

# USI Corporation

(No. : 1304)

## Investor Conference

2018.11.21

# Agenda



**General Information of USI  
Business Review and Outlook**

**Financial Information**

**Q&A**

# General Information of USI

**Established Date**

**May 26, 1965**

**Capital**

**NT\$11,888M(2018.9.30)**

**Employees**

**485 (up to Sep. 30, 2018)**

**Revenue(2017)**

**Individual : NT\$11,600M  
Consolidated : NT\$58,100M**

# High Pressure LDPE/EVA Plant

## Production Facility

- 4 High-Pressure Autoclave Production Lines

## Annual Capacity

- LDPE/EVA Total : 150KMT

## Main Products

- Low Density Polyethylene Resin (Injection/Film Grades)
- Ethylene Vinyl Acetate Copolymer Resin (Foaming/HMA/PV Grades)

# Low Pressure HDPE/LLDPE Plant

## Production Facility

- 1 Gas Phase  
Production Line

## Annual Capacity

- HDPE/LLDPE Total :  
130KMT

## Main Products

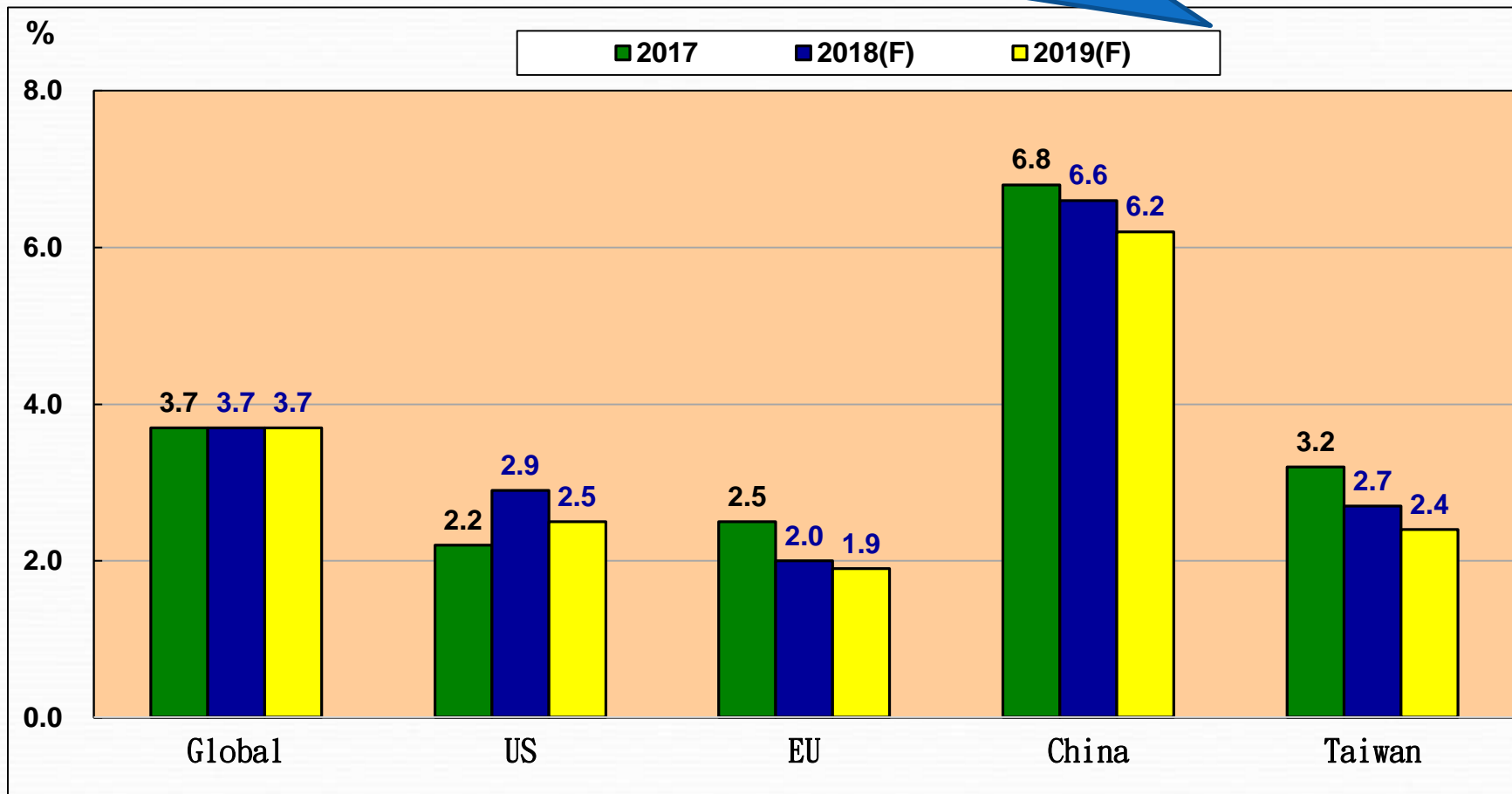
- High Density  
Polyethylene Resin  
(Injection/Yarn/  
Rotation Grades)
- Linear Low Density  
Polyethylene Resin  
(Blown Film/Casting  
Grades)

