



Jinan Acetate Chemical

4763 TT

2Q21 Results Presentation

2 September 2021

Jinan Acetate Chemical @ a Glance

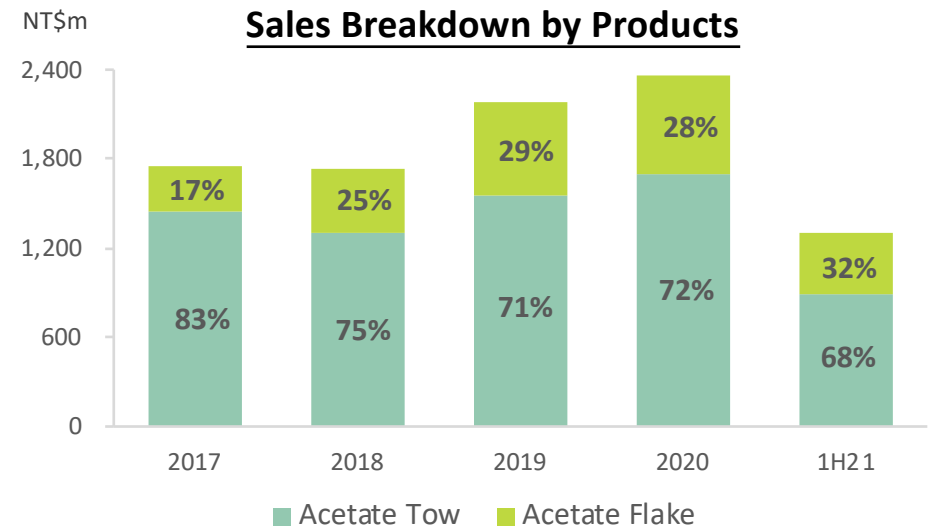
- **Ticker:** 4763 TT
- **Market Cap – 31 Aug 2021:** US\$218 mn
- **2020 Revenue:** US\$80 mn
- **ROE:** Averaged 23% in 2016 through 2020
- **2020 Cash Dividend:** NT\$5.50 per share
- **Business Scope:** Exports to more than 50 countries
- **Client Diversification:** Top 5 are less than 40% of sales



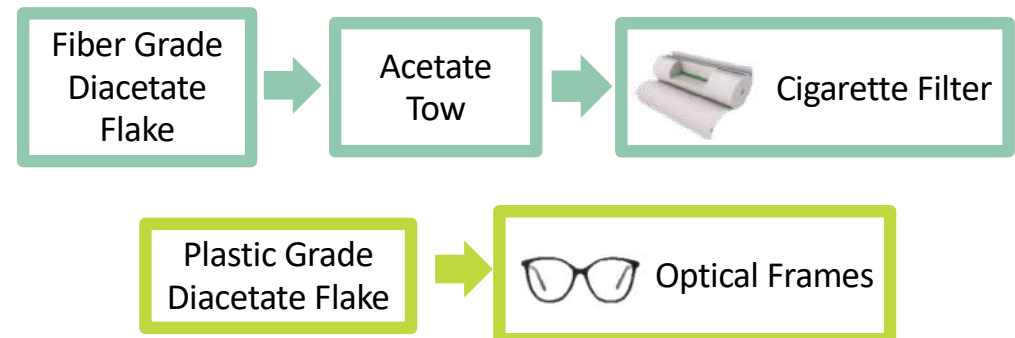
- Jinan, Shandong
- Acetate Tow Production
- Employees: 183



- Zaozhung, Shandong
- Acetate Flake Production
- Employees: 134



Products - Applications





Acetic Anhydride Plant Completed in June

Acetek Momentum Co., Ltd.

- Zaozhong, Shandong
- Employees: 50

2Q21 Performance

Key 2Q21 Performance Metrics

- ✓ Sales grew 24% YoY and 7% QoQ to NT\$675mn in 2Q21, reaching a record high for a single quarter.
- ✓ 2Q21 Tow sales grew 18% YoY and acetate flake sales grew 40% YoY.
- ✓ Key Performance Highlights were:
 - 2Q21 gross profit grew 6% YoY to NT\$203m.
 - 2Q21 gross margin was 30.1%, the 9th consecutive quarter above 30%.
 - Net profit was NT\$79m¹, and net profit margin was 11.8%¹.

