COMPANY RESULTS

Indorama Ventures (IVL TB)

4Q18: Weak Profit As Expected But Stronger Outlook

IVL reported net profit of Bt2.4b in 4Q18 (-76% yoy, -77% qoq) and core profit of Bt3.9b (+3% yoy, -53% qoq), in line with our expectations. We still like IVL and expect a strong net profit growth of 12% in 2019 with potential upside from new M&As. We foresee a high probability of consensus raising its 2019 earnings estimate. Maintain BUY and target price of Bt77.00.

4Q18 RESULTS

Year to 31 Dec (Btm)	4Q18	4Q17	3Q18	yoy % chg	qoq % chg	2018	2017	yoy % chg
Revenue	91,436	70,417	96,001	30	(5)	347,171	286,332	21
Core EBITDA	10,458	8,435	13,447	24	(22)	46,589	34,077	37
Inventory gain/(loss)	(2,521)	469	2,193	(638)	(215)	539	1,271	(58)
Reported EBITDA	7,937	8,904	15,641	(11)	(49)	47,128	35,348	33
Depreciation	(4,169)	(3,293)	(3,831)	27	9	(14,269)	(12,109)	18
Net income	2,355	10,003	10,054	(76)	(77)	26,465	20,883	27
Core Profit	3,974	3,867	8,523	3	(53)	25,488	15,576	64
EPS (Bt)	0.42	1.79	1.80	(76)	(77)	4.74	3.98	19

Source IVL, UOB Kay Hian

RESULTS

- **Weak profit as expected.** Indorama Ventures (IVL) reported net profit of Bt2.4b in 4Q18 (-76% yoy, -77% qoq), dragged by lower margins and huge inventory loss of Bt2.5b. Excluding inventory loss, 4Q18 core profit would be Bt3.9b (+3% yoy, -53% qoq). Sales, EBITDA margin, core profit and net profit were in line with our expectations. 2018 core profit was Bt25b (+64% yoy).

- **Key operational performances.** Although production volume hit a record high of 2.8m tons in 4Q18 (+22% yoy, +3% qoq), 4Q18 core EBITDA fell 38% yoy to US$318m due to weaker blended margins for both PET and PTA, and unplanned shutdown of its facilities in Europe. PET margin fell sharply to US$103/ton (3Q18: US$154/ton) due to seasonality and resumed operations of PET plants in Asia. PTA margin fell 40% yoy to US$56/tonne. IVL said there were unplanned shutdowns of its PTA plant in Netherlands and PET plant in Poland.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	286,332	347,171	373,253	419,930	422,661
EBITDA	30,818	43,350	56,482	63,329	70,948
Operating profit	18,579	29,077	38,482	44,329	49,448
Net profit (rep./act.)	20,883	26,465	28,483	31,815	35,734
Net profit (adj.)	15,576	25,488	28,483	31,815	35,734
EPS (Bt)	2.8	4.6	5.1	5.7	6.4
PE (x)	18.6	11.4	10.2	9.1	8.1
P/B (x)	2.5	2.0	1.7	1.5	1.3
EV/EBITDA (x)	13.6	9.6	7.4	6.6	5.9
Dividend yield (%)	1.9	2.0	2.2	2.3	2.4
Net margin (%)	7.3	7.6	7.6	7.6	8.5
Net debt/(cash) to equity (%)	75.7	90.2	70.9	56.8	41.7
Interest cover (x)	8.0	10.3	12.6	13.6	14.8
ROE (%)	20.3	20.2	17.8	17.0	16.7
Consensus net profit	-	-	28,123	29,386	31,409
UOBKH/Consensus (x)	-	-	1.01	1.08	1.14

Source: IVL, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt52.25
Target Price	Bt77.00
Upside	+48.1%

COMPANY DESCRIPTION

PET and polyester fiber producer .

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	IVL TB
Shares issued (m):	5,614.6
Market cap (Btm):	291,956.7
Market cap (US$m):	9,302.4
3-mth avg daily t'over (US$m):	33.7

Price Performance (%)

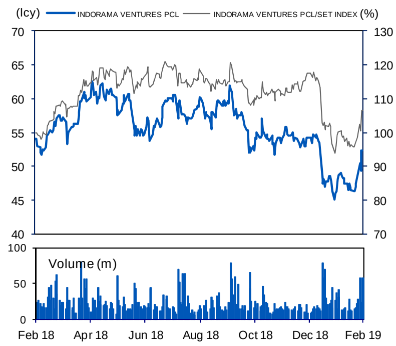
52-week high/low Bt62.50/Bt45.00

1mth	3mth	6mth	1yr	YTD
12.4	(4.1)	(11.1)	(4.1)	(4.1)

Major Shareholders	%
Lohia family	66.0
Bangkok Bank	4.8

FY19 NAV/Share (Bt)	31.33
FY19 Net Debt/Share (Bt)	22.21

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2H18 dividend of Bt0.35/share.** The company announced a dividend of Bt0.35/share for 2H18. This implies a dividend yield of 0.6% based on current share price.
- **Target doubling of EBITDA in 2023.** We attended IVL's yearly meeting yesterday. Group CEO Aloke Lohia briefed on the company's strategy over the next five years and provided updates on the long-term outlook for all its segments. The CEO targets to double EBITDA to US$3.0b in 2023 (from US$1.4b in 2018). IVL has reclassified its businesses into five new segments - integrated PET (combined PET and PTA businesses), olefins, fibers, packaging and specialty chemical.
- **Focusing on M&A activities**. To achieve the EBITDA target, management guided capex of US$4.5b in 2019-21, mainly for M&A in the packaging and specialty chemical segments which have higher EBITDA margins from high-value-add products (HVA). IVL also plans to spend almost US$1.5b in capex over the next three years to improve efficiency of its ethylene cracker and set up new PET and PTA plants in the US.
- **To continue to deliver impressive earnings growth in 2019.** Management reaffirms production volume growth of 25% to 13.0m tonnes in 2019, thanks to full-year contribution from acquisitions made last year. These include: a) 550,000-ton capacity from PET plants in Brazil; b) 540,000-ton PET plant in Egypt; and c) 700,000-ton production capacity from a PTA plant in Portugal. We also believe IVL will be able to keep its core EBITDA at US$134/ton in 2019 (IVL sells 70% of its PET to Europe and the US on higher fixed contact margins). Thus, we believe IVL could achieve core EBITDA of US$1.75b in 2019.

