TPI Polene PLC

Discussion & Analysis on 9M22 Performance and Updates

To end 2022 with a bang

The country's re-opening in June 2022 underpinned the improvement in economic activities including construction. However, inflationary pressures and uncertainty in the 2023 economic prospect mars what otherwise would be an upbeat outlook. In the 9M22, TPIPL posted sales growth of 32% YoY and net profit growth of 35% YoY. EBITDA posted growth of 19% YoY and a solid margin of 29.7%. Despite volatile operating conditions and the uncertainty, TPIPL is on track to hit new highs in revenues, EBITDA and profits.

Performance highlights

The 9M22 sales and EBITDA growth were up 32% YoY and 19% YoY, respectively and are well on track to meet our target of THB50-51b and THB14-15b, respectively. Among the four divisions, ConsMat had the strongest rebound in sales, +40% YoY vs the 6% YoY contraction the same period last year but the Specialty Polymers division remains the best performer, posting sales growth of 53% YoY albeit slower than the 66% YoY growth seen in 9M21.

Likewise the ConsMat division posted 1.6%age EBITDA margin improvement (@14.2%) thanks to better volumes but primarily due to cost savings and efficiency improvements. Despite the input/product price volatility Specialty Polymers/Chemicals maintained its EBITDA margin (@41.3%) while the Energy & Utilities division saw its EBITDA margin contract by 10.8%age (@48.9%) on multiple factors primarily: 1) adder expiry on two power plant contracts, 2) disrupted operations due to major plant improvement programs and 3) spike in input costs.

Finances solid

Ending 9M22 our net debt was THB57.7b while our net IBD/EBITDA, on annualized basis was 3.9x. Net IBD/equity ratio is a comfortable 0.93x. The Group is rolling out several projects to advance our goal of achieving net zero GHG by 2026. Capex deployed in 9M22 was THB4b and we are allocating budget of c.THB5-6b/ year until 2024 to 1) reduce carbon emission in our cement plants 2) increase MSW intake in our power production, 3) new power plants - 62MW solar farm, 5MW wind farm and 2x10 MW of MSW-fired power plants 4) laucnch new HVA specialty polymers, 5) convert our ICE locomotives to EVs and 6) introduce more new products with innovations.

Advancing our ESG agenda

In addition to our achievements in carbon reduction at our power plants (see 3Q22 TPIPP Press Release) TPIPL have also: 1) achieved 25% MSW replacement in three cement kilns, 2) converted 31 of our trucks to EVs, 3) reduced IW by 36% and 4) hit 99.8% recycling ratio on the remaining IW. We will continue to improve our processes to achieve the highest possible ratio of AF (mainly MSW) in our cement operations. (see 3Q22 TPIPL Release).

2022 a year of bounty

We are getting citations for our efforts in in-house innovations and processes and the most notable of which are the inclusion of TPIPL and TPIPP in the SET's list of Thailand Sustainability Investments (THSI) as well as achieving the Four Star Corporate Governance rating.

Stock Information

Bloomberg/Reuters
TPIPL TB/TPIPL BK

Share price (30/12/22)	
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 3.29
Market Cap	THB 34,462 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	3Q22	YoY	9M22	YoY
Sales	12,523	39.0%	37,434	-9.3%
EBITDA	3,579	22.0%	11,102	19.0%
Net profit excl MI	2,029	68.0%	6,255	50.0%
Net profit incl MI	2,189	47.0%	6,924	35.0%
Gross margin (%)	27.4		27.8	
SG&A/sales (%)	11.1		11.6	
EBITDA margin (%)	28.6		29.7	
Net debt			57,689	
Net debt/Equity (x)			0.93	
Net debt/EBITDA (x)*			3.9	

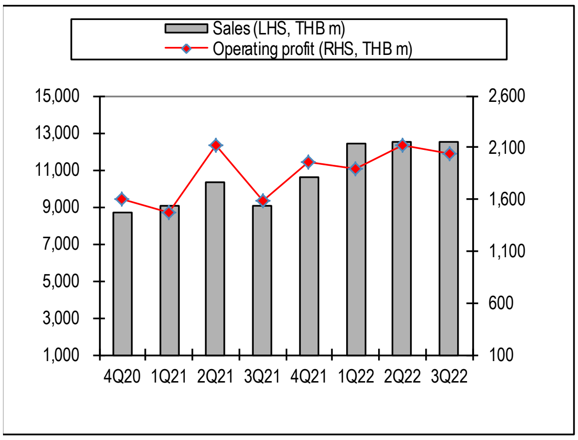
MI - minority interests
** annualized basis*

