

TPI POLENE PLC

No. 18/2023
24 February 2023

CORPORATES

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

Last Review Date: 04/10/22

Rating History:

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

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RATIONALE

TRIS Rating upgrades the company rating on TPI Polene PLC (TPIPL) and the ratings on its senior unsecured debentures to “A-” from “BBB+”. The rating upgrade reflects a significant improvement in TPIPL’s operating performance and financial profile, backed by its strategic move to target high-margin chemicals and its efficient cost controls.

We also assign the rating of “A-” to TPIPL’s proposed issue of up to THB5 billion senior unsecured debentures. The company intends to use the proceeds from the new debentures to refinance its maturing debentures and to fund its capital expenditures and working capital.

The ratings continue to reflect TPIPL’s strong position 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. On the contrary, the ratings are constrained by the gradual phase-out of additional tariffs (adder) and the investment risks associated with the Special Economic Zone (SEZ) project development.

KEY RATING CONSIDERATIONS

Upbeat performance

TPIPL has delivered impressive results in recent years. The company’s total operating revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) rose significantly to THB50.4 billion and THB13.2 billion, respectively, in 2022. Its EBITDA margin (EBITDA as a percentage of revenue) increased remarkably to 25%-30% during the last three years, from 10%-20% in the previous years. The steady increase in earnings improved the company’s financial profile materially, with the debt to EBITDA ratio falling to 4.7 times in 2022, well below the historical levels of above 6 times.

The increased profitability has come mainly from TPIPL’s strategy to focus on specialty chemicals, significantly boosting the profit margins of its polymer business. In addition, the company’s continuing efforts to cut costs and improve production efficiency have enhanced the performances of the construction material business.

Earnings to stay firm

We predict TPIPL’s operating performance will remain satisfactory over the next three years. Despite the expiration of electricity tariff adders, the performance of its power business may not deteriorate as per our previous assessment. The company’s fuel-transformation programs which will ultimately substitute coal with municipal solid waste derived (MSW-derived) fuel for its existing power generating facilities (TG7 and TG8), plus benefits from other cost-saving measures, will likely offset the lost earnings from the adder expiry. We also expect TPIPL’s polymer business to continue to benefit from growing demand for specialty grade EVA products. An economic recovery in Thailand should support modest growth in the company’s construction material business.

Our base-case forecast assumes TPIPL’s total operating revenue will stay at about THB50 billion per annum during 2023-2025. The company’s EBITDA margin is expected at 24%-26% in 2023, improving to 26%-29% during 2024-2025, bolstered by benefits from its cost-saving measures including the coal

replacement program. TPIPL's EBITDA will likely range from THB12.5-THB13.5 billion per annum over the next three years.

Merits of business diversification

TPIPL's revenues are primarily derived from three businesses including construction materials (48% of total revenue in 2022), polymer (35%), and power generation (17%). In terms of cash generation, the power business made up 30%-60% of TPIPL's consolidated EBITDA during the last three years. However, the cement and polymer businesses have played a more important role in generating earnings.

The reliable cash flows from the power business help cushion the volatile nature of the construction materials and polymer businesses. The company also benefits from diversified revenue sources as the cement revenue is mainly derived from domestic demand while the polymer revenue comes primarily from export markets.

Competitive strengths in the cement market

TPIPL is the third-largest cement producer in Thailand with an annual production capacity of 13.5 million tonnes. The company's competitive strengths are mainly derived from its large business scale, vertical integration along the cement production chain, and broad range of product offerings, such as cement, concrete, fiber cement, concrete roof tiles, lightweight concrete, and mortar.

The strengths in the cement business are hampered by industry cyclicity, price competition, capital-intensive investment, and coal price fluctuations. We believe the company will be able to maintain its cost competitiveness, thanks to the integration between its cement and power plants. The company continues to invest in cement and power plant modifications, with an aim to replace coal with MSW-derived fuel. We expect the coal replacement efforts will generate annual cost savings of THB2-THB3 billion, fully realized in 2026. The company's cement production costs will likely decline materially after blending MSW-derived fuel and completing the fuel-transformation on TG7 and TG8, as well as commencing operation of its new 61-megawatt (MW) solar and 5-MW wind power plants.

We forecast a modest growth in TPIPL's cement business, with a revenue of THB21-THB22 billion per annum during 2023-2025, supported by a post-Coronavirus Disease 2019 (COVID-19) economic recovery. The company's plan to raise cement selling prices, plus its efficient cost controls, should help maintain the segment's favorable profit margins.

Leading position in EVA and LDPE

TPIPL is one of Thailand's leading EVA, Low Density Polyethylene (LDPE), and chemical adhesive producers with a production capacity of 158,000 tonnes per annum. TPIPL's polymer operations are located in the integrated petrochemical complex in Rayong Province.

The company is the only EVA producer in Thailand. TPIPL recently shifted focus towards specialty grade EVA products, such as EVA film for solar panels. These EVA products render superior margins to commodity LDPE products. EVA revenues doubled to THB10-THB13 billion per annum during 2021-2022, from about THB6 billion per annum during 2018-2020. In 2022, specialty grade EVA products made up 65% of the revenue from the polymer business, from below 40% in the past several years.

TPIPL's polymer business is exposed to price volatility. However, specialty polymer products, such as high-quality EVA and chemical adhesive products typically offer higher price premiums, lowering the effects of price fluctuations. Looking forward, we expect the polymer business to continue to perform satisfactorily, considering growing global demand for solar power. However, the product spreads and profit margins are expected to be normalized in 2023-2025, from the unusually high levels seen in 2022.

