TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

TPI POLENE PLC

No. 33/2018
29 March 2018

CORPORATES

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

Company Rating History:

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

Contacts:

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

WWW.TRISRATING.COM

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 newly proposed issue of up to Bt8 billion in senior unsecured debentures. TPIPL plans to use Bt5 billion of the proceeds to refinance the company's existing bonds. The remainder will be used for working capital.

The ratings reflect TPIPL's strong competitive position in the domestic cement market and the rising benefits from diversifying into the power business. The ratings also incorporate the potential for significant improvement in its financial profile since key power plants will start commercial operations in the second quarter of 2018. However, the ratings are partly offset by industry cyclicality, slower-than-expected recovery of the cement industry in Thailand, as well as the execution risks inherent in large refuse-derived fuel (RDF) power plants.

KEY RATING CONSIDERATIONS

Strong market position in the cement business

TPIPL is the third-largest cement producer in Thailand with a long-standing brand. The company's cement production capacity of 13.5 million tonnes per annum accounts for 23% of industry-wide capacity. However, the rating strength is hindered by industry cyclicality, sensitivity to coal price, and intense competition from its commodity products.

TPIPL's operating performance in 2017 fell short of TRIS Rating's expectation as TPIPL's cement segment continued to weaken and weighed the group's performance down financially. The weakened cement segment is primarily due to demand contraction and the rising cost of coal in the second half of 2017. Despite our positive view of the construction activity in the future due to looming government's infrastructure projects, a resurgence in TPIPL's cement segment remains challenging as the market still has a large amount of excess supply.

Rising benefits from business diversification

TRIS Rating is of the opinion that increasing revenue contribution from the power business will significantly enhance TPIPL's business profile. The steady cash flows stemming from the power segment largely help mitigate volatility of the cement and plastics segments. TRIS Rating expects a larger revenue contribution from the power segment in the next few years in the wake of on-hand production capacity and the company's focus on growth in the power business.

Expected recovery in performance

Despite weaker-than-expected performance, the rating affirmation reflects our expectation that the company's operating performance will recover as the 70-megawatt (MW) RDF fired power plant (TG6) will start commercial operation by the second quarter of 2018. This power plant will integrate with the existing 30-MW waste heat fired power plant (TG4) to produce and sell power to the Electricity Generating Authority of Thailand (EGAT). After commissioning, TPIPL's contracted capacity with EGAT will increase from 73 MW to 163 MW, implying that cash flow from the power segment should double at least when the power plants reach smooth operations. The power purchase agreements (PPA) with EGAT yield high profit margin, supported by adder rate of Bt3.5 per unit on top of the base tariff of approximately Bt2.94 per unit for 7 years. In addition, the company is expected to earn some cost savings in cement production after two power plants, the 70-MW coal-and-RDF fired power plant (TG7) and the 150-MW coal-fired power plant (TG8), start producing electricity for its own usage.

On the downside, TPIPL is exposed to execution risks of larger RDF fired power plants, including a shortage of feedstock and relatively higher operational risks than conventional coal or gas-fired power plants. However, TPIPL's satisfactory track record of operation in its current RDF fired power plants somewhat alleviates concerns.

In recognition of this, TRIS Rating expects TPIPL's earnings before interest, tax, depreciation, and amortization (EBITDA) will increase significantly to at least Bt6-7 billion per annum and the operating margin (operating income before depreciation and amortization as a percentage of sales) will rise to 15%-17% from 2019 onwards.

Expected improvement in financial leverage

After the three remaining power projects have been completed, TRIS Rating expects TPIPL to utilize new cash flows to repay its high debt burden in order to lower leverage and strengthen liquidity to a level commensurate with "BBB+" rating. The company's capital expenditures will remain elevated at around Bt6 billion in 2018 but should decrease considerably to about Bt1-Bt2 billion in 2019-2020. TRIS Rating expects the funds from operations (FFO) to total debt ratio should improve to above 10%.

The company is forging ahead with plans to expand its power business, seeking opportunities in Thailand and neighboring countries. If the company invests in new projects with excessive debt financing that substantially deteriorate the financial profile, the investments could cause negative rating actions.

