

BUY (Unchanged)**TP: Bt 60.00** (Unchanged)**8 MARCH 2022**

Change in Numbers

Upside : 41.2%

Indorama Ventures Pcl (IVL TB)

Strong growth intact

IVL's share price has recently been hit by surging European gas costs that are pushing up its processing costs. However, we believe its share price correction is overdone and expect IVL to still be able to deliver strong 32% y-y EPS growth in 2022F. Reaffirm BUY call.

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Still a growth stock

IVL's share price has been hit hard on concerns over surging gas prices. Higher gas prices push up IVL's processing costs via higher power prices and heating costs. The jump in gas prices is more severe in Europe, up by 136% YTD vs. 29% in the US. IVL's European operation accounts for 21% of total EBITDA while its US operation makes up 51%. We see a limited impact from higher gas costs on its Asian operation (28% of EBITDA). We cut our 2022F earnings by 5.7% while maintaining our 2023-24F projections. Despite that, we still see IVL as a growth stock with 32/12/3% EPS growth over 2022-24F. At 8.9/8.0x PE in 2022-23F, we reaffirm our BUY call on IVL as our top sector pick.

An unlikely no-growth scenario

The Dutch TTF gas price, the European benchmark, has risen to EUR212/MWh (USD71/mmbtu) vs. EUR28/MWh in 2021. Our sensitivity workout indicates the gas price would have to more than double to over EUR400/MWh to eliminate IVL's earnings growth. IVL's key growth factor is a higher West PET spread contract price. We assume PET EBITDA rises by 26% from last year. Further sensitivity analysis suggests that every EUR10/MWh rise in European gas costs would cut IVL's EBITDA by USD10m, or 0.9% of its 2022F earnings. We raise the average gas cost to EUR150/MWh from EUR100/MWh as in our model we assume it stays at EUR200/MWh in 2Q22-3Q22. The surge in European gas prices is because Russia supplies 30% of European demand while Russian gas accounts for 17% of global LNG supply.

PET spreads remain high

Integrated PET spreads remain high amid the Russian/Ukraine war and more resilient than other petrochemical product spreads. The Asia integrated PET spread is now at USD254/tonne, well above its five-year average of USD234 while the West integrated PET spread is at USD800 vs. its USD463 historical average. This is higher than our 2022F Asia and West spread assumptions of USD227 and USD601, respectively. The resiliency of PET spreads is due to resilient demand and limited supply growth.

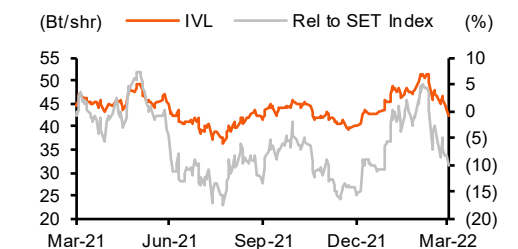
IOD turnaround

We see IVL's integrated oxide and derivatives (IOD) business turnaround remaining intact, especially given the current strength in oil prices. The US MTBE spread (4% of IVL's total capacity) is now at USD582/tonne, more than double last year's level and at its highest point since 2Q15. IVL's acquisition of Oxiteno is also scheduled to be completed this month. We estimate total IOD EBITDA to grow by 52% in 2022F and for it to contribute some 27% of the company's total EBITDA.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	468,108	1,734,469	1,711,277	1,760,230
Net profit	26,288	26,894	29,987	30,854
Consensus NP	—	28,257	29,707	30,734
Diff frm cons (%)	—	(4.8)	0.9	0.4
Norm profit	20,420	26,894	29,987	30,854
Prev. Norm profit	—	28,510	29,995	30,996
Chg frm prev (%)	—	(5.7)	(0.0)	(0.5)
Norm EPS (Bt)	3.6	4.8	5.3	5.5
Norm EPS grw (%)	203.1	31.7	11.5	2.9
Norm PE (x)	11.7	8.9	8.0	7.7
EV/EBITDA (x)	7.8	7.4	7.5	7.2
P/BV (x)	1.5	1.4	1.2	1.1
Div yield (%)	2.4	5.6	6.3	6.5
ROE (%)	14.3	16.1	16.3	15.4
Net D/E (%)	115.5	144.5	148.8	130.9

