Jinan Acetate Chemical

4763 TT

4Q20 Results Presentation

12 March 2021

The Little Giant in a Global Oligopoly Industry

- ✓ Jinan Acetate is a fully-integrated, independent manufacturer of **superior quality acetate tows and flakes**, participating in a highly profitable **oligopoly market with high entry barriers**. Acetate tows are the key raw material used in making cigarette filters. Acetate flakes are primarily used in the production of acetate tows and optical frames.

- ✓ **We continue to invest while producing robust cash flows**. Advanced R&D and production expertise keep our **costs significantly lower than our global peers**, who are reducing and repurposing their capacity while we **target double digit annual capacity growth** over the next 5 years. In order to stay ahead of industry trends, we are developing new biodegradable products and new applications for existing products. We have also been investing in cost-saving equipment to maintain our cost advantage.

- ✓ We are optimistic on the prospects for demand growth in our core markets over the next five years. Southeast Asia and Africa & the Middle East are characterized by younger, growing populations with rising incomes. Cigarette consumption is projected to grow in these markets, while consumption in the developed world remains flat to slightly down.

- ✓ We aim to **double our market share** for acetate tows within 5 years from 1.8% currently (2020). Our focus clients are **mid-to-small sized brands located in emerging market countries**, which have greater growth potential than the established global brands. We also hope to gain business from one or more Tier-1 Tobacco players within the next 12-24 months.

- ✓ We aim to maintain a cash dividend payout ratio between 60-80% and ROE in excess of 20%.

Jinan Acetate Chemical @ a Glance

- **Ticker:** 4763 TT
- **Market Cap – 26 February 2021**: US$229 mn
- **2020 Revenue**: US$80 mn
- **ROE**: Averaged 23% in 2016 through 2020
- **2020 Cash Dividend**: NT$5.50 per share*
- **Business Scope**: Exports to more than 50 countries
- **Client Diversification**: Top 5 are less than 40% of sales

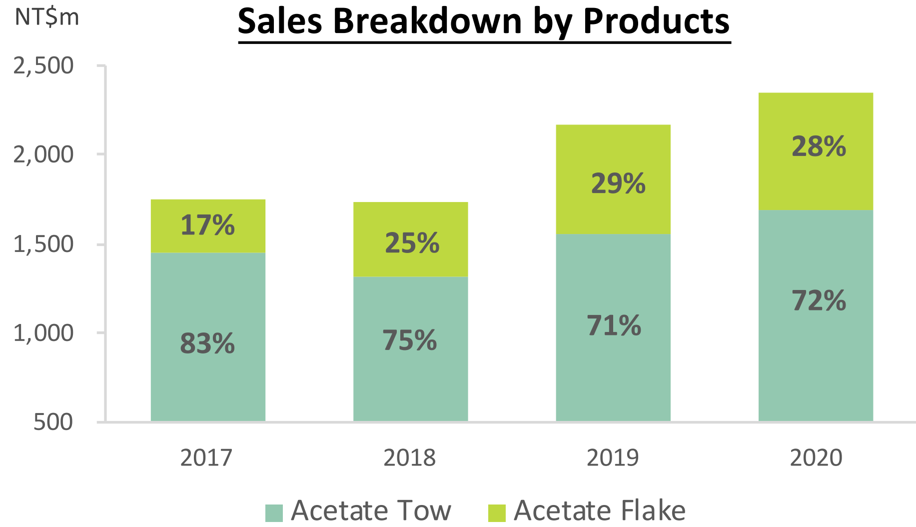
Jinan Acetate

- Jinan, Shandong
- Acetate Tow Production
- Employees: 170

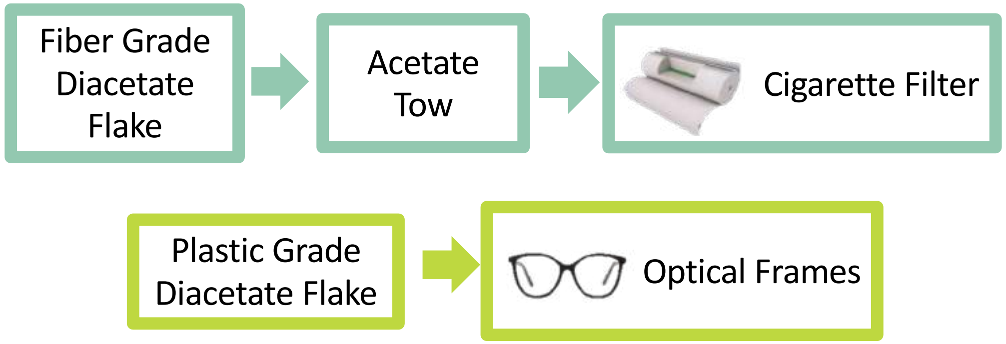
Acetek Material

- Zaozhung, Shandong
- Acetate Flake Production
- Employees: 100

Sales Breakdown by Products



Products - Applications



*BOD proposed Cash DPS for FY2020, subject to approval at the upcoming AGM.

