

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Update

Indorama Ventures (IVL TB/BUY/Bt25.00/Target: Bt30.00)

Share price already reflecting negative outlook.

Page 2

KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,438.45	(14.10)	(0.97)
SET50	876.95	(10.96)	(1.23)
Value (Btm) - SET	38,180		
Top 5 Sector			
BANK	389.48	0.17	0.04
PETRO	686.95	1.38	0.20
PROP	228.73	1.02	0.45
ENERG	20,012.47	(248.08)	(1.22)
ICT	157.90	(1.36)	(0.85)

Source: Bloomberg

TOP VOLUME

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
GULF	43.00	(4.44)	1,270.8
DELTA	80.50	(5.29)	2,653.7
JMT	46.25	(5.61)	805.7
AOT	68.75	(0.72)	1,986.4
KBANK	127.00	0.40	1,141.7

TOP GAINERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
JCKH	0.05	25.00	0.3
PPPM	0.08	14.29	0.5
KC	0.10	11.11	0.3
UMS	0.90	9.76	0.0
ACC	0.58	9.43	7.6

TOP LOSERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
PRIME	0.79	(30.09)	46.5
TWZ	0.04	(20.00)	0.1
CV	0.66	(19.51)	15.9
TSTE	10.20	(18.40)	0.1
SDC	0.05	(16.67)	0.8

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	87.9	(2.4)	13.9	7.6
Dubai crude*	86.3	(5.4)	11.8	9.7
Baltic Dry Index	1,929.0	62.6	91.2	27.3
Gold Spot***	1,846.6	(3.8)	(4.1)	1.2

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(44.3)	(239.1)	(4,765.7)	(8,485.5)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.98

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 7.10

COMPANY UPDATE

Indorama Ventures (IVL TB)

Share Price Already Reflecting Negative Outlook

We see an opportunity to accumulate IVL after the share price dropped 12% in the last month due to concerns on earnings outlook, oversupply situation and delay in COD of a PET plant in North America. However, we expect that the share price has already priced in the negative outlook with earnings likely to improve in 4Q23. Maintain BUY. Target price: Bt30.00.

WHAT'S NEW

- Key takeaway from plastic recycling factory visit.** We visited Indorama Ventures' (IVL) plastic recycling factory in Nakhon Pathom Province near Bangkok. The facility is IVL's only recycling plant in South East Asia with annual capacity of 95,000 tonnes/year, turning post-consumer polyethylene terephthalate (PET) bottles into recycled PET resins (rPET) and fibres. We are impressed by its operational efficiency and believe that the facility is one of the key supports for IVL's recycling target in 2030. Note that IVL has set a target of recycling 1.5m tonnes of PET by 2030 from 0.4m tones currently.
- Impact from prolonged industry de-stocking in 3Q23.** IVL is facing the negative impact from supply pressure reflecting inventory destocking in PET/PTA products and huge capacity addition from China, which will put pressure on both EBITDA margin and production volume. The integration of PET/PTA spread in Asia was significantly decreased to US\$121/tonne in Aug 23 from US\$196/tonne in 2Q23 while integration of PET/PTA spread in Europe was down to US\$345/tonne in Aug 23 compared to the average of US\$411/tonne in 2Q23. However, the integration of PET/PTA spreads should show signs of improvement from 4Q23 due to production cuts implemented in response to the current spread, which is operating below breakeven levels in many facilities.
- Construction delay in PET plant in North America.** Last week, IVL made an announcement regarding the temporary suspension of construction activities for the Corpus Christi Polymers (CCP) integrated PTA-PET plant in Texas (IVL holds a 33% stake). This decision was due to the challenging economic conditions characterised by rising costs, elevated interest rates and labour shortages. The CCP was formed in 2018 as a joint venture between IVL, Far Eastern New Century and Alpek, following the purchase of an unconstructed facility from M&G Resins. The plant was expected to produce 1.1m tonnes/year and 1.3m tonnes/year of PET and PTA respectively with expected completion in 2025. Note that we have excluded this plant from our assumptions due to uncertainty surrounding the construction timeline.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	468,108	656,266	564,591	588,514	615,942
EBITDA	59,374	72,423	48,649	62,990	67,692
Operating profit	37,637	49,529	22,004	33,346	35,048
Net profit (rep./act.)	26,288	31,006	5,334	12,927	13,832
Net profit (adj.)	21,887	34,561	5,334	12,927	13,832
EPS (Bt)	3.9	6.2	1.0	2.3	2.5
PE (x)	6.4	4.1	26.3	10.9	10.1
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	5.8	4.7	7.1	5.4	5.1
Dividend yield (%)	4.0	6.4	2.4	3.2	3.2
Net margin (%)	5.6	4.7	0.9	2.2	2.2
Net debt/(cash) to equity (%)	124.5	119.5	108.7	107.3	104.4
Interest cover (x)	8.6	7.6	3.6	4.5	5.1
ROE (%)	18.4	18.0	2.9	6.9	7.2
Consensus net profit	-	-	9,434	16,957	22,641
UOBKH/Consensus (x)	-	-	0.57	0.76	0.61