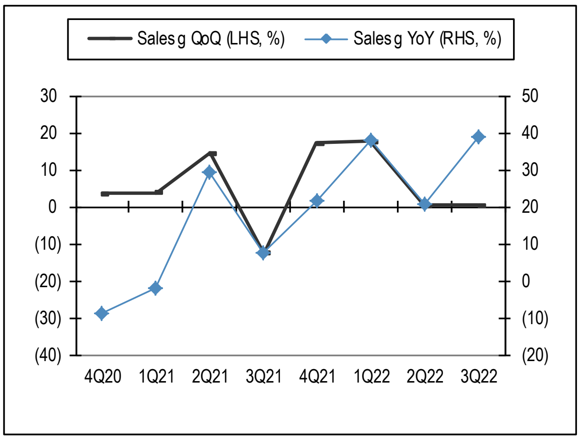
Performance Tracker

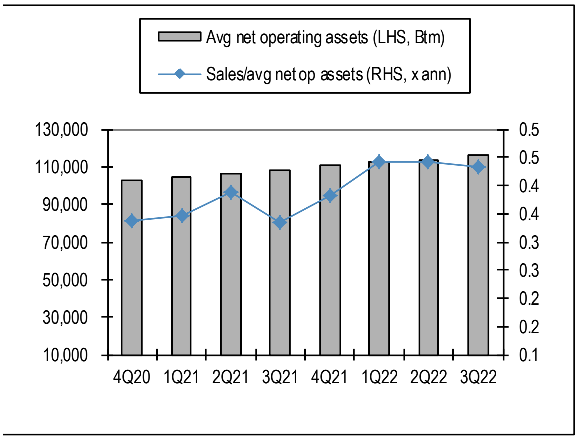
Resilience very evident across multiple performance ratios

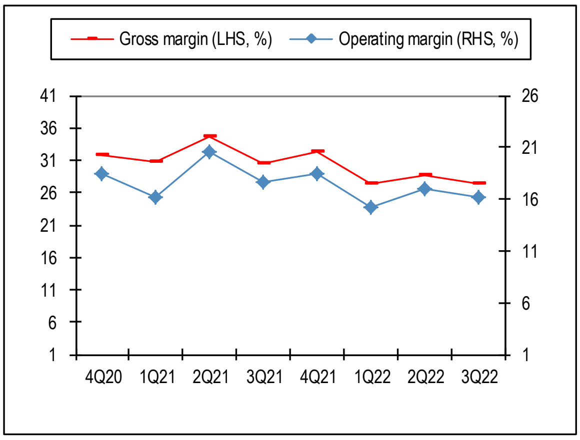
For the most part of 2022, several input cost variables started deviating from their long term trends especially those that are related directly or indirectly to energy. All industrial companies have to come with ad hoc measures to cushion downside on cashflow and earnings. Against these odds TPIPL have been successful in preserving our profitability and cashflow as illustrated in the charts below.

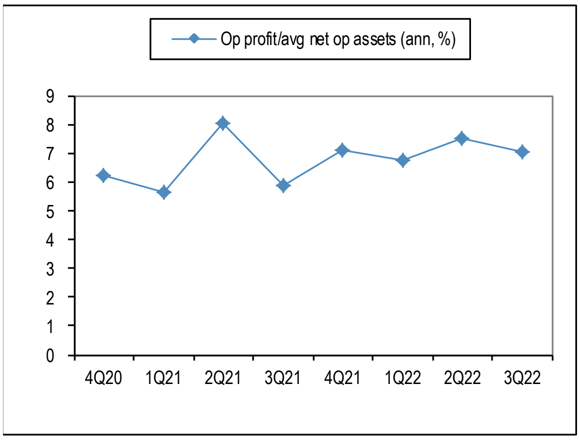
TPI Polene PLC **3Q22**

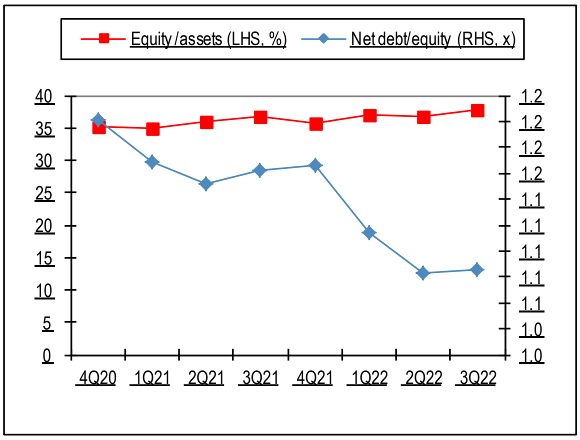












Note: Operating ratios are based on sales

Highlights

Share Price Movement Captures Performance

In 2022 TPIPL's share price was up 6.4% outperforming the SET Index, which was up marginally by 0.77%. The share price performance is pricing the resilient and higher EBITDA. We foresee the 2023 operating outlook to remain volatile especially in the 1H but net-net we are expecting marginal growth in EBITDA underpinned mainly by the sustained contribution from the cost savings and efficiency measures, improvement in the performance of the power division as well as improvement in product demand on the back of economic recovery. Moderating delta in input cost would also help even if prices remain at these elevated levels relative to recent history.

