

TPI POLENE PLC

No. 66/2017

20 June 2017

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/10/12	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of TPI Polene PLC (TPIPL) and the ratings of TPIPL's outstanding senior unsecured debentures at "BBB+". At the same time, TRIS Rating assigns a rating of "BBB+" to TPIPL's proposed issue of up to Bt4,000 million in senior unsecured debentures. TPIPL plans to use most of the proceeds from the new debentures to refinance the company's existing bonds (TPIPL177A). The remainder will be used for working capital.

The ratings reflect TPIPL's strong competitive position in the domestic cement market, leading status in the market for LDPE (low density polyethylene) and EVA (ethylene vinyl acetate), and adequate level of product diversification. The ratings also incorporate the solid cash flows from the power segment and improved financial flexibility following the recent initial public offering (IPO) of TPI Polene Power PLC (TPIPP), a core subsidiary.

The ratings are, however, partially offset by the cyclical nature of the building material and the petrochemical industries as well as TPIPL's exposure to fluctuations in coal prices. The ratings are also constrained by resource risk of refuse-derived fuel (RDF), as well as the execution risks inherent in large RDF power plants.

TPIPL was founded by the Leophairatana family in 1987. As of March 2017, the founding family owned approximately 56% of the company's shares. The company currently operates in three main segments: cement, plastics, and power generation. In all, TPIPL's operating results in 2016 remained fragile, due to flagging demand along with lingering oversupply in the cement industry. TPIPL's total revenue in 2016 was Bt30.4 billion. Revenue from the cement segment accounted for about 58% of total revenue, while the plastics and power segments comprised about 21% and 10% of total revenue, respectively.

The ratings reflect TPIPL's strong competitive position in the domestic cement market. The company is the third-largest cement producer in Thailand. TPIPL's cement production capacity is 13.5 million tonnes per annum, accounting for 23% of industry-wide capacity. TPIPL's cement production is vertically integrated, starting from clinker to cement, mortar, concrete, concrete roof tile, and fiber cement. The vertical integration offers economies of scale and a competitive cost structure. TPIPL's competitive strengths are, however, constrained by the cyclical nature of the building materials industry and exposure to fluctuations in coal prices.

The cement industry is experiencing prolonged oversupply situation. The slow progress on public infrastructure projects and weak investment in the private sector have combined to crimp sales. TPIPL's sales in the cement segment tumbled over the past two years. The sales contraction lasted into the first quarter of 2017, a lofty 19% drop year-on-year (y-o-y). The average prices of cement and concrete in the domestic market softened by 14% and 15% in the first quarter of 2017, respectively. TPIPL doubled exports of clinker as a way to increase production volume after adding new capacity. TPIPL's capacity utilization of cement production remained below 60%.

TPIPL is one of Thailand's leading LDPE and EVA producers, with a production capacity of 158,000 tonnes per annum. In 2016, TPIPL held about a 20% market share by capacity for LDPE. TPIPL is the only EVA producer in Thailand. The company mainly focuses on EVA products for export markets. TPIPL's business risks

in the plastics segment reflect the exposure to a single ethylene supplier, the volatile prices of petrochemical products, challenges from substitute products, technological changes, and global competitive threats.

The ratings also incorporate the solid cash flows from TPIPL's power segment stemming from power purchase agreements (PPA) with Electricity Generating Authority of Thailand (EGAT) and tariff adder rate. The power segment is now the centerpiece of the company and the engine needed to revamp its financial performance. TPIPP, a 70.24% owned subsidiary, operates waste-to-energy (WTE) power plants with the largest installed capacity in Thailand. The power plants are primarily fueled by RDF and waste heat recovered from the cement factories. TPIPP will operate eight power plants with total installed capacity of 440 megawatts (MW). Of the eight, five plants are now in operation (150 MW) and three plants are under construction (290 MW). The company also operates 3,000 tons per day RDF production facilities to support the RDF-fired power plants.

Of the five operational power plants, two plants (a 20-MW and a 60-MW RDF-fired power plant) have commenced commercial operation since 2015. The plants produce and sell 73 MW to EGAT under the PPAs with the adder of Bt3.5 per unit over 7 years. The operations of the two power plants have improved continuously, as judged from increases in the power output and the utilization rate. The total power output sold to EGAT was 479 million kilowatt-hour (kWh) in 2016, surging from 180 million kWh in 2015. In the first quarter of 2017, the company sold 141 million kWh to EGAT, a 16.7% y-o-y increase.

The remaining three power plants under construction include a 70-MW RDF-fired power plant, a 150-MW coal-fired power plant, and a 70-MW combined coal- and RDF-fired power plant. The two plants, except a 70-MW combined coal- and RDF-fired power plant, are pending for the approval of the Environmental Impact Assessment (EIA). If the EIA is approved, the plants are expected to commence commercial operation in the fourth quarter of 2017. After the 70-MW RDF power plant starts up, this power plant will combine its capacity with an existing 30-MW waste heat recovery power plant, and thus sell 90 MW to EGAT under PPA with a tariff adder of Bt3.5 per kWh over 7 years.

TRIS Rating holds the view that a successful expansion of the power segment will materially strengthen TPIPL's credit profile. The solid cash flow contribution is expected to offset the weak performance of the cement segment. Adding to that, TPIPL is likely to obtain cost-saving benefits from the new 150-MW coal power plants and the new 70-MW combined coal- and RDF-fired power plants. These two power plants will generate power for internal usage. TPIPL can procure less electricity from the Provincial Electricity Authority (PEA) and then reduce costs. However, TPIPL's power segment necessarily requires a adequate record of operations to ensure its stability of operation and actual cost-saving benefits from the new power plants.