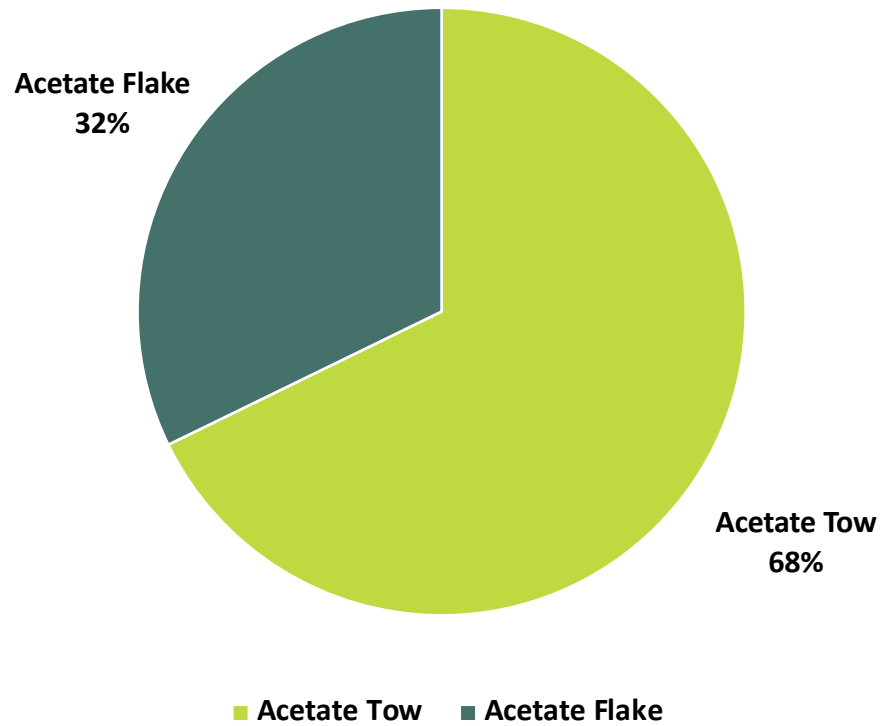
Key Observations

- ✓ Top line growth was driven mainly by the demand for plastic grade flakes for optical frame-use continues to recover.
- ✓ Gross margin was affected by increasing RM costs. However, we strived to improve production efficiency and communicate with customers to share the increased costs. We still managed to keep gross margin at about 30%.
- ✓ 2Q21 SG&A expense rose to 15.1% of sales, much higher than the typical range of 12-13%, mainly due to rising shipping rates and increased investment in R&D.
- ✓ Under the pressure of rising RM and shipping costs, we will continue to improve production efficiency and increase economies of scale, strengthening our position in the industry so that we could see profit growth in core business as soon as possible.

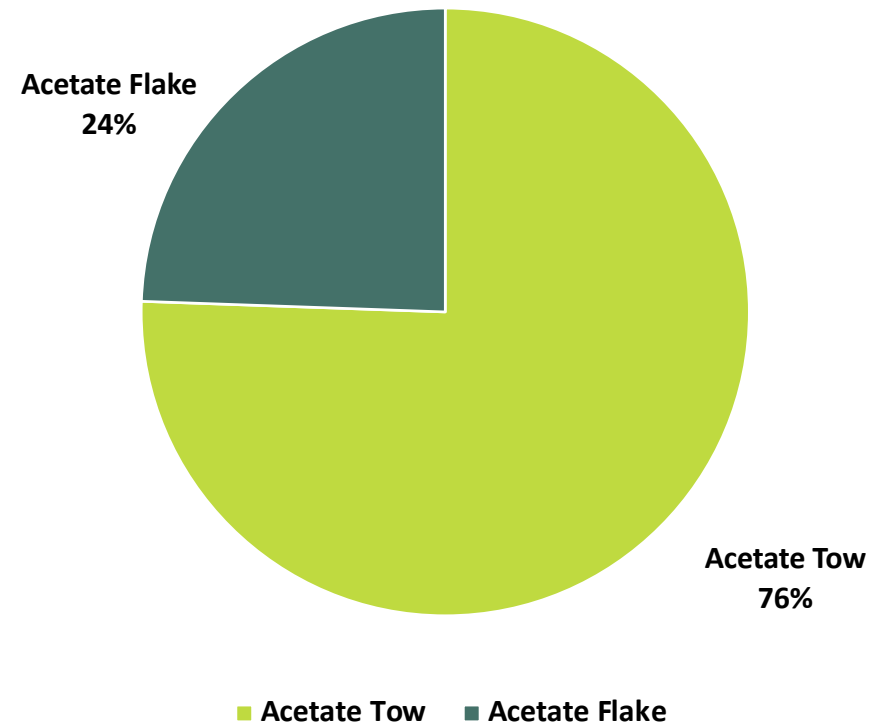
Note 1: Mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue are not included in these calculations, to better reflect core earning capability.