# Business Review and Outlook

**Reported By: Mark Wu, Vice President of Sales & Marketing Dept.**

1. US-China trade war
2. Higher volatility of oil price
3. Political / economic risks of EU

## GDP Growth (%)

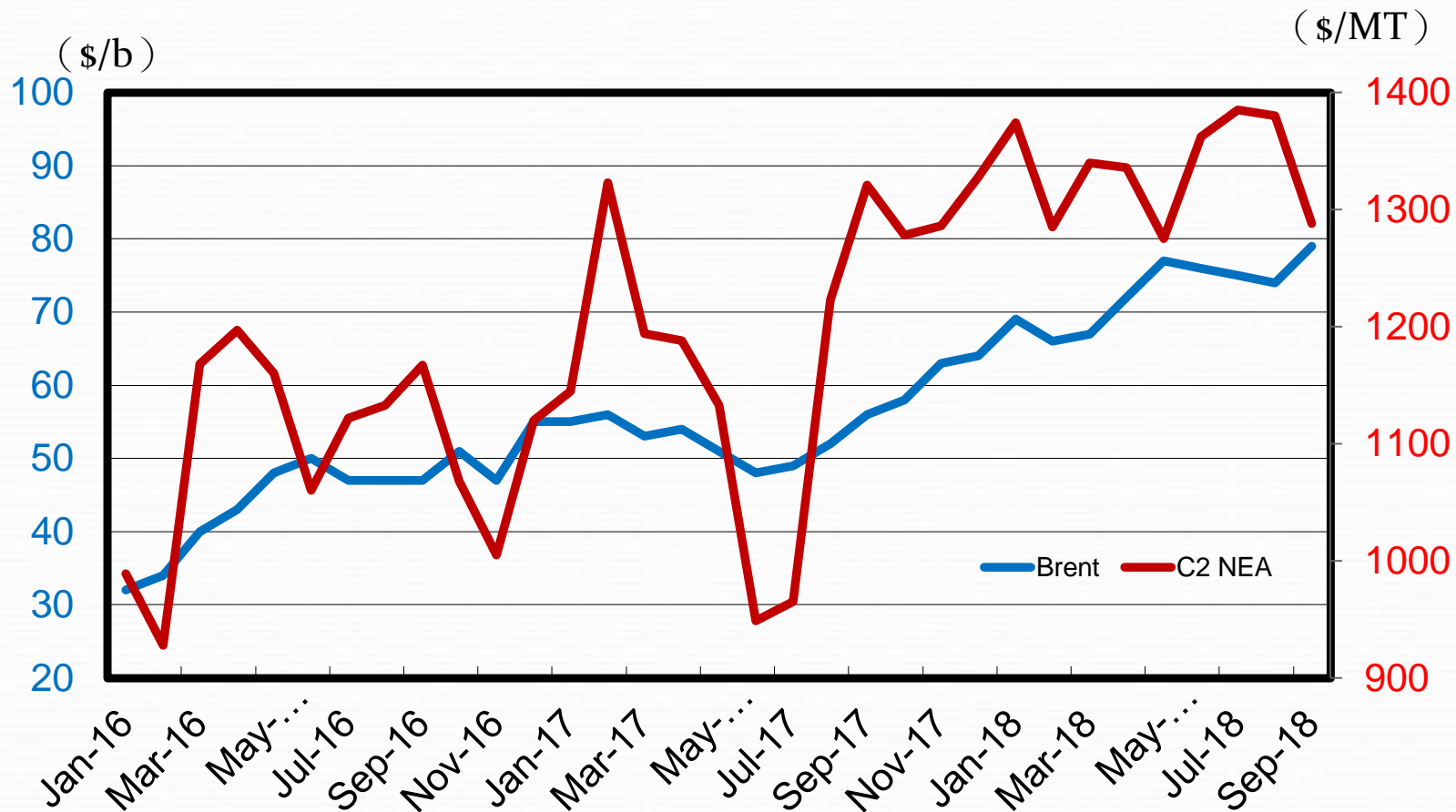


Source from: IMF 2018

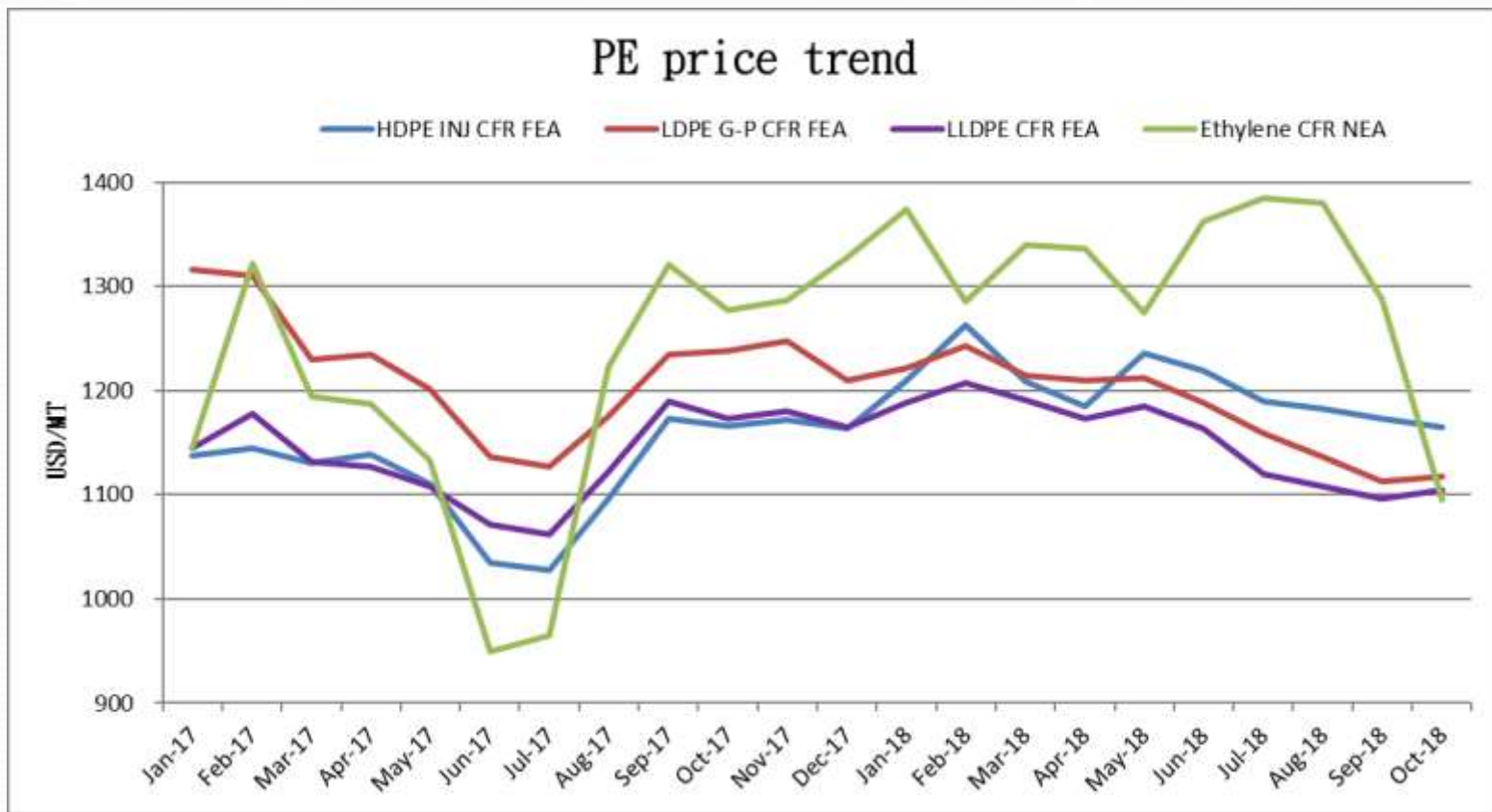


# Crude Oil & Ethylene

- Crude Oil : upward since H2 2017 and maintained high in 2018
- Ethylene : tight supply pushed the price up from H2 2017 to Q3 2018

