# TPI Polene PLC

**Discussion and Analysis 2Q22 Results, ended 30 June 2022**

### Excellent performance in 2Q22 despite multiple headwinds

The economic activities in Thailand continue to normalise following the removal of mobility restrictions. However, growth and recovery potential is capped by inflationary pressures. By July, Thailand's inflation rate was 7.61% causing a serious dent on people's purchasing power. For manufacturers, cost pressures continue to build up indicated by PPI rising by 12.2%. Inflationary, cost pressures are key headwinds to a meaningful economic recovery.

### Healthy sales and revenues in 2Q22

Despite the headwinds, TPIPL posted an excellent 21% YoY growth in sales to THB12.5b and 24% growth in revenues to THB13.6b, partly thanks to forex gains. Volumes were down in some product categories but this was offset by price adjustments compensating for input costs that have been rising since late 2021. For the 1H22, sales reached THB25b up 29% YoY.

### Gross and operating margins

Gross margin (28.6%) and core operating margins (22.4%) in 2Q22 were lower than 2Q21 due to cost escalation while price adjustments lagged. However, both ratios improved from 1Q22's 27.4% and 20.2%, respectively as benefits from cost efficiency measures begin contributing. The 2Q22 gross profit reached THB3.6b, up 5% QoQ, while the core operating profit was THB2.8b, up 11.2% QoQ. TPIPL continues roll out cost savings and efficiency measures and this helps cushion margins should the operating conditions make a turns for the worse. This defensive strategy could become a major earnings driver if the recovery momentum remains positive.

### EBITDA and margin

After dipping to 27.7% in 1Q22, EBITDA margin to sales improved to 32.7% in 2Q22 (THB4.1b), still lower than the 34.0% level achieved 2Q21. For the 1H22, EBITDA reached THB7.5b, +17.6% YoY, putting us on track to achieve our full year target of THB14-15b. Going forward, the benefits from the cost efficiency measures to advance our ESG agenda could allow EBITDA margin to trace back to the 34.0% high seen last year. Price of energy inputs, while still very high, appears to be moderating and this is constructive to our margin outlook.

### Stellar profits

In 2Q22 TPIPL posted a whopping 25% YoY, 31% QoQ growth in net profit incl MI to THB2.7b with a corresponding net margin of 19.8%. For 1H22, net profit incl MI reached THB4.7b, up 31% YoY. Excl MI, TPIPL's 2Q22 net profit was THB2.4b, +35%YoY, bringing the 1H22 total to THB4.2b, up 43% YoY.

### Leverage and liquidity remains healthy

Ending 1H22, our net working capital cycle (NWC) was 23.45 weeks, improving from the average of 24.65 weeks during the past 4Qs. Cash tied to WCA improved to 29.4 weeks vs the average of 30.9 weeks in the past 4Qs. We remain be vigilant on our cash collection cycle.

Our net debt at the end of 1H22 is THB55b and net debt/EBITDA was at 3.68x based on annualized 1H22. This is an improvement from 4.02x in 1Q22. Net debt to equity is at comfortable 0.91x. Our interest burden is very manageable at 4.94% of sales while the interest cover was good at 6.11x. on a cashflow basis. Both ratios are comfortably healthy.

**Stock Information**

Bloomberg/Reuters
TPIPL TB/TPIPL BK

| | |
|---|---|
| Share price (19/08/22) | |
| 52 week high | THB1.95 |
| 52-week low | THB1.41 |
| No of shares | 18,935.2 m |
| Par Value | THB 1.0 |
| Book value* | THB 3.2 |
| Market Cap | THB 32,189.9 m |
| Avg value trade (3M) | THB 15.4 m |

**Major Shareholders**

| | |
|---|---|
| Leophairatana family | 68% |

**Business Overview**

TPIPL is an industrial conglomerate spanning construction materials, high value plastic pellets, chemicals, renewable power and bio-organics. It is the third largest cement producer in Thailand in terms of installed capacity and the largest waste to energy power producer in Thailand and in the region. Its plastic pellets are mainly high grade EVA, for hotmelt for cables & wires and photovoltaic applications. It is the only manufacturer of this product in Thailand and one of the handful in the region.

