TRIS RATING

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TPI POLENE PLC

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CORPORATES

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

Last Review Date: 17/09/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the issue ratings on TPIPL's outstanding senior unsecured debentures at "BBB+". TRIS Rating also revises the outlook to "positive" from "stable". The revision reflects a potential improvement in TPIPL's financial profile once all its power plants achieve full operations. At the same time, TRIS Rating assigns a rating of "BBB+" to TPIPL's newly proposed issue of up to Bt5 billion in senior unsecured debentures. The proceeds will be used to refinance outstanding bonds.

The ratings continue to reflect TPIPL's strong market position in the Thai cement market, diversified sources of revenue and material cash flows from the power generating segment. However, these strengths are offset by industry cyclicality of the cement and plastics as well as the operational risks inherent in refuse-derived fuel (RDF) power plants. The ratings are also constrained by TPIPL's concentrated source of borrowings.

KEY RATING CONSIDERATIONS

Strong market position in the cement market

TPIPL is the third-largest cement producer in Thailand. The company's cement production capacity is 13.5 million tonnes per annum, representing 23% of industry-wide capacity. The company's competitive strengths include large economic scale, vertical integration along the cement production chain, and a broad range of product line. However, there are several risks in the cement business, including industry cyclicality, intense competition from commodity products, and susceptibility to fluctuation of coal price.

Diversified sources of revenue

TPIPL's credit profile incorporates diversified sources of revenue from three core businesses: cement, plastic, and power generation. In 2018, revenue from the cement segment constituted 51% of total revenue, while the plastics and power segment made up about 19% and 17%, respectively.

In terms of cash flow, the power segment generates the most cash inflow, delivering around 70% of total earnings before interest, tax, depreciation, and amortization (EBITDA). The business diversification stabilizes TPIPL's overall cash flow profile as the steady cash flows from the power segment help offset impacts from volatility in the cement and plastic segments.

Power segments strengthens the business profile

TPIPL's business profile is strengthened by its power segment. TRIS Rating views that the power segment has the strongest credit profile among three key businesses as the power purchase agreements (PPA) with Electricity Generating Authority of Thailand (EGAT) mitigate demand risk and provide high profitability from adder rate. As a result, TPIPL's electricity sales to EGAT are secured for long terms, and thus lifting TPIPL's cash flow base and enhancing its debt serviceability.

The ratings also incorporate TPIPL's strong position in the waste-to-energy (WTE) power market. TPIPL's power segment is operated by TPI Polene Power PLC (TPIPP), a 70.24%-owned subsidiary. TPIPP is the largest WTE power producer in Thailand. TPIPP owns and operates seven power plants with total installed capacity of 440 megawatts (MW). Of the total, four power plants (180 MW) carry three PPAs to sell its capacity of 163 MW to EGAT. The PPAs render an adder rate of Bt3.50 per kilowatt-hour (kWh), boosting a profitability to a high level. However, these four plants are fueled by RDF and waste heat recovery from the cement plants, exposing to high operational risks from unsteady supply of waste heat and variation in the quality of RDF. The remaining capacity of 260 MW is used internally for cement production plants.

Recovering performance

TPIPL's performance in 2018 is on the mend. The cement market is recovering and its power segment is selling more electricity to EGAT. The profit margin on cement widened as the cement price rebounded in 2018 after a prolonged downturn during 2015-2017. TPIPL's revenue grew noticeably to Bt36.8 billion in 2018, up by about 20% from Bt30.7 billion in 2017. EBITDA climbed to Bt5.9 billion from Bt3.3 billion, over the same period. Profitability and debt serviceability improved. The operating margin (operating income before depreciation and amortization as a percentage of total operating revenues) soared to 15.8% in 2018 from 10.5% in 2017. The net debt to EBITDA ratio dropped to 7.6 times in 2018, down from over 10 times over the past two stressful years.

On the downside, TPIPL's financial leverage increased as a result of ongoing investments. TPIPL's net debt to capitalization ratio rose to 46.9% in 2018 from 41.7% in 2017.

Expected further improvements in financial profile

The positive outlook embeds TRIS Rating's expectation that TPIPL's financial performance will improve further over the next one to two years. Its core cement business is expected to recover, led by a positive outlook for the construction industry. We expect TPIPL's cement production costs to fall as two power plants, including a 70-MW coal-and-RDF fired power plant and a 150-MW coal-fired power plant, will start producing electricity for using in the cement production. Meanwhile, the power output sold to EGAT will rise further as a 70-MW RDF power plant will operate for a full year in 2019. Moreover, other RDF-fired power plants are expected to run more efficiently after several plant refinements.

TPIPL's capital expenditures would remain high in 2019. Planned capital expenditures amounted to approximately Bt7.2 billion in 2019 and about Bt1.7 billion in 2020. The expenditures primarily cover (1) remaining payment obligations for the 150-MW coal-fired power plants, (2) installation of three new boilers to increase efficiency of power plants, and (3) procurement of land for an industrial estate development project.