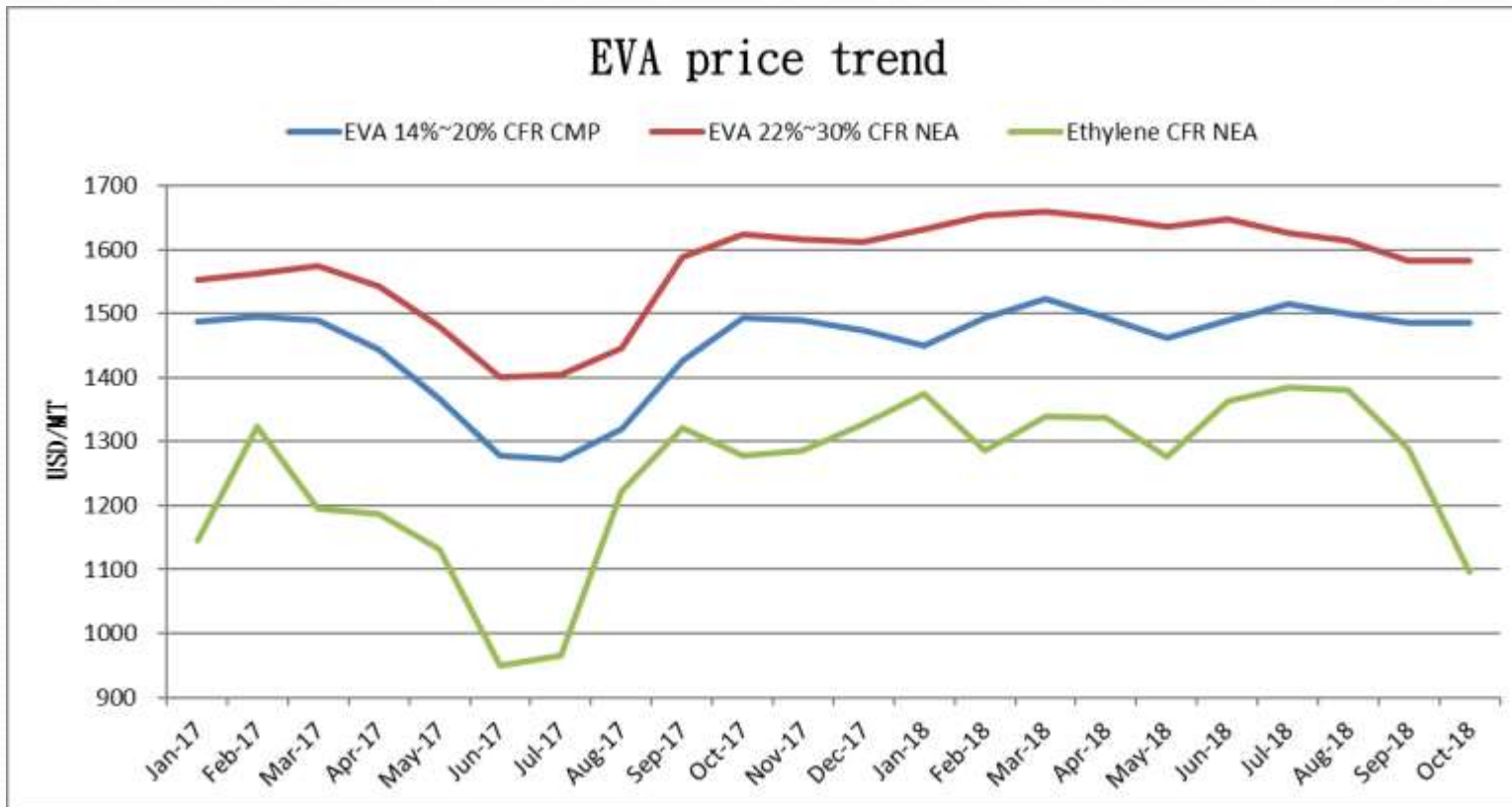


# PE Prices Review



Source from: ICIS, Platts

# EVA Prices Review



Source from: ICIS, Platts

# Business Review Between 2016 to 2018 Jan. ~ Sep.

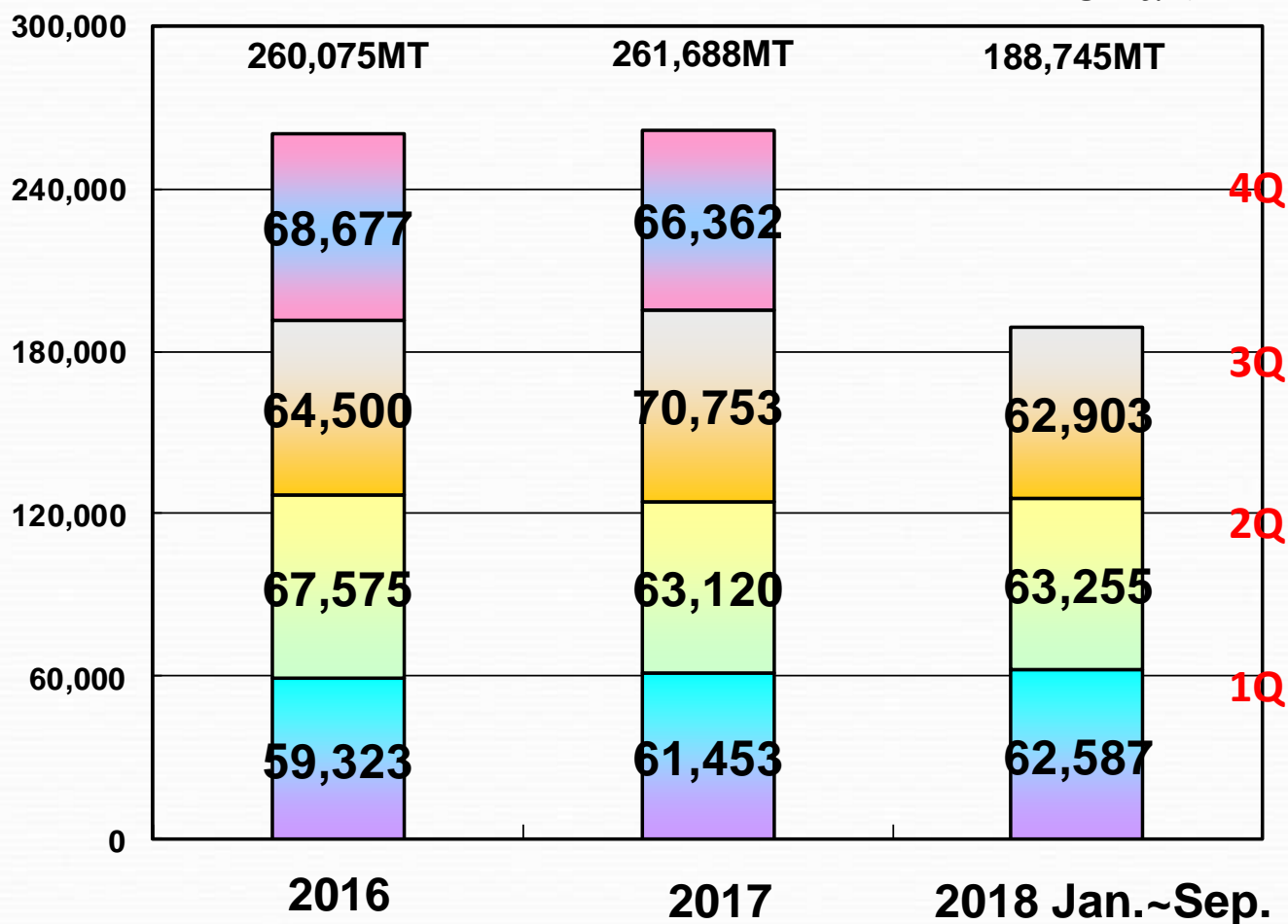
## Comparison of Sales Volume

Unit: KMT

Sales Volume	2016	2017	2018 Jan. ~ Sep.
LDPE	8	9	6
EVA	124	140	102
HDPE	105	103	72
LLDPE	22	8	8
Total	260	262	188

# Sales Volume 2016~2018 Q3

Unit: MT



## Business Review : Jan. ~ Sep. 2018

- Due to tight supply of ethylene in Asia the spot ethylene price is even higher than PE market price. Even with our brand prestige we are also suffering from expensive raw material cost which resulted in 3.4 % total sales volume dropped compared with last year from Jan. to Sep..
- LDPE Sales volume Jan.-Sep. 2018 : 6.35KMT, reduced by 3.1% as in 2017.
- EVA Sales volume Jan.-Sep. 2018 : 101.7KMT, reduced by 4.2% as in 2017.
- HDPE Sales volume Jan.-Sep. 2018 : 72.3KMT, reduced by 5.5% as in 2017.
- LLDPE Sales volume Jan.-Sep. 2018 : 8.37KMT, reduced by 36.54% as in 2017.
- Total Sales volume Jan.-Sep. 2018 : 188.7KMT, reduced by 3.4% as in 2017.

## EVA Market : Jan. ~ Sep. 2018

### Foam Market :

- - Weak demand and ample supply led intensive market competition in China.
  - Below-seasonality in peak season from Apr. to May.
  - Weak demand in low season from Jun. to first half of Sep..
  - Buying sentiment recovered since second half of Sep..
  - Supported by high ethylene cost, China domestic price maintained stable; however, import price dropped due to RMB depreciation .
- - Taiwanese sports shoes OEM factories kept migrating out from China to South East Asia due to increasing production cost.
  - China based shoes manufacturers also started to migrate since H2 2018 due to US-China trade war.
  - USI Strategy → To focus on international well-known brands and develop high performance EVA foam grades.

## EVA Market : Jan. ~ Sep. 2018

### EVA Solar Market :

- - Demand was good from Jan. to May; however, it was suddenly frozen after China FIT policy announced in early Jun..
  - Demand slightly improved in Jul. ~ Aug. and recovered from Sep..

### EVA Hot Melt Market :

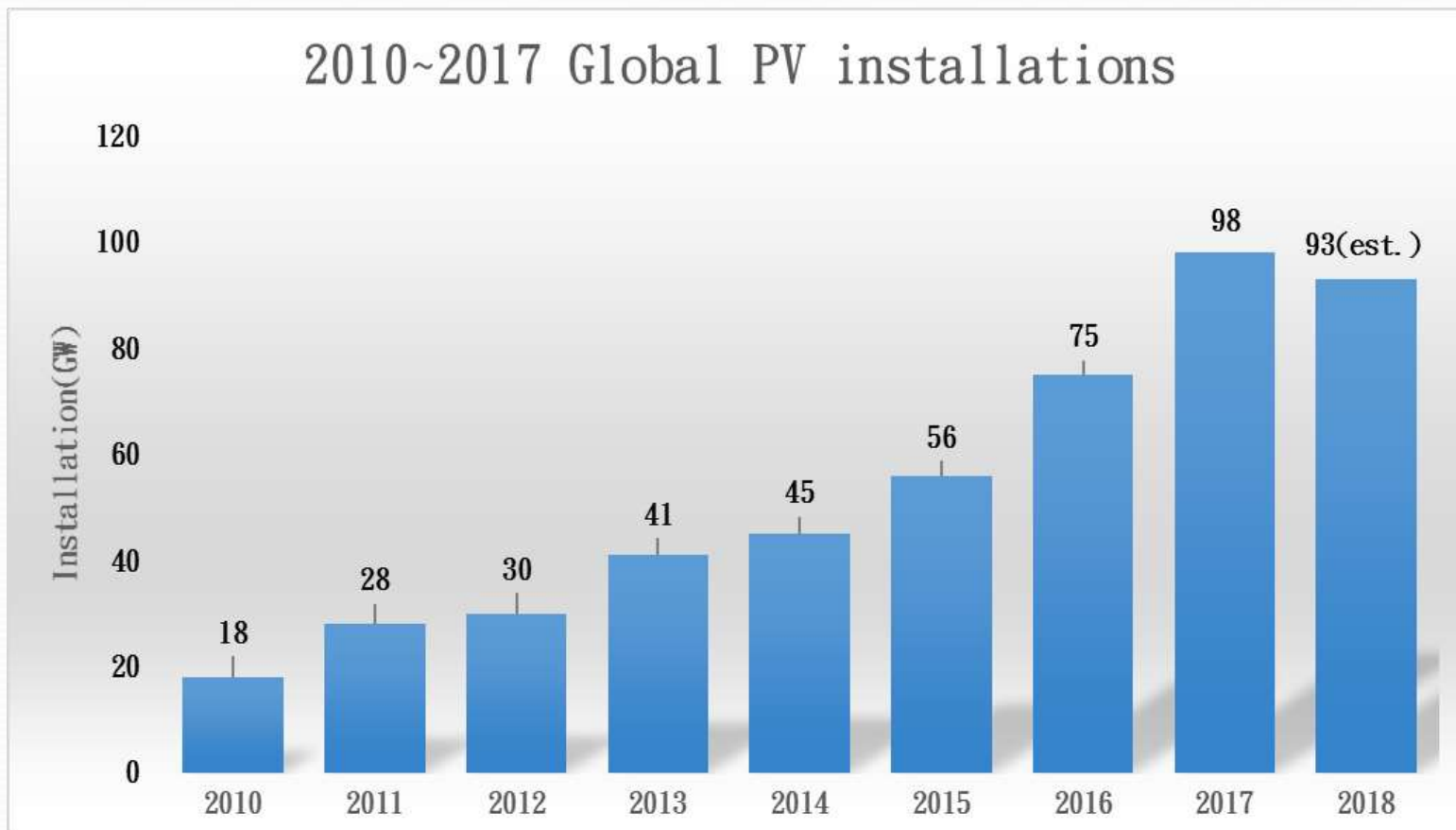
- - Multiple grades for hot melt requirements meet USI strategy.
  - Sales volume maintained stable.