**Key Financial Figures**

| Unit: THB m | 2Q22 | 1Q22 | 2Q21 |
|---|---|---|---|
| Sales | 12,476 | 12,435 | 10,319 |
| Revenues | 13,567 | 13,103 | 10,939 |
| EBITDA | 4,075 | 3,449 | 3,508 |
| Net profit excl MI | 2,426 | 1,800 | 1,791 |
| Net Profit incl MI | 2,680 | 2,054 | 2,145 |
| Gross margin (%) | 28.6 | 27.4 | 34.7 |
| Core Op margin to sales (%) | 22.4 | 20.2 | 25.7 |
| Core Op margin to revenues (%) | 20.6 | 19.2 | 24.3 |
| EBITDA margin to sales (%) | 32.7 | 27.7 | 34.0 |
| EBITDA margin to revenues (%) | 30.0 | 26.3 | 32.1 |
| Net profit margin (%) | 19.8 | 15.7 | 19.6 |
| SG&A/sales (%) | 11.6 | 12.2 | 14.2 |
| Interest expense/sales (%) * | 4.9 | 5.0 | 6.2 |
| Net debt | 55,316 | 55,464 | 53,233 |
| Net debt/Equity (x) ** | 0.91 | 0.94 | 0.97 |
| Net debt/EBITDA (x) | 3.7*** | 4.0**** | 4.2*** |

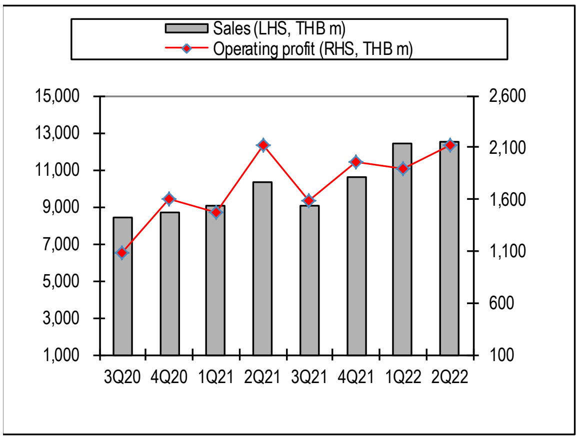
*MI - minority interests*
** calculated on cashflow basis*
*** including minority interests*
**** annualized 1H EBITDA, ****annualized 1Q EBITDA*

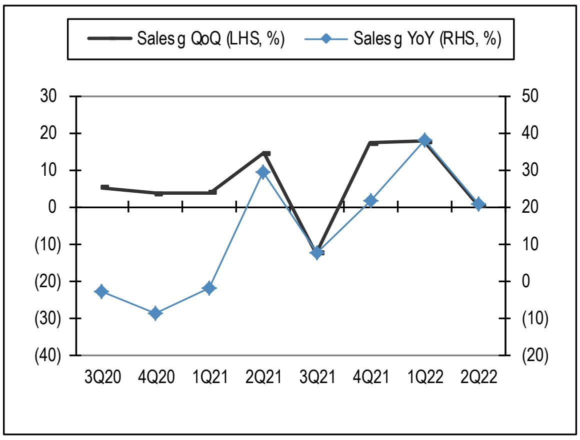
# Performance Tracker

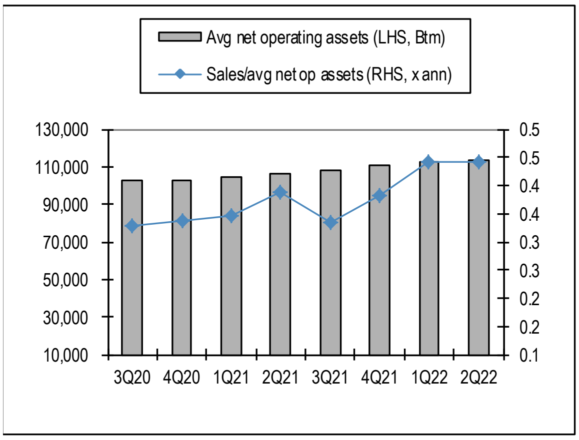
**Resilience very evident across multiple performance ratios**

