

MEDIA RELEASE

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CariCRIS downgrades its credit ratings for Poly Pet Company Limited

Caribbean Information and Credit Rating Services Limited (CariCRIS) downgraded by one-notch the rating to *jmBBB-* (Local Currency Rating) on the Jamaica national scale assigned to the J \$1 billion debt issue of Poly Pet Company Limited (Poly Pet or the Company). The national scale rating indicates **adequate** creditworthiness, compared to other rated debt obligations in Jamaica.

The downgrade is driven by the material deviation in Poly Pet's audited financial statements for 2019 compared to management results presented previously, resulting in lower profitability and cash flow adequacy metrics, stated as a Rating Sensitivity Factor (RSF) in our July 2020 report.

CariCRIS also assigned a **negative** outlook on the ratings. The negative outlook is premised on our expectation that over the next 12 months, the Company's profitability will continue to be challenged as a result of the downside impacts associated with the COVID-19 pandemic. In addition, CariCRIS expects lower projected earnings over the next 12 months could result in Poly Pet breaching its financial covenant of a maximum debt to EBITDA ratio of 4.5 times. Should the Company be in breach of this covenant, its rating will be further lowered.

The ratings of Poly Pet reflect its strong market position as a leading plastic bottle manufacturer in Jamaica, as well as the Company's good operating efficiency that is underpinned by strong asset maintenance policies and practices. These rating strengths are however tempered by its deteriorating financial performance, partially due to lower profitability reported by its auditors in its financial statements for the year ended June 2019, which was a material deviation from previously submitted management accounts, and made the Company more vulnerable to the economic shocks caused by COVID-19. In addition to this, high intercompany balances to related companies have limited the cash flow accumulation of Poly Pet. Further, there are downside risks associated with the sovereign risk exposure to Jamaica and the increasing trend to limit the use of single-use plastic bottles.

Rating Sensitivity Factors:

Factors that could, individually, or collectively lead to an improvement in the ratings and/or Outlook include:

- An increase in PAT of above 10% for 2 consecutive years
- Improvement of the sovereign risk profile of Jamaica
- 2 consecutive years or net reductions in intercompany balances by 10% or more, leading to improved cash flows and cash balances for Poly Pet

Factors that could, individually, or collectively lead to a lowering of the ratings and/or Outlook include:

- A greater than 10% decline in operating revenue for 2 consecutive years
- A decline in interest cover to below 2 times
- A net increase in intercompany balances by 5% over the next 12 months
- A deterioration in the Company's debt/ TNW ratio to more than 2 times
- Breach of covenants stipulated in the final term sheet/prospectus for the bond offering
- Inability to raise capital given the likelihood that the bond's principal at maturity would need to be refinanced in 2025
- Changes in environmental laws and regulations towards reducing plastic use in Jamaica
- Deterioration in the sovereign risk profile of Jamaica
- Material deviation of Poly Pet's audited financial accounts for June 2020 from management accounts presented, resulting in lower profitability and cash flow adequacy metrics

About the Company:

Poly Pet Company Limited (Poly Pet or the Company) is privately-owned, limited liability, manufacturing company founded in 2006 and located in Kingston, Jamaica. The Company's primary manufacturing operations involve the production of high-density polyethylene (HDPE)¹ and polyethylene terephthalate (PET)² bottles of various sizes for household, beverage, and industrial use. The Company is owned by Anthony Brown (40%), Shane Brown (40%) (the current Chief Executive Officer), and Tamara Phang (20%).

¹ A robust, moderately stiff plastic with a highly crystalline structure. It is known for its high strength-to-density ratio and is frequently used in plastic for milk cartons, laundry detergent, garbage bins, and cutting boards. HDPE is commonly recycled to make park furniture, lawn chairs and plastic decking. Poly Pet uses 2 million pounds of this material per year.

² A strong, stiff synthetic fiber and resin spun into fibers for permanent-press fabrics, blow-molded into disposable beverage bottles, and extruded into photographic film and magnetic recording tape. Can be recycled to make non-food hygiene products such as carpets, toys, shoes, and clothing. Poly Pet uses 4 million pounds of this material per year.

The Company holds a market share of approximately 70% of the plastic bottle manufacturing industry in Jamaica. Over 90% of the Company’s customers are located across Jamaica, with a small distribution operation located in Barbados. Additionally, Poly Pet has successfully aligned itself with both local and international companies to provide complete packaging solutions including labels, boxes, and bottle caps. The Company is able also to design and manufacture bottles for its customers based on their unique specifications.

In December 2020, the Company issued a 5-year J \$1 billion senior secured bond. To date, the Company has received J \$800 million from investors. The initial proceeds of the bond were mainly used to refinance its bank debt under more flexible terms and to fund additional Working Capital requirements (Table 1). The balance of J \$200 million is expected to be sold to additional investors in the 2nd half of 2021 and will be used to purchase new machinery and equipment to expand the Company’s product range and provide further working capital support.

Table 1
Use of the proceeds of the Poly Pet J \$1 billion Bond Issue

	J\$ million
Refinance Existing Debt	600
Working Capital	200
New Machinery and Equipment³	155
Working Capital	45
Total	1,000

Source: Poly Pet Co. Ltd

³ Two HDPE machines and equipment to be purchased to manufacture bottles for cleaning agents and 1 & 5 gallon bleach bottles.



For more information on Poly Pet's ratings, please visit www.caricris.com or contact:

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