

INDORAMA VENTURES PLC

No. 165/2020
16 October 2020

CORPORATES

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Hybrid	A
Outlook:	Negative

Last Review Date: 26/09/19

Company Rating History:

Date	Rating	Outlook/Alert
26/09/19	AA-	Stable
09/08/19	AA-	Alert Developing
29/08/18	AA-	Stable
18/10/17	A+	Positive
09/09/11	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Indorama Ventures PLC (IVL) and the ratings on IVL's senior unsecured debentures at "AA-". TRIS Rating also affirms IVL's subordinated capital debentures at "A". In addition, TRIS Rating assigns the rating of "AA-" to IVL's proposed issue of up to THB10 billion in senior unsecured debentures. At the same time, TRIS rating revises the rating outlook to "negative" from "stable".

The "negative" outlook reflects IVL's weakening performance in 2019 and 2020, which were largely impacted by significant inventory losses on a drop in petrochemical prices driven by drop in crude oil prices, together with uncertainty around recovery of the petrochemical and derivative industry, and that the company's deleverage plan following the acquisition of Huntsman's assets (Spindletop) may take longer time than expected.

The "AA-" ratings continue to reflect the company's leading position in the polyester value chain, a competitive edge stemming from its vertical integration of production, the variety of products, and diversification of production facilities and customers across Asia, America, Europe, Africa and Australia. The ratings also take into consideration the management team's capability and experience, as well as IVL's access to key technologies. However, the ratings are constrained by the volatile nature of the petrochemical industry.

KEY RATING CONSIDERATIONS

Weak performance in 2019-2020

IVL's performance in 2019 fell short of our expectation especially in the second half of 2019. The US-China trade war together with the new capacity coming online during 2019 to 2020 resulted in lower prices and margins of petrochemical and derivative products. The drop in the price of petrochemical and derivative products caused IVL to record inventory losses of THB6.6 billion in 2019. The company's earnings before interest, tax, depreciation and amortization (EBITDA) dropped by 37% to THB29 billion in 2019. The debt to EBITDA ratio increased to 5.3 times, higher than our expectation of 3-4 times.

For the first half of 2020, IVL reported increase in sales volume and margins compared to the second half of 2019 and its core polyethylene terephthalate (PET) business reported strong volume and margins. However, the prices and margins of other petrochemical and derivative products decrease in the first half of 2020. The Coronavirus Disease 2019 (COVID-19) pandemic has caused a fall in demand for these products induced by lockdown measures imposed in most parts of the world during the second quarter of 2020. Although many countries have started re-opening, there is uncertainty around recovery as a second wave of outbreak is taking shape. For the first half of 2020, IVL recorded inventory losses of THB6.7 billion, pulling down EBITDA to THB11.8 billion, a decline by 31% year-on-year (y-o-y).

The integrated oxide and derivative assets recently acquired from Huntsman (or Spindletop) in January 2020 underperformed expectations. The underperformance was mainly due to lower demand for Methyl Tertiary Butyl Ether (MTBE), one of the key products of Spindletop. In the first half of 2020, Spindletop contributed about USD40 million in EBITDA to IVL, compared with our previous expectation of USD250-USD300 million per year.

We view that IVL's deleverage plan may take longer time than previously forecast. The debt to EBITDA ratio is forecast to be about 7-8 times in 2020 and hover around 4-5 times during 2021-2022.

Strength in integrated PET production

IVL is the world's largest integrated PET producer. At the end of June 2020, IVL's effective capacity was 17.5 million tonnes per annum (MTA), comprising the integrated PET segment (66%), integrated oxide and derivatives segment (15%), fiber segment (12%), specialty chemicals (5%), and packaging segment (2%). IVL's strategy is to expand its portfolio along the polyester value chain, from feedstock (paraxylene (PX), purified terephthalic acid (PTA), and monoethylene glycol (MEG)) to derivative products (PET, polyester fiber and yarn, chemical products, and packaging). IVL has diversified its production base through greenfield investments and acquisitions of non-performing and underperforming assets during the last five years. Currently, IVL's facilities are in 33 countries across six continents: Asia, North America, South America, Europe, Africa and Australia.

The integrated PET segments are largely located in three main continents comprising North America, Asia, and Europe. As a vertically integrated producer, the company can achieve a number of advantages, including cost competitiveness, production efficiency, as well as geographically diversified production bases and wider market reach.

HVA products boost profitability

A structural shift in IVL's business portfolio toward high value added (HVA) products improved the company's overall margins. As HVA products typically have higher margins than necessity products, they contributed 35% of the company's EBITDA in 2019, despite their representation of only around 20% of total production volume.

