

TPI POLENE PLC

No. 41/2022
19 April 2022

CORPORATES

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

Last Review Date: 18/03/22

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. At the same time, TRIS Rating assigns the rating of “BBB+” to TPIPL’s newly proposed issue of up to THB3.745 billion senior unsecured debentures. The company intends to use the proceeds to refinance maturing debentures.

The ratings recognize TPIPL’s strong market position in the domestic cement market, its 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 emissions.

However, the ratings also factor in the cyclical nature 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 the company’s rising financial leverage to support new investments as well as investment risks associated with the Special Economic Zone (SEZ) development project.

TPIPL’s earnings rose to a fresh record in 2021, largely driven by strong performance in the plastic business. The high profitability of the plastics business was largely attributed to the widened spread between the prices of EVA/chemical adhesive products and raw materials, as well as rising demand for the company’s high-grade EVA which is used in the solar panel manufacturing industry in line with the growing renewable energy trend. In the power business, TPIPL’s all power plants using refuse-derived fuel (RDF) 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 two years, it is able to use RDF as a replacement for coal by up to 40%, which helps reduce the cost of clinker.

We maintain our view that TPIPL’s performance is likely to come under pressure from the imminent adder expirations, which are due to take effect during 2022-2025. However, the loss of adder revenue is likely to be partly offset by robust performance of the plastics business, expected recovery of the cement business, and higher fuel adjustment charges (Ft).

We project TPIPL’s earnings before interest, taxes, depreciation, and amortization (EBITDA) will be around THB10.5 billion in 2022 with possible earnings upsides from several projects the company is undertaking. The key projects include expansion of EVA production capacity, ongoing efficiency enhancement of existing power plants, coal-to-RDF replacement programs in cement production and the power plants, and proposals for new power purchase agreements (PPA) for its 70-megawatt coal/RDF power plant. Assuming the full potential benefits from these projects, the company’s management expects to achieve EBITDA of THB13-THB14 billion per year in 2022-2023.

We expect TPIPL to incur additional capital expenditures over the next 2-3 years to support its cost-saving projects and future investments in waste-to-energy (WTE) power plants. Construction is currently underway on two new WTE power plants in Songkhla and Nakorn Ratchasima and the company plans to participate in bidding for new WTE projects nationwide. With respect to the SEZ project, the

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project has been postponed temporarily and is subject to the government's final decision. As a result, the company has no plans to make any additional investments in the SEZ project for the time being. The company believes the project must be continued as it is the national security project, and it has already been approved by the cabinet. We expect that the company's financial strength, measured by net debt to EBITDA ratio and funds from operations to net debt ratio, will weaken but we believe the ratios will stay in a level commensurate with the assigned ratings.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPIPL will maintain its competitive positions in the cement and plastics businesses. At the same time, its power business will likely continue to deliver satisfactory performance and maintain its cash-flow contribution. We also expect the company will successfully secure new power projects to partially compensate the drop-off in adder revenue. Its overall operating performance and financial leverage should be in line with our base-case forecast.

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 offset 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 substantial decline in earnings and/or excessive debt-funded investments. A significant equity loss from pending legal claims could also trigger a negative rating action.

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:	
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+
Up to THB3,745 million senior unsecured debentures due within 7 years	BBB+
Rating Outlook:	Stable

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