TPI POLENE PLC

No. 33/2022
18 March 2022

CORPORATES

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

Last Review Date: 26/08/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the ratings on its outstanding senior unsecured debentures at “BBB+”, with a “stable” outlook. The ratings recognize TPIPL’s strong market position in the domestic cement market, a leading position in the low-density polyethylene (LDPE) and ethylene vinyl acetate (EVA) market, and reliable cash flows from its power business. The ratings also take into consideration the merits of the company’s business diversification from these three core businesses and potential benefits from commitments to net zero carbon emission.

However, the ratings also factor the cyclicality of the cement and plastics industries and impacts from the phase-out of additional tariffs (adder) received by its power business. The ratings also take into account of higher financial leverage to support investments in new projects as well as investment risks associated with the Special Economic Zone (SEZ) development project.

KEY RATING CONSIDERATIONS

Third largest cement producer in Thailand

TPIPL remains the third-largest cement producer in Thailand with an annual production capacity of 13.5 million tonnes, representing about 23% of industry-wide capacity. 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 tile, lightweight concrete, and mortar.

However, these strengths in the cement business are hampered by industry cyclicality, price competition, capital-intensive investment, and fluctuation of coal prices. With the currently high price of coal, the company plans to replace coal with Refuse-Derived Fuel (RDF) by 40%. The key management expects the replacement to help increase earnings before interest, tax, depreciation, and amortization (EBITDA) by THB1-2 billion in 2022.

Leading position in LDPE and EVA

TPIPL is one of Thailand’s leading LDPE, EVA and chemical adhesive producers with a production capacity of 158,000 tonnes per annum. TPIPL’s operations form part of the integrated petrochemical complex in Rayong province. TPIPL holds a domestic market share by capacity of about 15% for LDPE. For EVA, TPIPL is the only producer in Thailand.

TPIPL has focused more on specialty grade EVA products which render higher margins, while strategically paring down low-margin commodity LDPE production. In effect, EVA revenue in the plastics segment has continuously increased, accounting for over 90% of the total. In addition, the company is a major producer of chemical products in Thailand, such as glue, ammonium nitrate, and nitric acid. TPIPL’s business risk in the plastics segment is mainly driven by its exposure to price volatility in petrochemical products and a few global competitors. However, we view the price fluctuation has less effects on specialty plastic products, such as high-quality EVA and chemical adhesive products.

Reliable cash flow 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 waste-to-energy (WTE) power producer in Thailand. TPIPP owns and operates eight power plants with a total installed capacity of 440 megawatts (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” by TRIS Rating). The PPAs with EGAT largely mitigate demand risk and grant a favorable adder of THB3.50 per kilowatt-hour (kWh) for seven years.

Merits of business diversification

TPIPL’s revenues are primarily derived from three businesses, including construction materials (37% of total revenue in 2021), plastics (29%), and power generation (22%). However, in terms of cash generation, the power business contributed from 40%-70% of TPIPL’s consolidated EBITDA during 2019-2021.

TPIPL’s overall earnings and cash flow have become more stable since all the power plants became fully operational. In our view, the steady cash flow from the power business can adequately offset the volatile nature of the cement and plastics businesses. The company also benefits from diversified revenue sources as the cement revenue is mainly derived from domestic demand while the plastics revenue comes primarily from export markets.

Strong performance in 2021

TPIPL’s earnings rose to a fresh record in 2021, largely driven by strong performance in the plastics business. The high profitability of the plastics business can be attributed to the widened spread between the EVA/chemical adhesive products and raw material prices, as well as rising demand for the company’s high-grade EVA which is used in the solar panel manufacturing industry to conform to the growing renewable energy trend. In the power segment, all RDF-fired power plants continued to perform well and generate solid cash flows. Thanks to full benefits from the installation of additional boilers, the power plants were able to achieve higher output. Since the cement plant has been modernized in the past 2 years, so it can use RDF in replacement of coal by 40%, which helps reduce cost of clinker.

In 2021, TPIPL’s EBITDA reached THB12.6 billion, a 35% surge from THB9.3 billion in 2020. The EBITDA margin shot up to a record 30.8%, compared to a five-year average of 17.4%. The net debt to EBITDA ratio also improved in 2021 to 4.8 times, down from 6.0 times in 2020.

Impact from adder expirations

We expect TPIPL’s future earnings will decline by the imminent adder expirations, which are due to take effect during 2022-2025. TPIPL’s revenue and profitability are expected to start declining from 2022 onward upon the expiration of two PPAs totaling 73 MW. However, the earning drops from expired adders in 2022 are expected to be partly offset from a recovery of cement businesses, cost saving from coal replacement program, higher fuel adjustment charge (Ft). Earnings will likely fall further in 2025 when the adder of the largest 90-MW PPA ends.