4Q20 Performance

Key 4Q20 Performance Metrics

- ✓ 2020 sales grew 8% YoY to NT$2,353m.
- ✓ Revenue from acetate tows rose 9% YoY, and acetate flake revenue rose 6% YoY.
- ✓ Key Performance Highlights were:
- Gross margin was 33.5% versus 31.0% in 2019.
- Operating margin was 21.2% vs 18.0% in 2019.
- Net Income adjusting out the MTM effect of Acetek's CB was NT$449m, up 36% YoY.[1]
- EPS adjusted for CB MTM effect was NT$8.95.[1]

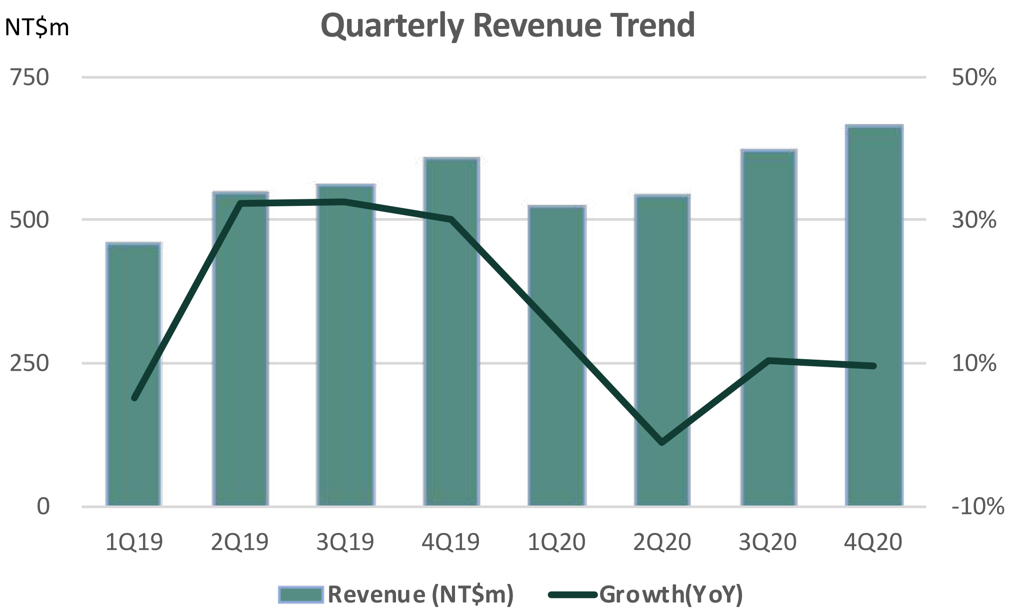
4Q20 and 2020 Highlights

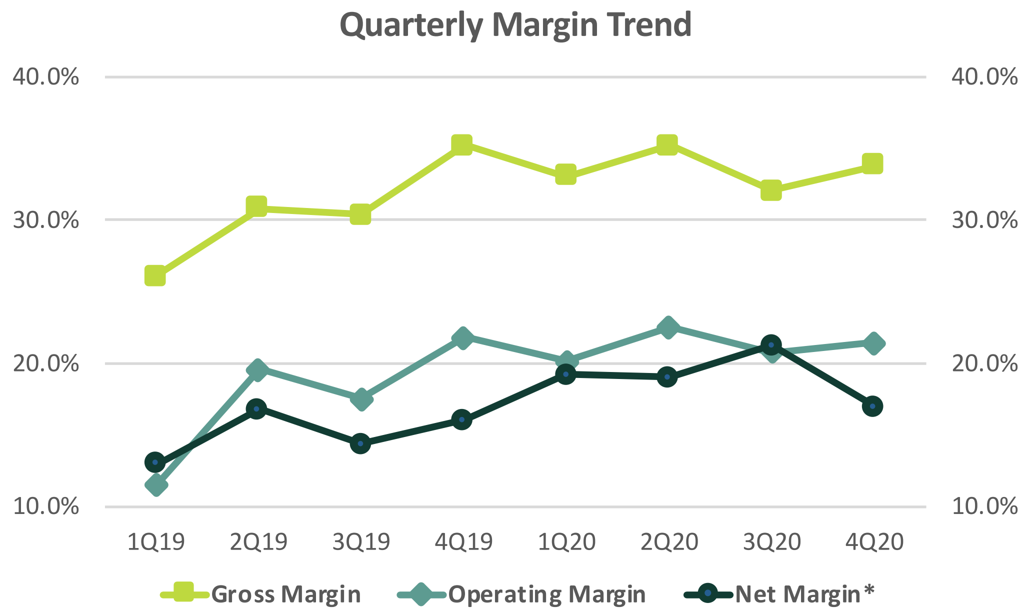
- ✓ 4Q20 revenue hit a record high as acetate tow and flake revenue grew 4% and 21% YoY respectively.
- ✓ We successfully raised tow prices by 1% across customer groups.
- ✓ Continuous optimization of our manufacturing process, greater economies of scale and production efficiency improvements led to margin improvement.
- ✓ The BOD has proposed a cash dividend of NT$5.50 and a stock dividend of NT$1.50.