The ratings also take into consideration the significant amount of cash raised from the initial public offering (IPO) of TPIPP. The cash boost improved TPIPL's financial flexibility. The hefty proceeds of approximately Bt17.1 billion from the IPO will be used to repay debts of the power segment and for capital expenditures.

Going forward, TRIS Rating expects that the company's cement segment will stay weak during 2017-2018 due to weak industry prospects and the uncertainty in the public and private investments. Sales industry-wide are expected to grow at a low single-digit rate. However, TPIPL's overall performance is expected to improve considerably after all power plants start their operations. Under TRIS Rating's base case forecasts, total installed capacity to sell to EGAT will increase from 80 MW to 180 MW in 2018 onwards. The revenue will grow from Bt30 billion in 2016 to Bt37 billion in 2019. TPIPL's leverage is expected to recover since the company raised Bt17.1 billion from TPIPP's IPO in March 2017. However, the post-IPO rise in equity is offset by a reduction in equity due to a change in an accounting method. The change resulted in reduction in the revaluation surplus and then decreased TPIPL's equity by approximately Bt18.3 billion.

TPIPL's capital expenditures are expected to total Bt7.5-Bt8 billion in 2017 and Bt2 billion in 2018 for the construction of the new power plants and efficiency improvements. The expenditures will be financed with the proceeds from the IPO and internal cash flow. TRIS Rating anticipates that TPIPL's debt to capitalization ratio will start to fall in 2017 and stay below 40% from 2018 onwards. The ratio of funds from operations (FFO) to total debt is expected to exceed 10% in 2018.

TRIS Rating notes that bonds comprise a large portion of TPIPL's outstanding debts. As of March 2017, TPIPL's bonds were valued at Bt32 billion or 71.3% of the total debt. The reliance on bonds heightens the company's exposure to refinancing risk and liquidity risk from bond bullet payments. The scheduled bond repayments will be Bt5-Bt5.75 billion per annum during 2018-2021.

Rating Outlook

The "stable" outlook reflects the expectation that TPIPL's competitive positions in the cement and plastics segments will remain steady. The operations of its power plants will be more stable, enhancing overall profitability and cash flow. TRIS Rating expects TPIPL to diversify its sources of borrowing and improve its relationships with financial institutions over time.

TPIPL's ratings or outlook could be revised upward if TPIPL's cement segment recovers and/or the power projects run as smoothly as planned. If so, the cash flow base will be larger and more stable. A rating upgrade could also occur if TPIPL keeps the debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratio below 6 times for a sustained period.

The ratings and/or outlook could be revised downward if unfavorable circumstances arise, especially if prolonged delays or lower-than-expected performance at the power plants, or large equity losses from pending legal claims.

TPI Polene PLC (TPIPL)

Company Rating: BBB+

Issue Ratings:

TPIPL177A: Bt3,000 million senior unsecured debentures due 2017	BBB+
TPIPL187A: Bt2,000 million senior unsecured debentures due 2018	BBB+
TPIPL188A: Bt3,000 million senior unsecured debentures due 2018	BBB+
TPIPL191A: Bt3,000 million senior unsecured debentures due 2019	BBB+
TPIPL198A: Bt2,750 million senior unsecured debentures due 2019	BBB+
TPIPL201A: Bt3,000 million senior unsecured debentures due 2020	BBB+
TPIPL208A: Bt2,205 million senior unsecured debentures due 2020	BBB+
TPIPL214A: Bt1,600 million senior unsecured debentures due 2021	BBB+
TPIPL218A: Bt3,600 million senior unsecured debentures due 2021	BBB+
TPIPL224A: Bt1,200 million senior unsecured debentures due 2022	BBB+
TPIPL228A: Bt4,000 million senior unsecured debentures due 2022	BBB+
TPIPL234A: Bt2,645 million senior unsecured debentures due 2023	BBB+
Up to Bt4,000 million senior unsecured debentures due within 2020	BBB+

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2017	2016	2015	2014	2013
Revenues	8,100	30,393	28,381	29,728	28,314
Gross interest expense	472	1,750	1,658	1,021	386
Net income from operations	(67)	(1,244)	(1,364)	402	774
Funds from operations (FFO)	539	2,161	1,540	2,428	2,707
Capital expenditures	2,477	8,059	7,692	18,534	6,816
Total assets	108,773	115,534	107,465	99,931	82,412
Total debts	44,851	46,609	37,681	27,600	10,225
Total liabilities	54,734	60,460	51,679	42,146	24,699
Shareholders' equity	54,039	55,074	55,966	57,785	57,713
Depreciation & amortization	642	3,773	4,101	1,977	1,865
Dividends	0	399	399	300	200
Operating income before depreciation and amortization as % of sales	10.0	10.5	8.9	8.9	9.7
Pretax return on permanent capital (%)	(0.1)**	(0.2)	(0.9)	1.6	1.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.0	2.1	2.0	3.1	7.9
FFO/total debt (%)	4.3 **	4.6	4.1	8.8	26.5
Total debt/capitalization (%)	45.4	45.8	40.2	32.3	15.1

* Consolidated financial statements

** Annualized with trailing 12 months

Note: Figures reported in 2015-2016 include depreciation from revaluation surplus

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