## LDPE/HDPE/LLDPE Market : Jan. ~ Sep. 2018

- High feedstock cost due to limited contract ethylene supply and high spot ethylene price enlarged price gap between USI's and international market price.
- Domestic **HDPE** sales was relatively stable while export sales volume reduced by 13.5% compared with the same time frame.
- Poor **LLDPE** margin with price oriented strategy made the sales mainly maintain the supply to regular customers.
- Limited **LDPE** supply was only able to offer to loyal regular customers.

# Global PV Demand



Source from:

1. IEA (International Energy Association)
2. Energy trend
3. SOLARSTAR
4. Bloomberg New Energy Finance

# PV Grade EVA Sales Volume

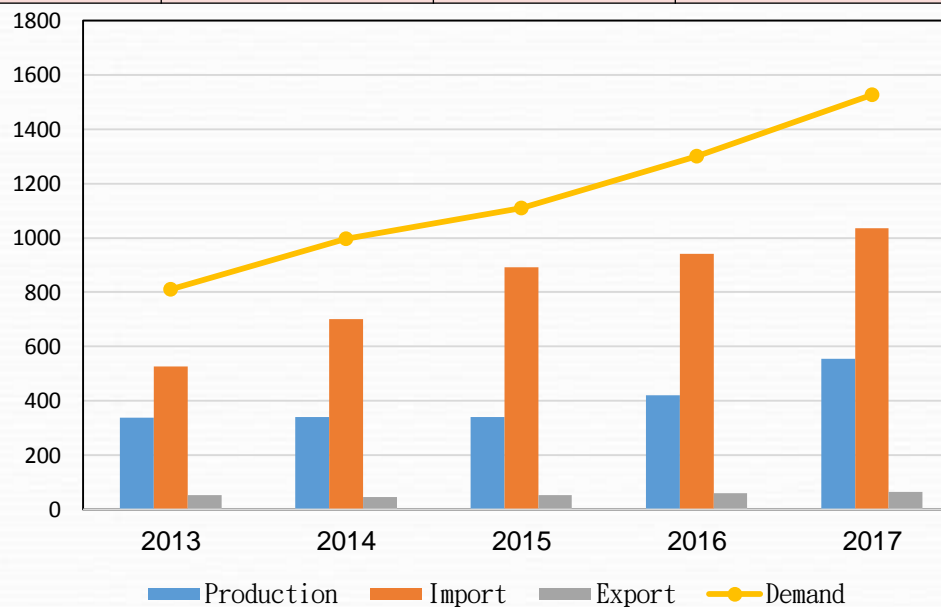
Unit: MT

	Domestic	Export	Total
2012	59	28,682	28,741
2013	145	46,583	46,728
2014	33	47,613	47,646
2015	285	42,796	43,081
2016	477	65,617	66,094
2017	416	78,891	79,307
Q1~Q3 2018	368	51,272	51,640

# China EVA Demand

Unit: KMT

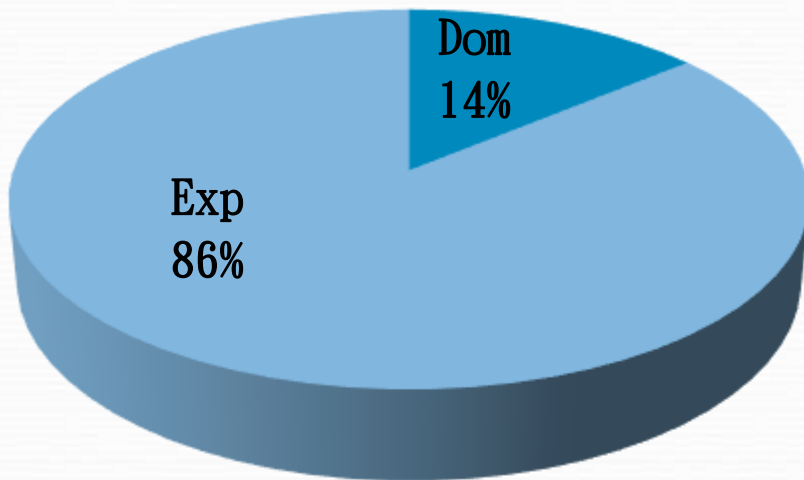
Year	Production	Import	Export	Demand	Self-sufficiency rate
2013	337	526	52	811	42%
2014	341	700	45	996	34%
2015	340	892	52	1,110	30%
2016	420	940	60	1,300	32%
<b>2017</b>	<b>555</b>	<b>1,035</b>	<b>64</b>	<b>1,526</b>	<b>36%</b>



