FitchRatings

Corporates
Chemicals
Thailand

HMC Polymers Company Limited

Ratings

Rating Type	Rating	Outlook	Last Rating Action
National Long-Term Rating	A-(tha)	Negative	New Rating 9 Apr 20

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HMC Polymers Company Limited's (HMC) 'A-(tha)' rating incorporates a one-notch uplift from its 'bbb+(tha)' Standalone Credit Profile (SCP), as Fitch Ratings has assessed that HMC has moderate linkages with PTT Global Chemical Public Company Limited (PTTGC, AA+(tha)/Negative, SCP: aa-(tha)), its largest shareholder with a 41% stake, in line with our Parent and Subsidiary Rating Linkage criteria.

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

The Negative Outlook reflects risks to HMC's deleveraging after a large investment in 2020-2021 amid weak demand due to the disruptions caused by the coronavirus. Fitch expects HMC's financial leverage – measured by funds from operations (FFO) net leverage – to increase to above 4.5x in 2020-2021 because of the large committed investment in the PP line 4 and weak operating cash flow.

We expect leverage to fall below 3.5x by 2022, supported by an improvement in cash flow due to earnings from new capacity in addition to a general improvement in demand, margins and product spreads after the pandemic. However, HMC's financial leverage could be sustained above 3.5x if demand or margins remain weak on account of a protracted deterioration in the economic environment beyond 2021.

Key Rating Drivers

Leading South-East Asian PP Producer: HMC is the largest PP producer in Thailand, with a market share of about 33% in 2019. The company is also one of the leading PP manufacturers in south-east Asia. HMC's capacity will increase to about 1.1 million tonnes per annum by 2022, making it the largest PP producer in the region after its new PP production 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 (PDH).

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 46% in 2019, from about 35% in 2015. The company plans to raise the contribution to more than 60% of sales after its PP line 4 is fully operational. These products, according to the company, provide a premium of about 5% over its commodity PP product price, which supports its higher profitability than its competitors.

More than 75% of HMC's products are sold to packaging businesses – about 40% for flexible and 35% for rigid packaging – although the company targets more sophisticated packaging applications such as film functional layers or high-impact-resistant packaging. In addition, sales to the healthcare and hygiene, and industrial sectors have increased gradually in the past four years (2019: 15.1% of sales).

Applicable Criteria

Parent and Subsidiary Rating Linkage (September 2019)

Exposure Draft: National Scale Rating Criteria (March 2020)

Corporate Rating Criteria (March 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (March 2020)

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Leading Technology, Product Innovation: HMC uses leading PP technology from LyondellBasell, a key shareholder, in its production. It will use the latest PP 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 grade 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 brand names.

Partial Integration; Diversified Feedstock: HMC has partially moved towards upstream production via its PDH plant, supplying feedstock for about 40% of its PP production. The remaining propylene feedstock is secured under long-term contracts with PTTGC, Rayong Olefins Company Limited (in which HMC holds a 14.3% stake) and a local refinery. HMC has from time to time imported propylene to manage supply risk.

Imported propylene will increase to about 7% of its requirements once its PP line 4 is fully operational. About half of its propylene feedstock is gas-based, which has a cost advantage in a high oil-price environment, although this will drop to about 40% after PP line 4's completion. The remaining propylene feedstock is naphtha-based.

Feedstock Pricing Reduces Volatility: HMC procures propane, which is available domestically, from PTT Public Company Limited (BBB+/Stable), PTTGC's parent, under a gas-supply agreement based on a net-back pricing scheme linking gas feedstock prices with PP prices. This reduces margin volatility when market conditions fluctuate and provides a degree of production integration.

Leverage to Increase: Fitch expects HMC's FFO net leverage to increase substantially to about 4.5x-5.5x in 2020-2021, from 2.5x in 2019, due to the construction of the new PP line with production capacity of 250,000 tonnes per annum. The project will cost about USD300 million or THB9.4 billion, which will be spent mostly in 2020-2021. HMC has secured THB10 billion in bank loans to fund the investment. Fitch expects HMC's financial leverage to decrease to about 3.2x in 2022 and 2.5x in 2023, when the PP line 4 is fully operational.