EARNINGS REVISION/RISK

- We maintain our 2019 core profit forecast of Bt28b.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of Bt77.00,** based on 15x 2019F PE (its historical average after removing the abnormal impact from M&As in 2011-13). We foresee a high probability of consensus raising its 2019 earnings estimate. We think the market is overly concerned about the weaker performance continuing to 1Q19. However, IVL is trading at only 10x 2019F PE, the biggest discount historically, despite improving operational momentum.

SHARE PRICE CATALYST

- **Rising PET spread.** About 40% of IVL's EBITDA comes from selling PET.

OPERATING STATISTICS -2018

Year to 31	2018	2017	yoy
Production vol ('000 ton)	10,419	9,103	14%
core EBITDA/ton	138	110	25%

Source: IVL

OPERATING STATISTICS -4Q18

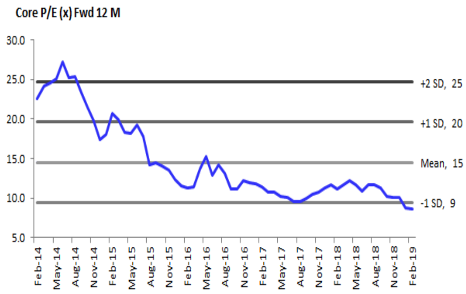
	4Q18	4Q17	3Q18	yoy % chg	qoq % chg
Production volume ('000 ton)	2,818	2,306	2,730	*22*	*3*
core EBITDA (US$/ton)	113	111	150	*2*	*(25)*

Source: IVL

IVL TARGETS

Source: IVL, UOB Kay Hian

IVL FORWARD PE



Source: IVL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	347,171	373,253	419,930	422,661
EBITDA	43,350	56,482	63,329	70,948
Deprec. & amort.	14,273	18,000	19,000	21,500
EBIT	29,077	38,482	44,329	49,448
Total other non-operating income	2,786	750	800	800
Associate contributions	586	60	60	60
Net interest income/(expense)	(4,227)	(4,490)	(4,673)	(4,800)
Pre-tax profit	28,222	34,802	40,516	45,508
Tax	(3,812)	(5,568)	(7,901)	(8,874)
Minorities	128	(750)	(800)	(900)
Net profit	26,465	28,483	31,815	35,734
Net profit (adj.)	25,488	28,483	31,815	35,734

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	205,182	217,182	228,182	236,682
Other LT assets	49,728	52,900	54,900	57,000
Cash/ST investment	5,578	6,021	8,566	14,449
Other current assets	118,706	123,134	129,634	135,134
Total assets	379,195	399,237	421,282	443,265
ST debt	42,912	40,772	40,772	37,272
Other current liabilities	70,788	70,000	73,000	77,000
LT debt	93,244	89,244	81,244	72,244
Other LT liabilities	20,395	22,000	24,000	26,000
Shareholders' equity	144,838	174,939	199,774	228,250
Minority interest	7,018	2,282	2,492	2,500
Total liabilities & equity	379,195	399,237	421,282	443,266

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	36,463	37,663	49,325	57,442
Pre-tax profit	28,222	34,802	40,516	45,508
Tax	(3,812)	(5,568)	(7,901)	(8,874)
Deprec. & amort.	14,273	18,000	19,000	21,500
Working capital changes	(9,368)	(4,085)	(1,700)	200
Non-cash items	2,056	(750)	(800)	(900)
Other operating cashflows	5,093	(4,736)	210	8
Investing	(79,771)	(32,699)	(31,800)	(31,800)
Capex (growth)	(68,254)	(30,000)	(30,000)	(30,000)
Investments	(11,517)	(2,699)	(1,800)	(1,800)
Others	n.a.	n.a.	n.a.	n.a.
Financing	42,009	(4,522)	(14,980)	(19,759)
Dividend payments	(10,220)	(6,701)	(6,980)	(7,259)
Issue of shares	16,103	0	0	0
Proceeds from borrowings	36,126	2,179	(8,000)	(12,500)
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	(1,299)	442	2,545	5,883
Beginning cash & cash equivalent	6,877	5,578	6,021	8,566
Ending cash & cash equivalent	5,578	6,021	8,566	14,449

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	12.5	15.1	15.1	16.8
Pre-tax margin	8.1	9.3	9.6	10.8
Net margin	7.6	7.6	7.6	8.5
ROA	8.0	7.3	7.8	8.3
ROE	20.2	17.8	17.0	16.7
Growth				
Turnover	21.2	7.5	12.5	0.7
EBITDA	40.7	30.3	12.1	12.0
Pre-tax profit	76.3	23.3	16.4	12.3
Net profit	26.7	7.6	11.7	12.3
Net profit (adj.)	63.6	11.8	11.7	12.3
EPS	63.6	11.8	11.7	12.3
Leverage				
Debt to total capital	47.3	42.3	37.6	32.2
Debt to equity	94.0	74.3	61.1	48.0
Net debt/(cash) to equity	90.2	70.9	56.8	41.7
Interest cover (x)	10.3	12.6	13.6	14.8

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