Reference: Chem99,  
China Customs Data

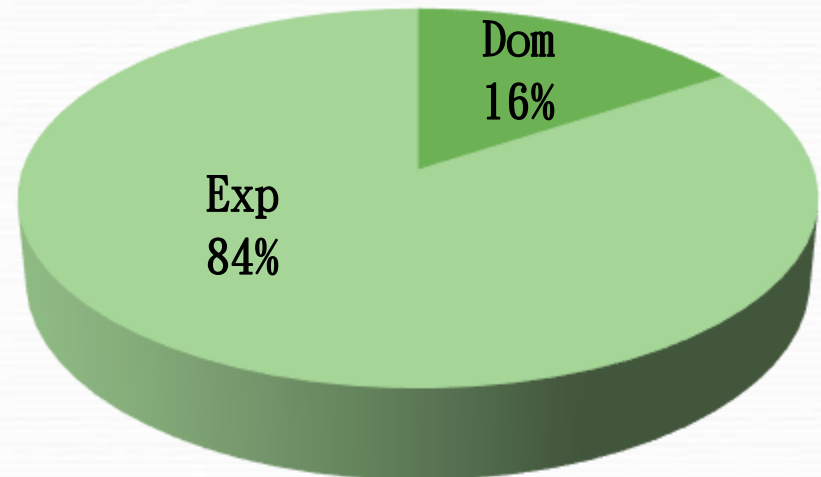
# Ratio of EVA Dom./Exp. Sales

**2017**



Exp: 120.6KMT; Dom: 19.6KMT

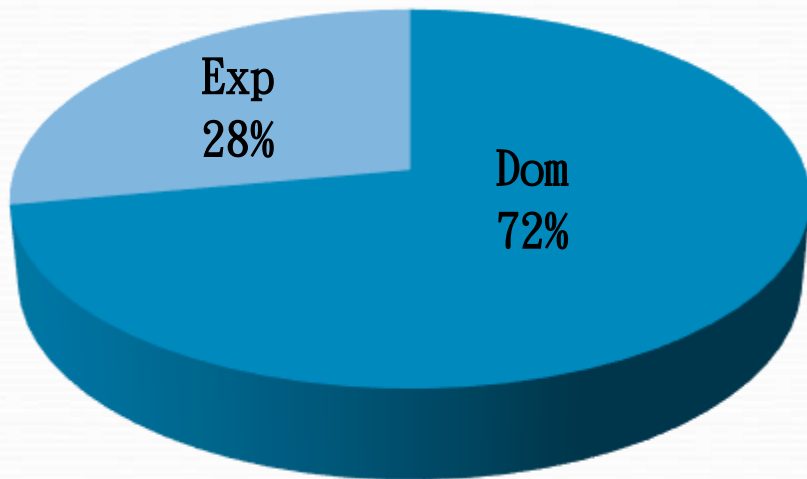
**Jan. ~ Sep. 2018**



Exp: 85.6KMT; Dom: 16.0KMT

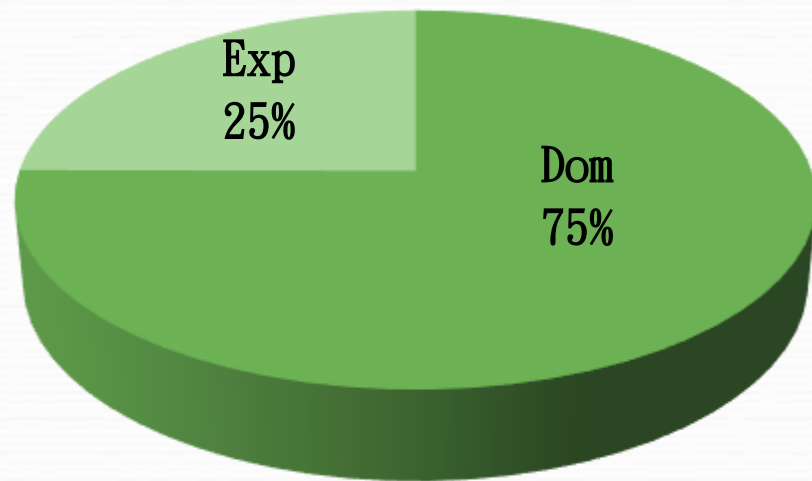
# Ratio of HDPE Dom./Exp. Sales

**2017**



Exp: 28.6KMT; Dom: 74.0KMT

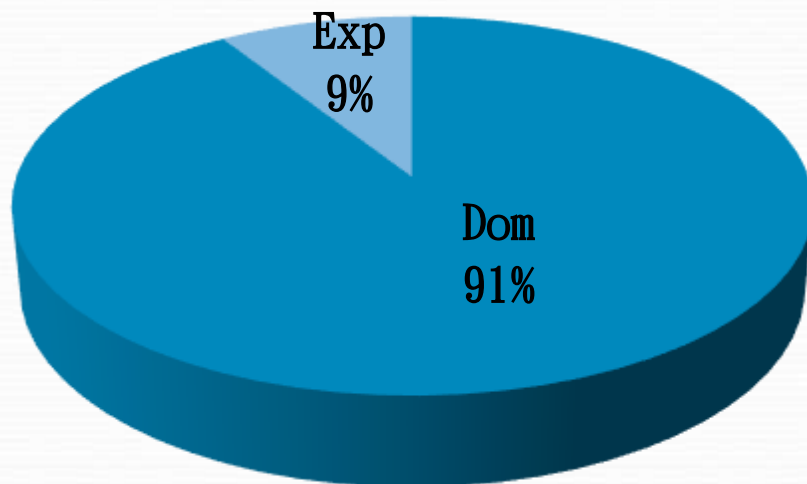
**Jan. ~ Sep. 2018**



Exp: 18.0KMT; Dom: 54.2KMT

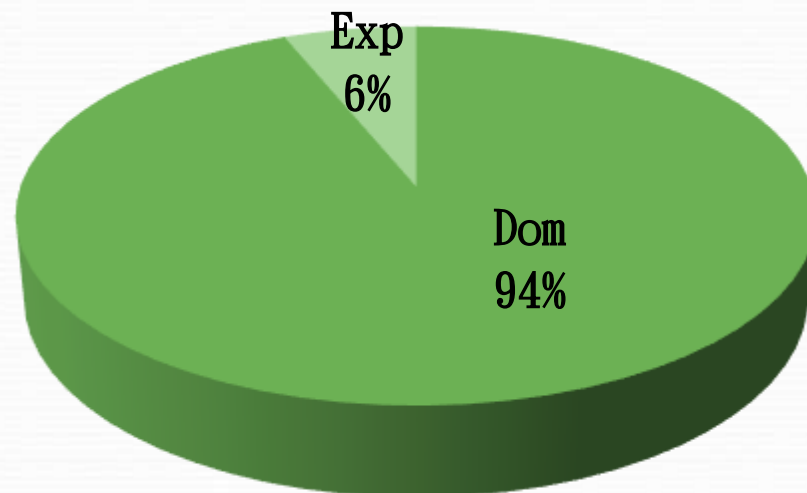
# Ratio of LLDPE Dom./Exp. Sales

**2017**



Exp: 0.8KMT; Dom: 8.8KMT

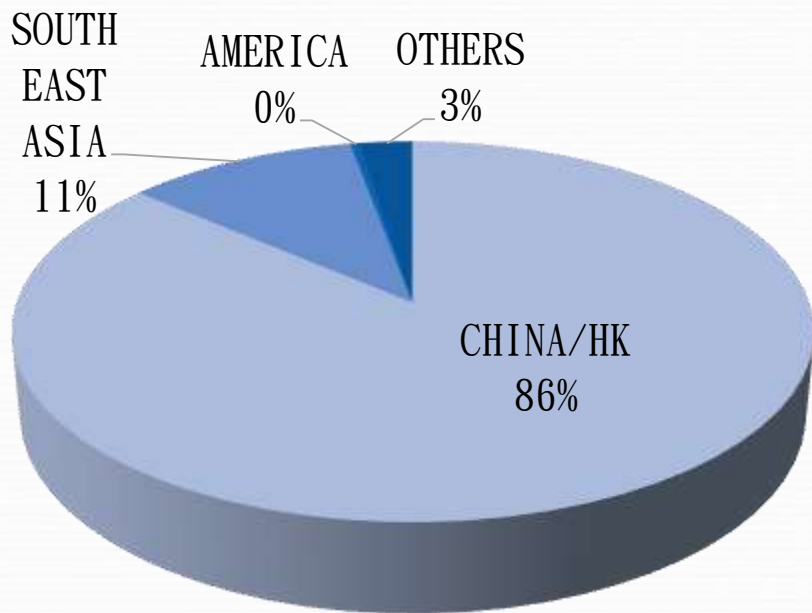
**Jan. ~ Sep. 2018**



Exp: 0.5KMT; Dom: 7.8KMT