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 its domestic chemical peers. The company also has only one production site.

Linkage with PTTGC: We assess linkages between HMC and PTTGC to be moderate. HMC is a propylene off-taker of PTTGC. PTTGC considers HMC as its key vehicle in the PP business. HMC has a non-compete arrangement with PTTGC for petrochemical products, reflecting their strategic linkages. PTTGC and LyondellBasell appoint the majority of HMC's directors and some key management personnel. Fitch believes PTTGC is likely to provide extraordinary support to HMC, if needed, without any constraints in providing the support.

Financial Summary

(THBm)	Dec 18	Dec 19	Dec 20F	Dec 21F
Gross revenue	30,994	26,901	20,375	23,926
Operating EBITDA margin (%)	16.5	11.8	9.5	12.6
FFO margin (%)	17.0	10.0	7.5	9.9
FFO fixed charge coverage (x)	8.6	5.0	2.9	3.4
FFO adjusted net leverage (x)	1.5	2.7	5.6	4.7

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

HMC's business profile is moderate relative to Thai downstream oil and gas, and chemicals peers, while its financial profile is also moderate during the normal run of business.

HMC has 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. HMC has more diversified feedstock, which is based on gas and naphtha. We believe their business profiles are comparable but HMC has stronger credit metrics. Hence, HMC's SCP is 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 lower end-user segments compared with EPG. Nevertheless, HMC's financial leverage leads to a lower SCP than PTL and EPG.

Rating Sensitivities

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

- The Outlook could be revised to Stable if FFO net leverage decreases to below 3.5x by 2022
- Evidence of stronger ties with PTTGC

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

- Deterioration in operating performance, delays in the start-up of the PP line 4 project or additional capex and high dividend payouts, which resulted in a failure to reduce FFO net leverage below 3.5x by end-2022
- Deterioration of EBITDA margin to below 10% on a sustained basis
- Weakened ties with PTTGC

Liquidity and Debt Structure

Manageable Liquidity: HMC had outstanding debt of THB6.9 billion at end-December 2019. Debt consisted of a short-term loan of THB1.5 billion and long-term bank loans with a current portion of THB1.3 billion due to mature within 12 months. Liquidity is manageable, supported by cash on hand of THB1.3 billion and a committed revolving credit facility of THB3.0 billion. HMC will generate substantial negative free cash flow in 2020-2021 as a result of large capex for its PP line 4. However, HMC has already secured THB10 billion in bank loans to fund the investment and will start drawing these down in 1H20.

Liquidity and Debt Maturity Scenario with No Refinancing

HMC Polymers Company Limited – Liquidity Analysis

Available Liquidity (THBm)	2020F	2021F
Beginning cash balance	1,337	6,252
Rating case FCF after acquisitions and divestitures	-3,772	-2,626
Bank loan for PP line 4	10,000	
Total available liquidity (A)	**7,564**	**3,626**
Liquidity uses		
Debt maturities	-1,313	-1,512
Total liquidity uses (B)	**-1,313**	**-1,512**
Liquidity calculation		
Ending cash balance (A+B)	6,252	2,114
Revolver availability	3,000	0
Ending liquidity	**9,252**	**2,114**
Liquidity score	**0.4**	**2.4**

Source: Fitch Ratings, Fitch Solutions, HMC

Scheduled debt maturities	Original
Statement date	**31 December 2019**
2020	1,313
2021	1,512
2022	1,701
2023	852
2024	0
Thereafter	0
Total	5,377