Note 1: Mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue are not included in these calculations, to better reflect core earning capability.

Revenue and Margin Trend

- 4Q20 revenue reached a record high of NT$665m, increasing 10% YoY and 7% QoQ.
- Gross margin reached 33.8%, surpassing 30% for the seventh quarter in a row, while operating margin was 21.4%. Gross and operating margins have been trending up since 2Q18, on production efficiency improvements, vertical integration into acetate flakes and strong top line growth.
- 4Q20 mark-to market paper gain on our CBs was NT$87mn. 4Q20 Net margin was 16.9%, not including the MTM paper gains.

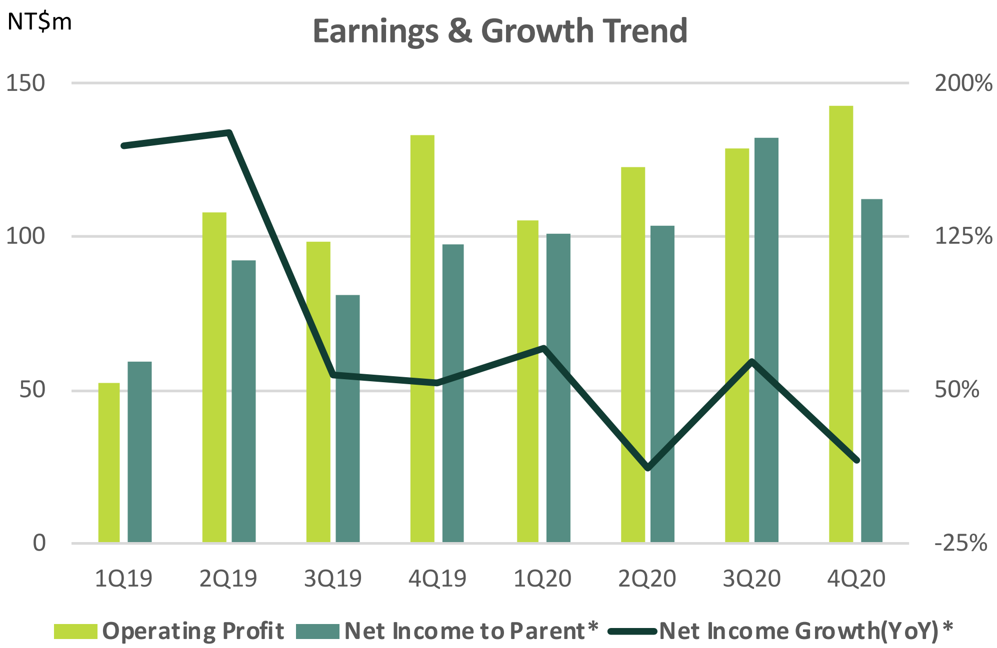


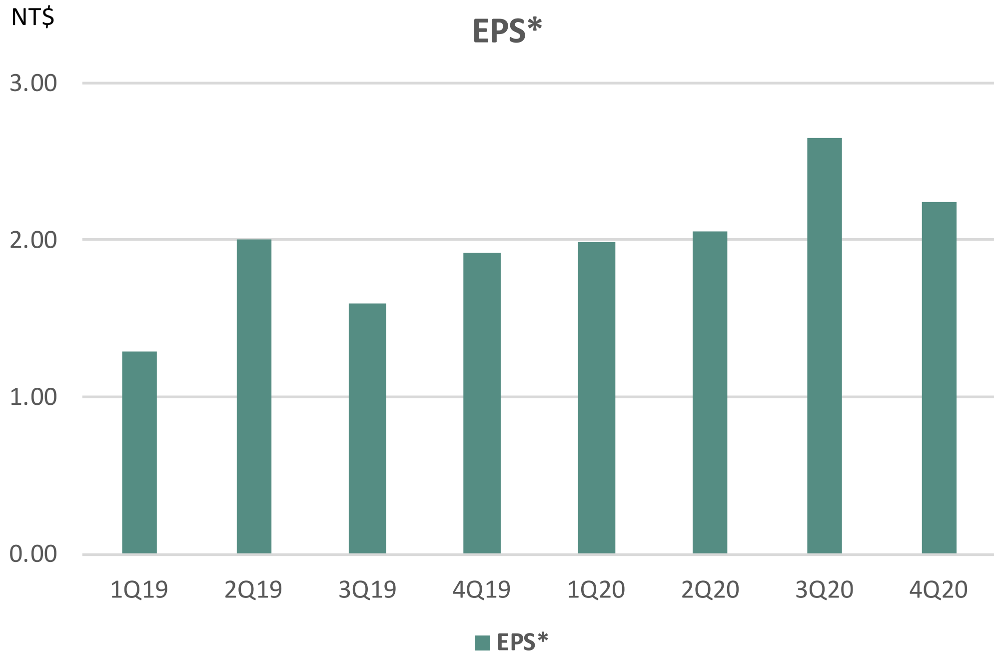


* Note: On this page, Net Margin numbers exclude the mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue.

Earnings and Growth Trend

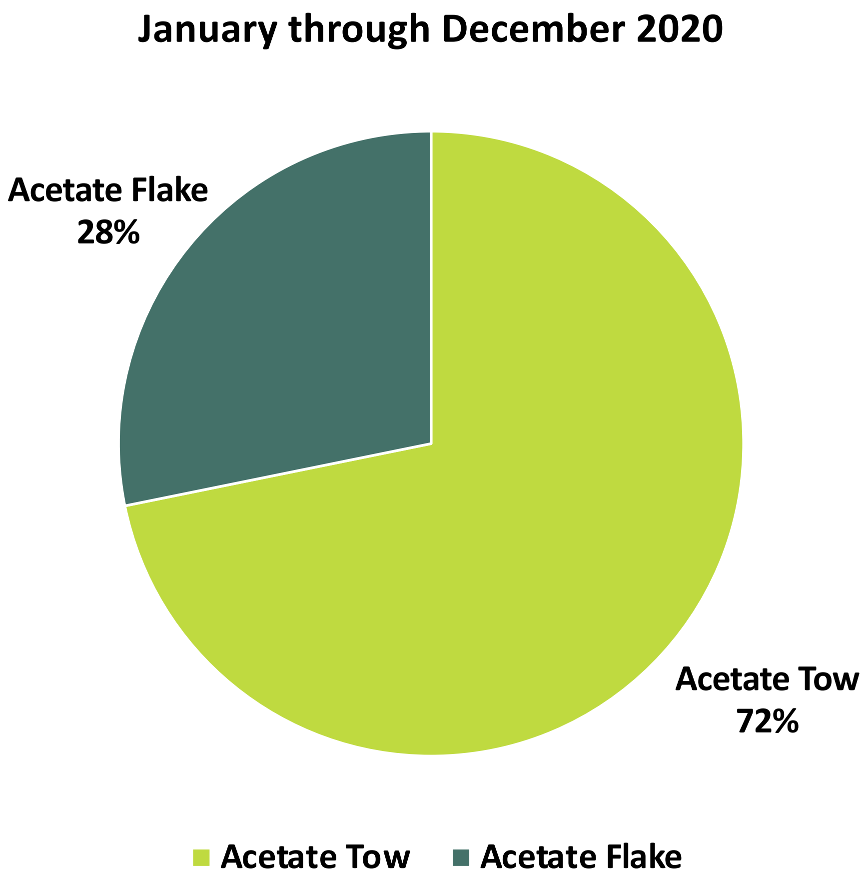
- 4Q20 Operating Income hit a record high NT$142m, rising 7% YoY.
- 4Q20 Net Income rose 15% YoY to NT$112m. 4Q20 EPS was NT$2.25. Net Income and EPS have shown positive YoY growth for 10 consecutive quarters.