PRICE PERFORMANCE

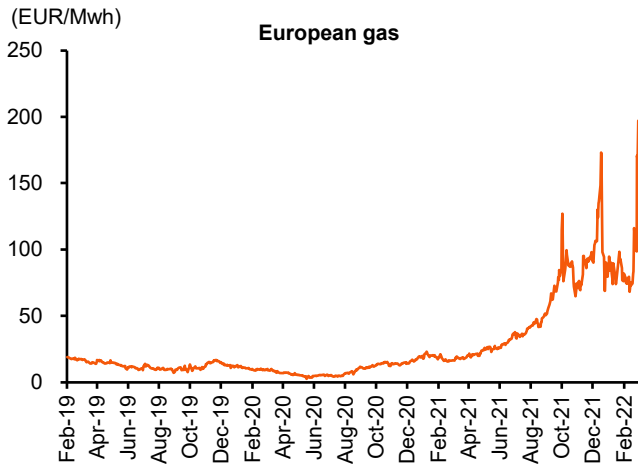


COMPANY INFORMATION

Price as of 8-Mar-22 (Bt)	42.50
Market Cap (US\$ m)	7,192.5
Listed Shares (m shares)	5,614.6
Free Float (%)	35.1
Avg Daily Turnover (US\$ m)	29.9
12M Price H/L (Bt)	51.50/36.25
Sector	PETRO
Major Shareholder	Indorama Resources 62.43%

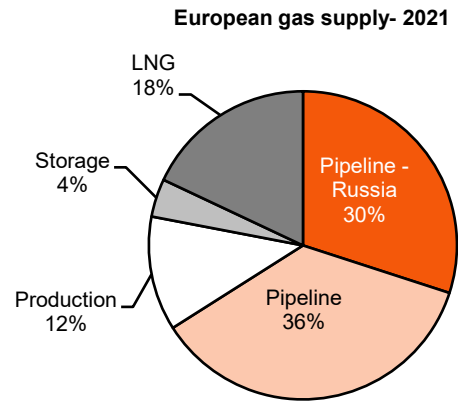
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Market Concerns Over Russian Gas Supply



Source: Bloomberg

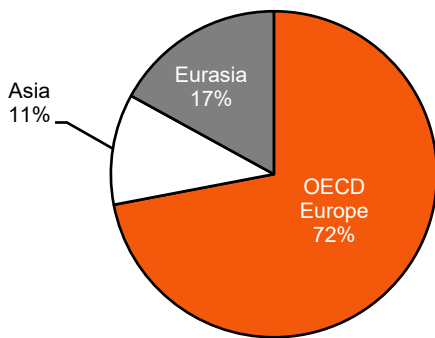
Ex 2: Russian Gas At One-third Of Europe's Supply



