polymer, and power generation. The construction materials segment has made up the majority of about half of the company’s revenue during the past three years, followed by polymer (30%) and power generation (20%). However, the polymer and power generation segments have played a more important role in generating earnings. Each has contributed about 40% of the total, in terms of earnings before interest, taxes, depreciation, and amortization (EBITDA)

TPIPL has gained benefits from business diversification. Cement revenue is mainly derived from domestic demand while polymer revenue comes primarily from export markets. Apart from the diversified markets, the reliable cash flow from the power business help cushion the volatile nature of the construction materials and polymer businesses.

Highly competitive in cement market

We believe TPIPL will remain competitive in its core construction materials segment. The company’s large scale, as the third-largest cement producer in Thailand, its vertical integration along the cement production chain, and the broad range of products it offers, such as cement, concrete, fiber cement, concrete roof tiles, lightweight concrete, and mortar, have made the company competitive.

Conversely, TPIPL’s strengths are weighed down by industry cyclicality, price competition, capital-intensive investment, and energy price fluctuations. Large-scale production and the integration between the company’s cement and power plants should keep its costs low.

TPIPL has initiated several cost reduction measures. The company has successfully replaced 25% of the coal used in its cement production with Municipal Solid Waste (MSW)-derived fuel. Also, the company through its core subsidiary TPI Polene Power PLC (TPIPP) is modifying its power plants with the aim to entirely replace coal with MSW-derived fuel. We estimate TPIPL to save up a total of about THB3 billion per annum, fully realized in 2026.

Our base-case forecast expects modest growth in TPIPL’s cement business, with annual revenue of about THB25 billion during 2024-2026. The profit margins of this business should improve materially in coming years, given the expected decline in cement production costs. Slowdown in the residential property market and the government's delay in budget disbursement remain the key risks.

Leading position in EVA, LDPE

TPIPL is one of the leading EVA, Low Density Polyethylene (LDPE), and chemical adhesive producers. The company has shifted focus towards specialty grade EVA products, such as EVA film for solar panels, to gain superior price premium to commodity LDPE products. Specialty grade EVA products made up 60%-80% of revenue from the polymer business during 2021-2023, up from below 40% in the past. The shift to specialty grade EVA products significantly boosted the revenue and earnings of the polymer business during 2021-2022.

Nevertheless, the performance of the polymer business has recently suffered from a slump in product spreads, along the chemicals and polymers value chain. Given the lackluster recovery in the global economy and new capacities added in the EVA market, we cut the revenue forecast for the polymer business to THB9-THB10 billion per annum during 2024-2026, from our previous estimate of about THB15 billion per annum. Although the chemicals and polymers value chain is expected to gradually recover, our conservative forecast projects the profit margin of the polymer business to remain subdued over the forecast periods.

Reliable cash flows from power business

The ratings on TPIPL are strengthened by the strong credit profile of TPIPP, the largest waste-to-energy (WTE) power producer in Thailand, owning and operating eight power plants with a total installed capacity of 440 MW. Of the total, four power plants (180 MW) carry three multi-year power purchase agreements (PPAs) to sell capacity of 163 MW to the Electricity Generating Authority of Thailand (EGAT), rated "AAA/stable". The long-term PPAs with EGAT largely mitigate demand risk and payment risk, generating highly predictable cash flows to TPIPL.

We project revenue from the power business to range between THB6-THB8 billon per annum during 2024-2026, down from the historical levels of THB8-THB9 billion per annum, due to the expiration of tariff adders. Despite the decline in electricity sales to EGAT, the company's numerous cost-cutting measures should lower the fuel costs of electricity generation and cement production, improving TPIPL's overall earnings.

SEZ project put on hold

We expect the SEZ project will continue to be on hold following strong opposition from the residents of Chana District, the designated area for the project. The sizable project includes gas-fired and renewable power plants, deep-sea ports, and industrial estates. The company has already spent about THB12 billion on land procurement.

Operating performance to remain satisfactory

TPIPL recently reported a drop in its operating performance, with a 24.6% year-on-year (y-o-y) fall in its EBITDA to about THB10 billion in 2023. The underperforming polymer business dragged down the company's EBITDA margin (EBITDA as a percentage of revenue) to 22.4% in 2023, from 25%-30% during 2020-2022.

Looking forward, we expect TPIPL's operating performance to remain satisfactory, thanks to its numerous cost reduction measures. The lower fuel costs of electricity generation and cement production should, to a large extent, offset lost earnings from the expiration of power plant tariff adders.

Our base-case forecast assumes TPIPL's total operating revenue will range from THB40-THB45 billion per annum during 2024-2026. We slash our estimate on its EBITDA to THB10-THB11 billion per annum, from THB13-THB14 billion per annum in our previous forecast, as its polymer business is likely to remain under pressure. TPIPL's EBITDA margin is projected to be 24%-26% over the forecast period.

Financial leverage to remain under control

We expect TPIPL's debt to capitalization ratio to range between 45%-50% over the next three years. The company maintains its spending levels on plant modifications, efficiency improvements, and new power project development. Annual capital expenditures are estimated to reach about THB7 billion in 2024, before declining to THB3-THB4 billion during 2025-2026.