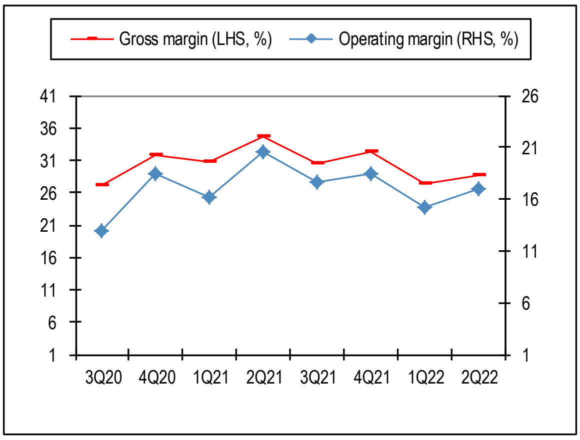
In 2022, several input cost variables started deviating from their long term trends especially those that are related directly or indirectly to energy. All industrial companies have to come with ad hoc measures to cushion downside on cashflow and earnings. Against these odds we have been successful in preserving our profitability and cashflow as one can see in the ratios below.

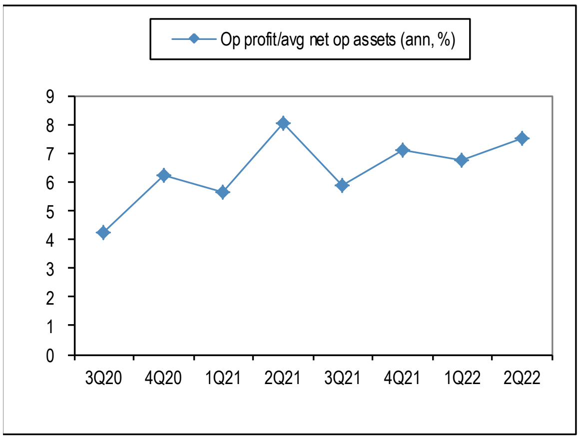
**TPI Polene PLC** **2Q22**

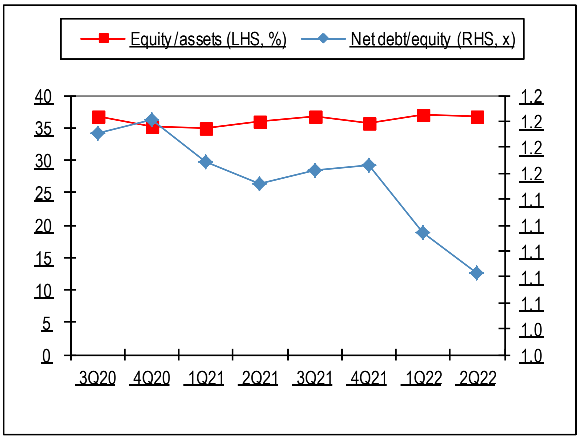



*Note: Operating ratios are based on sales and revenues*

**Segment Highlights in 2Q22**

In terms of revenues the Construction Materials (ConsMat) segment remains the largest contributor accounting for 47% of the Group's total followed by Petrochemicals & Chemicals (35%) and Power (18%). However, the top EBITDA generator was the Petrochemical & chemicals segment accounting for 44% of the total while Power and Construction materials bring in about the same contribution at 28%.

**Segment breakdown**

| THB m | 2Q22 | YoY | QoQ | % of Total | 1H22 | YoY | % of Total |
|---|---|---|---|---|---|---|---|
| Segment sales | | | | | | | |
| Construction Materials | 5,916 | 29% | -2% | 47% | 11,932 | 32% | 48% |
| Petrochemical & chemicals | 4,319 | 28% | 2% | 35% | 8,570 | 52% | 34% |
| Energy & Utilities* | 2,199 | -5% | 3% | 18% | 4,337 | -5% | 17% |
| Agriculture and Others ** | 42 | -5% | 41% | 0.3% | 72 | -1% | 0.3% |
| **Consolidated** | **12,476** | **21%** | **0.3%** | **100%** | **24,911** | **29%** | **100%** |