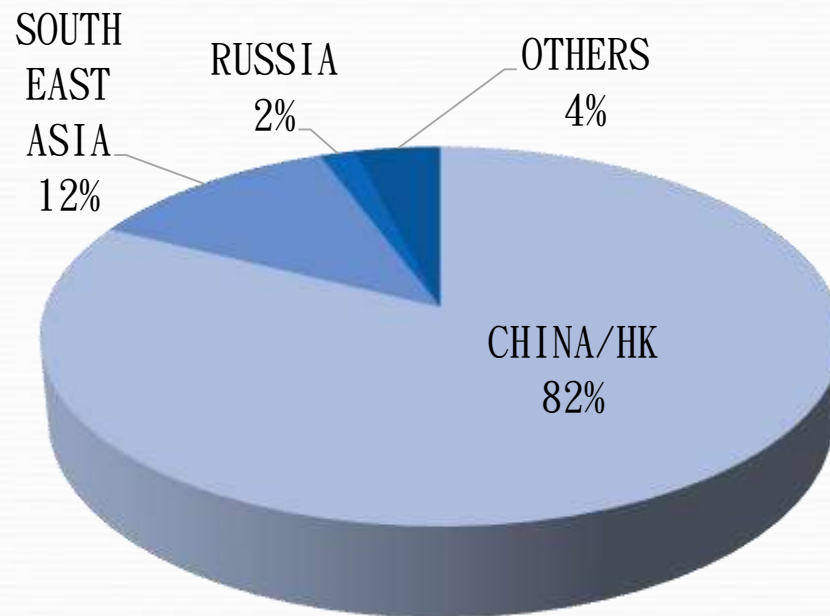
# EVA Export Sales by Area

**2017**



CHINA/HK: 104.0KMT;  
SOUTH EAST ASIA: 13.1KMT

**Jan. ~ Sep. 2018**

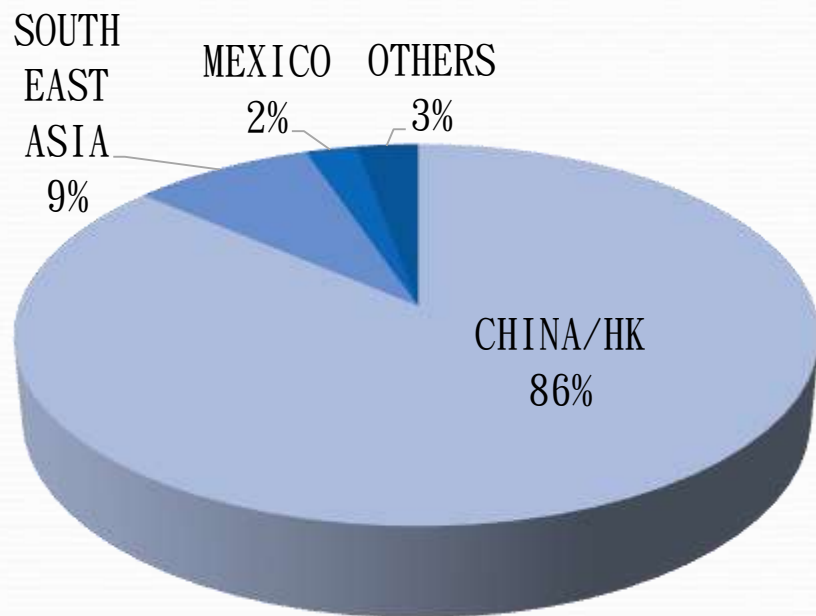


CHINA/HK: 70.2KMT;  
SOUTH EAST ASIA: 10.17KMT



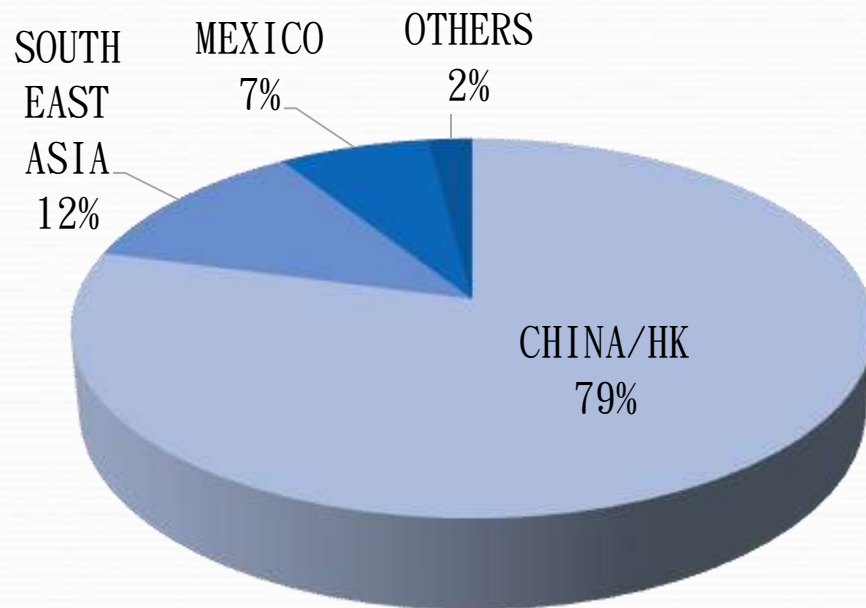
# HDPE Export Sales by Area

**2017**



CHINA/HK: 24.7KMT;  
SOUTH EAST ASIA : 2.4KMT

**Jan. ~ Sep. 2018**

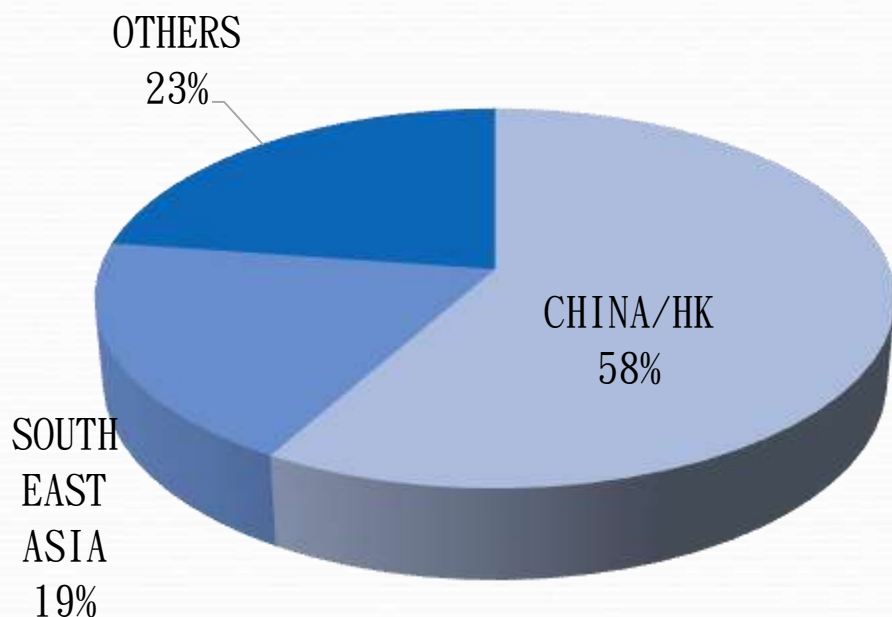


CHINA/HK: 14.2KMT;  
SOUTH EAST ASIA : 2.1KMT

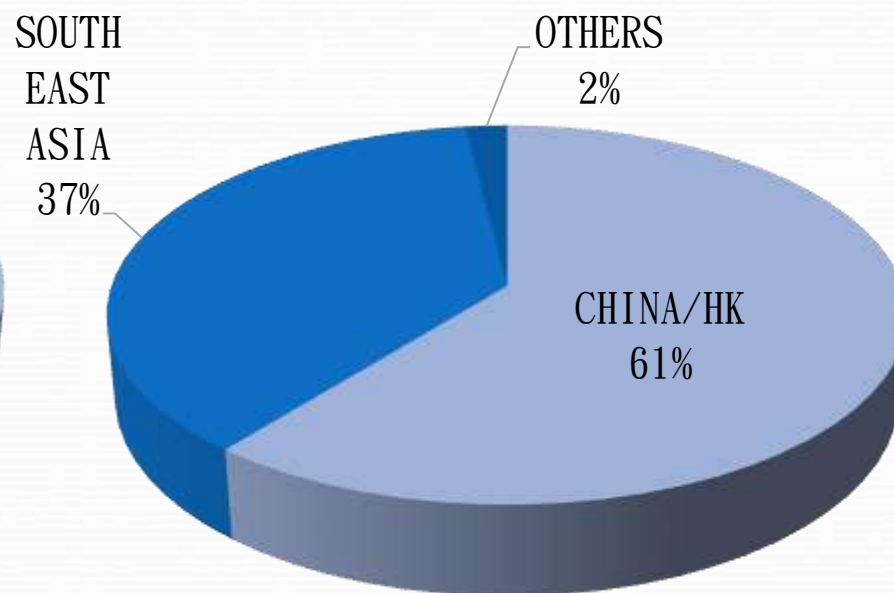
# LLDPE Export Sales by Area

**2017**

**Jan. ~ Sep. 2018**



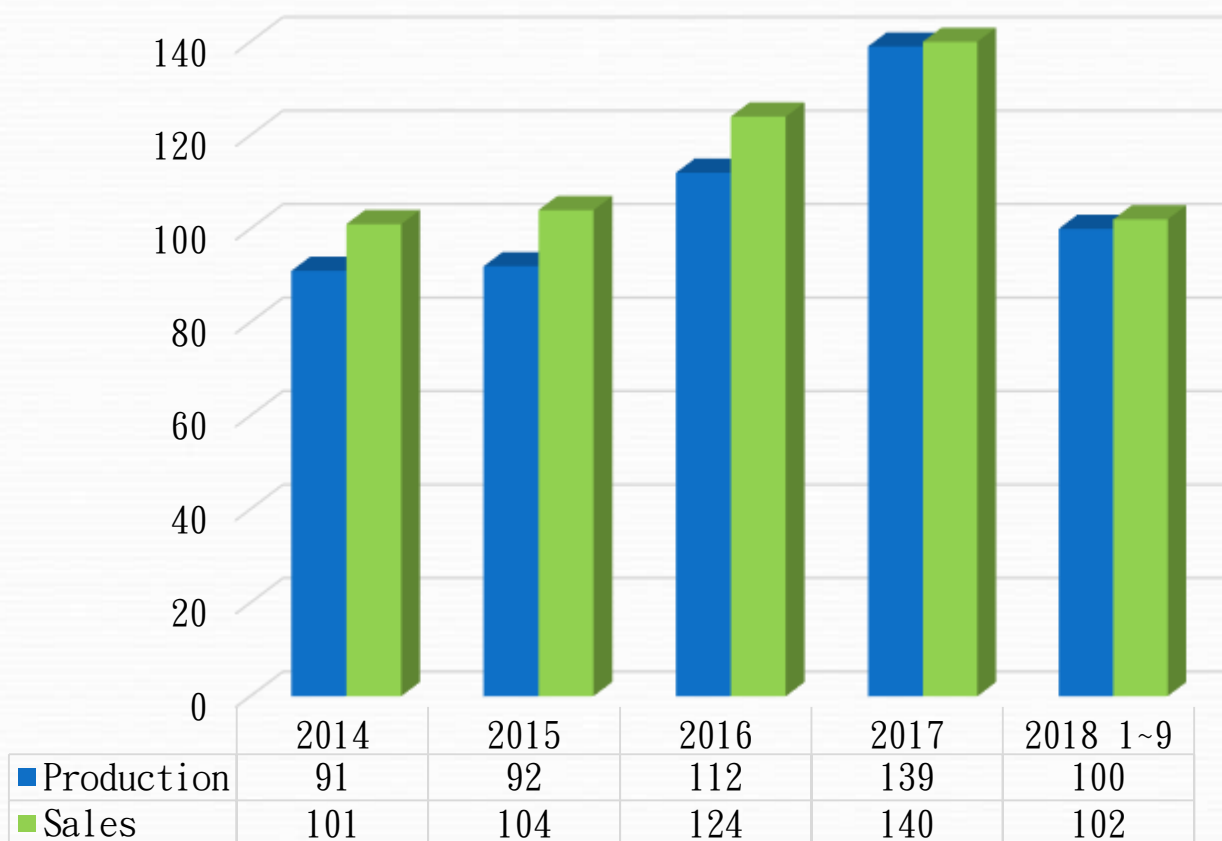
CHINA/HK: 0.6KMT;  
SOUTH EAST ASIA : 0.2KMT