Pursuit of sustainability

Sustainability is one of IVL's key strategies. As PET is 100% recyclable, IVL is keen to become one of the leaders in the circular economy or full-cycle sustainable plastic sector. IVL entered into the recycling business in 2011, when it acquired Wellman International (Wellman) in Europe. Since then, the company has commenced the recycling of PET bottles, producing clean PET flake for use in fiber and sheet, and other applications. IVL has also leveraged knowhow from Wellman to introduce recycling capabilities at its plants in Mexico, USA, and Thailand. Currently, IVL can utilize up to 30% recycled PET flake in its virgin polymerization process, depending on customer requirements. IVL aims to increase its PET recycling capacity to 750 kilo tonnes per annum (KTA) by 2025.

Underperformance of new assets due to COVID-19

The performance of new assets acquired from Huntsman (Spindletop) was impacted by the COVID-19 fallout. Based on the proforma performance of Spindletop during 2015-2019, the average EBITDA was USD295 million per year, of which 45%-50% came from MTBE. MTBE is used to blend with gasoline to boost octane. The MTBE margin dropped in the first half of 2020, following a decline in demand for gasoline caused by lock down measures across countries during the second quarter of 2020. In addition to the COVID-19 pandemic, Spindletop's MTBE plant was shut down for 75 days for planned major turnaround maintenance in the first quarter of 2020. For the first half of 2020, Spindletop contributed USD40 million (THB1.2 billion) in EBITDA to IVL. We view that demand for MTBE should gradually recover in the second half of 2020, as most countries have eased lockdown measures.

Focus more on improving earnings quality

Since late 2019, IVL has initiated strategies to improve its earnings quality for existing assets after multiple acquisitions during the last five years. The strategies aim to increase plant utilization and reliability, optimize inventory level through supply chain management, as well as reduce unnecessary cost. IVL expects to gain the benefits of around USD600 million a year from these initiatives by 2023.

EBITDA to improve in 2021

We forecast IVL's EBITDA to improve to about THB50-THB55 billion per year during 2021-2023. An improvement in EBITDA is reflected in our view that IVL's production volume will increase to around 15-16 million tonnes per year in 2021-2023 from 12.3 million tonnes in 2019. We forecast that the spread of petrochemical and derivative products will gradually recover with core EBITDA per tonne of gross production in the range of USD105-USD110 during that period.

For 2020, we forecast that IVL's EBITDA may stay around THB29-THB30 billion, the same level as in 2019, based on our view that there is no further inventory loss in the second half of 2020. The core EBITDA per tonne might decrease from the first half, as some IVL plants have had incidents, such as lightning striking at an ethylene cracker and the precautionary temporary shutdown of Spindletop's plant at Port Neches in the US at the time of Hurricane Laura.

Deleverage expected in 2022

We view that IVL may take longer time to realize the full contribution from Spindletop. As of June 2020, IVL's adjusted debt was THB216.7 billion, an increase from THB154 billion at the end of 2019. The increase in debts is mainly due to the acquisition of Spindletop in January 2020. The debt to capitalization ratio increased to 62.9% at the end of June 2020. Based on our projection, IVL's debt to capitalization may improve to around 55% in 2023. The debt to EBITDA ratio is forecast to be about 7-8 times in 2020 and hover around 4-5 times in 2021-2022.

Sufficient liquidity

We view that IVL have sufficient liquidity to manage its debt obligations over the next 12 months. At the end of June 2020, IVL's reported debt was around THB224.7 billion, of which THB29 billion was short-term loans. Over the next 12 months, IVL will have long-term loans and bonds due totaling about THB21.1 billion. This amount of debt due could be covered by its cash on hand of THB22.6 billion at the end of June 2020 and expected funds from operations (FFO) of about THB30 billion over the next 12 months.

BASE-CASE ASSUMPTIONS

- Core EBITDA per tonne to be about USD80-US85 in 2020 and USD105-USD110 during 2021-2023.
- Total production volume to increase to about 15-16 million tonnes per year during 2021-2023.
- The acquisition of Spindletop of THB52.9 billion in January 2020.
- Capital expenditures (CAPEX) for maintenance, debottlenecking, expanding the current facilities and recycled PET plants, and for improving the earnings quality program to be about THB94.6 billion over 2020-2023.

RATING OUTLOOK

The "negative" outlook reflects our view that IVL will likely continue to face operational challenges through 2020-2021 given the uncertainty surrounding the pace of recovery in petrochemical and derivatives.