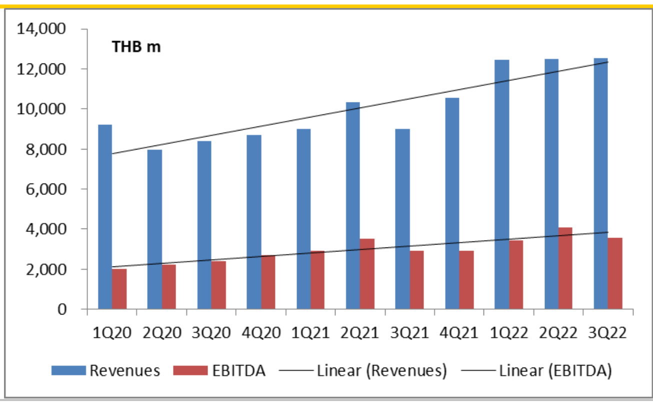
For TPIPP in 2022, the share price dropped 17.79% underperforming SET's +0.77% rise. This reflect the decline in performance ratios, for example 9M22 EBITDA dropped 25.8% YoY, on multiple factors among them are expiry of adder on two power projects, disruption in operations due to plant improvements and rise in input costs. In 2023, we are also expecting improvement in its performance for the following reasons: 1) Phase 1 of our medium term plant improvement program has been completed and should start bearing fruit, 2) higher power sales from the ad hoc government contract on renewable, better operating rates and 3) the 1.5412 THB per unit Ft adjustment for starting January 2023. The higher Ft will offset the FY realization of the expired adder.

TPIPL – YTD was up 6.4% vs SET up by 0.77%

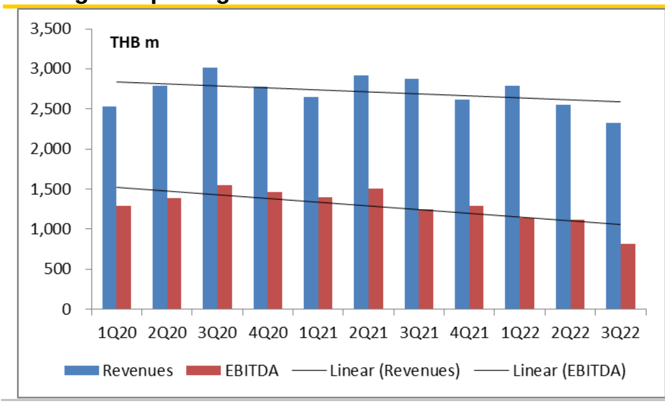
TPIPP - YTD was down 17.79% vs SET up by 0.77%

Closing price: 30 December Source: Reuters

TPIPL's historic revenues and EBITDA profile



TPIPP's declining EBITDA is mainly due to programmed changes in pricing under PPA



In terms of revenues the Construction Materials (ConsMat) division remains the largest contributor accounting for 47% of the Group's total followed by Specialty Polymer/Chemicals (35%) and Energy/Utilities (17%). However, our top EBITDA generator was the Specialty Polymer/Chemicals division bringing in c.49% of the total EBITDA while Energy/Utilities accounted for 28% and ConsMat at 23%.

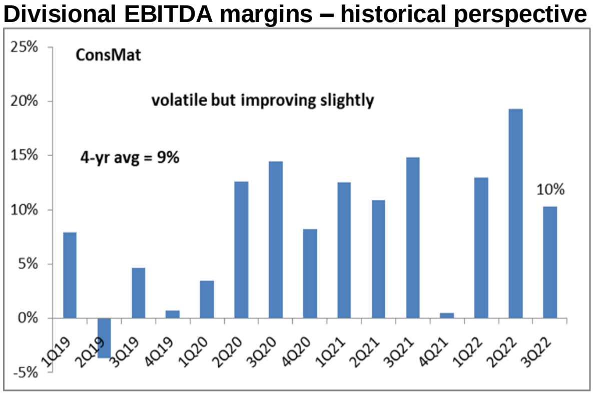
In 2023 we expect ConsMat to do better along with Energy/Utilities and this will offset the softness in the Specialty Polymer/Chemical division. The Specialty Polymer/Chemical division could see more volatility as softer manufacturing activities will drag down prices of EVA for manufacturing. However, we believe that this could potentially be offset by stronger EVA demand for PV applications on the accelerating drive to increasing renewable energy sources globally.