Source: Fitch Ratings, Fitch Solutions, HMC

Key Assumptions

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

- Revenue to decline by around 24% in 2020 as a result of lower demand from the coronavirus outbreak and weaker PP prices following a drop in crude prices. Demand and PP prices to improve gradually, starting in 2021, supporting revenue growth.
- EBITDA margin to drop to around 10% in 2020 due to weak demand and low product-to-feed margin.
- Product-to-feed margin to improve gradually from 2021, helping the EBITDA margin to widen to around 12%-13% in 2021-2022.
- New PP plant to start operating in 2Q22, adding capacity of 250,000 tonnes per annum.
- Capex of THB8.1 billion during 2020-2022 for PP line 4 plus other capex of THB0.6 billion-1.4 billion a year during 2020-2022 for maintenance and efficiency improvements.

Financial Data

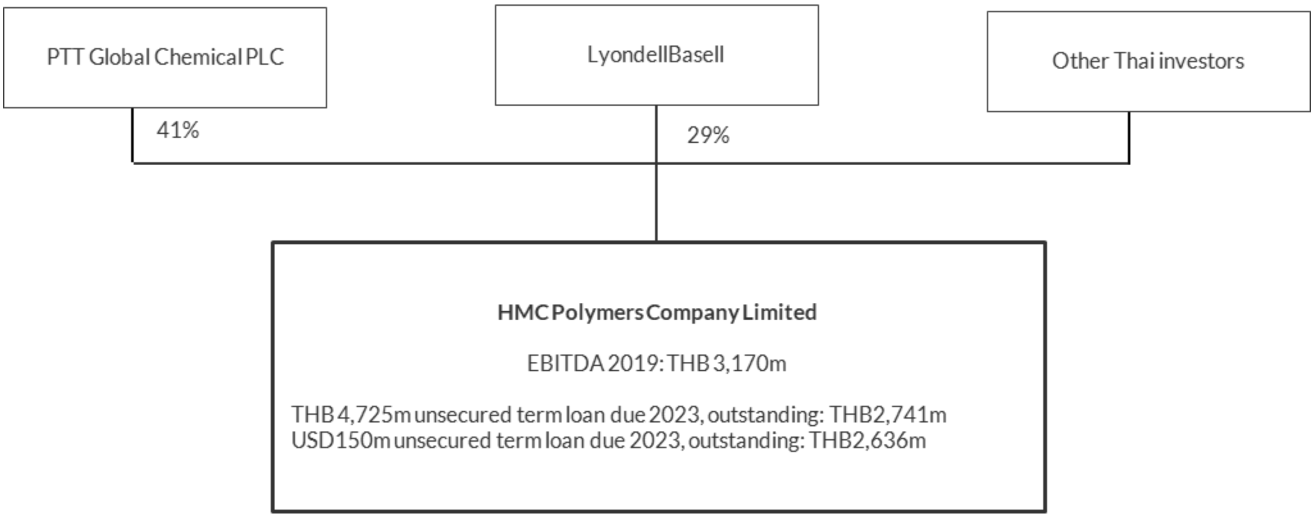
	Historical			Forecast		
(THBm)	Dec 17	Dec 18	Dec 19	Dec 20F	Dec 21F	Dec 22F
Summary income statement						
Gross revenue	30,009	30,994	26,901	20,375	23,926	32,997
Revenue growth (%)	0.7	3.3	-13.2	-24.3	17.4	37.9
Operating EBITDA (before income from associates)	5,641	5,109	3,170	1,942	3,015	4,172
Operating EBITDA margin (%)	18.8	16.5	11.8	9.5	12.6	12.6
Operating EBITDAR	5,695	5,202	3,268	2,044	3,119	4,280
Operating EBITDAR margin (%)	19.0	16.8	12.1	10.0	13.0	13.0
Operating EBIT	3,945	3,453	1,557	393	1,402	2,035
Operating EBIT margin (%)	13.1	11.1	5.8	1.9	5.9	6.2
Gross interest expense	-313	-292	-251	-370	-528	-598
Pretax income (including associate income/loss)	5,856	4,555	1,834	339	1,197	2,062
Summary balance sheet						
Readily available cash and equivalents	1,121	1,484	1,337	1,687	2,562	2,448
Total debt with equity credit	10,448	9,460	9,605	13,729	17,229	17,129
Total adjusted debt with equity credit	10,882	10,202	10,395	14,542	18,067	17,992
Net debt	9,328	7,977	8,269	12,041	14,667	14,681