Source: Bloomberg

Ex 3: Europe Accounts For 70% Of Russian Gas Demand

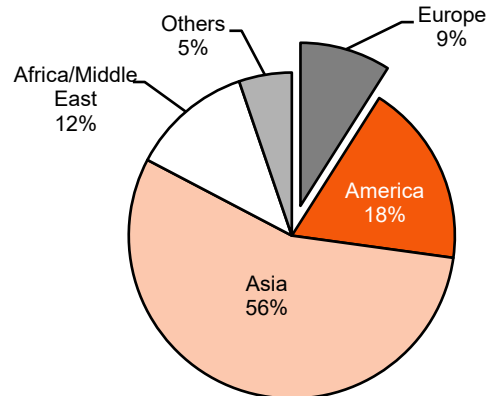
Russia gas demand - 2021



Sources: Bloomberg

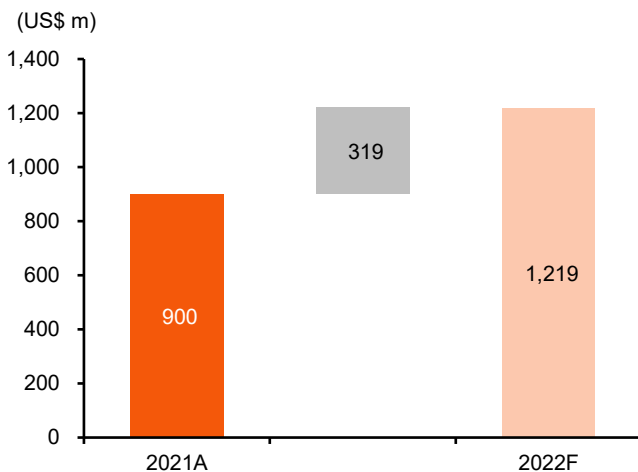
Ex 4: Europe Accounts For 9% Of Global PET Capacity

Global PET capacity - 2021 (25.3mtpa)



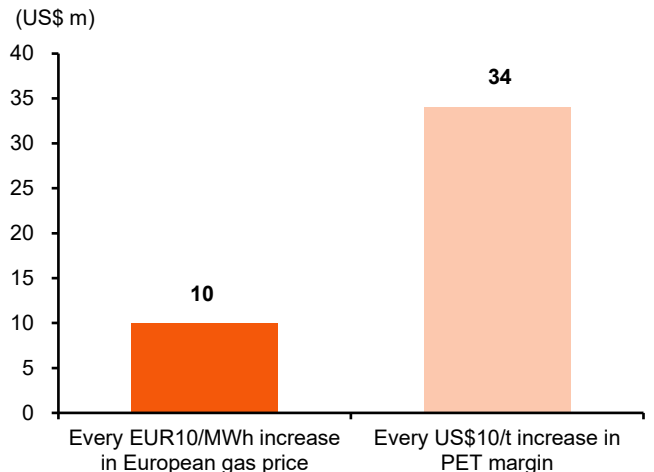
Sources: Bloomberg

Ex 5: IVL's Integrated PET EBITDA



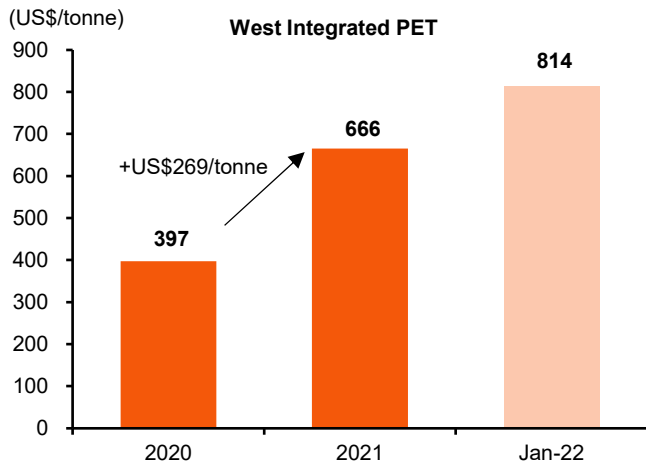
Sources: Company data, Thanachart estimates