Reliable cash flows from the power business

The ratings on TPIPL are strengthened by the strong credit profile of its core subsidiary, TPI Polene Power PLC (TPIPP). TPIPP is a large 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. With continued satisfactory plant operations, the power business has delivered highly predictable cash flows to TPIPL.

We forecast revenue from the power business will be in the THB7-THB8 billion per annum range during 2023-2025, from the historical levels of THB8-THB9 billion per annum, due mainly to the expiration of tariff adders. Despite the decline in electricity sales to EGAT, the company's numerous cost-cutting measures, including the coal replacement program, should significantly lower fuel costs of electricity generation and cement production, improving TPIPL's overall earnings. In 2023, a recent rise in fuel adjustment charge (Ft) should offset the impact of previously adder expirations.

SEZ project put on hold

TPIPL has been preparing for a substantial investment in the development of the SEZ project, Thailand's Southern Seaboard project, which will include sizable gas-fired and renewable power plants, deep-sea ports, and industrial estates. However, the SEZ project is currently on hold following a cabinet resolution to conduct a Strategic Environmental Assessment (SEA) after facing strong opposition from the residents of Chana District. This leaves TPIPL with considerable risk, as the company has already spent about THB12 billion for land procurement in Chana District. The company believes the project will proceed eventually as it is a national security project and has already been approved by the cabinet.

Financial leverage to remain under control

TPIPL's investment budget will mainly be spent on plant modifications and power project construction. Capital expenditures are expected at THB6.5-THB8.5 billion per annum during 2023-2024, before declining to about THB3 billion in 2025. Based on our projection, TPIPL's debt to EBITDA ratio will be in the range of 4-5 times over the next three years. Its debt to capitalization ratio should stay in the range of 40%-50%, while the funds from operations (FFO) to debt ratio should hover around 15%-20% during the forecast periods.

Heavy reliance on debenture financing

At the end of 2022, TPIPL's consolidated debt, excluding financial lease, was THB70.9 billion. Of this, 94% was unsecured debentures. We estimate the company 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 a result, TPIPL's refinancing ability will continue to be subject to market conditions.

We believe the company will manage its liquidity sufficiently. Given the upbeat operating results, the company should be able to refinance its matured debentures with new issuances. As of December 2022, sources of funds included cash and short-term investments totaling THB11.2 billion and estimated FFO of THB9.3 billion over the next 12 months, sufficient to cover debt coming due of THB17.3 billion.

TPIPL continues to comply 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 2022, the ratio stood at 1.1 times.

BASE-CASE ASSUMPTIONS

- Total operating revenues to stay at about THB50 billion per annum during 2023-2025.
- EBITDA margin to be 24%-26% in 2023, improving to 26%-29% during 2024-2025.
- Annual capital spending to be THB6.5-THB8.5 billion during 2023-2024, before declining to about THB3 billion in 2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPIPL will continue to deliver satisfactory performance. The company's numerous cost-reduction measures, including the coal replacement program, should help lower its operating costs, offsetting lost earnings from the expiration of power plant tariff adders.

RATING SENSITIVITIES

A rating upside is unlikely in the near term. However, a rating upside could occur if the company's financial profile improves significantly. On the contrary, the ratings and/or outlook could be revised downward if TPIPL's financial profile deteriorates significantly, possibly due to weaker-than-expected performance and/or excessive debt-funded investments, such that the debt/EBITDA ratio stays above 6 times for a prolonged period. 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 in 1997, TPIPL signed a Master Restructuring Agreement (MRA) and entered a debt-restructuring program in July 2000. The company exited the rehabilitation process in 2009. The Leophairatana family is 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, plastics, and power generation. The construction material segment produces and sells clinker, cement, mortar, concrete, fiber cement, and concrete roof tiles. The plastic 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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	50,441	40,827	36,027	38,714	36,851
Earnings before interest and taxes (EBIT)	9,931	9,518	6,281	4,687	3,384
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,202	12,591	9,349	8,027	6,271
Funds from operations (FFO)	10,469	9,827	6,847	5,812	4,245
Adjusted interest expense	2,559	2,587	2,326	2,096	1,802
Capital expenditures	7,722	6,693	11,471	9,905	7,409
Total assets	144,499	135,714	123,909	114,368	110,488
Adjusted debt	62,403	60,619	55,877	51,634	45,041
Adjusted equity	62,814	57,562	52,172	51,493	50,937
Adjusted Ratios					
EBITDA margin (%)	26.17	30.84	25.95	20.73	17.02
Pretax return on permanent capital (%)	7.50	7.75	5.58	4.43	3.41
EBITDA interest coverage (times)	5.16	4.87	4.02	3.83	3.48
Debt to EBITDA (times)	4.73	4.81	5.98	6.43	7.18
FFO to debt (%)	16.78	16.21	12.25	11.26	9.42
Debt to capitalization (%)	49.84	51.29	51.71	50.07	46.93

* 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:	
TPIPL234A: THB2,640.5 million senior unsecured debentures due 2023	A-
TPIPL241A: THB4,000 million senior unsecured debentures due 2024	A-
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: THB4,000million senior unsecured debentures due 2026	A-
TPIPL26NA: THB2,532.8million senior unsecured debentures due 2026	A-
TPIPL272A: THB2,042.2million senior unsecured debentures due 2027	A-
TPIPL276A: THB3,745million senior unsecured debentures due 2027	A-
TPIPL27NA: THB2,994million senior unsecured debentures due 2027	A-
Up to THB5,000 million senior unsecured debentures due within 7 years	A-
Rating Outlook:	Stable

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