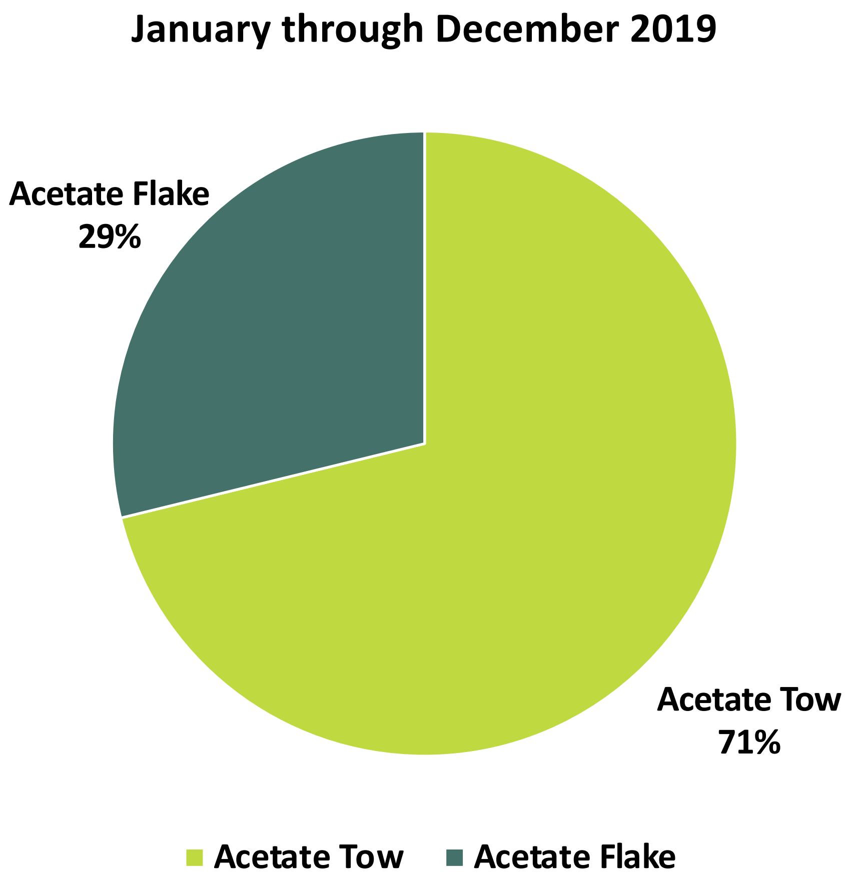




* Note: On this page, all Net Income & EPS numbers, as well as related growth calculations, exclude the mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue.