We believe TPIPL will manage its financial leverage properly, with the debt to EBITDA ratio remaining below 6 times during 2024-2026. In our forecast, we project the debt to EBITDA ratio to decline to 4-5 times after the hefty expenditures end in 2026. The funds from operations (FFO) to debt ratio should hover around 10%-12% over the forecast period.

Heavy reliance on debenture financing

We believe TPIPL will continue to rely on debenture issuance as its main source of financing, considering the management's preference and the company's established record in the bond market. As of December 2023, TPIPL's consolidated debt, excluding financial lease, was THB84.8 billion. Of this, 89% was unsecured debentures. As such, TPIPL's refinancing ability will continue to be subject to debenture market conditions.

In our view, TPIPL should be able to adequately manage its liquidity. The company has already prepared funding for its debentures worth THB15.4 billion maturing in the next 12 months, with the new debenture issuance of THB10.9 billion in late 2023. As of December 2023, sources of funds included cash and short-term investments totaling THB20.7 billion, plus undrawn bank credit facilities of about THB4.9 billion.

We expect TPIPL to continue in compliance with the financial covenant on its debenture obligations, which requires the interest-bearing debt to equity ratio to stay below 1.5 times. As of December 2023, the ratio stood at 1.3 times.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast (consolidated basis) during 2024-2026 are as follows:

- Total operating revenues to range from THB40-THB45 billion per annum.
- EBITDA margin to hover around 24%-26%.
- Annual capital spending to be about THB7 billion in 2024, declining to THB3-THB4 billion during 2025-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPIPL's operating performance will remain satisfactory, supported by its cost saving measures. Lost earnings from the expiration of power plant tariff adders should be offset by the lower fuel costs of electricity generation and cement production.

RATING SENSITIVITIES

A rating upside is unlikely in the near term. Conversely, the ratings and/or outlook could be revised downward if TPIPL fails to improve its financial leverage, with a debt to EBITDA ratio staying above 6 times without signs of reduction. This could result from weaker-than-expected performance and/or excessive debt-funded investments. A large equity loss from pending legal claims is another risk factor for negative rating actions.

COMPANY OVERVIEW

TPIPL is the third largest cement producer in Thailand. The company was founded by the Leophairatana family in 1987. Following the financial crisis, TPIPL entered a debt-restructuring program in July 2000 and exited the rehabilitation process in 2009. The Leophairatana family remains the major shareholder, owning approximately 68% of the company. The family members have served as the company's board members and management team since the firm was founded.

TPIPL operates in various industries: construction materials, polymer, and power generation. The construction material segment produces and sells clinker, cement, mortar, concrete, fiber cement, and concrete roof tiles. The polymer segment manufactures and sells LDPE and EVA products. The power segment generates electricity using mainly MSW and waste heat recovery. The company sells the power to EGAT and supplies within the group. The company's other products include ammonium nitrate, nitric acid, health care products, organic fertilizer, and synbiotics.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	---------------------Year Ended 31 December ----------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	44,500	50,455	40,827	36,027	38,714
Earnings before interest and taxes (EBIT)	6,674	9,945	9,518	6,281	4,687
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,962	13,216	12,591	9,349	8,027
Funds from operations (FFO)	6,876	10,483	9,827	6,847	5,812
Adjusted interest expense	2,899	2,559	2,587	2,326	2,096
Capital expenditures	10,936	7,722	6,693	11,471	9,905
Total assets	163,415	144,499	135,714	123,909	114,368
Adjusted debt	67,341	62,403	60,619	55,877	51,634
Adjusted equity	64,626	62,814	57,562	52,172	51,493
Adjusted Ratios					
EBITDA margin (%)	22.4	26.2	30.8	26.0	20.7
Pretax return on permanent capital (%)	4.6	7.5	7.7	5.6	4.4
EBITDA interest coverage (times)	3.4	5.2	4.9	4.0	3.8
Debt to EBITDA (times)	6.8	4.7	4.8	6.0	6.4
FFO to debt (%)	10.2	16.8	16.2	12.3	11.3
Debt to capitalization (%)	51.0	49.8	51.3	51.7	50.1

* *Consolidated financial statements*

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

TPI Polene PLC (TPIPL)

Company Rating:	A-
Issue Ratings:	
TPIPL244A: THB4,127 million senior unsecured debentures due 2024	A-
TPIPL24NA: THB3,515.3 million senior unsecured debentures due 2024	A-
TPIPL251A: THB2,888 million senior unsecured debentures due 2025	A-
TPIPL256A: THB4,000 million senior unsecured debentures due 2025	A-
TPIPL25NA: THB3,410.7 million senior unsecured debentures due 2025	A-
TPIPL264A: THB4,000 million senior unsecured debentures due 2026	A-
TPIPL269A: THB4,000 million senior unsecured debentures due 2026	A-
TPIPL26NA: THB2,532.8 million senior unsecured debentures due 2026	A-
TPIPL272A: THB2,042.2 million senior unsecured debentures due 2027	A-
TPIPL274A: THB3,215.8 million senior unsecured debentures due 2027	A-
TPIPL276A: THB3,745 million senior unsecured debentures due 2027	A-
TPIPL27NA: THB2,994 million senior unsecured debentures due 2027	A-
TPIPL283A: THB5,000 million senior unsecured debentures due 2028	A-
TPIPL286A: THB4,719.4 million senior unsecured debentures due 2028	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000