| EBITDA | 2Q22 | YoY | QoQ | % of Total | 1H22 | YoY | % of Total |
|---|---|---|---|---|---|---|---|
| Construction Materials | 1,142 | 128% | 46% | 28% | 1,923 | 82% | 26% |
| Petrochemical & chemicals | 1,786 | 20% | 17% | 44% | 3,317 | 35% | 44% |
| Energy & Utilities* | 1,132 | -25% | 1% | 28% | 2,256 | -22% | 30% |
| Agriculture and Others ** | 13 | 82% | 15% | 0.3% | 24 | 879% | 0.3% |
| **Consolidated - incl other gains/losses** | **4,075** | **16%** | **18%** | **100%** | **7,523** | **18%** | **100%** |

| EBITDA margins | 2Q22 | 1Q22 | 2Q21 | 1H22 | 1H21 |
|---|---|---|---|---|---|
| Construction Materials | 19% | 13% | 11% | 16% | 12% |
| Petrochemical & chemicals | 41% | 36% | 44% | 39% | 43% |
| Energy & Utilities* | 51% | 53% | 66% | 52% | 63% |
| Agriculture and Others ** | 31% | 38% | 16% | 34% | 3% |
| **Consolidated - incl other gains/losses** | **33%** | **28%** | **34%** | **30%** | **33%** |

**TPIPP ex sales to TPIPL. (See separate Discussion & Analysis at www.tpipolenepower.co.th)*

*** Bio-organics, Bio-Tech, Bio-Pharma, Healthcare and others*

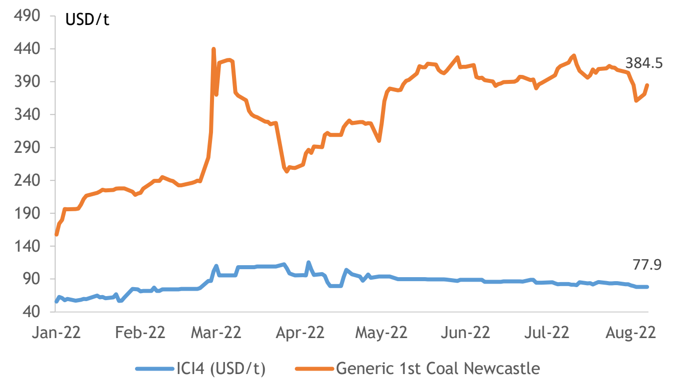
**Construction materials**

The combined volume sales of various construction materials were up 5% YoY due to the base effect as 2Q21 was affected by covid related restrictions on mobility and construction activities. Of the many construction materials that TPIPL produces, cement has the softest sales trend in 2Q22, in line with local industry trends. The weak cement was partly offset by resilient clinker sales (export) and relatively strong performance of the mortar products.

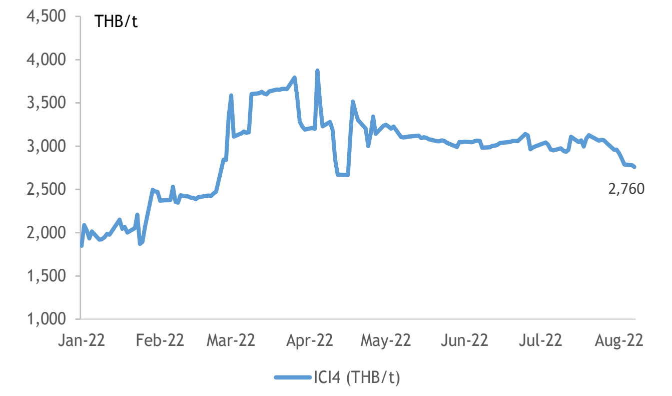
While we see weaknesses in volumes in many product groups, construction materials' sales tell a different story, posting a high 29% YoY growth though dropping slightly by 2% QoQ thanks to price adjustments. EBITDA margins on sales held firm at 19% thanks to ongoing effort to increase the use of alternative fuel in the clinkering process. This is a medium-term program that we are rolling out to advance our objective of achieving Bio-Circular-Green economy.

While coal prices have started showing signs of moderation, electricity price is expected to rise again tracking the Ft adjustments. Benefits from cost efficiency measures along with programmed price adjustments will help cushion EBITDA in the upcoming quarters.