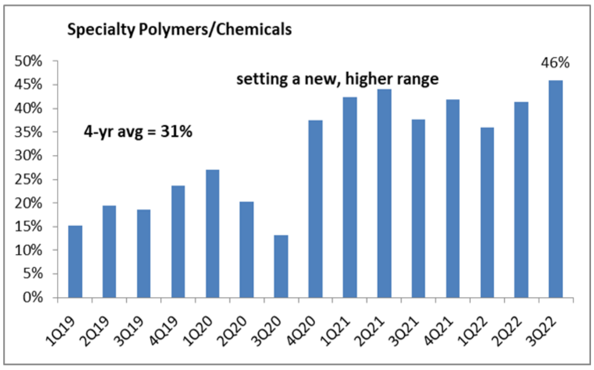
Segment breakdown

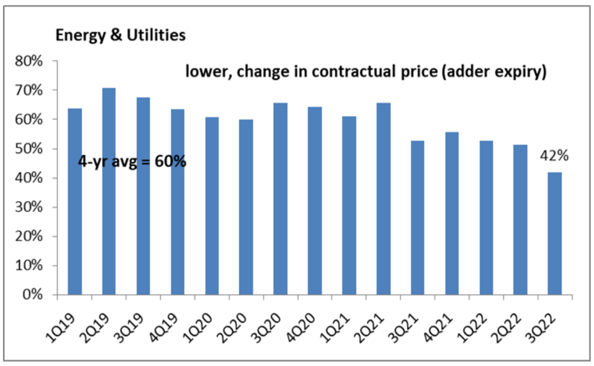
THB m	1Q22	2Q22	3Q22	Q/Q chg	Y/Y Chg	9M22	9M21	YoY Growth
Construction Materials	6,016	5,916	5,845	-1.2%	61.0%	17,777	12,659	40%
Specialty Polymer/Chemicals	4,250	4,319	4,681	8.4%	56.4%	13,251	8,640	53%
Energy and utilities	2,139	2,199	1,959	-10.9%	-16.3%	6,297	6,930	-9%
Agriculture *	30	42	38	-10.8%	-12.1%	110	116	-5%
Group total	**12,435**	**12,476**	**12,523**			37,434	28,350	32%
% breakdown				**4Q avg**	**8Q avg**			
Construction Materials	48%	47%	47%	46%	45%	47%	45%	
Specialty Polymer/Chemicals	34%	35%	37%	36%	33%	35%	30%	
Energy and utilities	17%	18%	16%	18%	22%	17%	24%	
Agriculture *	0.2%	0.3%	0.3%	0%	0%	0%	0%	
EBITDA								
Construction Materials	781	1,142	601	-47%	11%	2,524	1,595	58%
Specialty Polymer/Chemicals	1,532	1,785	2,153	21%	91%	5,470	3,580	53%
Energy and utilities	1,125	1,132	822	-27%	-33%	3,079	4,140	-26%
Agriculture *	11	13	2	-83%	-90%	27	25	5%
Total	**3,449**	**4,072**	**3,578**	-12%	22%	11,100	9,340	19%
EBITDA margin (%)								
Construction Materials	13.0%	19.3%	10.3%			14.2%	12.6%	
Specialty Polymer/Chemicals	36.0%	41.3%	46.0%			41.3%	41.4%	
Energy and utilities	52.6%	51.5%	42.0%			48.9%	59.7%	
Agriculture *	38.0%	31.0%	5.8%			24.3%	21.8%	
Group's EBITDA margin	**27.7%**	**32.6%**	**28.6%**			**29.7%**	**33.0%**	

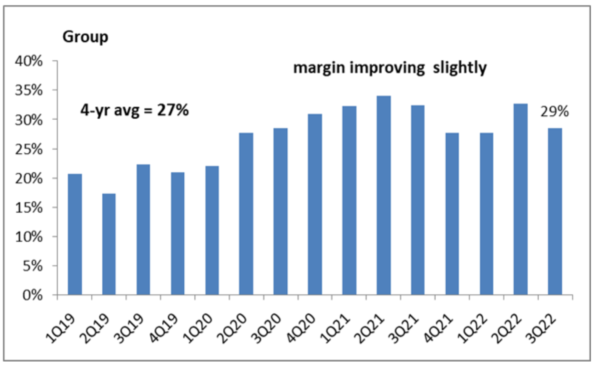
** Bio-organics, Bio-Tech, Bio-Pharma, Healthcare and others*

