

INDORAMA VENTURES PLC

No. 207/2024
7 November 2024

CORPORATES

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

Last Review Date: 30/04/24

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 revises the rating outlook on Indorama Ventures PLC (IVL) to “negative” from “stable” and affirms the company rating at “AA-”. We also affirm the ratings on IVL’s existing senior unsecured debentures at “AA-” and the ratings on IVL’s subordinated capital debentures at “A”.

The “negative” outlook reflects the risk that IVL’s deleveraging efforts may progress slower than projected, despite planned asset sales and efficiency improvements. IVL’s ratings could be lowered if the company is unable to reduce its debt-to-EBITDA ratio to approximately 3 times by 2025.

The “AA-” ratings continue to reflect IVL’s leading position in the polyester value chain, supported by its vertical integrated production, diverse product offerings, and extensive production and customer base. The ratings also consider the management team’s expertise and access to key technologies, alongside a robust deleveraging plan. However, the ratings are constrained by the inherent volatility of the petrochemical industry and earnings pressures from recent capacity additions, particularly in China.

KEY RATING CONSIDERATIONS

Lower-than-expected performance

IVL’s operating performance was lower-than-expected. The performance in the second half of 2023 (2H23) was impacted by continued destocking, high energy and raw materials costs in Europe, and overcapacity in the polyester value chain. Its EBITDA in 2023 stood at THB38.5 billion, shorter than our forecast of THB45-THB50 billion.

IVL’s EBITDA during 1H24 recovered slightly but was below target. EBITDA in 1H24 was THB25.8 billion, achieving only 43% of our previous projection, reflecting pressure on spreads in the polyester value chain. IVL’s core EBITDA per tonne in the 1H24 improved to USD100 per tonne, up from USD82 per tonne in 2H23 but remained below our prior target in the range of USD115-USD125 per tonne. Consequently, the debt to EBITDA ratio in 2024 is now expected to hover 4.7-5.0 times before declining to around 3.0-3.2 times in 2025, higher than our previous expectations of about 4.0 and 3.0 times, respectively.

Aiming for deleveraging amid market challenges

IVL’s management aims to enhance cash flow and reduce its debt to EBITDA ratio to below 3 times by 2025. Key initiatives under its IVL 2.0 strategy include optimizing the asset portfolio, implementing a comprehensive cost-saving program, divesting non-core businesses, and raising capital through the initial public offering (IPO) of its subsidiaries.

Notable actions in 2024 include closing five high-cost facilities and reallocating production to more efficient sites, which should improve utilization rates, lower fixed costs and boost EBITDA per tonne. IVL expects an annual EBITDA uplift of around USD150 million, or around USD10-USD15 per tonne, starting in 2025. Additional measures, including overhead reductions, manpower streamlining, and centralized resource management, are expected to further support growth in EBITDA in the short to medium term. Furthermore, IVL is preparing for potential IPOs for its packaging business (Indovida) and surfactants and specialty chemicals business (Indovinya).

We view IVL's deleverage plan may face market uncertainties and some execution risks that could hinder the company to achieve the targeted outcomes in the planned timeframe. Successful planned divestitures and IPOs for Indovida and Indovinya will depend on favorable market conditions and valuations. Additionally, the market risk from overcapacity in China, along with fluctuations in polyester value chain spreads, remains the key challenge for the company to achieve its earnings target.

Asset optimization and cost-saving measures may bring down its leverage

Our base case assumes an improvement in IVL's profitability, supported by the asset optimization and several cost-cutting measures. We also anticipate gradual recovery in demand and widening spreads in the polyester value chain, as some polyethylene terephthalate (PET) production in China undergoes rationalization. Additionally, Indovinya is expected to show improvement, supported by increasing demand for surfactants and lower competition in the specialty market compared to PET and Fibers.

Our base case projects IVL's EBITDA per tonne to reach USD105 in 2024, rising to USD135–USD140 in 2025-2026. This translates to an estimated EBITDA of THB50-THB52 billion in 2024 and THB65-THB68 billion in 2025-2026. We also include expected proceeds of USD600 million in 2025 from IVL's divestment of non-core assets and fund raising in its business vertical. However, we have not included any potential IPO proceeds in our forecasts due to market uncertainties and execution risks. IVL's annual capital expenditures (CAPEX) are expected to be around THB16-THB20 billion during 2024-2026. The company does not anticipate any large debt-funded acquisitions in the next two to three years. Based on these assumptions, IVL's debt to EBITDA ratio is expected to decline to around 3 times by 2025 and 2.5-3.0 times in 2026.

Leading position in polyester value chain

IVL's credit strength is supported by its strong business profile, which stems from a strong position in the polyester value chain, extensive global operational scale, vertical integration, and broad geographic diversification. IVL is the world's largest producer of PET. The company manufactures a comprehensive range of products across the polyester value chain, from feedstock like paraxylene (PX), purified terephthalic acid (PTA), and monoethylene glycol (MEG) to end products such as PET, polyester fiber and yarn, chemical products, and packaging. IVL has further expanded its portfolio to include specialty chemicals, in surfactants and disinfectants, which will enhance overall margins.

At the end of 2023, IVL operates 145 plants across multiple countries in Asia, Europe, North America, South America, Africa, and Australia. The effective capacity was 19.3 million tonnes per annum (MTA) in 2023, with geographic distribution across the Americas (44%), Europe, the Middle East, and Africa (EMEA) (22%), and Asia (35%). Following completion of its asset optimization program, the capacity is expected to decrease to 17.2 MTA.