**Coal prices moderating in USD terms…**




**… and Thai baht terms**




*Source: Bloomberg*

**Petrochemicals & Chemicals**

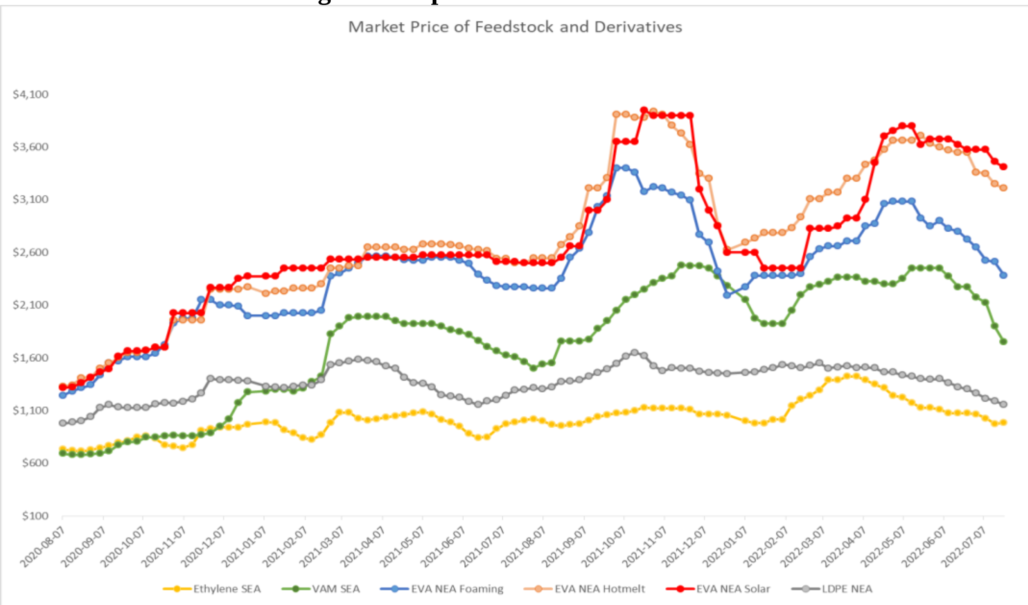
The Petrochemical & Chemical segment continues to be the stellar performer in 2Q22. In the segment the bigger driver is the plastic pellet – mainly EVA. Revenues rose a whopping 28% YoY and more importantly the EBITDA margin rose higher to 41% compared to 36% in 1Q22. The strong performance is driven by product composition of sales, over 50% of which are geared towards hotmelt/wire & cable applications whereby price demand is more resilient and prices high. In 2Q22, TPIPL saw over 36% YoY rise in the average price and up 17% QoQ. On our Petrochemical product portfolio, the share of commodity-grade EVA foaming material is less than 20% and that of LDPE is less than 10%.

New EVA supply is coming in the 2H22 based on pre-announced expansion plan mainly in China. Meanwhile the overall expectation is for manufacturing activities to slow in the 2H22 due to demand destruction brought about by inflation. This backdrop does not bode well for the commodity-grade EVA hence the significant drop in spot prices recently.

A sharp drop in the commodity-grade polymers will create a cascading pressure on prices resulting in correction across product categories. TPIPL continues to position in the higher-grade EVA where demand is relatively stronger especially for those in photovoltaic application as encapsulant of the solar cell and as premium high-speed labelling and packaging applications. Our R&D efforts are focused (and always have been) on HVA products thus we expect this segment's performance to remain resilient relative to other petrochemical producers. Boom-bust cycle is very common in petrochemicals but our competitive position is assured as we are Tier 1 in the cost curve confirmed by the 41% EBITDA margin achieved in 2Q22.

At this point the photovoltaic applications appear very promising for us. It is highly likely that roll our planned solar power capacity will be expedited after the power shortage situation in Europe. One study by industry expert, DNV, estimates that global PV capacity could reach 3.0 TW up from 1.0 TW targeted to come onstream in 2022. Beyond PV, hotmelt wire & cable EVA is finding many high-value new applications including in EV.