Summary cash flow statement						
Operating EBITDA	5,641	5,109	3,170	1,942	3,015	4,172
Cash interest paid	-292	-273	-237	-370	-528	-598
Cash tax	-804	-670	-418	-33	-116	-200
Dividends received less dividends paid to minorities (inflow/(out)flow)	1,793	1,339	301	301	301	600
Other items before FFO	-18	62	192	-327	-327	-327
Funds flow from operations	6,029	5,263	2,695	1,528	2,366	3,671
FFO margin (%)	20.1	17.0	10.0	7.5	9.9	11.1
Change in working capital	85	-562	48	1,111	-497	-1,373
Cash flow from operations (Fitch defined)	6,114	4,701	2,743	2,639	1,869	2,299
Total non-operating/non-recurring cash flow	0	0	0			
Capital expenditure	-1,394	-709	-1,560			
Capital intensity (capex/revenue) (%)	4.6	2.3	5.8			
Common dividends	-4,972	-2,673	-1,673			
Free cash flow	-252	1,319	-490			
Net acquisitions and divestitures	0	0	0			
Other investing and financing cash flow items	-20	-1	-18	0	0	0
Net debt proceeds	-791	-955	361	4,123	3,500	-100
Net equity proceeds	0	0	0	0	0	0
Total change in cash	-1,062	363	-147	351	874	-114
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-6,365	-3,382	-3,233	-6,412	-4,495	-2,313
Free cash flow after acquisitions and divestitures	-252	1,319	-490	-3,772	-2,626	-14
Free cash flow margin (after net acquisitions) (%)	-0.8	4.3	-1.8	-18.5	-11.0	0.0
Coverage ratios						
FFO interest coverage (x)	10.7	9.7	5.7	3.2	3.7	4.9
FFO fixed charge coverage (x)	9.9	8.6	5.0	2.9	3.4	4.5
Operating EBITDAR/interest paid + rents (x)	21.6	17.9	10.6	5.0	5.4	6.9
Operating EBITDA/interest paid (x)	25.4	23.6	14.6	6.1	6.3	8.0
Leverage ratios						
Total adjusted debt/operating EBITDAR (x)	1.5	1.6	2.9	6.2	5.3	3.7
Total adjusted net debt/operating EBITDAR (x)	1.3	1.3	2.5	5.5	4.5	3.2
Total debt with equity credit/operating EBITDA (x)	1.4	1.5	2.8	6.1	5.2	3.6
FFO adjusted leverage (x)	1.6	1.7	3.1	6.3	5.5	3.8
FFO adjusted net leverage (x)	1.5	1.5	2.7	5.6	4.7	3.3