Divisional EBITDA margins – historical perspective







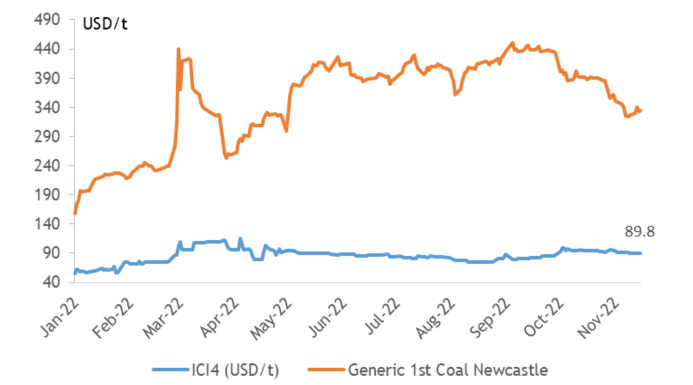


Construction Material Division Improving

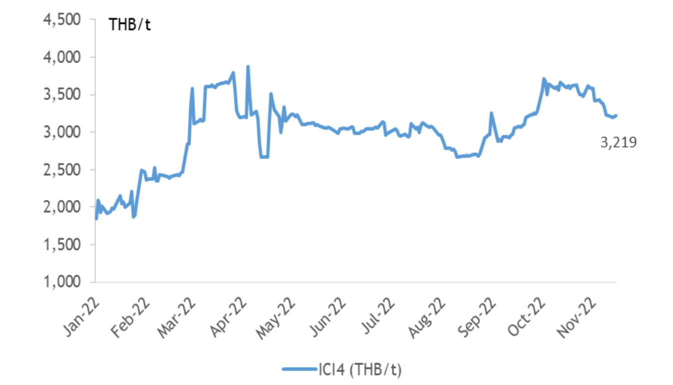
The 40% YoY increase in sales of the construction materials division in 9M22 was driven mainly by price adjustments capturing the spike in input costs while the improvement in EBITDA was largely due to the cost savings and efficiency measures. Domestic sales of OPC were soft especially during the heavier-than-norm monsoon season but this was partly offset by strong clinker exports. Among the various cement products sold in the domestic market, mortar was the best performer, both in volume and price terms as overall construction activities were skewed towards medium to small scale developments.

Small scale construction activities will continue to be healthy in 2023 and we also hope to see resurgence in bigger projects tracking the improvement in the overall economy. We also see some potential upside on demand arising from fiscal stimulus measures. On the cost side, we continue to expect margin improvement as we use more MSW-AF in our clinkering process. In addition, while coal prices may remain elevated the overall trend may drift lower particularly on moderating speculative activity in the coal paper market. Higher electricity prices will be a drag especially after the upward adjustment of Ft but in our case, this is offset by higher revenues (and profits) from our Energy/Utilities division.

Coal prices moderating in USD…



… and Thai baht terms



Source: Bloomberg

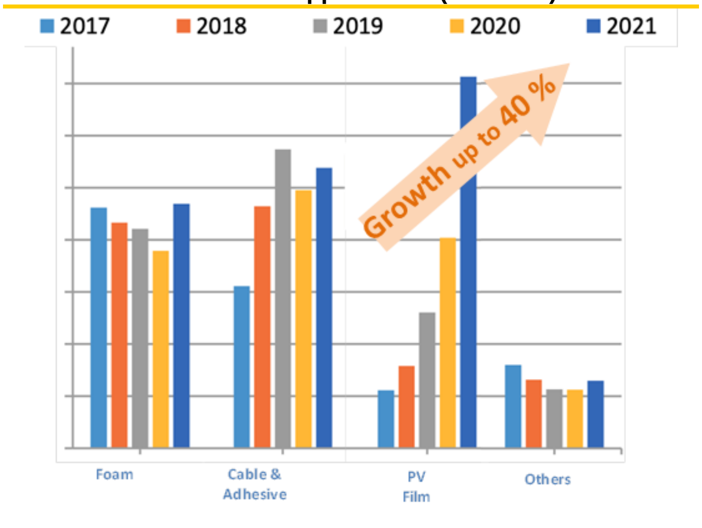
Specialty Polymers/Chemicals

The Specialty Polymer/Chemical division was the stellar performer in 2022; in the first 9M posting 53% YoY growth in sales and EBITDA and resilient margins of 41%. Our achieved EBITDA margins compare very favourably to those of the local peers' margins, which is around 10%.

The uncertainty in demand outlook on anticipation of inflation backlash plus inventory stocking resulted in softening in EVA prices in 4Q22 that cascaded to different EVA categories as well. However, by and large, we expect the situation to be transitory, most possibly resolved within two quarters. For this development we track the inventory management and activities of the big retailers mainly in the US, which is the largest customer of China's manufacturing exports. The offloading of bloated inventory globally disrupted manufacturing demand in 4Q22 but this should begin to normalise on the arrival of the spring as season and change in merchandising mix.