**Price trend of various EVA grades – spot market**




*Note: Spot price is based on ICIS CFR NE Asia*
*Source: ICIS, TPIPL*

**Spread ** of various EVA grades**

| | | | | Spread Differential over EVA Foam | |
|---|---|---|---|---|---|
| **USD/ton** | **EVA Foam** | **EVA Hotmelt** | **EVA Solar** | **Hotmelt** | **Solar** |
| 1Q21 | 1,134 | 1,223 | 1,342 | 8% | 18% |
| 2Q21 | 1,358 | 1,407 | 1,321 | 4% | -3% |
| 3Q21 | 1,375 | 1,562 | 1,467 | 14% | 7% |
| 4Q21 | 1,770 | 2,232 | 2,179 | 26% | 23% |
| 1Q22 | 1,134 | 1,505 | 1,195 | 33% | 5% |
| 2Q22 | 1,490 | 2,038 | 2,037 | 37% | 37% |

*Note: ** spread based on raw materials vs spot product price and is proxy to illustrate trend.*
*Source: ICIS, TPIPL*

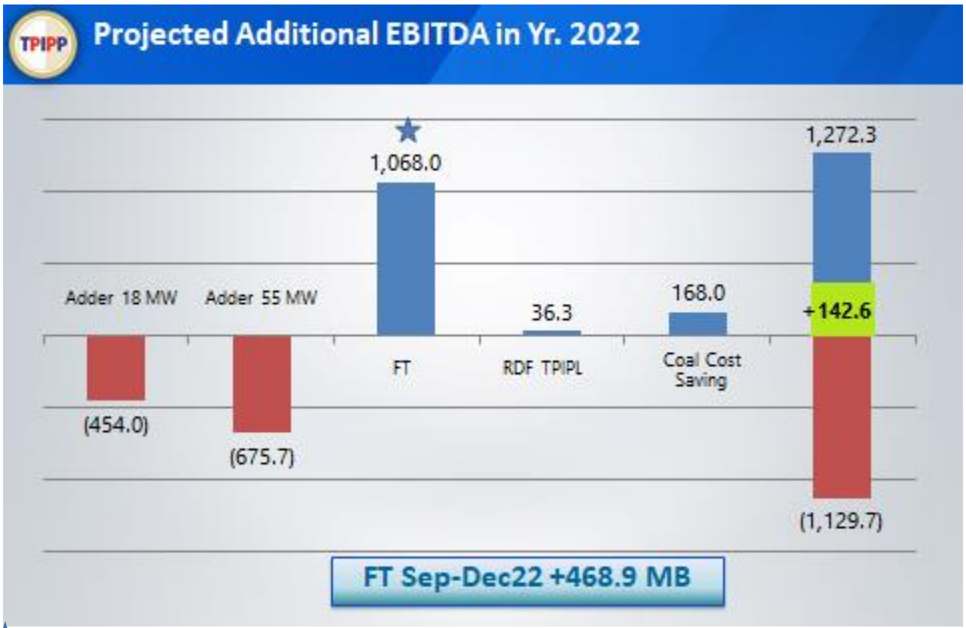
**Energy and Utilities**

Sales from the Power & Utilities segment posted a 5% YoY decline but a 3% QoQ growth driven mainly by higher price following the Ft adjustment early this year as well as the strong rebound in oil trading, up by 20.1% YoY. The YoY decline in sales was also due to the absence of adder revenues on 18 MW that expired in Jan-22.

Volume sales were still down as expected due to ongoing plant improvements to raise efficiency and increase the use of RDF. This is another of our medium-term programs to advance our ESG agenda, going net-zero on GHG emissions by 2024/2025. By that time, our power plants will be mostly on RDF.

The adder for the 55 MW capacity expired 6$^{th}$ Aug and this means further decline of revenues going forward. However, because Ft will again be increased starting 1 September the incremental EBITDA could get up to THB1.07b for the year. In our previous discussion (refer to 1Q22 Opportunity Day Presentation), we estimated that the expiry of adder for the two projects will result in THB1.13b EBITDA reduction this year. With the various Ft adjustments this year plus the execution of a number of mitigation programs we expect that the impact of the expiration of adders will not be visible at all as we expect a net gain of at least THB143m.

**TPIPP mitigation strategy to offset loss of adder**




★ *Estimated incremental EBITDA based on Ft adjustments during the year*
*Source: TPIPP estimates*

For more discussions on TPIPP, please refer to TPIPP 2Q22 Discussion and Analysis in [www.tpipolenepower.co.th](http://www.tpipolenepower.co.th)

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