

IRPC SCALING 'EVEREST' TO LIFT EFFICIENCY AND RETURNS

SET-listed IRPC Plc is Thailand's largest integrated refinery and petrochemical company. President Sukrit Surabotso-pon discusses the company's strategy and outlook.

What is IRPC's business model?

In simple terms, our operations start from importing crude oil to refining oil into petroleum products such as naphtha, petrol, diesel and liquefied petroleum gas and making petrochemical products. Petroleum products represent 70% of our revenue. Our petrochemical business involves producing olefins and aromatics, which represent nearly 30% of our revenues. About 60% of our products are sold domestically and the rest exported globally.

We also have two other businesses: an asset management unit that is developing an eco-industrial estate park; and a port and tank farm business.

What differentiates IRPC from other players in the industry?

IRPC is the only integrated petrochemical refinery in Thailand that uses crude oil as



a feedstock. Others — PTT Global Chemical Plc, for example — are gas-based petrochemical producers, while some import naphtha as a feedstock. As a fully integrated refinery and petrochemical producer, we can extract the synergistic benefits of these two businesses and optimise production to gain good outcomes.

Please explain IRPC's Everest project.

To explain the Everest project, we must start from the beginning of IRPC's history with PTT Group. In 2006, our main focus was to build a strong foundation through restructuring of the balance sheet, corporate and business units. After the restructuring, we initiated the Phoenix Project, a strategic plan

concentrated mainly on asset investment. Of the total investment of US\$1.5 billion, \$1.1 billion was allocated to the UHV project (upstream hygiene and value-added products), which allowed IRPC to upgrade fuel oil to high value-added products. It will be operational by the next quarter. We have also taken this a step further to expand polypropylene capacity by 300,000 tonnes a year, with completion scheduled in mid-2017.

Next, we carried out the Delta Project from 2013-15 to invest in software with a focus on best practices and enhancing operational, commercial and procurement excellence. The Everest project began last year with a focus on efficiency enhancement and developing people. Under this scheme, we aim at \$300 million of incremental profit. We plan to be a top-quartile performer in the industry, measured by return on invested capital, which we hope to increase to 14% from 8%.

The financial indicator that demonstrates the success of the project will be the increase of earnings before interest, tax, depreciation and amortisation from 17 billion baht currently to 29 billion baht over the next two years. To achieve this target, we are bringing in world-class consultants to help increase the capability of our people on the operational and commercial side and all other areas.

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How has volatility in currencies and commodities affected your business?

Volatility is always there no matter how high or low commodity prices go. Current commodity prices have affected us both positively and negatively. For upstream business, the costs don't

change, but selling prices have dropped significantly. Hence, while exploration and production businesses are at a disadvantage, downstream businesses such as IRPC operate on a margin basis, and as long as the spread is steady or improves, as it has, then we're at an advantage.

For the company, fuel accounts for 6% of our operating cost. Thus, we have benefited from the decrease in oil prices. For the negative impact, we may book a stock loss if commodity prices go down, as we're obligated by law to store 30 days of petroleum stock.

What are the biggest risks facing your business?

Based on current oil prices, we're less concerned about risk, as low oil prices give us space to become more operationally efficient and reduce our working capital requirements. The current situation allows IRPC to be more competitive and helps us to achieve our targets in the projects we've launched aimed at being in the top quartile in the industry.

Where do you see IRPC in five years?

We intend to be a leading integrated petrochemical complex in Asia by 2020. By then, the Everest project will be complete, and we expect to be a strong cash flow-generating company that can reinvest in research and development.

To create a new S-curve, we must look for growth opportunities by developing new products. And this can be achieved only by our people. Under our company slogan, "i SPIRIT", which embodies our new culture of individual ownership, we expect to make our 5,000 people feel like they are the owners of the company, who together are responsible for our operating performance. If we can do this, we will grow and be successful together.

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Sukrit: Aiming at industry's top quartile