In our view, IVL's geographically diverse production bases help partially mitigate risks from geopolitical tensions, supply chain disruptions and increase in freight costs. Although recovery of the Combined PET (CPET) and Fibers segments in Asia and Europe remains limited due to ongoing capacity expansions in China and higher cost structure in Europe, IVL's CPET operations in the Americas are expected to benefit from low-cost shale gas and anti-dumping measures that protect its Americas business from Asian imports. However, the company remains exposed to the inherent volatility of the petrochemicals industry and earnings pressure due to excess supply in the global markets.

Adequate liquidity

IVL's adequate liquidity is supported by the successful completion of its refinancing plan in 1H24, which extends maturity and mitigates liquidity risks. The company's stringent cash management practices, demonstrated by efforts to preserve free cash flow, reduced annual CAPEX, and commitment to avoiding large debt-funded acquisitions, further strengthen its liquidity position over the coming years.

We believe IVL has sufficient sources of funds to meet its anticipated uses over the next 12 months. As of June 2024, IVL's sources of funds included THB22.1 billion in cash on hand, projected funds from operations (FFO) of approximately THB32 billion, and around THB64 billion in unused short-term credit facilities. These sources comfortably cover IVL's debt obligations, comprising THB20.4 billion in long-term loan repayment and around THB15.5 billion in maturing debentures. The capital expenditures are estimated to be below THB20 billion over the next 12 months.

Debt structure

At the end of June 2024, IVL's consolidated debt was about THB273.8 billion (including hybrid debentures). IVL's priority debt, including secured debts and subsidiaries' debts, amounted to THB86.5 billion. The ratio of its priority debt to total debt was about 31.6% at the end of June 2024.

BASE-CASE ASSUMPTIONS

- Core EBITDA per tonne to be USD105 in 2024, USD135 in 2025, and USD140 in 2026.
- Total sales volume of around 14.1 MTA in 2024 and 14.4 MTA in 2025 and 14.8 MTA in 2026
- CAPEX including investments to decline from THB23 billion in 2024 to THB16 billion in 2026

RATING OUTLOOK

The “negative” outlook reflects market risks and execution risks associated with IVL’s plan to materialize anticipated financial benefits from its IVL 2.0 strategy. Additionally, a challenging market environment with prolonged oversupply in China and volatile spreads in the PET and Fibers segment, remains the key risk factor that could hinder the company’s efforts to enhance earnings and deleverage according to the target timeline.

RATING SENSITIVITIES

The ratings could be revised downward if we assess IVL’s financial recovery as slower or weaker than projected, resulting in a debt to EBITDA ratio exceeding 3 times in 2025 and 2026. This scenario could arise from delays in achieving the anticipated improvement in EBITDA and debt reduction as planned.

Conversely, we could revise the outlook to “stable” if IVL successfully executes its planned initiatives, leading to a considerable recovery in IVL’s leverage that aligns with our projections.

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 28 August 2024, the Lohia family held a 64.7% stake in IVL. The company’s core businesses comprise the Combined PET segment (PET, PTA, PX, MEG, MTBE, specialty chemicals, packaging and recycled PET), Indovinya (integrated surfactants and specialty chemicals), and Fibers segment (Lifestyle, Hygiene, and Mobility).

IVL’s production bases are well diversified geographically. Currently, IVL has 145 plants located in 33 countries across six continents: Asia, Europe, North America, South America, Africa, and Australia. At the end of Dec 2023, the company’s effective capacity of 19.3 MTA comprised the combined PET (76%), Indovinya (11%), and Fibers (13%). The capacities are located in the Americas (44%), EMEA (22%) and Asia (35%). On completion of planned asset optimization, effective capacity will decrease to 17.2 MTA.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	285,278	544,296	660,378	470,555	333,602
Earnings before interest and taxes (EBIT)	11,235	10,756	55,358	40,337	7,406
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	25,836	38,460	81,122	61,941	27,750
Funds from operations (FFO)	16,780	17,941	62,245	48,897	18,861
Adjusted interest expense	9,056	17,281	11,741	8,080	8,810
Capital expenditures	9,309	26,230	28,561	23,198	18,129
Total assets	602,435	590,132	623,878	541,828	453,172
Adjusted debt	263,872	250,229	247,414	223,476	208,403
Adjusted equity	153,720	170,616	193,433	163,551	128,155
Adjusted Ratios					
EBITDA margin (%)	9.1	7.1	12.3	13.2	8.3
Pretax return on permanent capital (%)	3.1 **	2.4	12.8	10.6	2.3
EBITDA interest coverage (times)	2.9	2.2	6.9	7.7	3.1
Debt to EBITDA (times)	6.1 **	6.5	3.0	3.6	7.5
FFO to debt (%)	8.1 **	7.2	25.2	21.9	9.1
Debt to capitalization (%)	63.2	59.5	56.1	57.7	61.9

* 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:	
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-
IVL26DA: THB1,200 million senior unsecured debentures due 2026	AA-
IVL273A: THB1,300 million senior unsecured debentures due 2027	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-
IVL293A: THB2,800 million senior unsecured debentures due 2029	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-
IVL313A: THB1,200 million senior unsecured debentures due 2031	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-
IVL343A: THB1,100 million senior unsecured debentures due 2034	AA-
IVL355A: THB2,000 million senior unsecured debentures due 2035	AA-
IVL363A: THB2,400 million senior unsecured debentures due 2036	AA-
IVL19PA: THB15,000 million subordinated capital debentures	A
IVL24PA: THB15,000 million subordinated capital debentures	A
Rating Outlook:	Negative

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