TPIPL's power segment is bidding for two WTE power plants commissioned by the Bangkok Metropolitan Administration. The two power plants, with a capacity of 20 MW each, will be built on the On Nut and Nong Khaem landfills. Each project will cost Bt3.5-Bt4.0 billion.

In our base case for 2019-2021, we assume that TPIPL's power segment wins the two biddings of WTE power projects. We expect TPIPL's financial profile will continue to improve in the years ahead, albeit at a slower pace than our previous forecast. TPIPL's net debt to capitalization ratio would rise to 50%. However, TPIPL's net debt to EBITDA ratio will steadily decline towards 6.0 times over the next three years. The downside risk would stem from a slower-than-expected recovery of the cement business and further debt loading from new investments in power projects.

Concentrated source of borrowings

The ratings are constrained by TPIPL's heavy reliance on bond financing which suggests a lack of diversifying sources of borrowings. The reliance on bonds has increased continuously over the past several years. Bonds accounted for 80% of its total outstanding debts as of December 2018.

Additionally, TPIPL will face a refinancing risk due to large bullet payments of bonds in 2021. The bond repayments will range about Bt7.2-Bt7.7 billion per annum during 2019-2020 and then surge to Bt17.2 billion in 2021. To meet sizable debt repayment due in 2021, the company will have to depend on its ability to refinance the bond coming due and rely on conducive debt market conditions. Despite its good track record of accessing the capital market, refinancing these large amounts of bonds poses a significant risk.

BASE-CASE ASSUMPTIONS

- Revenues from the cement segment will grow by 3.5%-5.0% during 2019-2021.
- Revenues from the plastic segment will flat.
- Revenues from the power segment will increase by 17% in 2019, and 3%-5% in 2020-2021.
- Overall operating margin will edge up to 19%-20%.
- Capital expenditures (including two bidding WTE projects) will be Bt11.2 billion in 2019, Bt5.7 billion in 2020, and Bt1.3 billion in 2021.

RATING OUTLOOK

The "positive" outlook reflects TRIS Rating's expectation that TPIPL's financial profile will improve further, with a potential recovery of cement segment and larger portion of predictable cash flows from the power segment. TRIS Rating expects that TPIPL's competitive positions in the cement and plastic segments will maintain, whilst its power segment will continue to exhibit satisfactory performance and remain the largest cash flow contributor. Given the enhanced cash flow, the debt to EBITDA ratio will keep falling.

RATING SENSITIVITIES

The ratings could be upgraded if TPIPL's cement segment recovers and the power plants generate sizable cash flow while there are cost savings as planned. A rating upgrade could occur if the net debt to EBITDA ratio falls below 6 times for a sustained period and TPIPL diversifies its sources of borrowings. Positive factors on the ratings could also develop from financial deleverage or forecast-beating performance.

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

COMPANY OVERVIEW

TPIPL operates in three industries: cement, plastic, and power generation. The cement segment produces and sells clinker, cement, mortar, concrete, fiber cement, and concrete roof tiles. The plastic 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 December 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	--------------------Year Ended 31 December --------------------				
	2018	2017	2016	2015	2014
Total operating revenues	36,851	30,726	30,735	29,064	30,215
Operating income	5,811	3,219	3,677	1,376	3,239
Earnings before interest and taxes (EBIT)	3,002	567	1,156	(808)	1,248
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,889	3,318	3,706	1,436	3,257
Funds from operations (FFO)	3,927	1,884	2,336	864	2,407
Adjusted interest expense	1,744	1,675	1,673	1,035	477
Capital expenditures	7,409	7,536	6,259	5,819	16,201
Total assets	110,488	103,178	92,618	107,645	99,931
Adjusted debt	45,041	37,243	45,124	37,227	28,262
Adjusted equity	50,937	52,086	36,755	55,966	57,785
Adjusted Ratios					
Operating income as % of total operating revenues (%)	15.8	10.5	12.0	4.7	10.7
Pretax return on permanent capital (%)	3.0	0.6	1.3	(0.9)	1.6
EBITDA interest coverage (times)	3.4	2.0	2.2	1.4	6.8
Debt to EBITDA (times)	7.6	11.2	12.2	25.9	8.7
FFO to debt (%)	8.7	5.1	5.2	2.3	8.5
Debt to capitalization (%)	46.9	41.7	55.1	39.9	32.8

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

TPI Polene PLC (TPIPL)

Company Rating:	BBB+
Issue Ratings:	
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+
TPIPL214B: Bt8,000 million senior unsecured debentures due 2021	BBB+
TPIPL218A: Bt3,600 million senior unsecured debentures due 2021	BBB+
TPIPL221A: Bt3,530 million senior unsecured debentures due 2022	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 Bt5,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Positive

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