CHINA/HK: 0.3KMT;  
SOUTH EAST ASIA : 0.1KMT

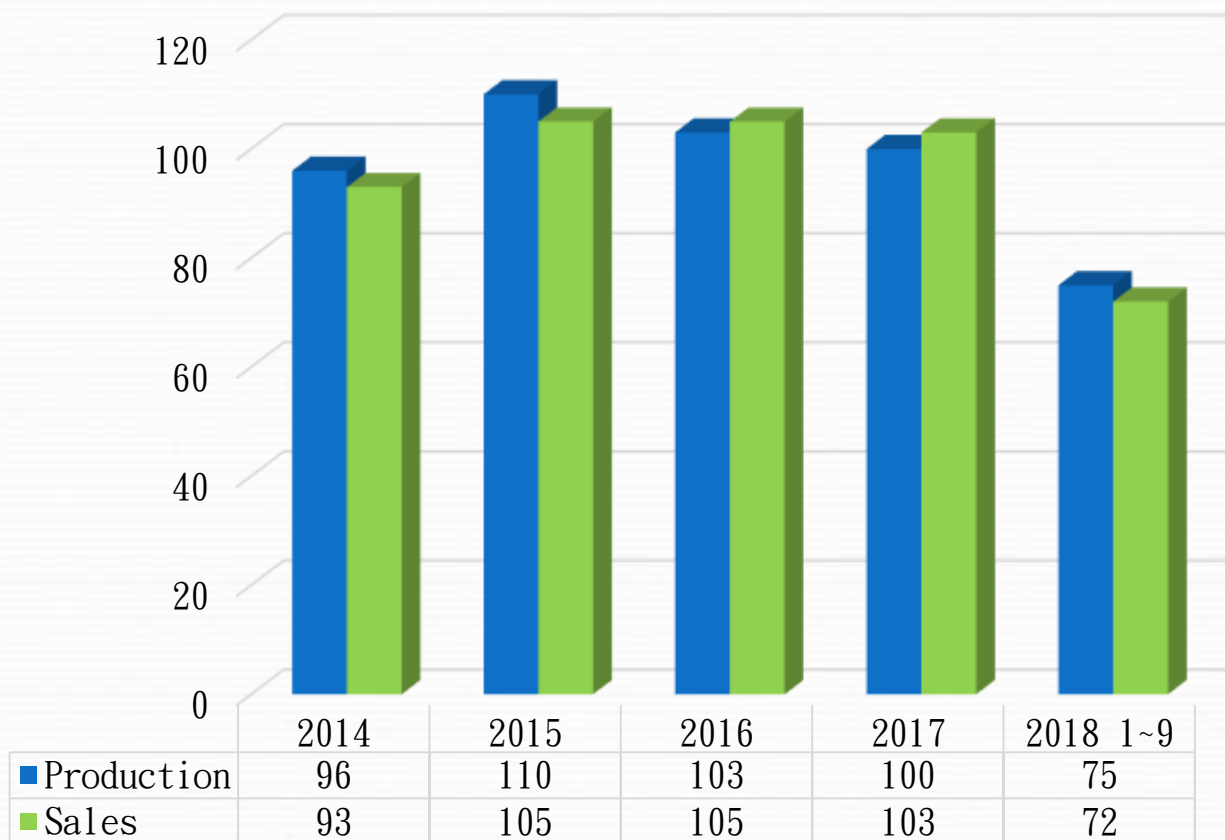
# The Volume of EVA Production & Sales

Unit: KMT



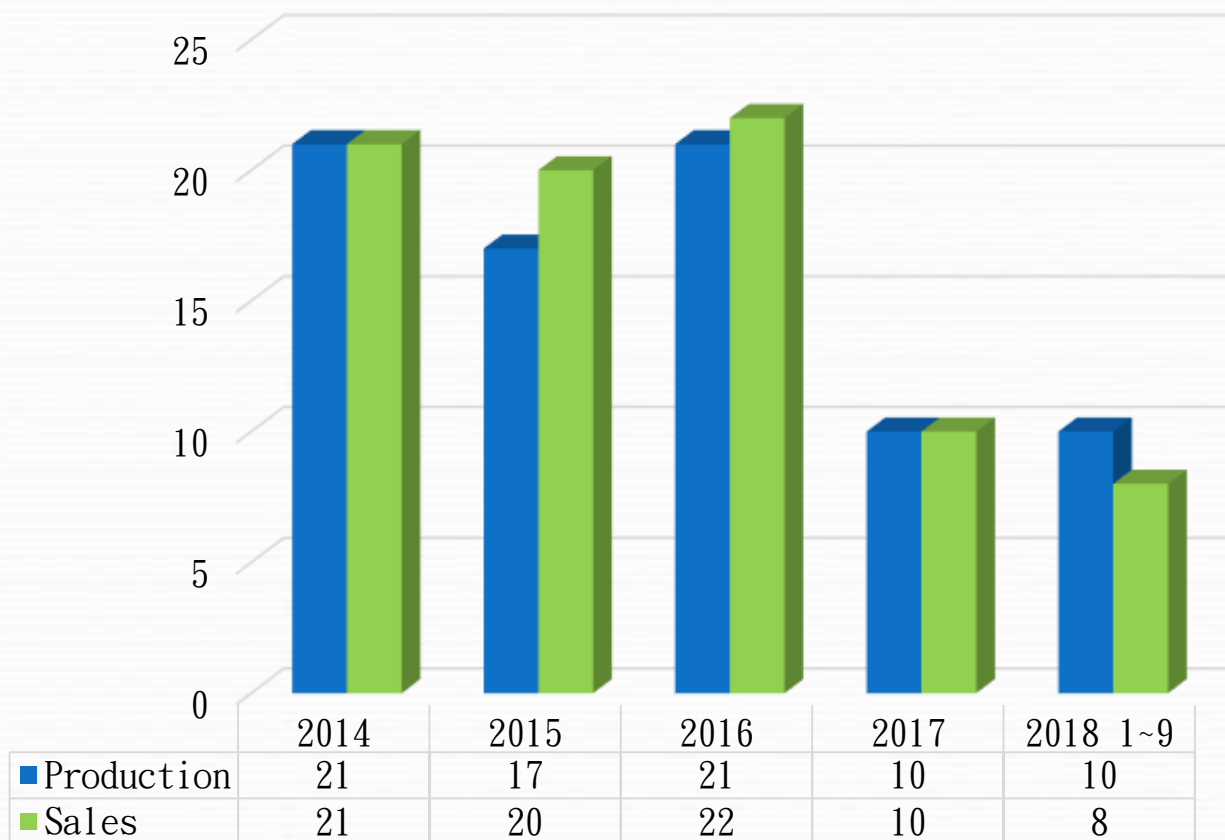
# The Volume of HDPE Production & Sales

Unit: KMT



# The Volume of LLDPE Production & Sales

Unit: KMT



# Business Outlook

## ■ Crude oil / Ethylene :

➡ Crude oil : OPEC to reduce oil production will support sustainable market stability. The US-China trade war and strong US Dollar may diminish the demand of crude oil in China and emerging countries. The possibility of downtrend Crude oil price could be expected.

### ➡ Ethylene :

2018 Q4 : The US-China trade war and depressed purchase momentum lead to plummeted spot price.

Year 2019 : Ample supply is expected - less annual maintenances comparing to those in 2018 for crackers in Asia; ethylene from US tends to be sold to Taiwan while its import tariff to China increases. US-China trade war impact toward ethylene derivatives retains to be evaluated.