Source: Indorama Ventures, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt25.00
Target Price	Bt30.00
Upside	+20.0%
(Previous TP)	Bt37.00

COMPANY DESCRIPTION

IVL is one of the world's largest polyester chain makers with a total production capacity of 17m tonnes.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	IVL TB
Shares issued (m):	5,614.6
Market cap (Btm):	140,363.8
Market cap (US\$m):	3,786.2
3-mth avg daily t'over (US\$m):	15.1

Price Performance (%)

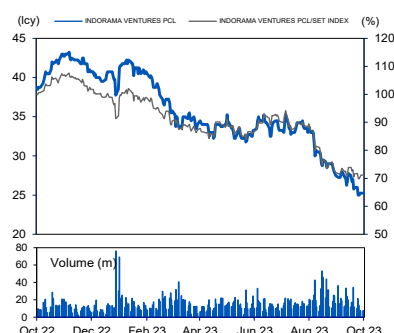
52-week high/low	Bt43.25/Bt25.00			
1mth	3mth	6mth	1yr	YTD
(13.8)	(27.5)	(27.5)	(36.3)	(38.7)

Major Shareholders

	%
Lohia family	66.0
Bangkok Bank	4.8

FY23 NAV/Share (Bt)	32.83
FY23 Net Debt/Share (Bt)	35.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expected weaker earnings in 3Q23F.** IVL will announce its 3Q23 results on 10 Nov 23. As mentioned above, we preliminarily expect IVL to post a core profit of only Bt76m, which is lower than the market's previous estimate of Bt1.0-1.5b due to weaker integrated PET/PTA spread. We believe consensus will again be aggressive in cutting their 2023 earnings forecasts and target prices.

3Q23 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q23F	3Q22	2Q23	yoy % chg	qoq % chg	9M23F	9M22	yoy % chg
Revenue	134,190	178,782	137,419	(25)	(2)	408,188	333,698	22
Core EBITDA	11,502	22,303	13,060	(48)	(12)	36,180	47,483	(24)
Inventory gain/(loss)	1,825	(3,795)	(1,643)	(148)	(211)	(1,209)	11,039	(111)
Reported EBITDA	13,327	19,349	11,054	(31)	21	34,589	60,526	(43)
Net income	1,901	8,137	411	(77)	362	3,335	34,348	(90)
Core Profit	76	10,341	2,016	(99)	(96)	4,171	23,810	(82)
EPS	0.34	1.45	0.07	(77)	362	0.59	6.12	(90)

Source: Indorama Ventures, UOB Kay Hian

- **Slow recovery in 4Q23-2024.** Despite low season PET demand during the winter season, we expect positive earnings outlook on IVL in 4Q23. As mentioned above, we anticipate that the integration of PET/PTA spreads will show signs of improvement from 4Q23, reflecting production cuts implemented in response to the current spread, which is operating below breakeven levels in many facilities.

EARNINGS REVISION/RISK

- We revise down our 2023F core profit by 62% to Bt5.3b (from Bt14.0b), reflecting our expectations of weak earnings in 2H23.

VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of Bt30.00**, based on 13x 2024F PE. We apply - mean of its five-year historical average P/E. We believe the stock has already priced in weak 3Q23F profits.

SHARE PRICE CATALYST

- **4Q23:** Earnings recovery.