Ex 6: IVL's EBITDA Sensitivity



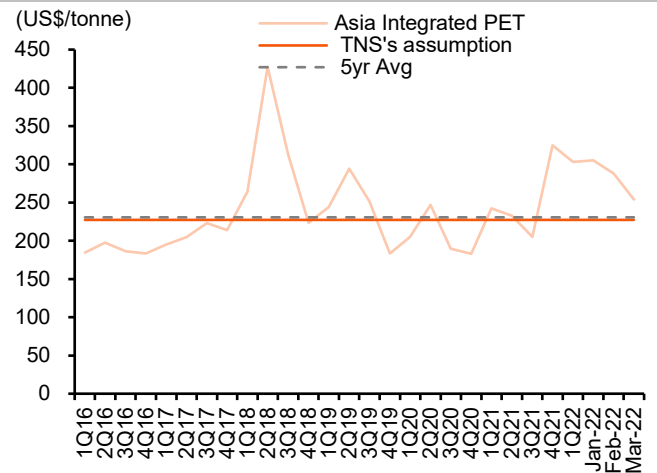
Sources: Thanachart estimates

Ex 7: West Integrated PET Spread



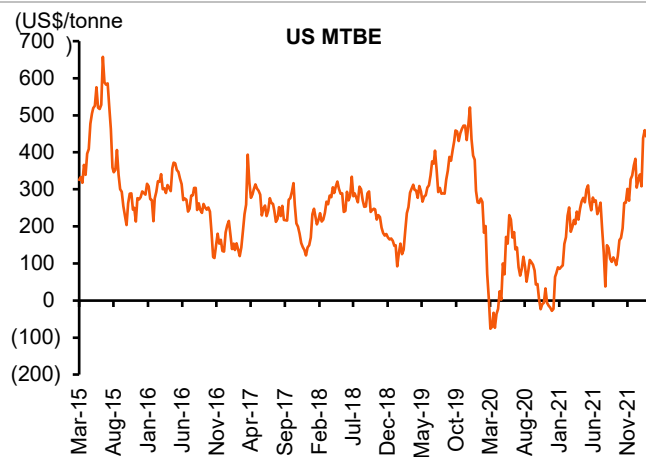
Source: Company data

Ex 8: Asia Integrated PET Spread



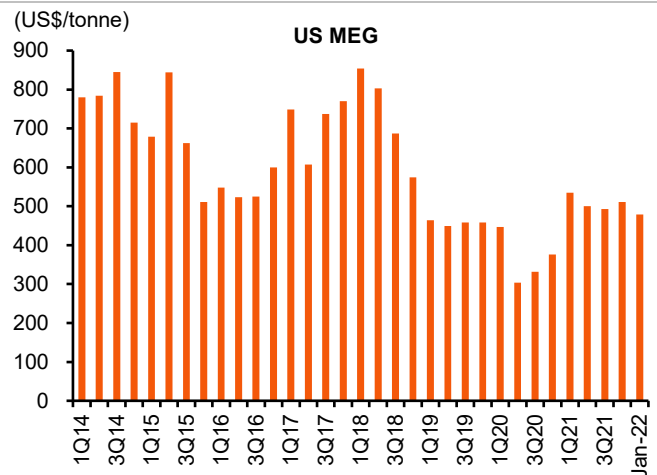
Source: Bloomberg

Ex 9: US MTBE Spread



Source: Bloomberg

Ex 10: US MEG Spread



Source: Company data

Ex 11: We Revise Down Our 2022F Profit As We Assume Higher European Gas Costs

(Bt m)	2022F	2023F	2024F
Net profit			
New	26,894	29,987	30,854
Old	28,510	29,995	30,996
Change (%)	(5.7)	(0.0)	(0.5)

Sources: Thanachart estimates

Ex 12: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA	72,912	74,514	76,966	78,997	81,106	83,295	85,568	87,929	90,380	92,924	95,567	
Free cash flow	(9,084)	32,064	47,679	49,228	50,829	52,485	54,199	55,973	57,809	59,709	74,424	932,018
PV of free cash flow	(7,615)	24,600	33,487	31,001	29,181	27,463	25,855	24,342	22,920	20,616	23,330	292,158
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.5											
WACC (%)	9.2											
Terminal growth (%)	2.0											
Enterprise value - add investments	547,338											
Net debt	197,427											
Minority interest	14,262											
Equity value	335,649											
# of shares	5,615											
Equity value/share (Bt)	60											