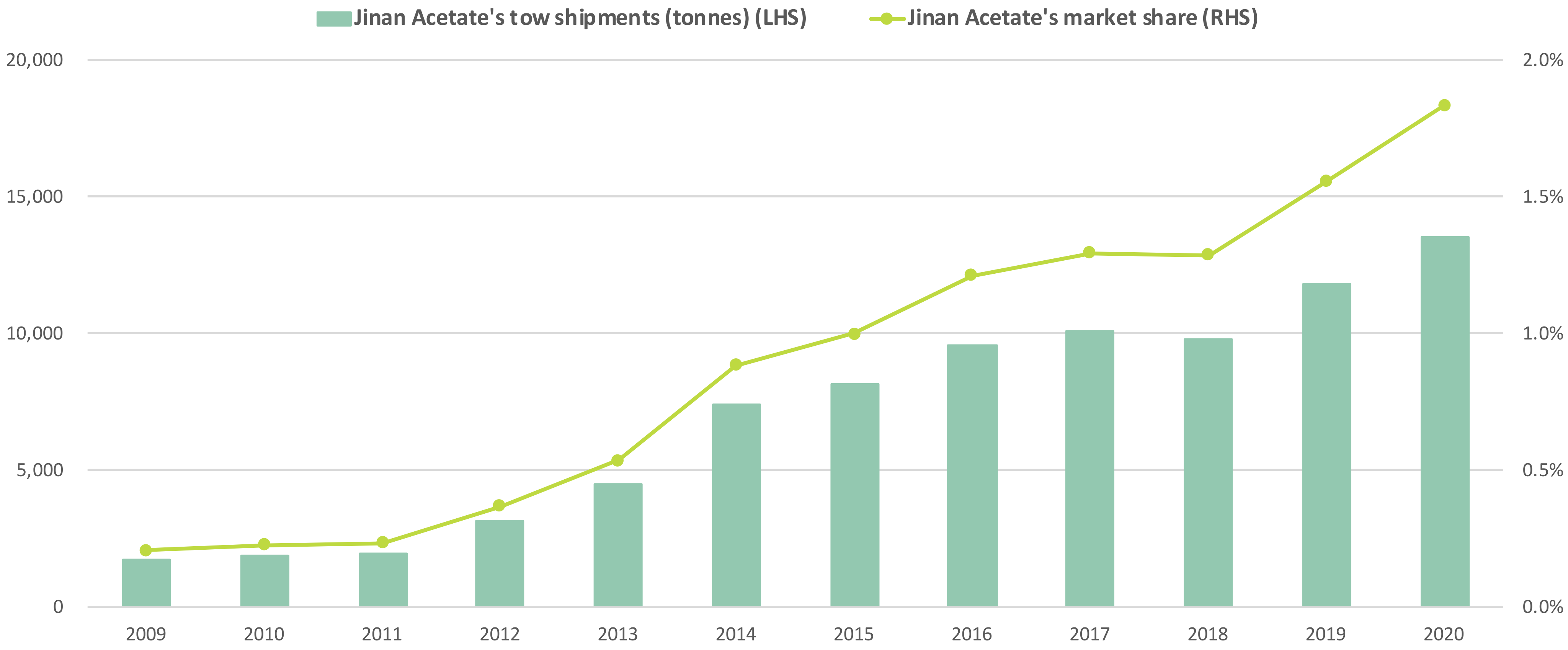
Sales Breakdown





Market Share Increased Further in 2020

✓ 2020 Market Share Reached 1.8%



Source: Tobacco Merchants Association & Bloomberg

Investing in our Future Through R&D

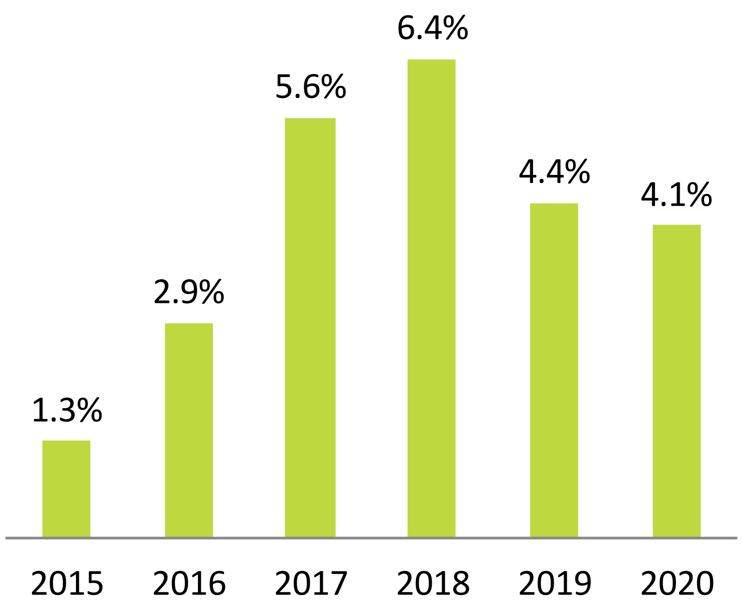
The Current Focus of our R&D spending is biodegradable products

- ✓ R&D spending was roughly 4.1% of sales in 2020. We have been developing several types of biodegradable products, including tows, non-woven material and straws.
- ✓ We plan to increase in R&D spending by 10% YoY in 2021, as we gear up for initial mass production of our green products, in particular disposable straws for sale in the China domestic market.

It takes 12 to 24 months for R&D spending to create earnings growth

- ✓ R&D as a percent of sales was 5-6% of sales in 2017 and 2018 as we built, tested, debugged and began production of acetate flakes.
- ✓ In 2019 and 2020, R&D spending has remained close to peak levels in absolute terms, while falling as a percent of sales.

R&D Expense as % of Revenue (%)



Vertical Integration into the Production of Acetic Anhydride

We are on schedule to begin test runs in early June and we aim to begin commercial production in July.

We expect to spend roughly NT$213m to build 60,000 tonnes of design capacity.

We estimate it will reduce our cost of production by about 4-5%.* More importantly, we expect that it will make our profits more stable, greatly reducing the effect acetic anhydride spot price movements.

The factory site is big enough to provide for future expansion.

Item	Details
Land Area	100 Chinese Mu
Leasing Cost, Land	NT$38m
Plant and Equipment	NT$175m
Est. Annual Depreciation	About NT$14m
Est. Cost Savings	4-5% per tonne of flakes*
Construction Begins	2020 Q4
Completion Date	2021 Q2
Design Capacity	60,000 tonnes
Current Internal Use	35,000 tonnes

*Based on a spot price of $5,250 RMB per tonne of acetic anhydride

Outlook for 2021

Jan to Feb 2021 Cumulative sales were NT$399m, up 20% YoY because of strong demand for tows and orders for fiber-grade flakes from China Tobacco.