Sales Breakdown

January through June 2021

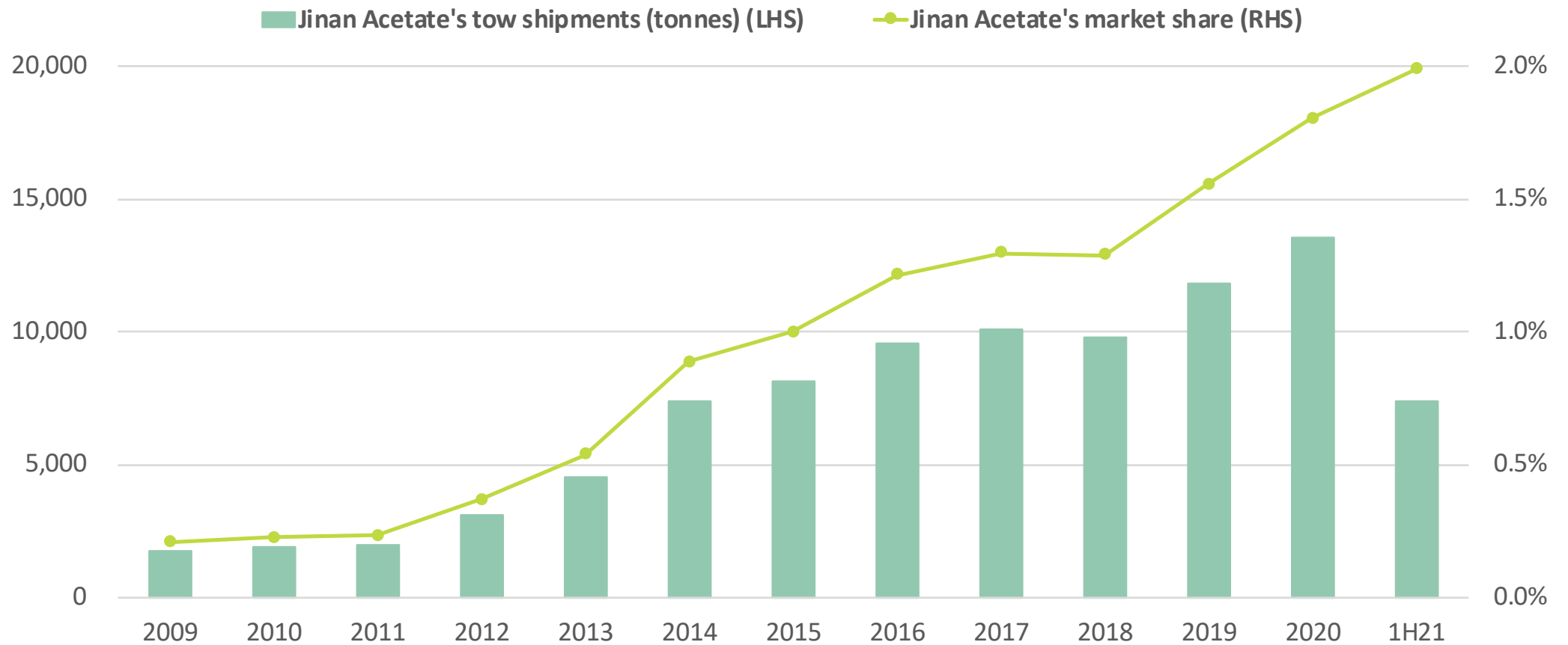


January through June 2020



Market Share Increased Further in 1H21

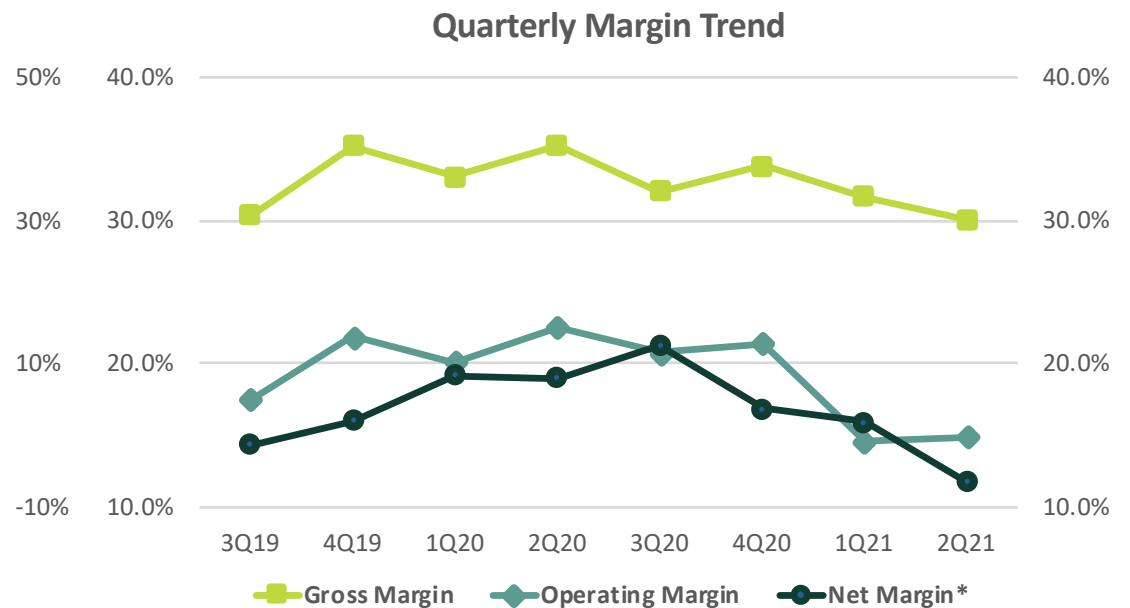
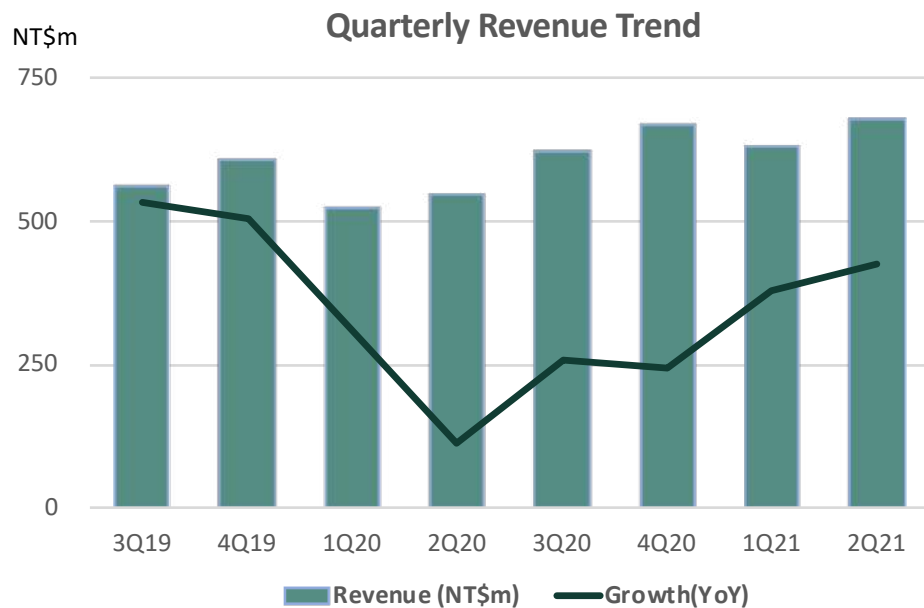
✓ 1H21 Market Share Reached 2.0%



Source: Company Estimates, Tobacco Merchants Association, Bloomberg

Revenue and Margin Trend

- 2Q21 sales grew 24% YoY and 7% QoQ to NT\$675m, reaching a record high for a single quarter .
- 2Q21 gross margin was 30.1% , the 9th straight quarter that gross margin exceeded 30%, but lower than the 35.2% level of 2Q20. The main factors behind the decline were the rapid increase in raw material prices since 2H20.
- Mark-to-market gain on Acetek's two CBs was NT\$31m in 2Q21, after adjusting out the effect of this paper gain, net margin was 11.8%.