Sources: Company data, Thanachart estimates

Valuation Comparison**Ex 13: Comparison With Regional Peers**

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		– Div yield –	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Sinopec Shanghai	338 HK	Hong Kong	29.9	2.1	4.9	4.8	0.5	0.5	5.4	5.2	7.7	9.8
Sinopec Yizheng	1033 HK	Hong Kong	32.5	13.2	12.6	11.2	1.4	1.2	9.4	8.9	0.0	0.0
AKR Corporindo	AKRA IJ	Indonesia	20.2	12.0	12.5	11.1	1.5	1.4	9.6	8.6	3.3	4.0
Reliance Industries Ltd	RIL IN	India	27.8	27.5	25.2	19.8	1.9	1.8	15.6	12.6	0.3	0.4
LG Chem	051910 KS	South Korea	(30.0)	25.4	14.0	11.2	1.5	1.3	6.5	5.5	2.2	2.2
SK Energy	096770 KS	South Korea	81.9	15.1	14.5	12.6	1.0	0.9	7.6	6.8	0.9	1.6
Petronas Chemicals Group	PCHEM MK	Malaysia	(6.5)	(6.2)	12.7	13.5	2.1	2.0	8.0	8.3	4.8	4.4
Formasa Chemical	1326 TT	Taiwan	(21.4)	(1.7)	14.4	14.6	1.2	1.2	11.7	12.1	6.5	5.3
Far Eastern New Century	1402 TT	Taiwan	3.1	10.2	13.1	11.9	0.7	0.7	11.4	10.9	5.7	5.9
IRPC Pcl *	IRPC TB *	Thailand	38.2	19.6	13.4	11.2	0.8	0.8	8.4	7.7	3.7	4.5
Indorama Ventures *	IVL TB *	Thailand	31.7	11.5	8.9	8.0	1.4	1.2	7.4	7.5	5.6	6.3
PTT Global Chemical *	PTTGC TB *	Thailand	(13.3)	(0.5)	9.0	9.0	0.7	0.7	7.5	7.2	8.2	5.6
Siam Cement *	SCC TB *	Thailand	(29.1)	46.0	13.3	9.1	1.2	1.1	12.5	8.6	3.8	5.5
TPI Polene	TIPL TB	Thailand	(40.7)	0.0	10.7	10.7	0.7	0.6	9.8	9.8	na	4.7
Average			8.9	12.4	12.8	11.3	1.2	1.1	9.3	8.6	4.1	4.3

Sources: Bloomberg, * Thanachart estimates

Based on 8 March 2022 closing prices

COMPANY DESCRIPTION

Inorama Ventures Pcl (IVL) manufactures and distributes polyethylene terephthalate (PET), polyester fibers and yarns, purified terephthalic acid (PTA) and monoethylene glycol (MEG). It is one of the largest vertically integrated polyester chain producers in the world. Its global sales and manufacturing presence can be seen in major markets such as the US, Europe and Asia, serving major players in diversified end-user markets, including food, beverages, personal and home care, health care, automotive, textiles and industrial. We believe IVL is now at an inflection point for its third growth phase, via expanding into a packaging, olefin-integrated company.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Large scale and efficient facilities are helping IVL to become one of the lowest-cost producers in the world.
- Large scale and good relationships with customers help IVL to keep its utilization rate high and improve economies of scale.
- Setting up plants in many major markets helps IVL to save on transportation costs and avoid trade barriers.

O — Opportunity

- IVL still has room for further growth potential from expanding its IOD portfolio via horizontal and vertical integration.
- Potential upside from rPET business.
- Market consolidation in the US and Europe is helping to sustain product spreads.

W — Weakness

- IVL's heavy reliance on the PET/polyester product value chain and its investment in US ethane crackers make it vulnerable to oil price fluctuations.
- For PET, IVL's customers are major food & beverage companies, and they could have very strong bargaining power.

T — Threat

- Threat from higher environmental awareness that would lead to lower virgin PET demand.
- New technology to lower production costs would require existing players to invest more capex to improve efficiency.
- Overpaying for acquisitions and limited synergies.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	59.18	60.00	1%
Net profit 22F (Bt m)	28,257	26,894	-5%
Net profit 23F (Bt m)	29,707	29,987	1%
Consensus REC	BUY: 19	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profits are marginally below the Bloomberg consensus estimate, likely as we assume higher European gas prices.
- However, our DCF-based TP is in line with the Street's.

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected spreads and/or poor cost controls represent the key downside risks to our view.
- A collapse in oil prices that would lead to lower MTBE and MEG spreads is a secondary downside risk to our call.
- Unsuccessful integration of the recent acquisitions would be another secondary downside risk.