RATING SENSITIVITIES

The rating outlook could be revised to "stable" if IVL could demonstrate a material turnaround, improving its debt to EBITDA ratio to be below 4 times on a sustained basis. The ratings could be downgraded if IVL's financial profile deteriorates further or the earnings recovery takes longer time than expected.

COMPANY OVERVIEW

IVL was established by the Lohia family on 21 February 2003. As a holding company, the company invests mainly in businesses along the polyester value chain. IVL was listed on the Stock Exchange of Thailand (SET) on 5 February 2010. As of 30 June 2020, the Lohia family held a 64.7% stake in IVL. The company's core businesses comprise the combined PET segments (PET, PTA, PX, specialty chemicals, and packaging), integrated oxide and derivative product segment (EO/EG, MTBE, and surfactants), and fiber segment. At the end of June 2020, IVL's total effective capacity was 17.5 MTA.

IVL's production bases are well diversified geographically. Currently, IVL has 120 plants located in 33 countries across six continents: Asia, Europe, North America, South America, Africa and Australia.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	168,092	354,672	348,255	287,335	255,160
Earnings before interest and taxes (EBIT)	1,726	11,391	32,053	20,939	15,933
Earnings before interest, tax, depreciation, and amortization (EBITDA)	11,759	29,098	46,437	33,788	27,922
Funds from operations (FFO)	8,180	20,940	37,476	30,470	20,812
Adjusted interest expense	4,155	6,623	5,149	4,717	5,047
Capital expenditures	9,045	16,800	16,543	20,055	13,519
Total assets	458,864	380,568	379,195	282,358	258,380
Adjusted debt	216,724	154,046	145,480	102,560	110,591
Adjusted equity	127,983	131,007	144,418	111,550	84,378
Adjusted Ratios					
EBITDA margin (%)	7.00	8.20	13.33	11.76	10.94
Pretax return on permanent capital (%)	1.43 **	3.85	12.41	9.97	8.59
EBITDA interest coverage (times)	2.83	4.39	9.02	7.16	5.53
Debt to EBITDA (times)	9.10 **	5.29	3.13	3.04	3.96
FFO to debt (%)	7.20 **	13.59	25.76	29.71	18.82
Debt to capitalization (%)	62.87	54.04	50.18	47.90	56.72

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Indorama Ventures PLC (IVL)

Company Rating:	AA-
Issue Ratings:	
IVL20DA: THB880 million senior unsecured debentures due 2020	AA-
IVL216A: THB3,000 million senior unsecured debentures due 2021	AA-
IVL210A: THB37 million senior unsecured debentures due 2021	AA-
IVL210B: THB3,163 million senior unsecured debentures due 2021	AA-
IVL210C: THB300 million senior unsecured debentures due 2021	AA-
IVL224A: THB1,250.5 million senior unsecured debentures due 2022	AA-
IVL224B: THB2,649.5 million senior unsecured debentures due 2022	AA-
IVL225A: THB500 million senior unsecured debentures due 2022	AA-
IVL22DA: THB1,645 million senior unsecured debentures due 2022	AA-
IVL236A: THB1,100 million senior unsecured debentures due 2023	AA-
IVL236B: THB3,000 million senior unsecured debentures due 2023	AA-
IVL243A: THB1,400 million senior unsecured debentures due 2024	AA-
IVL245A: THB1,000 million senior unsecured debentures due 2024	AA-
IVL24NA: THB300 million senior unsecured debentures due 2024	AA-
IVL24DA: THB1,475 million senior unsecured debentures due 2024	AA-
IVL256A: THB1,500 million senior unsecured debentures due 2025	AA-
IVL25DA: THB1,150 million senior unsecured debentures due 2025	AA-
IVL260A: THB200 million senior unsecured debentures due 2026	AA-
IVL275A: THB2,000 million senior unsecured debentures due 2027	AA-
IVL27NA: THB700 million senior unsecured debentures due 2027	AA-
IVL286A: THB1,800 million senior unsecured debentures due 2028	AA-
IVL280A: THB2,200 million senior unsecured debentures due 2028	AA-
IVL295A: THB2,000 million senior unsecured debentures due 2029	AA-
IVL306A: THB5,000 million senior unsecured debentures due 2030	AA-
IVL310A: THB2,300 million senior unsecured debentures due 2031	AA-
IVL32NA: THB1,000 million senior unsecured debentures due 2032	AA-
IVL336A: THB3,200 million senior unsecured debentures due 2033	AA-
IVL19PA: THB15,000 million subordinated capital debentures	A
Up to THB10,000 million senior unsecured debentures due within 15 years under the Thai Baht Debentures MTN Program in the year 2020	AA-
Rating Outlook:	Negative

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