Tows	4Q20 tow sales grew 4% YoY and capacity utilization was about 95%. Demand remains robust, with excellent order visibility. We successfully raised tow prices by 1% in 4Q20 and by 1% again in 1Q21 across our client base. Our peers have also raised prices. On Celanese's 4Q20 Results Call, CEO Lori Ryerkerk commented, "As we've been negotiating in '20 for '21, I'd say the prices are stable and, in some cases, a little bit up…We saw less decline in smoking last year than expected. In some areas, even an increase in smoking."
Flakes	Flake sales grew 21% YoY in 4Q20, as shipments of plastic grade flakes for eyewear frames rebounded strongly. We are now in low season for sales of eyeglass wear flakes, but shipments of fiber grade flakes to China Tobacco have bolstered 1Q21 sales. Order guidance from customers for 2021 for plastic and fiber grade flakes is robust, and we expect flake revenues to grow strongly as we begin to utilize the 5k tonnes of acetate flake capacity that we added in 2H20. In 1Q21, we have achieved price increases of 2-3% for plastic grade flakes across our client base.
Sales Growth & Profitability	Based on current order visibility, double digit growth in revenues appears likely in 2021. The outlook for margins is mixed. A strong demand environment for tows and flakes has created a favorable pricing environment, and further price hikes are possible. We have also negotiated a 2-3% reduction in wood pulp prices and will benefit from improved economies of scale in flake production. Furthermore, we will see a considerable reduction in costs in 2H21 when our Acetic Anhydride plant begins commercial production. However, acetic anhydride prices have jumped 65-70% from their 2H20 lows. Shipping costs also remain high but appear likely to moderate moving in 2H21. Additional US$ depreciation vs the NT$ and RMB could put some pressure on margins.

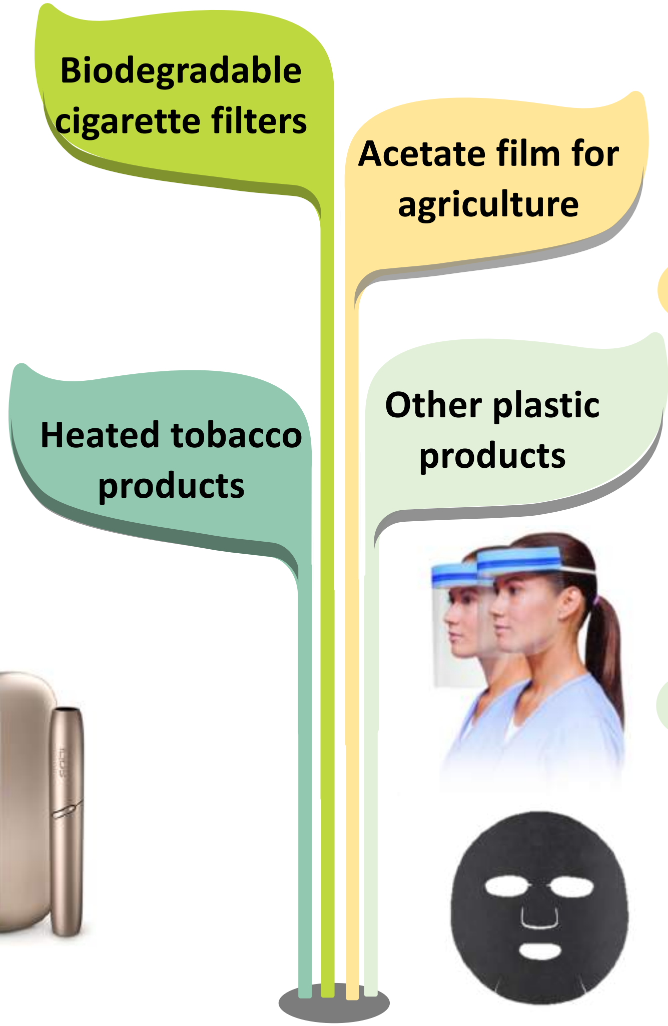
Staying Ahead of Industry Trends and Developing New Revenue Sources

Biodegradable cigarette filters

By 2025 all cigarettes sold in the EU will be required to have filters that will biodegrade within 45 days after use.

Heated tobacco products

Acetate tow for heated tobacco products, such as IQOS, GLO, and Ploom Tech.



Biodegradable cellulose acetate film

- Sun houses for agriculture
- Agricultural and consumer packaging to meet EU requirements
- Diaphragm membranes for lithium batteries.