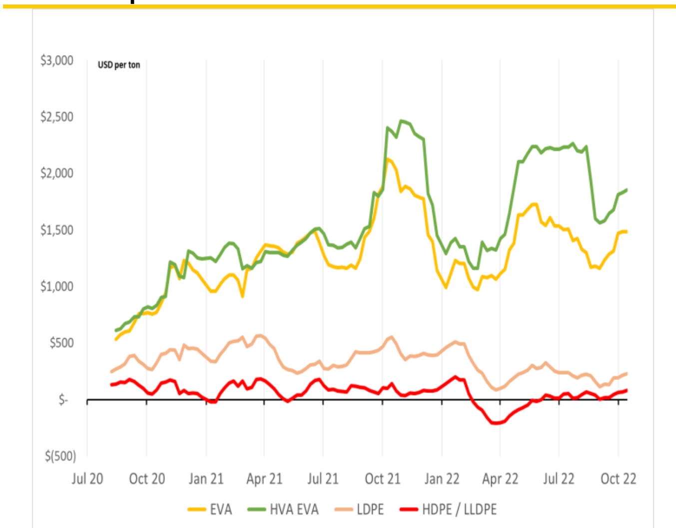
We remain bullish on the HVA EVA demand for PV applications on the rush to increase renewable power capacity globally in an effort to backpedal the interim spike in coal usage as the ad hoc solution to power shortage especially in Europe due to the disruption in gas supply. Beyond PV, hotmelt wire & cable EVA, although a smaller segment in terms of demand, could see explosive growth on the back of very strong growth in the adoption of EV locomotives.

EVA demand in various applications (case use)



Note: China & NE Asia data
Source: SCI International Business Unit

Product spread



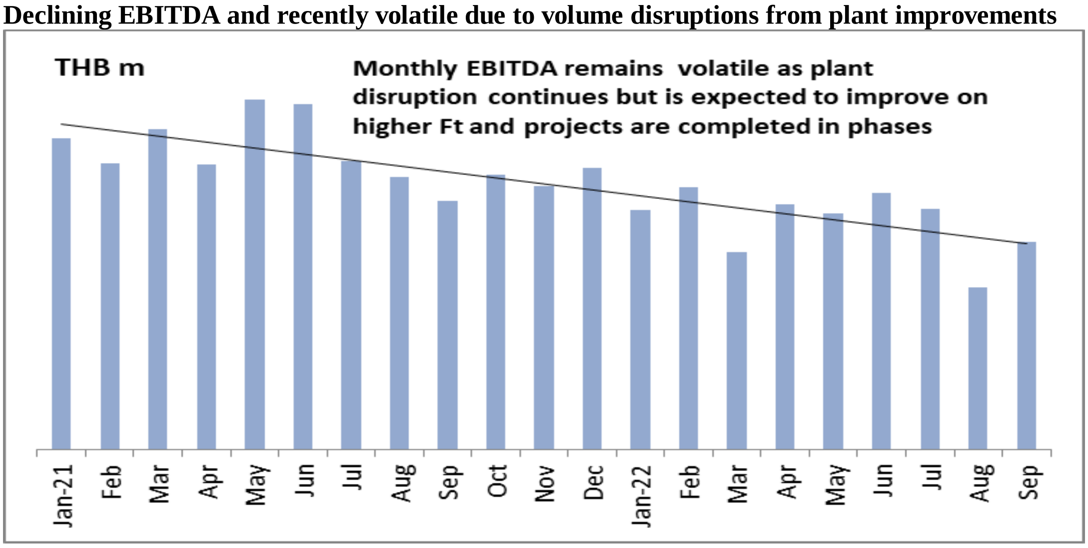
Source: ICIS, TPIPL

Energy and Utilities: Cashflow Declining but Remains at Good Level

The chart below shows that the EBITDA performance of subsidiary TPIPP in the past quarters has been declining. This is due to multiple factors: 1) change in the pricing as per PPA, 2) rising input costs and 3) plant improvement programs. That said at the end of September 2022, net interest bearing debt (IBD) was at THB14.1b while the net IBD/EBITDA was 3.4x on annualized EBITDA basis and net IBD/equity was 0.46x on equity of THB31b. The EBITDA/interest cover was a solid 7.49x. Prudent W/C management boosted TPIPP liquidity and funding capability.

In the quarters ahead, cashflow generation will still be volatile but overall we are expecting sequentially better performance as some of the projects are completed (rolled out in phases) and plant operations gradually return to normal.

Declining EBITDA and recently volatile due to volume disruptions from plant improvements

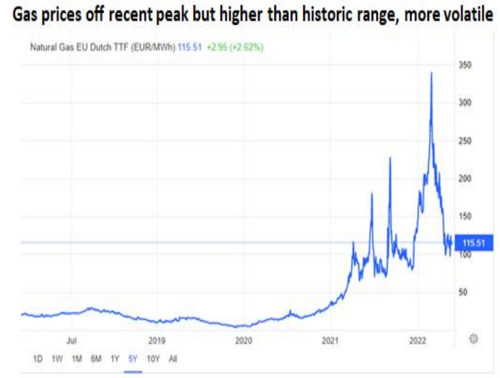


The biggest change in 2022 was the adder expiry on our 18MW and 55MW power plants that resulted in a 22% YoY decline in power sales under the adder pricing in 9M22. Sales under adder pricing accounted for 38% of the total power sales down from 44% in the same period last year. In addition to adder expiry, the ongoing plant improvement programs amidst rising input prices, particularly coal, lowered the power throughput 18% YoY to 1.4b kWh. Despite all these, overall power sales declined just by 9.3% YoY and this is thanks to the upward adjustment in Ft. In 2022, there were three Ft adjustments (THB0.39/unit, THB0.2477/unit and THB0.9343/unit) equivalent to THB0.524/ unit lift on prices, on average. For the current adjustment, starting January 2023, the new Ft will be THB1.5492/unit (THB0.9343+THB0.6149).