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

Investing in our Future Through R&D

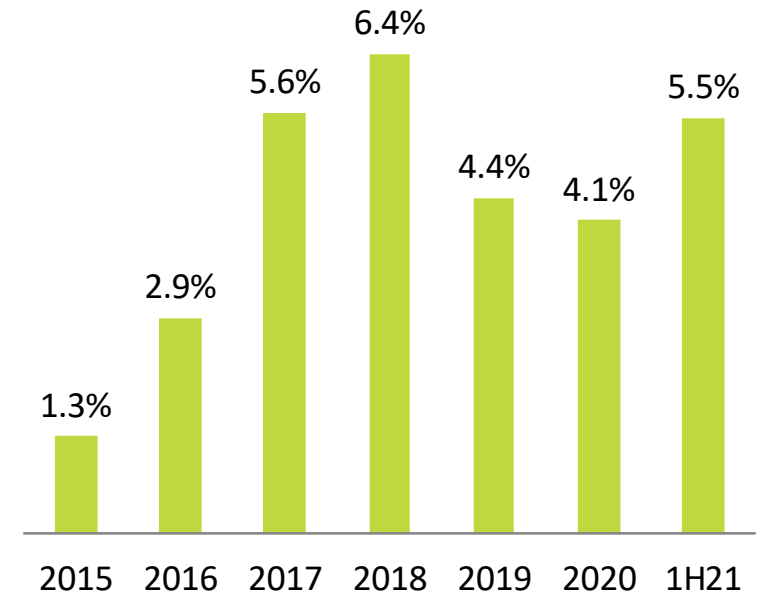
The Current Focus of our R&D spending is biodegradable products

- ✓ R&D spending was roughly 5.5% of sales in 1H21. We have been developing several types of biodegradable products, including tows, non-woven material and straws. R&D spending in 2021 is expected to increase significantly versus last year.

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

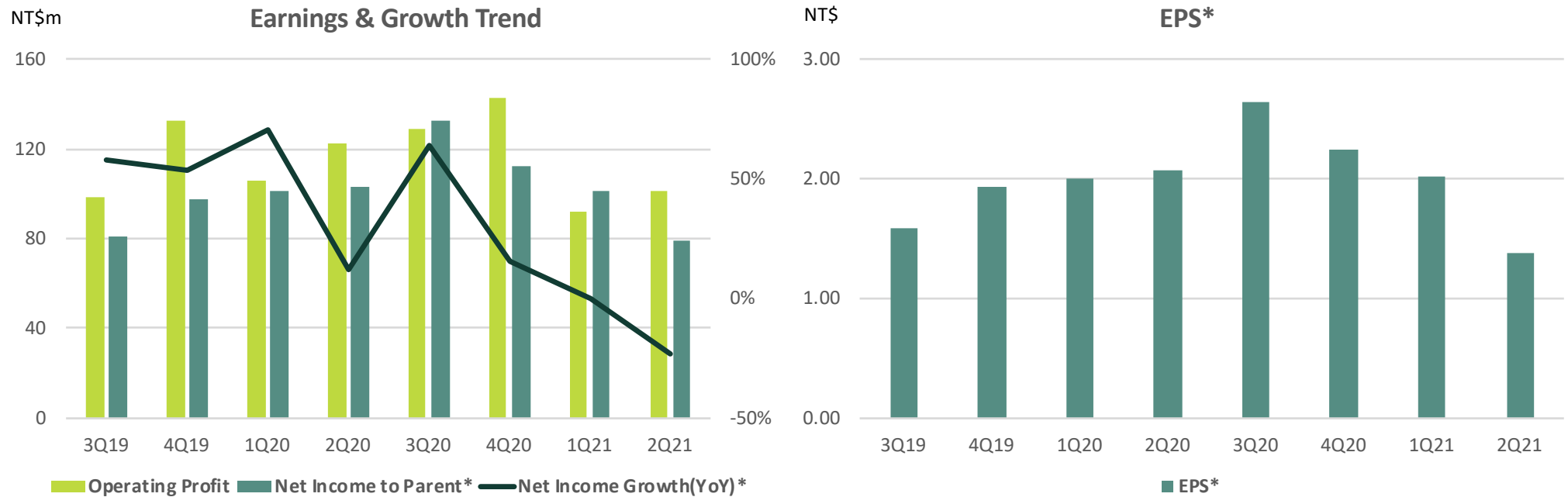
- ✓ R&D as a percent of sales was 5-6% of sales in 2017 and 2018 as we built, tested, debugged and began production of acetate flakes.
- ✓ In 2019 and 2020, R&D spending has remained close to peak levels in absolute terms, while falling as a percent of sales.