# Business Outlook

## ■ PE and EVA :

- ➡ Market price of ethylene collapsed from early Oct. and PE price dropped a little. EVA price is relatively stable. The spread between PE/EVA and ethylene becomes optimistic.
- ➡ New announcement from China government on the solar cell policy remains supported. Market outlook optimistic for solar cell.
- ➡ No new EVA capacity joins before the 2<sup>nd</sup> half of 2020. The pressure of EVA oversupply expected to be eased.
- ➡ New PE capacity in North America continuously joins the market which will gain pressure on Asian petrochemical industries.
- ➡ Consistently developing tailor-made products with niche.

# Major Equipment Improvements

Item	Completion Date	Expected Benefits
Effluent Water Continuous Monitoring and Recovery System	2018/11	Water saving and recycle economy Cost: 15 million \$NTD Saving: 1.55 million \$NTD/year ROI: 10 year
Plant 1 Thermal Oxidizer Project	2019/08(F)	Environment protection and operational safety improvement Cost: 65 million \$NTD
Plant 2 Finishing Area Filtration System Project	2019/10(F)	Quality improvement Cost: 22.3 million \$NTD



# Gulei Petrochemical Project

## Items

Ethylene、Propylene、Butadiene、  
Ethylene Vinyl Acetate copolymers (EVA)、  
Ethylene Oxide (EO)、  
Ethylene Glycol (EG), etc.

## Fujian Gulei Petrochemical Co. Ltd.

Taiwan and China each holds  
50 % of the joint venture  
company's shares.

## Investment

- Total investment (Taiwan and China) : approximately 30.39 billion RMB
- According to USI Board's FID (March 2016), USI will indirectly invest the Gulei Project in Fujian Province, China, via a third place. The amount of investment will not exceed NT \$ 8 billion. Capital will be in place consecutively after government's approval.

## Milestone

- Registration of Fujian Gulei Petrochemical Co. Ltd. was complete in November 2016.
- Opening ceremony of Fujian Gulei Petrochemical Co. Ltd. was launched in December 2017.
- Overall design of Gulei Petrochemical Project was approval in August 2018.



# Progress in Cyclic Block Copolymer (CBC)

- Production Status: Trial is on going. Small trial orders sold in Nov..
- Major Applications :
  - **Short Term** : Step into packaging, light guide plate, lens for eye glasses and bio-diagnostic applications.
  - **Mid Term**: Targeting in optical film (retardation film or ITO transparent film) and medical applications.
  - **Long term**: Based on CBC's unique features to develop new applications.



**Optical**



**Medical**



**Packaging**

# **USI Corporation and Subsidiaries**

## **Consolidated Financial Information**

**Reporter :Amy Kuo, Manager**

**Date : Nov. 21, 2018**

# USI Corporation

## Consolidated Statements of Income

(In millions of NTD, except per share data)

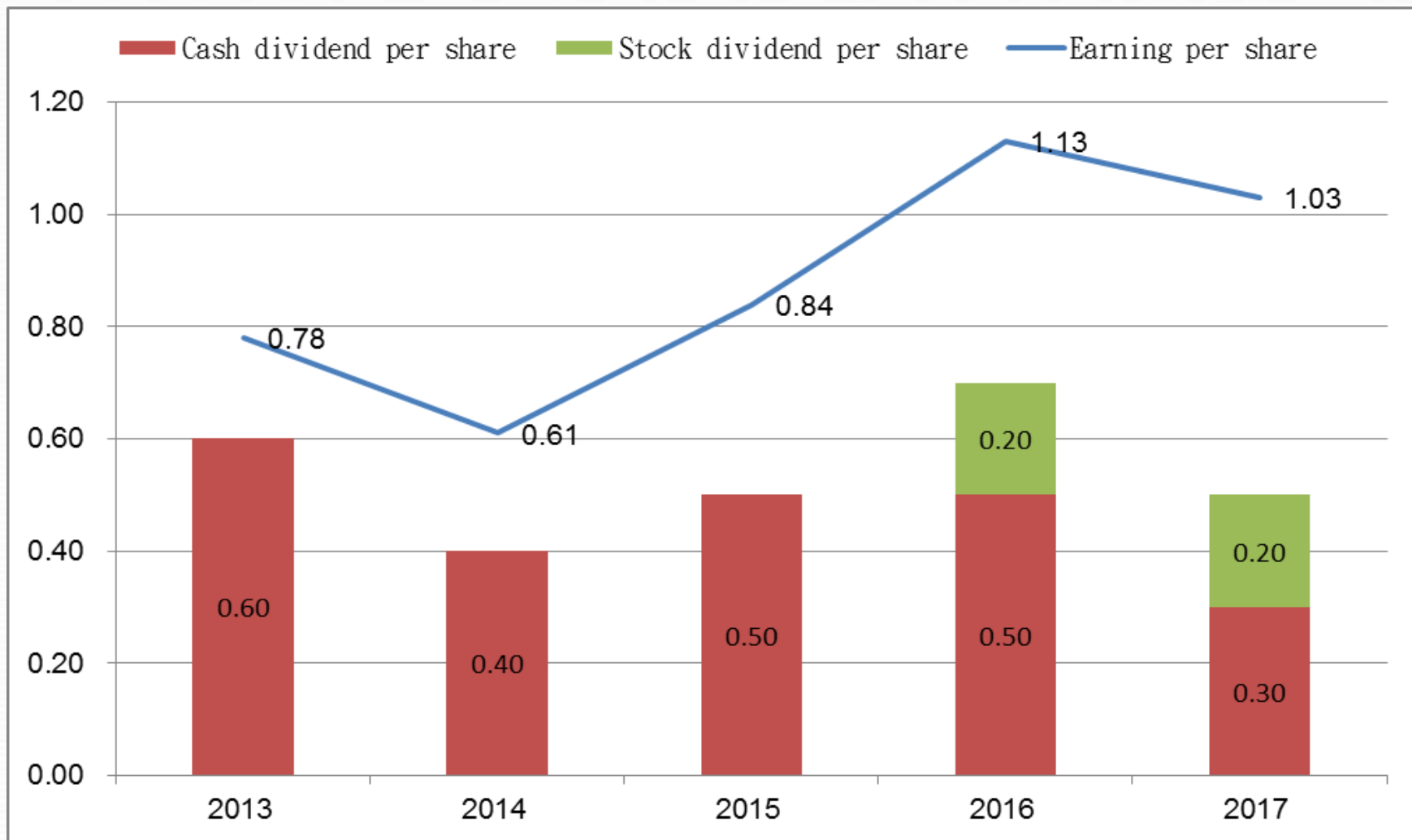
	2018 1/1-9/30	2017 1/1-9/30	YoY%	2017 FY	2016 FY	2015 FY
<b>Sales</b>	<b>45,648</b>	42,866	6.5%	58,134	53,102	52,374
<b>Cost of goods sold</b>	<b>40,719</b>	37,559	8.4%	51,007	46,221	46,936
<b>Gross profit</b>	<b>4,929</b>	5,307	-7.1%	7,127	6,881	5,438
gross profit ratio	11%	12%		12%	13%	10%
<b>Selling and administrative expenses</b>	<b>2,473</b>	2,459	0.6%	3,360	3,248	3,190
<b>R&amp;D expenses</b>	<b>310</b>	291	6.4%	389	471	476
<b>Operating income</b>	<b>2,146</b>	2,557	-16.1%	3,378	3,161	1,772
operating income ratio	5%	6%		6%	6%	3%
<b>Non-operating income(loss) *</b>	<b>499</b>	59	744.5%	108	(68)	184
<b>Income before income taxes</b>	<b>2,645</b>	2,616	1.1%	3,486	3,093	1,956
<b>Income taxes</b>	<b>622</b>	579	7.5%	776	714	419
<b>Net income</b>	<b>2,023</b>	2,037	-0.7%	2,710	2,379	1,537
net income ratio	4%	5%		5%	4%	3%
<b>Net income attributable to</b>						
- USI Corporation	641	880	-27.1%	1,111	1,190	880
- non-controlling interests	1,382	1,157	19.4%	1,599	1,190	657
<b>Earnings per share</b>	<b>0.60</b>	0.84	-28.6%	1.06	1.15	0.85
adjusted		0.82		1.03	1.13	0.84

\*Note:Non-operating income(loss) included discontinued operations income(loss)

## Financial ratio analysis-Consolidated

	<b>2018 1/1-9/30</b>	2017 1/1-9/30	2017 FY	2016 FY	2015 FY
Operating income margin(%)	<b>4.7</b>	6.0	5.8	6.0	3.4
Net income margin(%)	<b>4.4</b>	4.8	4.7	4.5	2.9
Debt ratio(%)	<b>47</b>	46	46	48	46
Current ratio(%)	<b>238</b>	207	237	237	208
Quick ratio(%)	<b>174</b>	154	178	185	156
Accounts receivable turnover days	<b>48</b>	46	48	49	53
Inventory turnover days	<b>52</b>	49	48	54	61

# EPS vs DPS



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