Sources: Bloomberg consensus, Thanachart forecasts

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	331,513	468,108	1,734,469	1,711,277	1,760,230
Cost of sales	277,729	386,738	1,485,809	1,460,945	1,503,701
Gross profit	53,784	81,370	248,660	250,332	256,529
% gross margin	16.2%	17.4%	14.3%	14.6%	14.6%
Selling & administration expenses	39,092	47,343	204,530	201,795	207,568
Operating profit	14,692	34,027	44,130	48,537	48,961
% operating margin	4.4%	7.3%	2.5%	2.8%	2.8%
Depreciation & amortization	20,469	21,736	25,616	24,375	25,553
EBITDA	35,161	55,763	69,747	72,912	74,514
% EBITDA margin	10.6%	11.9%	4.0%	4.3%	4.2%
Non-operating income	(1,318)	1,978	0	0	0
Non-operating expenses	0	0	0	0	0
Interest expense	(7,482)	(6,905)	(8,145)	(8,684)	(8,026)
Pre-tax profit	5,892	29,100	35,986	39,853	40,936
Income tax	(1,095)	6,703	7,230	8,004	8,220
After-tax profit	6,987	22,397	28,756	31,849	32,716
% net margin	2.1%	4.8%	1.7%	1.9%	1.9%
Shares in affiliates' Earnings	143	160	165	165	165
Minority interests	(392)	(2,137)	(2,027)	(2,027)	(2,027)
Extraordinary items	(4,324)	5,868	0	0	0
NET PROFIT	2,414	26,288	26,894	29,987	30,854
Normalized profit	6,738	20,420	26,894	29,987	30,854
EPS (Bt)	0.4	4.7	4.8	5.3	5.5
Normalized EPS (Bt)	1.2	3.6	4.8	5.3	5.5

We foresee a sharp earnings turnaround in 2022F

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	119,835	176,859	621,624	617,366	634,669
Cash & cash equivalent	19,390	16,456	15,241	20,241	20,241
Account receivables	33,422	53,172	197,016	194,382	199,943
Inventories	53,938	88,979	341,848	336,128	345,965
Others	13,084	18,252	67,518	66,616	68,521
Investments & loans	3,229	3,603	3,603	3,603	3,603
Net fixed assets	264,291	291,677	296,661	347,086	348,733
Other assets	65,817	69,689	135,615	134,408	136,957
Total assets	453,172	541,828	1,057,503	1,102,463	1,123,962
LIABILITIES:					
Current liabilities:	117,161	161,121	513,370	531,533	561,478
Account payables	57,783	90,265	346,789	340,986	350,965
Bank overdraft & ST loans	20,726	26,619	36,146	41,061	39,323
Current LT debt	16,503	17,371	27,972	51,996	69,160
Others current liabilities	22,150	26,866	102,463	97,490	102,030
Total LT debt	164,073	169,893	226,317	236,871	207,480
Others LT liabilities	36,329	39,811	127,422	125,872	129,145
Total liabilities	317,564	370,825	867,109	894,275	898,104
Minority interest	8,953	12,235	14,262	16,289	18,316
Preferreds shares	0	0	0	0	0
Paid-up capital	5,615	5,615	5,615	5,615	5,615
Share premium	60,331	60,331	60,331	60,331	60,331
Warrants	0	0	0	0	0
Surplus	(6,852)	4,330	4,330	4,330	4,330
Retained earnings	67,561	88,492	105,855	121,622	137,266
Shareholders' equity	126,655	158,769	176,132	191,899	207,542
Liabilities & equity	453,172	541,828	1,057,503	1,102,463	1,123,962

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	5,892	29,100	35,986	39,853	40,936
Tax paid	1,495	(5,123)	(857)	(7,230)	(8,392)
Depreciation & amortization	20,469	21,736	25,616	24,375	25,553
Chg In working capital	9,719	(22,308)	(140,190)	2,552	(5,418)
Chg In other CA & CL / minorities	8,645	727	20,093	(4,678)	2,971
Cash flow from operations	46,220	24,133	(59,352)	54,871	55,649
Capex	(72,337)	(49,122)	(30,600)	(74,800)	(27,200)
Right of use	(11,865)	415	0	0	0
ST loans & investments	48	96	30	0	0
LT loans & investments	(682)	(374)	0	0	0
Adj for asset revaluation	(141)	11,539	0	0	0
Chg In other assets & liabilities	(2,017)	3,511	21,685	(343)	725
Cash flow from investments	(86,994)	(33,934)	(8,885)	(75,143)	(26,475)
Debt financing	55,040	12,581	76,552	39,493	(13,964)
Capital increase	0	0	(0)	0	0
Dividends paid	(3,930)	(5,193)	(9,531)	(14,220)	(15,210)
Warrants & other surplus	(1,400)	(520)	0	0	0
Cash flow from financing	49,710	6,867	67,021	25,272	(29,174)
Free cash flow	(26,117)	(24,989)	(89,952)	(19,929)	28,449