R&D Expense as % of Revenue (%)



Earnings and Growth Trend

- 2Q21 operating profit was NT\$101m, down 18% YoY.
- 2Q21 net income adjusting out the MTM effect from Acetek's CBs was NT\$79m, down 23%YoY.
- 2Q21 EPS adjusting out the MTM effect from Acetek's CBs was NT\$1.38, down 33% YoY.



* 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. No retrospective adjustments of outstanding shares are made for EPS numbers (the number of historical outstanding shares is used).

Outlook for 2H21 – Expected to be Better than 1H21

Tows

Tow sales grew 10% YoY in 1H21. In 2H21, as the US and many European countries have started to ease down lockdown restrictions, duty-free shops affected by travel restrictions are expected to gradually recover, driving demand for tows. In addition, since all tows products are exported, the impact of rising shipping rates continues to be relatively large. Should there be any further RM cost or shipping cost increases, we will seek to communicate with clients and further share the increased costs.

Flakes

Flake revenues increased by 61% YoY in 1H21. In 2H21, as the US and many European countries have started to ease down lockdown restrictions, the demand from end customers for optical frames is expected to remain strong. As the trade war has intensified further, accelerating the supply chain restructuring, we see opportunities for flakes in the China domestic market. We plan to begin mass production for the new flake capacity at the end 3Q21. Including the newly added design capacity of 5,000 tons, the total annual design capacity of flakes will reach 30,000 tons.

Acetic Anhydride

Our new acetic anhydride plant has a design capacity of 60,000 tons. The construction began in 4Q20 and was completed at the end of June this year. The trial production has been completed and we are in the process of raising output. Vertical integration into acetic anhydride will help reduce production costs and its volatility. Other than for internal use, a small amount of output can potentially be sold.

Sales Growth & Profitability

- Given that YTD sales through July grew 19% YoY to NT\$1,516mn, we believe that we are well-positioned to deliver a record high revenue and double-digit revenue growth for full year 2021.
- Strong demand for tows and flakes would support further increase in product prices. The continuous expansion in production capacity help achieve greater economies of scale and the vertical integration into the production of acetic anhydride, once the mass production starts, help optimize the cost structure and offset the pressure of rising RM and shipping costs. We expect the profitability in 2H21 to be better than that in 1H21.
- On the non-core business side, the expropriation of our old factory in Qingning Industrial Zone in Jiyang, Shandong moved forward. The contract was signed in mid-August. The total transaction amount is around RMB\$100mn and the estimated disposal income is around RMB\$68mn. We expect the land transfer to be completed and the income to be booked at the beginning of 4Q21 .

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.



Biodegradable cigarette filters

Heated tobacco products

Heated tobacco products

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



Acetate film for agriculture



Biodegradable cellulose acetate film

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

Other plastic products



Biodegradable flakes for other products

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

Consolidated Statements of Income - Quarterly

Unit: NTD million	2Q21	1Q21	2Q20	QoQ (%)	YoY (%)
Net Revenue	675	631	544	7	24
Gross Profit	203	200	192	1	6
Gross Margin	30.1%	31.7%	35.2%		
Operating Expenses	102	108	69	-5	48
OPEX/Sales	15.1%	17.1%	12.7%		
Operating Income	101	92	123	9	-18
Operating Margin	15.0%	14.6%	22.5%		
MTM Gain (Loss) on CB (non-cash)	31	(20)	(5)		
Other Non-Operating Income (Loss), Net	(22)	12	(9)		
Pre-Tax Income	109	85	108	29	1
Income Tax Expense	(2)	3	11		
Minority Interest	1	0	(1)		
Net Income to Parent	110	81	98	36	12
Net Margin	16.3%	12.8%	18.0%		
EPS (NT\$)	1.91	1.62	1.96	18	-3
ROE – not annualized	7.5%	5.3%	7.9%		
Depreciation	31	29	25		
CAPEX	153	159	41		