We view that TPIPL’s earnings sustainability largely hinges on the number of new PPAs the company can secure from now on. The company has managed to acquire two small PPAs, including an 8-MW WTE power plant in Songkhla and another 9.9-MW plant in Nakorn Ratchasima province. The company is preparing to participate in bidding for WTE PPAs nationwide.

Expected EBITDA of THB8.5-THB10.5 billion during 2022-2024

In our base-case forecast, we project TPIPL’s EBITDA to decline during 2022-2023 before recovering in 2024. We assume two new WTE power plants in Songkhla and Nakorn Ratchasima province will begin generating cash flows in early 2024. We assume TPIPL will be able to secure more WTE PPAs, with the majority of the power plants starting operations in 2024-2025. For the plastics business, we also expect TPIPL’s healthy margin to decline in 2022-2024 based on the assumption that global commodity prices will normalize over the next one to two years. As for the construction material business, we expect demand will gradually recover, supported by a revival of construction activities and lower coal prices in the longer term.

We project TPIPL will record EBITDA of THB10.5 billion in 2022, falling to THB8.5-THB9.0 billion per year in 2023-2024. TPIPL’s profitability is likely to weaken with the EBITDA margin in the range of 23%-25% in 2023 and 2024. Given the imminent pressure on its profitability, TPIPL is carrying out several measures to improve its earnings. These include expanding production capacity of EVA, ongoing efficiency improvements of existing power plants, coal-replacement programs in the cement production and the power plants, and proposing for a new PPA for its 70-MW coal/RDF power plant. An upside of EBITDA could occur from higher-than-expected plastic prices and successful implementation of TPIPL’s cost saving projects.

If all implemented projects are successful, the company’s management expects to achieve THB13-THB14 billion of EBITDA in 2022. The company expects the net debt to EBITDA ratio to be around 5 times during 2022-2024.

Potential benefit from commitments to lower carbon emissions

TPIPL has staged a strong commitment to reducing carbon emissions and conducting business in accordance with the Environment, Social and Corporate Governance (ESG) principles. In response to the global decarbonization trend, TPIPL has started coal-replacement programs, aimed at replacing coal with RDF in cement production and in its coal-fired power plant.

In our view, fuel replacement to RDF will reduce exposure to coal-price risk and alleviate cost pressure from recently sharp rises in coal prices. Despite its lower heat quality, RDF has steady costs and lower correlations to global commodity fuels.

In all, TPIPL will spend about THB3.97 billion for the coal-replacement program during 2022-2024. In the near term, the company expects the program to bring cost-saving benefits of approximately THB800 million in 2022 from the existing power plants. In the longer term, TPIPL expects its fuel-shift effort will enhance profits in the form of carbon credit income. The company has participated in Thailand Voluntary Emission Reduction Programs (T-Ver), operated under the Thailand Greenhouse Gas Management Organization (TGO), a local carbon credit verifier. TPIPL is now seeking an international verifier to support a plan to trade carbon credits on the international market.

Heightening financial leverage

We believe TPIPL's capital expenditure will continue to be substantial over the next three years. The main investments will include THB3.05 billion for the construction of two WTE power plants in Songkhla and Nakorn Ratchasima, an RDF capacity expansion of THB1.2 billion, coal-replacement programs of THB3.97 billion and a potential investment for new WTE projects.

We expect TPIPL's financial profile to gradually weaken as we expect the net debt to EBITDA ratio to increase to 7-8 times in 2024, from 4.8 times in 2021. We expect the debt to capitalization ratio to stay in the 50%-55% range during 2022-2024. Funds from operations (FFO) are expected to be THB7.5 billion in 2022 before declining to THB5.6-THB5.8 billion a year in 2023-2024. We expect the FFO to net debt ratio to drop to 13% in 2022, from 16% in 2021, and to stay low at around 9% in 2023-2024.

SEZ project 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 after the cabinet resolved 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 THB11 billion for land procurement in Chana district. We see heightening uncertainty that the SEZ project will materialize. The project has been postponed temporarily and is subject to the government's final decision. However, the company believes the project must be continued as it is the national security project and it has already been approved by the cabinet.

Heavy reliance on debenture financing

At the end of 2021, TPIPL's consolidated debt, excluding financial lease, was THB67.7 billion, almost all of which was unsecured debentures. Due to the management's preference and the favorable bond market over the past several years, TPIPL has continued to rely on debenture issuance as its main source of financing. The company's debenture financing has continued to account for around 80% of its total outstanding debt. Given its high reliance on debenture issuance, we view the company's refinancing ability to be increasingly subject to market conditions.

