Indorama Ventures Pcl (IVL TB) - HOLD

Earnings Preview

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A weaker quarter ahead

- **We expect 3Q22F core profit to fall 29% q-q to Bt9.5bn**
- **Higher gas costs and lower MTBE spread are key drags**
- **Challenging year ahead despite a better product mix**
- **Maintain HOLD as we see IVL as fairly valued**

We expect IVL's 3Q22 core profit to decline by 29% q-q to Bt9.5bn, but rise 69% y-y. 9M22 core profit would account for around 84% for our full-year forecast. The slight beat is due to a better-than-expected PET margin which held up well in 3Q22. Note that we have not yet factored in a potential inventory loss arising from lower product prices. We maintain our HOLD rating on IVL as we believe the stock is fairly valued at 7.5x 2023F PE against a declining earnings trend.

- **Gas cost pressure.** The European Title Transfer Facility (TTF) gas price has risen by 104% q-q to EUR205/MWh in 3Q22 after Russia cut off gas supplies via the Nord Stream 1 pipeline, which is the key pipeline supplying gas to European countries. We expect IVL to see negative pressure from higher gas prices despite it already having gas hedging positions for both Europe and the US. Note that the company hedged 38% of gas required for Europe production in 3Q22 at around EUR70/MWh. We estimate IVL's 3Q22F EBITDA to fall by US$60m q-q from higher gas cost vs. the US$27m q-q drop in 2Q22.

- **Steady PET margin q-q.** Asia integrated PET spread has held up steady q-q at US$303/tonne against our expectation that the spread would come down in 2H22F due to higher demand from the economic reopening as well as additional demand from food deliveries.

- **IOD EBITDA lower due to lower MTBE spread.** We estimate EBITDA from the integrated oxide (IOD) business to drop by 19% q-q to US$209m, mainly due to a lower MTBE spread. The MTBE spread already normalized in 3Q22, dropping by 21% q-q to US$705/tonne following weaker US gasoline demand as driving season passed.

- **Challenging year ahead despite better product mix.** IVL's key product of PET (57% of EBITDA in 2Q22) spread should hold up well compared to the olefins market during economic slowdown due to limited supply additions while demand is more resilient. However, the freight rate has also declined which could impact IVL's contract negotiations for West PET for next year. The company claim that they were able to secure a better contract price for 2023F. However, the Asia PET spread has also started to come down this month to US$278/tonne, which is 8% lower than the 3Q22 average. This should lead to lower overall integrated PET margin for next year. We estimate IVL's profit to drop by 27% in 2023F.

Key Valuations

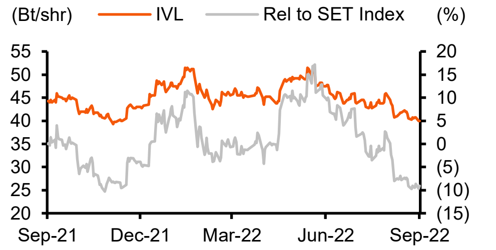
Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Revenue	468,108	1,734,469	1,711,277	1,760,230
Net profit	26,288	42,928	28,948	28,371
Norm net profit	20,420	39,430	28,948	28,371
Norm EPS (Bt)	3.6	7.0	5.2	5.1
Norm EPS gr (%)	203.1	93.1	(26.6)	(2.0)
Norm PE (x)	10.7	5.5	7.5	7.7
EV/EBITDA (x)	7.4	6.1	7.0	6.9
P/BV (x)	1.4	1.1	1.0	0.9
Div. yield (%)	2.6	5.2	3.9	3.9
ROE (%)	14.3	22.4	14.3	12.8
Net D/E (%)	115.5	148.3	129.5	111.1

Source: Thanachart estimates

Stock Data

Closing price (Bt)	38.75
Target price (Bt)	46.00
Market cap (US$ m)	5,670
Avg daily turnover (US$ m)	23.7
12M H/L price (Bt)	51.50/39.25

Price Performance



Source: Bloomberg

Ex 1: 3Q22F Result Preview

(US$ m)	3Q21	2Q22	3Q22F	(q-q%)	(y-y%)
EBITDA	**437**	**758**	**648**	**(15)**	**48**
Depreciation	(171)	(186)	(186)	-	9
EBIT	**266**	**572**	**462**	**(19)**	**73**
Net finance costs	(53)	(61)	(61)	-	14
PBT	**215**	**511**	**401**	**(22)**	**87**
Current	(50)	(128)	(96)	(25)	94
Non-controlling interests	(9)	(42)	(42)	(1)	374
Core net profit	**180**	**386**	**263**	**(32)**	**46**
Core net profit (Bt m)	**5,611**	**13,232**	**9,455**	**(29)**	**69**
Inventory gain/(loss)	60	195		nmf	nmf
Other extraordinary income/(expense)	(20)			nmf	nmf
Reported profit	**197**	**593**	**263**	**(56)**	**33**
Reported profit (Bt m)	**6,548**	**20,278**	**9,455**	**(53)**	**44**

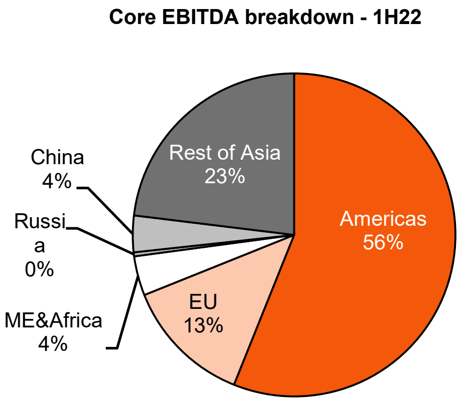
Sources: Company data, Thanachart estimates

Ex 2: Key Operating Data

EBITDA breakdown	3Q21	2Q22	3Q22F	(q-q%)	(y-y%)
Combined PET	258	431	371	(14)	44
IOD	120	259	209	(19)	74
Fibers	49	55	55	-	14
Total	**437**	**758**	**648**	**(15)**	**48**
Industry spread (US$/tonne)					
Integrated PET - West	654	810	774	(4)	18
Integrated PET - Asia	185	302	303	1	64
MTBE	150	888	705	(21)	370
US EOEG	493	310	200	(36)	(60)

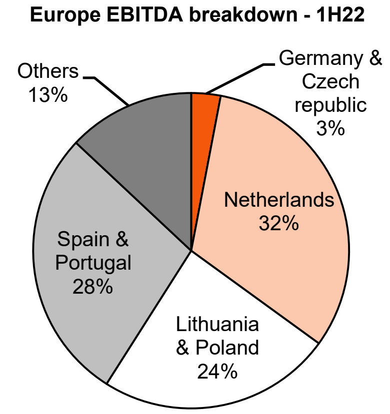
Sources: Company data, Thanachart estimates

Ex 3: Core EBITDA Breakdown – 1H22



Source: Company data

Ex 4: Europe EBITDA Breakdown – 1H22



Source: Company data

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