Consolidated Statements of Income – 1H21

Unit: NTD million	1H21	1H20	YoY (%)
Net Revenue	1,306	1,068	22
Gross Profit	403	365	10
Gross Margin	30.9%	34.2%	
Operating Expenses	210	137	53
OPEX/Sales	16.1%	12.8%	
Operating Income	193	228	-15
Operating Margin	14.8%	21.3%	
MTM Gain (Loss) on CB (non-cash)	11	20	-47
Other Non-Operating Income (Loss), Net	(10)	(1)	
Pre-Tax Income	194	247	-21
Income Tax Expense	2	22	
Minority Interest	1	1	
Net Income to Parent	191	224	-15
Net Margin	14.6%	21.0%	
EPS (NT\$)	3.32	4.46	-26
ROE – not annualized	13.3%	18.6%	
Depreciation	60	51	
CAPEX	312	53	

Consolidated Balance Sheet – 2Q21

Unit: NT\$ million	2021/6/30		2021/3/31		2020/6/30	
	\$	%	\$	%	\$	%
Cash and Cash Equivalents	550	17	643	20	655	25
Notes and Accounts Receivable, Net	640	19	630	20	548	21
Inventories	253	8	274	9	263	10
Other Current Assets	316	10	266	8	117	4
Fixed Assets	1,119	34	1,004	31	818	31
Other Long-term Assets	420	13	378	12	239	9
Total Assets	3,297	100	3,196	100	2,640	100
Current CB Payable	343	10	478	15	465	18
Other Current Liabilities	868	26	437	14	900	34
Non-Current CB Payable	522	16	518	16	0	0
Other Non-Current Liabilities	69	2	87	3	9	0
Total Liabilities	1,802	55	1,520	48	1,375	52
Common Stock	586		511		511	
Total Equity	1,495	45	1,676	52	1,266	48
Book Value per Share (NT\$)	23.9		31.1		23.1	
Key Indices						
Current Ratio (Current Assets / Current Liabilities)	145%		198%		116%	
Net Cash (Debt) to Equity	-37%		-25%		-10%	

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\$ 119.1
Conversion Premium	103.59%
Trading Price (2021/08/31)	NT\$ 100.00

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%

Remaining Amount (2021/08/31)	NT\$ 354,900,000
-------------------------------	------------------

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\$ 113.7
Conversion Premium	102%
Trading Price (2021/08/31)	NT\$ 101.00

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%

Disclaimer

•The information contained in this confidential document ("Presentation") has been prepared by Jinan Acetate Chemical Co., Ltd. (Cayman) (the "Company"). It has not been fully verified and is subject to material updating, revision and further amendment. While the information contained herein has been prepared in good faith, neither the Company nor any of its shareholders, directors, officers, agents, employees or advisers gives, has given or has authority to give, any representations or warranties (express or implied) as to, or in relation to, the accuracy, reliability or completeness of the information in this Presentation, or any revision or supplement thereof, or of any other written or oral information made or to be made available to any interested party or its advisers (all such information being referred to as "Information") and liability therefore is expressly disclaimed. Accordingly, neither the Company nor any of its shareholders, directors, officers, agents, employees or advisers takes any responsibility for, or will accept any liability whether direct or indirect, express or implied, contractual, tortious, statutory or otherwise, in respect of, the accuracy or completeness or injury of the Information or for any of the opinions contained herein or for any errors, omissions or misstatements or for any loss, howsoever arising, from the use of this Presentation or the information.

•Neither the issue of this Presentation nor any part of its contents is to be taken as any form of commitment on the part of the Company to proceed with any transaction and the right is reserved by the Company to terminate any discussions or negotiations with any prospective investors. In no circumstances will the Company be responsible for any costs, losses or expenses incurred in connection with any appraisal or investigation of the Company. In furnishing this Presentation, the Company does not undertake or agree to any obligation to provide the recipient with access to any additional information or to update this Presentation or to correct any inaccuracies in, or omissions from, this Presentation which may become apparent.

•This Presentation should not be considered as the giving of investment advice by the Company or any of its shareholders, directors, officers, agents, employees or advisers. Each party to whom this Presentation is made available must make its own independent assessment of the Company after making such investigations and taking such advice as may be deemed necessary. In particular, any estimates or projections or opinions contained herein necessarily involve significant elements of subjective judgment, analysis and assumptions and each recipient should satisfy itself in relation to such matters.

•This Presentation includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing, general economic, market or business conditions and other unforeseen events. Prospective Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in forward-looking statements.

Thank You

