

TPI POLENE PLC

No. 66/2018

17 September 2018

CORPORATES

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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RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the ratings on 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 Bt5 billion in senior unsecured debentures. TPIPL plans to use Bt3 billion of the proceeds to refinance the company's existing bonds due in 2019. The remainder will be used for working capital.

The ratings continue to 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 expected significant improvement in its financial profile since all key power plants contracting with Electricity Generating Authority of Thailand (EGAT) started commercial operations. However, the ratings are partly offset by industry cyclical, 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.

TRIS Rating maintains the view that TPIPL's power generating segment, operated under TPI Polene Power PLC (TPIPP), continues to play an important role in restoring its operating performance. The more stable and sizable cash flows generated from the power segment should offset cyclical of the building material segment and thus strengthen TPIPL's business profile and its debt servicing ability.

TPIPL's operating performance in the first half of 2018 improved significantly after the 70-megawatt (MW) RDF-fired power plant started operation in April 2018. In the first six months of 2018, the company's earnings before interest, tax, depreciation and amortization (EBITDA) surged to Bt2.68 billion, up by 60.3% from the same period last year. We expect, once all power plants reaching full operation, TPIPL's EBITDA will grow to Bt6.5-Bt7.5 billion per annum.

We also anticipate that TPIPL's financial leverage and liquidity will improve as the company should utilize its new cash flows to reduce pressure from interest-bearing debts. However, the company's announcements regarding its stock repurchasing program and the potential of a new investment cycle constrain the development of its rating strength and could impede the improvement of financial profile during the development phase. Currently, the company's planned cash flow spending includes a stock repurchasing program, with a maximum amount of Bt2.5 billion, and a plan to participate in bidding on municipal solid waste (MSW) power projects. TPIPP will issue bonds worth Bt4 billion for these power project investments, lifting the group's consolidated debt.

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 continually improve. TRIS Rating also expects the company will reduce its outstanding debt and enlarge its cash flow in order to improve its financial profile. We expect the

funds from operations (FFO) to total debt ratio to be above 10% and the debt to EBITDA ratio to be below 8 times over the next three years.

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 result 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 could trigger a negative rating action.

TPI Polene PLC (TPIPL)

Company Rating:	BBB+
Issue Ratings:	
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+
TPIPL214B: Bt8,000 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 Bt5,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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