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## Fitch Revises Outlook on Thailand's HMC Polymers to Stable, Affirms Rating at 'A-(tha)'

Fitch Ratings - Bangkok - 19 Apr 2022: Fitch Ratings (Thailand) Limited has revised the Outlook on HMC Polymers Company Limited, a polypropylene (PP) manufacturer, to Stable from Negative, and affirmed its National Long-Term Rating and senior unsecured rating at 'A-(tha)'.

The Outlook revision reflects our view that HMC's financial leverage, measured by net debt/EBITDA, will remain below 3.3x, a negative threshold for its current rating, in 2022, supported by a buffer from its stronger-than-expected operating cash flows in 2021. Fitch expects HMC's EBITDA to decrease and its free cash flow after dividend payment to remain negative in 2022. Its net debt/EBITDA is likely to increase, but should be below 3.3x in 2022.

HMC's rating incorporates a one-notch uplift from the 'bbb+(tha)' Standalone Credit Profile (SCP), as Fitch has assessed that HMC has moderate linkages with PTT Global Chemical Public Company Limited (PTTGC, AA+(tha)/Negative, SCP: aa-(tha)). PTTGC is HMC's largest shareholder with a 41% stake.

HMC's SCP reflects its position as the largest PP producer in Thailand, and its leading technology and product innovation, which enables it to focus on high-value-added products. However, HMC's limited product diversification, the cyclical petrochemical industry and our expectations of a moderate financial profile weigh on the rating.

### Key Rating Drivers

**Higher Headroom:** HMC's net debt/EBITDA fell to 1.7x in 2021 (2020: 2.6x), better than our expectation of an increase to 3.5x-4.0x, on stronger-than-expected EBITDA and lower project costs for a new plant, PP Line 4. This will provide larger headroom to support its remaining capex in 2022 and lower operating cash flow from a delay in PP Line 4's start-up. HMC's EBITDA rose to THB4.6 billion in 2021 (2020: THB2.7 billion), driven by a substantial rebound in product-to-feed spreads despite lower sales volume due to a planned major turnaround of its PP plant.

**EBITDA to Soften:** Fitch expects HMC's EBITDA to drop to about THB3.2 billion in 2022, as we expect its product spreads to narrow as a result of new capacity in the industry. Higher feedstock costs, driven by increased oil prices, are also likely to put pressure on its product spreads. We expect HMC's EBITDA to improve to THB4 billion-4.5 billion a year in 2023-2024, supported by new capacity in addition to a general improvement in demand. This will help HMC to deleverage further in 2023-2024.

**PP Line 4 Delay:** HMC expects to postpone PP Line 4's start-up to 2H22 from 1H22 due to pandemic-related disruptions. However, it said the project costs will be reduced by about 14%, from a previous

target of about THB10 billion, due to lower contingent liabilities and a stronger baht than its budget. HMC's capex will remain high in 2022 due to the large committed investment in PP Line 4, which has production capacity of 250,000 tonnes per annum. The rest of PP Line 4's THB1.5 billion capex will be spent in 2022. HMC has secured THB10 billion in bank loans to fund the investment.

**Focus on High-Value-Added Products:** HMC focuses on differentiated and specialty products, which have lower competition and higher margins. The proportion of sales of these products increased to around 55% in 2021, from about 35% in 2015, although this will drop during PP Line 4's ramp-up. The company aims to raise the contribution to about 70% of sales by 2030. HMC said these products provide a premium of about 5% over its commodity PP product price, which supports its higher profitability than competitors.

**Leading South-East Asian PP Producer:** HMC is the largest PP producer in Thailand, with a market share of about one-third. HMC's capacity will increase to about 1.1 million tonnes per annum by end-2022, which will make it the largest PP producer in south-east Asia after PP Line 4 is completed. Its market position is also enhanced by its focus on differentiated and specialty products, and partial upstream integration into a propane dehydrogenation plant.

**Leading Technology, Product Innovation:** HMC uses leading PP technology from LyondellBasell, a key shareholder, in its production. It will use the latest technology for its PP Line 4 - one of only two plants in the world that can use C6 monomer to enhance PP properties - and expand its product portfolio for new applications. HMC is the leader in pipe- and medical-grade PP in Thailand, and is the world's first producer of PP for dielectric film using modern technology. All of HMC's products use LyondellBasell's global brands.