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, HMC

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (THBm)	Operating EBITDA margin (%)	FFO margin (%)	FFO fixed charge coverage (x)	FFO adjusted net leverage (x)
HMC Polymers Company Limited	A-(tha)						
		2019	26,901	11.8	10.0	5.0	2.7
		2018	30,994	16.5	17.0	8.6	1.5
		2017	30,009	18.8	20.1	9.9	1.5
IRPC Public Company Limited	A-(tha)						
	A(tha)	2019	239,315	2.4	1.8	3.1	8.8
	A-(tha)	2018	280,551	6.6	5.8	8.1	3.0
	A-(tha)	2017	214,101	9.4	8.4	7.4	2.8
Polyplex (Thailand) Public Company Limited	A-(tha)						
	A-(tha)	2019	14,746	18.5	18.3	24.3	0.6
		2018	12,673	18.1	17.2	19.0	0.8
		2017	11,539	16.5	15.8	13.3	1.3
Eastern Polymer Group Public Company Limited	A-(tha)						
		2019	10,587	14.3	14.6	11.5	0.9
		2018	9,614	15.4	16.0	14.2	0.8
		2017	9,285	20.0	20.1	15.8	0.7

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(THB Millions, As reported)	31 Dec 2019
Income Statement Summary	
Operating EBITDA	3,170
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	301
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**3,470**
+ Operating Lease Expense Treated as Capitalised (h)	**99**
= Operating EBITDAR after Associates and Minorities (j)	**3,569**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**9,605**
+ Lease-Equivalent Debt	790
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	**10,395**
Readily Available Cash [Fitch-Defined]	1,337
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**1,337**
Total Adjusted Net Debt (b)	**9,059**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**-327**
Interest Received	15
+ Interest (Paid) (d)	**-237**
= Net Finance Charge (e)	**-222**
Funds From Operations [FFO] (c)	**2,695**
+ Change in Working Capital [Fitch-Defined]	48
= Cash Flow from Operations [CFO] (n)	**2,743**
Capital Expenditures (m)	**-1,560**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**2.9**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.1**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Leverage [x] ((l+p)/(c-e+h-f))	**3.7**
(Total Debt + Other Debt)/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**2.8**
CFO-Capex/Total Debt with Equity Credit (%)	**12.3%**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**2.5**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**2.7**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Net Leverage [x] ((l+p-o)/(c-e+h-f))	**3.2**
Total Adjusted Net Debt/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**7.0**
CFO-Capex/Total Net Debt with Equity Credit (%)	**14.3%**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**10.6**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**14.6**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**5.0**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**5.7**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities
Source: Fitch, based on information from company reports.

Source: Fitch Ratings, Fitch Solutions, HMC

	Reported Values 31 Dec 19	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	CORP - Lease Treatment	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	26,901	0				26,901
Operating EBITDAR	3,170	99		99		3,268
Operating EBITDAR after Associates and Minorities	3,170	399	301	99		3,569
Operating Lease Expense	0	99		99		99
Operating EBITDA	3,170	0				3,170
Operating EBITDA after Associates and Minorities	3,170	301	301			3,470
Operating EBIT	1,557	0				1,557
Debt & Cash Summary						
Total Debt With Equity Credit	9,585	20			20	9,605
Total Adjusted Debt With Equity Credit	9,585	810		790	20	10,395
Lease-Equivalent Debt	0	790		790		790
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	1,337	0				1,337
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	-327	-327			-327
Interest Received	15	0				15
Interest (Paid)	-237	0				-237
Funds From Operations [FFO]	2,722	-27	-27			2,695
Change in Working Capital [Fitch-Defined]	48	0				48
Cash Flow from Operations [CFO]	2,770	-27	-27			2,743
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-1,560	0				-1,560
Common Dividends (Paid)	-1,673	0				-1,673
Free Cash Flow [FCF]	-463	-27	-27		(0)	-490
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	3.0					2.9
FFO Adjusted Leverage [x]	3.3					3.1
FFO Leverage [x]	3.3					3.0
Total Debt With Equity Credit / Op. EBITDA* [x]	3.0					2.8
CFO-Capex/Total Debt with Equity Credit (%)	12.6%					12.3%
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	2.6					2.5
FFO Adjusted Net Leverage [x]	2.8					2.7
FFO Net Leverage [x]	2.8					2.5
Total Net Debt / (CFO - Capex) [x]	6.8					7.0
CFO-Capex/Total Net Debt with Equity Credit (%)	14.7%					14.3%
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	13.4					10.6
Op. EBITDA / Interest Paid* [x]	13.4					14.6
FFO Fixed Charge Coverage [x]	12.4					5.0
FFO Interest Coverage [x]	12.4					5.7

Source: Fitch Ratings, Fitch Solutions, HMC

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