Inadequate liquidity and limited sources of borrowing

TPIPL's portion of bond continues to increase every year, currently accounting for 80% of TPIPL's outstanding debts. The company concentrates on bond issuances as its funding costs is lower than those from financial institutions. However, in our view, the concentration on bonds indicates a lack of diversifying sources of borrowing. The company has to rely on its ability to refinance as well as good debt market conditions in order to grapple with bond bullet payments.

TRIS Rating expects TPIPL still needs to refinance its bonds coming due over the next 2-3 years. During 2018-2020, the company's bond repayments will be Bt5-Bt7.5 billion per year, which outpace our forecast cash flows. However, refinancing risk should be low, considering better operating performance prospects and the company's track record of accessibility to the debt market.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TPIPL's competitive positions in the cement and plastics segments will maintain, whilst the operations of its power plants, including the new power plants, will improve continually. TRIS Rating also expects the company will reduce its outstanding debt and enlarge its cash flow in order to improve its financial profile.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if TPIPL's cement segment recovers and/or the power plants generate sizable cash flow and cost savings as planned. The financial deleverage will increase the possibility of a rating upside. A rating upgrade could also occur if TPIPL keeps the debt to EBITDA ratio below 6 times for a sustained period.

The ratings and/or outlook could be revised downward if TPIPL's financial profile deteriorates more than expected. This could happen from a prolonged depressed cement segment, weaker-than-expected performance of the much-anticipated power plants, and excessive debt-financing investments. The large equity loss from pending legal claims is another key factor that can also trigger a negative rating action.

COMPANY OVERVIEW

TPIPL mainly operates in three industries: cement, plastics, and power generation. The cement segment produces and sells clinker, cement, mortar, concrete, fiber cement, and concrete roof tiles. The plastics segment manufactures and sells LDPE (Low-Density Polyethylene) and EVA (Ethylene Vinyl Acetate) products. The power segment generates electricity using mainly RDF and waste heat recovery and sells the power to EGAT and also supplies in the group.

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. As part of the debt restructuring, the company raised capital twice: Bt11 billion in 2004 and Bt12 billion in 2006. The company exited the rehabilitation process in 2009.

As of March 2018, the Leophairatana family owned approximately 58% of the company. The family members have served as the company's board members and management team since the firm was founded. Total revenue in 2017 was Bt30.3 billion. Revenue from the cement segment accounted for about 52% of the total revenue, while the plastics and power segments represented about 22% and 12% of total revenue, respectively. The revenue contribution from the power segment has increased continually since 2015. The power segment is operated under TPI Polene Power PCL (TPIPP), listed on the Stock Exchange of Thailand (SET) in April 2017. TPIPL reported a net loss of Bt1.26 billion in 2017, compared with a net profit of Bt515 million a year earlier. Much of that weakened performance came from a hefty decline in the gross margin of the cement segment. The slack demand and supply glut in cement have combined to push prices in a downward spiral.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----------------------- Year Ended 31 December -------------------				
	2017	**2016**	**2015**	**2014**	**2013**
Revenues	30,343	30,393	28,381	29,728	28,314
Gross interest expense	1,730	1,750	1,658	1,021	386
Net income from operations	(1,422)	(208)	(1,364)	402	774
Funds from operations (FFO)	1,543	2,161	1,540	2,428	2,707
Capital expenditures	7,524	8,059	7,692	18,534	6,816
Total assets	103,178	92,618	107,465	99,931	82,412
Total debts	40,972	46,609	37,681	27,600	10,225
Total liabilities	51,092	55,864	51,679	42,146	24,699
Shareholders' equity	52,086	36,755	55,966	57,785	57,713
Depreciation & amortization	2,621	2,478	4,101	1,977	1,865
Dividends	1,049	399	399	300	200
Operating income before depreciation and amortization as % of sales	8.8	10.5	8.9	8.9	9.7
Pretax return on permanent capital (%)	0.6	1.29	(0.9)	1.6	1.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.8	2.1	2.0	3.1	7.9
FFO/total debt (%)	3.8	4.6	40.1	8.8	26.5
Total debt/capitalization (%)	44.0	55.9	40.2	32.3	15.1

* *Consolidated financial statements*

TPI Polene PLC (TPIPL)

Company Rating:	BBB+
Issue Ratings:	
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+
TPIPL197A: Bt2,000 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+
TPIPL207A: Bt2,000 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 Bt8,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000