Biodegradable flakes for other products

- Recyclable straws
- Recyclable Facial Masks
- Other Non-Woven Products
- Hair Dye and Hair Color Products

Our 5-Year Targets

01 Double our share of the acetate tow market and increase our share of the acetate flake market by 50%

02 Be an industry leader in the development of biodegradable acetate flakes

03 We aim to maintain a cash dividend payout ratio between 60-80%*

04 Sustain ROE in excess of 20%

*Based on net income before mark-to-market paper gain/loss from the 2Q17 and 3Q20 CBs.

Consolidated Statements of Income - Quarterly

Unit: NTD million	4Q20	3Q20	4Q19	QoQ (%)	YoY (%)
Net Revenue	665	621	607	7	10
Gross Profit	225	199	214	13	5
Gross Margin	33.8%	32.0%	35.2%		
Operating Expenses	82	70	81	18	2
OPEX/Sales	12.4%	11.3%	13.3%		
Operating Income	142	129	133	10	7
Operating Margin	21.4%	20.8%	21.9%		
MTM Gain (Loss) on CB (non-cash)	87	(51)	5		
Other Non-Operating Income (Loss), Net	(18)	17	(4)		
Pre-Tax Income	211	95	133	123	58
Income Tax Expense	11	10	32		
Minority Interest	0	3	(0)		
Net Income to Parent	199	81	102	146	95
Net Margin	30.0%	13.1%	16.8%		
EPS (NT$)	3.98	1.62	2.02	146	97
ROE – not annualized	31.7%	6.7%	8.4%		
Depreciation	28	27	25		
CAPEX	132	36	38		

Consolidated Statements of Income – 2020 vs 2019

Unit: NTD million	2020	2019	YoY(%)
Net Revenue	2,353	2,175	8
Gross Profit	789	673	17
Gross Margin	33.5%	31.0%	
Operating Expenses	289	282	3
OPEX/Sales	12.3%	13.0%	
Operating Income	499	391	28
Operating Margin	21.2%	18.0%	
MTM Gain (Loss) on CB (non-cash)	56	0	55890
Other Non-Operating Income (Loss), Net	(2)	(13)	
Pre-Tax Income	553	378	46
Income Tax Expense	43	47	
Minority Interest	5	2	
Net Income to Parent	505	330	53
Net Margin	21.4%	15.2%	
EPS (NT$)	10.07	6.52	54
ROE	36.7%	27.0%	
Depreciation	105	98	
CAPEX	221	105	

Consolidated Balance Sheet – 2020

Unit: NT$ million	2020/12/31		2020/09/30		2019/12/31	
	$	%	$	%	$	%
Cash and Cash Equivalents	831	27	1,020	33	589	23
Notes and Accounts Receivable, Net	661	21	571	19	438	17
Inventories	220	7	207	7	243	9
Other Current Assets	200	6	135	4	260	10
Fixed Assets	898	29	851	28	827	32
Other Long-term Assets	298	10	276	9	230	9
Total Assets	**3,109**	**100**	**3,061**	**100**	**2,586**	**100**
Current CB Payable	474	15.2	469	15	457	18
Other Current Liabilities	442	14.23	600	20	748	29
Non-Current CB Payable	514	16.52	509	17	0	0
Other Non-Current Liabilities	71	2.27	109	4	9	0
Total Liabilities	**1,501**	**48**	**1,688**	**55**	**1,214**	**47**
Common Stock	511		511		511	
Total Equity	**1,608**	**52**	**1,373**	**45**	**1,373**	**53**
Book Value per Share (NT$)	29.8		25.1		24.9	
Key Indices						
Current Ratio (Current Assets / Current Liabilities)	209%		181%		127%	
Net Cash (Debt) to Equity	-13%		1%		-5%	

Appendix

CB-1 Terms and Trading Information

Issue Date	2017/06/09
Maturity Date	2022/06/09
Maturity Term	5 years
Coupon Rate	0.00%
Issue Amount	NT$ 500,000,000
Issue Price	NT$ 101.0
Latest Conversion Price	NT$ 137.0
Conversion Premium	103.59%
Trading Price (2021/02/26)	NT$ 102.80

CB Holder Redemption Option		
Date	Put Price (NT$)	Yield to Put
2020/06/09	101.5075	0.5%
2021/06/09	102.0151	1.0%

CB-2 Terms and Trading Information

Issue Date	2020/09/25
Maturity Date	2025/09/25
Maturity Term	5 years
Coupon Rate	0.00%
Issue Amount	NT$ 600,000,000
Issue Price	NT$ 101.0
Latest Conversion Price	NT$ 130.7
Conversion Premium	102%
Trading Price (2021/02/26)	NT$ 106.30

CB Holder Redemption Option		
Date	Put Price (NT$)	Yield to Put
2023/09/25	100.75	0.25%
2024/09/25	101.00	0.50%

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