**Cyclicality and Limited Diversification:** HMC's credit profile is tempered by its limited product diversification and the inherent cyclicality of the industry. The company's earnings and cash flow are affected significantly by volatile petrochemical prices and margins, and demand-supply dynamics. HMC also produces only PP products, making it less diversified than domestic chemical peers.

**Linkage with PTTGC:** We assess that parent PTTGC has 'Medium' incentive to support HMC under Fitch's Parent and Subsidiary Linkage Rating Criteria. HMC is a propylene off-taker of PTTGC, and its key vehicle in the PP business. HMC has a non-compete arrangement with PTTGC for petrochemical products, reflecting their strategic linkages. Fitch believes PTTGC is likely to provide extraordinary support to HMC, if needed, without any constraints on the support. These underpin our assessment of 'Medium' strategic incentive.

PTTGC does not have management control over HMC, as LyondellBasell is also involved in the appointment of HMC's directors and key senior management. In addition, all of HMC's products use LyondellBasell's global brand names. We therefore assess the operational incentive as 'Weak', the same as the legal incentive.

## Derivation Summary

HMC's business profile is moderate relative to that of Thai downstream oil and gas, and chemical

peers. Its financial profile is also moderate during the normal run of business.

HMC has a smaller operating scale as well as lower upstream integration and product diversification than IRPC Public Company Limited (A-(tha)/Stable, SCP: bbb(tha)). However, HMC is more advanced in product and technology, and generates higher margins than IRPC, even excluding the refinery business, as HMC focuses on differentiated and specialty products. This, together with stronger credit metrics, results in HMC's SCP being one notch higher than that of IRPC.

HMC's business profile is slightly stronger than that of other companies in the polymer and plastic-product business, including Polyplex (Thailand) Public Company Limited (PTL, A-(tha)/Stable) and Eastern Polymer Group Public Company Limited (EPG, A-(tha)/Stable). We believe HMC's leading market position in south-east Asia offsets its lower geographical diversification compared with PTL, and its fewer end-user segments compared with EPG. Still, HMC's financial leverage leads to a lower SCP than PTL and EPG.

## Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Sales volume to increase by about 15% in 2022 (2021: -11%) due to the absence of a planned major turnaround and the start-up of PP Line 4, and by about 24% in 2023 due to PP Line 4's full-year operation;
- Product-to-feed spreads to narrow in 2022 and gradually improve in 2023-2024;
- PP Line 4 to start operating in 4Q22, adding capacity of 250,000 tonnes per annum;
- Capex of THB1.5 billion in 2022 for PP Line 4 and other capex of THB1.0 billion-1.7 billion a year during 2022-2024 for maintenance and efficiency improvement;
- Dividend payout ratio at 90% for 2022-2024.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Substantial improvements in the business profile, including materially larger scale and/or better product diversification, while reducing net debt/EBITDA to below 2.3x on a sustained basis;
- Evidence of stronger ties with PTTGC.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in operating performance, or additional capex and high dividend payouts, which sustain net debt/EBITDA above 3.3x;
- Weakened ties with PTTGC.

## Liquidity and Debt Structure

**Satisfactory Liquidity:** HMC had outstanding debt of THB10.3 billion at end-December 2021, consisting of THB1.2 billion in short-term loans, THB5.0 billion in debentures and THB4.1 billion in long-term bank loans. HMC issued THB5.0 billion in debentures to refinance bank loans in 2020. The outstanding THB4.1 billion in bank loans at end-2021 were a drawdown of the THB10 billion in bank loans to fund the investment. Liquidity is adequate, supported by cash on hand of THB1.3 billion and a committed, available revolving credit facility of THB4.0 billion.

## Issuer Profile

HMC, the first PP manufacturer in Thailand, is also the largest with total capacity of 810,000 tonnes per annum, which will increase to 1.06 million tonnes per annum by 2022 with the new PP line.

## Summary of Financial Adjustments

Preferred shares, which are proportionately held by shareholders, are excluded from debt.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## Public Ratings with Credit Linkage to other ratings

HMC's rating receives a one-notch uplift based on our assessment of 'Medium' incentives for support from the parent, PTTGC.

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
HMC Polymers Company Limited	Natl LT	A-(tha) 	Affirmed	A-(tha) 
• senior unsecured	Natl LT	A-(tha)	Affirmed	A-(tha)

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Corporate Rating Criteria \(pub.15 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.01 Dec 2021\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.15 Oct 2021\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1)

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