2023- KEY OPERATING NUMBERS

Year to 31	3Q23F	3Q22	2Q23	yoy	qoq
Production vol ('000 tonnes)	3,600	3,816	3,640	(6)	(1)
core EBITDA/tonne	90	159	104	(43)	(14)

Source: IVL, UOB Kay Hian

ASIA INTEGRATED PET/PTA SPREAD



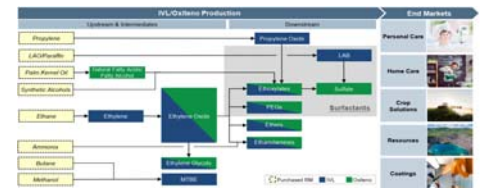
Source: IVL

MEG SPREAD



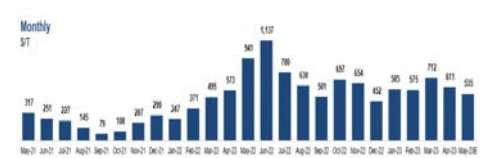
Source: IVL

IVL AND OXITENO PORTFOLIOS



Source: IVL, UOB Kay Hian

MTBE PRICE



Source: IVL

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	656,266	564,591	588,514	615,942
EBITDA	72,423	48,649	62,990	67,692
Deprec. & amort.	22,893	26,644	29,644	32,644
EBIT	49,529	22,004	33,346	35,048
Total other non-operating income	146	3,000	2,300	2,300
Associate contributions	(23)	30	30	30
Net interest income/(expense)	(9,548)	(13,518)	(13,850)	(13,212)
Pre-tax profit	40,104	11,516	21,826	24,166
Tax	(5,774)	(1,382)	(3,929)	(4,833)
Minorities	(3,324)	(4,800)	(4,970)	(5,500)
Net profit	31,006	5,334	12,927	13,832
Net profit (adj.)	34,561	5,334	12,927	13,832

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	39,569	63,627	58,072	55,978
Pre-tax profit	40,104	11,516	21,826	24,166
Tax	(5,774)	(1,382)	(3,929)	(4,833)
Deprec. & amort.	22,893	26,644	29,644	32,644
Working capital changes	(16,992)	44,043	15,500	9,500
Non-cash items	(3,324)	(4,800)	(4,970)	(5,500)
Other operating cashflows	2,661	(12,395)	1	1
Investing	(60,318)	(34,764)	(54,272)	(50,000)
Capex (growth)	(51,847)	(30,000)	(50,000)	(50,000)
Investments	(8,471)	(4,764)	(4,272)	0
Others	n.a.	n.a.	n.a.	n.a.
Financing	25,745	(40,424)	(8,299)	(5,299)
Dividend payments	(10,106)	(7,018)	(7,299)	(7,299)
Issue of shares	6,321	0	0	0
Proceeds from borrowings	29,530	(33,406)	(1,000)	2,000
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	4,996	(11,561)	(4,498)	679
Beginning cash & cash equivalent	16,215	21,211	9,650	5,152
Ending cash & cash equivalent	21,211	9,650	5,152	5,831

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	320,630	323,986	344,341	361,697
Other LT assets	87,540	92,145	97,700	98,700
Cash/ST investment	21,211	9,650	5,152	5,831
Other current assets	194,497	167,033	166,250	171,750
Total assets	623,878	592,814	613,443	637,977
ST debt	65,025	29,619	22,619	22,619
Other current liabilities	137,176	154,000	167,000	180,000
LT debt	178,388	180,388	186,388	188,388
Other LT liabilities	42,404	42,000	45,000	48,000
Shareholders' equity	185,990	184,306	189,934	196,467
Minority interest	14,896	2,501	2,502	2,503
Total liabilities & equity	623,878	592,814	613,443	637,977

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.0	8.6	10.7	11.0
Pre-tax margin	6.1	2.0	3.7	3.9
Net margin	4.7	0.9	2.2	2.2
ROA	5.3	0.9	2.1	2.2
ROE	18.0	2.9	6.9	7.2
Growth				
Turnover	40.2	(14.0)	4.2	4.7
EBITDA	22.0	(32.8)	29.5	7.5
Pre-tax profit	14.7	(71.3)	89.5	10.7
Net profit	17.9	(82.8)	142.3	7.0
Net profit (adj.)	57.9	(84.6)	142.3	7.0
EPS	57.9	(84.6)	142.3	7.0
Leverage				
Debt to total capital	54.8	52.9	52.1	51.5
Debt to equity	130.9	113.9	110.0	107.4
Net debt/(cash) to equity	119.5	108.7	107.3	104.4
Interest cover (x)	7.6	3.6	4.5	5.1

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