

# TPI POLENE PLC

No. 66/2021  
26 August 2021

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 15/03/21

### 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 TPIPL's outstanding senior unsecured debentures at "BBB+". TRIS Rating also maintains the "stable" outlook.

At the same time, TRIS Rating assigns the rating of "BBB+" to TPIPL's newly proposed issue of up to THB8 billion in senior unsecured debentures. The company intends to use the proceeds from the new debentures mainly for refinancing the maturing bonds and long-term loans. The remainder will be for capital expenditures and working capital need.

The ratings reflect TPIPL's strong market position in the domestic cement industry, a leading position in the low-density polyethylene (LDPE) and ethylene vinyl acetate (EVA) market, solid cash flow from its power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), and the positive effect of business diversification. However, these strengths are held back by the cyclical nature of the cement and plastics industries, the operational risks inherent in refuse-derived fuel (RDF) power plants, and investment risks associated with the Special Economic Zone (SEZ) development project. The ratings are also constrained by an expected rise in the company's financial leverage during investment periods. The ratings also factor the company's heavy reliance on bond financing due to the management's preference and the favorable bond market over the past several years.

TPIPL reported a significant rise in earnings for the first half of 2021, mainly derived from a better spread from the petrochemical business and enhancing efficiency from the existing power plants. The company's revenue for the first six months of 2021 was THB20 billion, an increase of 13% year-on-year (y-o-y). Earnings before interest, taxes, depreciation, and amortization (EBITDA) soared to about THB6.37 billion, up 46% y-o-y. The total net profit for the first six months was THB3.63 billion, increased by 113% y-o-y from THB1.7 billion in the same period of 2020. The ratio of net debt to EBITDA improved, dropping to 5.1 times at the end of June 2021 from about 6 times at the end of 2020.

We maintain our view that TPIPL's efforts to undertake various efficiency enhancement programs covering all business units could potentially heighten the company's earnings. In addition, TPIPL is preparing to participate in bidding for several greenfield waste-to-energy power projects nationwide, a move to address the imminent impact from the expiration of tariff adder of its existing power plants. Moreover, TPIPL's development of the SEZ project in Songkhla province is still ongoing. We believe that the success of the SEZ project will play an important role in bolstering TPIPL's cash generation to a higher and more sustainable level. TPIPL's managements expect to make additional EBITDA of THB20 billion per year when the SEZ project is fully completed.

However, we expect a rise in the company's financial leverage during the investment period, which will be a major constrain on its ratings. Delays in the SEZ project remain a significant risk due to the worsening Coronavirus Disease 2019 (COVID-19) outbreak in the country. The Prime Minister reaffirmed the government's commitments to the SEZ project and approved the Southern Border Provinces Administrative Centre (SBPAC) to proceed in accordance with the respective cabinet resolutions. TPIPL has secured land in areas where the

project is expected to be developed. We expect that TPIPL will not make any additional investments in the SEZ project unless the company obtains official agreements from the relevant authorities, such as the related power purchase agreements. Additionally, we believe TPIPL would need to seek capable partners or come up with a suitable financing scheme to avoid an overleveraged structure.

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#### **RATING OUTLOOK**

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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 continue to deliver satisfactory performance and maintain its cash flow contribution. We also expect the company will be able to secure new power projects to partially compensate the drop-off in cash flow from the imminent adder expiration, to be largely in line with our forecast of its operating performance and levels of financial leverage.

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#### **RATING SENSITIVITIES**

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The prospect of a rating upgrade is limited in the near term, but it could emerge if TPIPL has proven to materialize its efficiency enhancement measures and successfully secured new power purchase agreements. These will enable TPIPL to considerably fortify its earnings as the company expects. Other factors influencing an upgrade would be the net debt to EBITDA ratio remaining below 6 times for a sustained period and TPIPL’s greater diversification of its sources of borrowings. Positive rating factors could also develop from financial deleveraging.

The ratings and/or outlook could be revised downward if TPIPL’s net debt to EBITDA ratio stays above 8 times for a lengthy period. The rating downside could stem from deterioration of the cement business, weaker-than-expected performance of power plants, as well as large debt-funded investments. A large equity loss from pending legal claims could also trigger a negative rating action.

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#### **RELATED CRITERIA**

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- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**TPI Polene PLC (TPIPL)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TPIPL221A: THB3,530 million senior unsecured debentures due 2022	BBB+
TPIPL224A: THB1,200 million senior unsecured debentures due 2022	BBB+
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+
Up to THB8,000 million senior unsecured debentures due within 5 years	BBB+
<b>Rating Outlook:</b>	Stable

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