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 2021, the ratio stood at 1.18 times.

BASE-CASE ASSUMPTIONS

- Total operating revenues to slide to THB38.5 billion in 2022 and THB36.5 billion in 2023 before rebounding to THB38.0 billion in 2024.
- EBITDA margin to decrease to 27% in 2022 and remain in the 23%-25% range during 2023-2024.
- Total capital spending of about THB5-THB9 billion per annum over the forecast period of 2022-2024.
- Dividend payout ratio of 50% each year.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPIPL's competitive positions in the cement and plastics businesses will be maintained. At the same time, its power business will continue to deliver satisfactory performance and maintain its cash-flow contribution. We also expect the company will successfully secure new power projects to partially counterbalance the drop-off in cash flow after adder expirations. Also, its operating performance and financial leverage will remain in the forecast range.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited in the near term due to the likelihood of declining cash flows and the continuation of heavy capital spending over the next three years. Nonetheless, a rating upgrade could occur if TPIPL is able to achieve the targets of its efficiency enhancement measures and/or successfully secure adequate power purchase agreements to compensate for the impact of adder expirations. Other factors influencing an upgrade are financial deleveraging to the effect that the company's debt to EBITDA ratio falls below 6 times for a sustained period, and TPIPL's diversification of its sources of borrowings.

The ratings and/or outlook could be revised downward if TPIPL's net debt to EBITDA ratio stays above 8 times for a sustained period. This could happen following a plunge in earnings and/or excessive debt-funded investments. A significant equity loss from pending legal claims could also trigger a negative rating action.

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 67% 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 RDF 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.

TPIPL, through TPIPP, has engaged in the development of the SEZ, a mega industrial project initiated by the government to develop the economy in the southern part of Thailand. The project, which covers approximately 17,000 rai of land in Chana district, Songkhla province, will comprise deep-sea ports, industrial estates, and large power plants. TPIPL aims to tender for the development of the SEZ project with an eye on large gas-fired power plants. In preparation for the tender, TPIPL has acquired land in the surrounding areas. However, the project is currently suspended, and waiting for the result of the SEA.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	------------------------Year Ended 31 December				--------------------
	2021	2020	2019	2018	2017
Total operating revenues	40,827	36,027	38,714	36,851	30,726
Earnings before interest and taxes (EBIT)	9,518	6,281	4,687	3,384	729
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	12,591	9,349	8,027	6,271	3,481
Funds from operations (FFO)	9,827	6,847	5,812	4,245	1,650
Adjusted interest expense	2,587	2,326	2,096	1,802	1,758
Capital expenditures	6,693	11,471	9,905	7,409	7,536
Total assets	135,714	123,909	114,368	110,488	103,178
Adjusted debt	60,255	55,877	51,634	45,041	37,243
Adjusted equity	57,562	52,172	51,493	50,937	52,086
Adjusted Ratios					
EBITDA margin (%)	30.8	26.0	20.7	17.0	11.3
Pretax return on permanent capital (%)	7.7	5.6	4.4	3.4	0.8
EBITDA interest coverage (times)	4.9	4.0	3.8	3.5	2.0
Debt to EBITDA (times)	4.8	6.0	6.4	7.2	10.7
FFO to debt (%)	16.3	12.3	11.3	9.4	4.4
Debt to capitalization (%)	51.1	51.7	50.1	46.9	41.7

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

TPI Polene PLC (TPIPL)

Company Rating:	BBB+
Issue Ratings:	
TPIPL224A: THB1,197 million senior unsecured debentures due 2022	BBB+
TPIPL228A: THB3,745 million senior unsecured debentures due 2022	BBB+
TPIPL231A: THB3,000 million senior unsecured debentures due 2023	BBB+
TPIPL231B: THB4,382.7 million senior unsecured debentures due 2023	BBB+
TPIPL234A: THB2,640.5 million senior unsecured debentures due 2023	BBB+
TPIPL241A: THB4,000 million senior unsecured debentures due 2024	BBB+
TPIPL244A: THB4,127 million senior unsecured debentures due 2024	BBB+
TPIPL24NA: THB3,515.3 million senior unsecured debentures due 2024	BBB+
TPIPL251A: THB2,888 million senior unsecured debentures due 2025	BBB+
TPIPL256A: THB4,000 million senior unsecured debentures due 2025	BBB+
TPIPL25NA: THB3,410.7 million senior unsecured debentures due 2025	BBB+
TPIPL264A: THB4,000 million senior unsecured debentures due 2026	BBB+
TPIPL269A: THB4,000million senior unsecured debentures due 2026	BBB+
Rating Outlook:	Stable

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