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	35.4	11.7	8.9	8.0	7.7
Normalized PE - at target price (x)	50.0	16.5	12.5	11.2	10.9
PE (x)	98.8	9.1	8.9	8.0	7.7
PE - at target price (x)	139.5	12.8	12.5	11.2	10.9
EV/EBITDA (x)	12.0	7.8	7.4	7.5	7.2
EV/EBITDA - at target price (x)	14.8	9.6	8.8	8.9	8.5
P/BV (x)	1.9	1.5	1.4	1.2	1.1
P/BV - at target price (x)	2.7	2.1	1.9	1.8	1.6
P/CFO (x)	5.2	9.9	(4.0)	4.3	4.3
Price/sales (x)	0.7	0.5	0.1	0.1	0.1
Dividend yield (%)	1.6	2.4	5.6	6.3	6.5
FCF Yield (%)	(10.9)	(10.5)	(37.7)	(8.4)	11.9
(Bt)					
Normalized EPS	1.2	3.6	4.8	5.3	5.5
EPS	0.4	4.7	4.8	5.3	5.5
DPS	0.7	1.0	2.4	2.7	2.7
BV/share	22.6	28.3	31.4	34.2	37.0
CFO/share	8.2	4.3	(10.6)	9.8	9.9
FCF/share	(4.7)	(4.5)	(16.0)	(3.5)	5.1

Sources: Company data, Thanachart estimates

IVL trades well below its long-term average PE multiple

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(6.0)	41.2	270.5	(1.3)	2.9
Net profit (%)	(54.0)	988.9	2.3	11.5	2.9
EPS (%)	(54.0)	988.9	2.3	11.5	2.9
Normalized profit (%)	28.6	203.1	31.7	11.5	2.9
Normalized EPS (%)	28.6	203.1	31.7	11.5	2.9
Dividend payout ratio (%)	162.8	21.4	50.0	50.0	50.0
Operating performance					
Gross margin (%)	16.2	17.4	14.3	14.6	14.6
Operating margin (%)	4.4	7.3	2.5	2.8	2.8
EBITDA margin (%)	10.6	11.9	4.0	4.3	4.2
Net margin (%)	2.1	4.8	1.7	1.9	1.9
D/E (incl. minor) (x)	1.5	1.3	1.5	1.6	1.4
Net D/E (incl. minor) (x)	1.3	1.2	1.4	1.5	1.3
Interest coverage - EBIT (x)	2.0	4.9	5.4	5.6	6.1
Interest coverage - EBITDA (x)	4.7	8.1	8.6	8.4	9.3
ROA - using norm profit (%)	1.6	4.1	3.4	2.8	2.8
ROE - using norm profit (%)	5.3	14.3	16.1	16.3	15.4
DuPont					
ROE - using after tax profit (%)	5.5	15.7	17.2	17.3	16.4
- asset turnover (x)	0.8	0.9	2.2	1.6	1.6
- operating margin (%)	4.0	7.7	2.5	2.8	2.8
- leverage (x)	3.3	3.5	4.8	5.9	5.6
- interest burden (%)	44.1	80.8	81.5	82.1	83.6
- tax burden (%)	118.6	77.0	79.9	79.9	79.9
WACC (%)	9.2	9.2	9.2	9.2	9.2
ROIC (%)	6.6	8.5	9.9	8.6	7.8
NOPAT (Bt m)	17,422	26,189	35,264	38,789	39,130
invested capital (Bt m)	308,567	356,196	451,326	501,586	503,266

Sources: Company data, Thanachart estimates

Leverage remains manageable despite a major acquisition

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