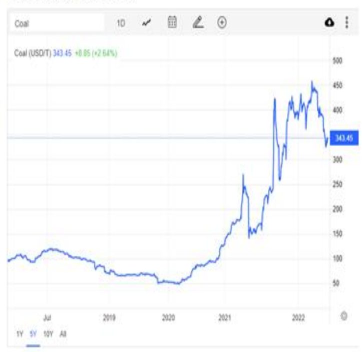
This Ft adjustment trajectory is likely to remain positive as gas prices, especially in Europe, remains high. At this point, we see the possibility of a repeat of the two favourable episodes in 2008-2010 and 2013-2015 whereby Ft rose over a sustained period of time.

Ft is likely to remain higher and further upward adjustments is likely

Gas prices off recent peak but higher than historic range, more volatile



Crude oil and coal prices off recent peak but likely to remain elevated



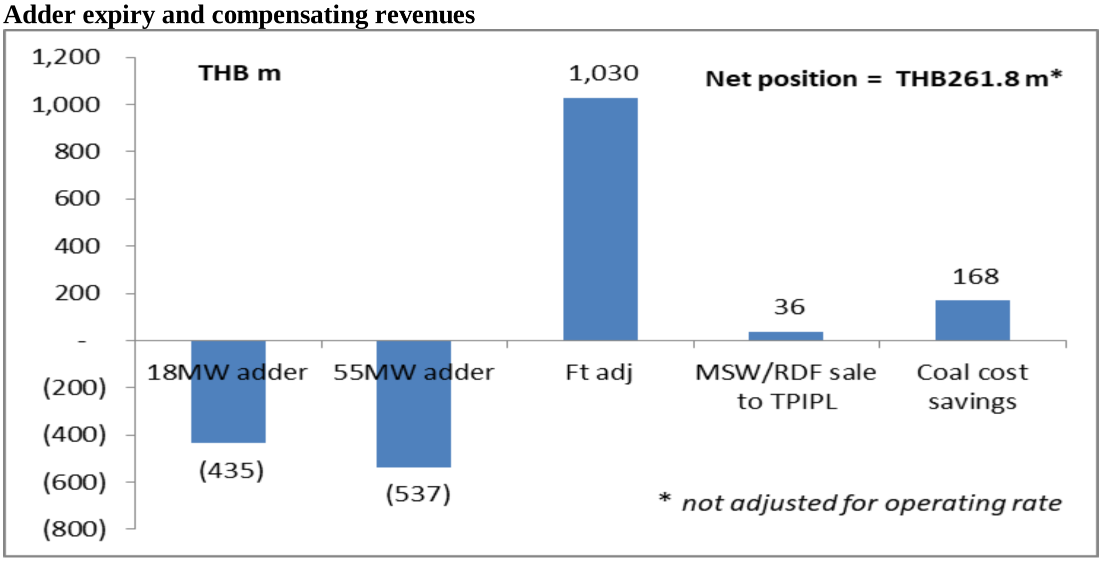
Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
	Unit : Stang/kWh											
2022	1.39	1.39	1.39	1.39	24.77	24.77	24.77	24.77	93.43	93.43	93.43	93.43
2021	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32	-15.32
2020	-11.6	-11.6	-11.6	-11.6	-11.60	-11.60	-11.60	-11.60	-12.43	-12.43	-12.43	-12.43
2019	-11.6	-11.6	-11.6	-11.6	-11.6	-11.60	-11.60	-11.60	-11.60	-11.60	-11.60	-11.60
2018	-15.9	-15.9	-15.9	-15.9	-15.90	-15.90	-15.90	-15.90	-15.90	-15.90	-15.90	-15.90
2017	-37.29	-37.29	-37.29	-37.29	-24.77	-24.77	-24.77	-24.77	-15.90	-15.9	-15.90	-15.90
2016	-4.8	-4.8	-4.8	-4.8	-33.29	-33.29	-33.29	-33.29	-33.29	-33.29	-33.29	-33.29
2015	58.96	58.96	58.96	58.96	49.61	49.61	49.61	49.61	46.38	46.38	46.38	46.38
2014	59	59	59	59	69	69	69	69	69	69	69	69
2013	52.04	52.04	52.04	52.04	46.92	46.92	46.92	46.92	54	54	54	54
2012	0	0	0	0	0	30	30	30	48	48	48	48
2011	86.88	86.88	86.88	86.88	95.81	95.81	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0
2010	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55
2009	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55	92.55
2008	66.11	68.86	68.86	68.86	68.86	62.85	62.85	62.85	62.85	77.7	77.7	7

Energy Charge		
First 150 kWh (1st – 150th)	3.2484	Baht/ kWh
Next 250 kWh (151st – 400th)	4.2218	Baht/ kWh
Over 400 kWh (up from 401st)	4.4217	Baht/ kWh
Charges reported by press		
Current electricity rate	4.72	Baht/kWh
Projections after next Ft adjustments	Jan-Apr	
Case 1 - EGAT burden THB122.25 b	5.37	Baht/kWh
Case 2 - EGAT burden THB101.88 b	5.70	
Case 3 - EGAT burden THB81.45 b	6.03	

Source: Electricity Authority, Press, tradingeconomics

In our pro-forma plan and estimate the loss of adder for 2022 (THB972 m) will be offset by a number of revenue boosters: Ft adjustment (THB 1,029.6 m), MSW/RDF to parent TPIPL (THB36.3 m) and coal cost savings (THB168 m).

Adder expiry and compensating revenues



Cashflow generation remains robust

Our net IBD at the end of 9M22 was THB57.7b while our net IBD/EBITDA, on annualized EBITDA basis, was 3.9x. Our net IBD/equity ratio is a comfortable 0.93x. The Group is currently rolling out multiple projects to advance our goal of achieving net zero GHG starting 2025/26. Capex deployed in 9M22 was THB4b and we are allocating capex budget of around THB5-6b per year until 2024 to 1) reduce carbon emission in our cement production 2) increase MSW intake in our power production, 3) bring new HVA specialty polymers, 4) convert our ICE locomotives to EVs and 5) introduce more new products with innovations.

Clocking more ESG merits in both TPIPL and TPIPP

In 2021, TPIPP received 6.0 million ESG Credits from green investment, defined in the Guidance on Core SDG indicators as suggested by UNCTAD. The accreditation was also re-considered by the Thaipat Institute that assessed favourable our ESG direction and strategy. For the 9M22, TPIPP used 2.1m tons of MSW, +40% YoY reducing GHG emissions by an equivalent of 4.88m tons CO_2, a calculation based on MSW dumped into the landfill that emits 3.49m tons of CO_2 equivalent per ton of landfill waste. The GHG reduction equivalent of 4.88m tons CO_2 in the 9M22 puts us on track to meet our full year target of 5.8m tons of CO_2 equivalent reduction.

Apart from CO_2 reduction TPIPP also reduced water consumption by 11% YoY and was able to recycle 36% of the water remaining in use. On our internal recycling, we used 15k tons of recycled materials, 100% of our internally generated waste.

As for TPIPL, it achieved the following: 1) 25% MSW replacement in our three cement kilns, 2) converted 31 ICE trucks to EVs, 3) reduced industrial waste (IW) by 36% to 6,644 tons and 4) hit 99.8% recycling ratio on the remaining IW.

More green capex on the cards

Apart from our ongoing program to increase the MSW uptake in TG7 & TG8 power plants as well as two MSW power plant projects in Songkhla and Korat, we are also investing in a 62MW solar farm and 5MW wind turbine to further reduce our GHG emission and consequentially improve earnings and shareholders' returns. We remain strongly committed to our zero-waste and carbon reduction agenda and this will drive our investments going forward. For these projects we set a capex of THB5-6b funded mainly by internal cashflow.

Citations garnered in 2022

TPIPL SET's Thailand Sustainability Investment (THSI) List
TPIPP SET's Thailand Sustainability Investment (THSI) List
TPIPL Four Star Corporate Governance Rating (Highest rating – Five Stars)
TPIPP Four Star Corporate Government Rating (Highest rating – Five Stars)
TPIPL in Thaipat Institute's Emerging List of 2022
TPIPP in Thaipat Institute's ESG100 Securities Group out of 851 listed securities assessed
TPIPP Most Innovative Green Practices Towards ESG – Waste Management by International Finance Magazine
TPIPL Most Socially Responsible Conglomerate – Thailand 2022 by the Global Economics
TPIPP Best Product Innovations for Sustainable Development – Thailand 2022 by the Global Economics
Mr. Prachai Leophairatana - Asia's Greatest CEO 2022-2023 by AsiaOne Magazine
TPIPL Asia's Greatest Brands 2022-2023 by AsiaOne Magazine
TPIPP Asia's Greatest Brands 2022-2023by Asia One Magazine

Award Ceremony at the India-Thailand Partners Progress Summit, December 2022

Mr. Pakorn Leophairatana, President of TPI Polene Power Pcl and Mrs. Surapha Nakwatchara, Assistant Vice President Sales of TPI Polene Pcl, received the awards in the occasion of India-Thailand Partners in Progress 2022 Summit on 17 December 2022 held at the India-Thai Chamber of Commerce in Bangkok.

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