Orbia

Second Quarter 2021 Earnings Results Conference Call

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CORPORATE PARTICIPANTS

Sameer Bharadwaj - *Chief Executive Officer*

Edgardo Carlos - *Chief Financial Officer*

Javier Luna - *Capital Markets and Investor Relations Director*

PRESENTATION

Operator
Good morning, and welcome to Orbia's Second Quarter 2021 Earnings Conference Call. As we turn to slide one, all participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. In the interest of time, we will limit participants to one question only.

Please note this event is being recorded. I would now like to turn the conference over to Mr. Javier Luna, Orbia's Capital Markets, and Investor Relations Director. Please go ahead, sir.

Javier Luna
Thank you Sarah. Good morning and welcome to Orbia's Second Quarter 2021 Earnings Conference Call. We appreciate your time and participation today. Joining me are Sameer Bharadwaj, CEO, and Edgardo Carlos, CFO.

A friendly reminder before we continue, some of our comments today will contain forward-looking statements based on our current view of our business and actual official results may vary materially. Today's call should be considered in conjunction with cautionary statements contained in our earnings release and our most recent periodic PMB report. The company disclaims any obligation to update or advise any such forward-looking statements.

With that, let me now turn the call over to Sameer.

Sameer Bharadwaj
Thank you, Javier, and good morning everyone. Let me start by again recognizing our 21,500-plus associates for their dedication to Orbia and to serving our customers despite COVID-19 and other challenges. Although the pandemic is not over globally, we continue to be optimistic as vaccination rates improve. We will continue to be watchful of regional conditions and we'll remain vigilant about employee health as we adhere to rigorous safety and sanitation protocols.

Let me now provide a high-level overview of the second quarter's positive business performance. I am on slide three.

First, Orbia delivered another incredibly strong consecutive quarter, building on the positive momentum that started in the second half of last years. Revenues and EBITDA have reached historic highs, delivering strong growth both year over year and sequentially. While this is a testament to the resiliency of our business model and improving global economic conditions, it is noteworthy that we also managed through some headwinds in the corner through supply chain disruptions, label complaints, and rising raw material and freight costs, as well as some continuing regional COVID-19 pressures, particularly in India. Our results were supported by actions to mitigate higher costs and supply chain issues, and we realized benefit from our diversified and integrated portfolio of businesses.

On this point and as we have seen in the last several quarters, supply disruptions in the raw materials value chain have hindered our non-integrated competitors while we have been able to overcome supply disruptions and forge new relationships in customers, increase volume and improve our market position. The string of outstanding consecutive results are the outcome in large point with synergies associated with our integrated portfolio.

Demand continues to be very strong across all product lines and our growth initiatives are working. EBITDA growth was 113% year over year and 24% sequentially, with positive movement across all businesses except for Dura-Line and Netafim. Comparatives to the second quarter of 2020 are difficult for both businesses, and Dura-Line in particular, given that raw material prices were at historically low levels at this time last year. Dura-Line also typically experiences a three-to-four-month time lag before the company is able to recover higher raw material costs with increased pricing. I am confident that the modules for Dura-Line should start improving in the second half of 2021.

Furthermore, all our businesses experienced strong market demand. We executed well on offsetting rising costs to proactive pricing plans and cost reduction actions. Our EBITDA margin of 25% improved 629 basis points year over year and 140 basis points sequentially. This was translated into free cash flow of $264 million during the quarter. Orbia also continues to prioritize investments in environmental sustainability in the communities in which we operate and in governance. We published our 2020 sustainability report earlier in the second quarter, which can be found on Orbia's website.

Last, but not the least, we announced several weeks ago that Edgardo will depart Orbia to pursue other interests. Edgardo joined Orbia as group CFO in August 2019 and has been a great partner to me and others on the executive leadership team. He will support a smooth transition of responsibilities to his successor through the third quarter of 2021. The board initiated a search at the time of announcement of Edgardo's departure. The process is going smoothly, and we look forward to providing an update once we have identified a successor.

Let me now turn over to Edgardo to go through our financial performance in further detail.

Edgardo Carlos
Thank you very much, Sameer, for your words, and good morning, everybody.

We continue delivering sequential growth both in top line (sp) and EBITDA since the third quarter of 2020, following global economic recovery. On a consolidated basis, our net revenue for the second quarter was $2.2 billion, at 59% year over year with a strong growth across all businesses. EBITDA was at 113% with margins increasing 629 basis points despite the rising input cost in raw material, transportation, and labor. Our strong performance in the second quarter also compares very positively to pre-pandemic performance levels in 2019.

It is not worth it to mention our outstanding performance for the last 12 months, in which we saw revenue exceeding $7.5 billion and an EBITDA of $1.75 billion with our free cash flow reaching $610 billion and our internal investment capital back to two digits with 10.7%. We deliver strong free cash flow of $264 million due in the quarter despite an increasing working capital tied to significantly higher sales activities sequentially and to some extent, higher raw material cost in our inventories. Net debt has been reduced to $2.7 billion as a result of a strong cash generation in the quarter, representing a net debt to EBITDA ratio of 1.56 times, reaching one of the lowest leverage levels in years.

Capital expenditure of $63 million were up 17% compared to last year. In addition, during the quarter, we returned to stockholders $50 million in dividends at the first of the four installments for the full year 2021, and we have acquired $31 million in shares in our buyback program.

During the quarter, Orbia issued two sustainability-linked senior notes, a five-year $600 million note and a ten-year $500 million notes at an annual cost of 1.875% and 2.875% respectively. Proceeds were used to refinance selective existing debt. In total, we reduced our average cost of debt by 50 bips, point to 4.1%, and extended our average debt maturity from 12.6 to 14.1 years, with our next significant maturity extended to 2026.

In conclusion, we have a very strong balance sheet that provides us with significant opportunity to invest in growth organically as well as make selective decisions and return cash to shareholders as appropriate. Now please turn to slide number five and let me give you some quarterly performance by each of the businesses.

Let me start with polymer solutions. We delivered another quarter of exceptional results fueled by strong job line growth and margin expansion. Revenues were up 93%, driven by strong PVC pricing from continued high demand in the business and construction markets. PVC prices continue at historically high levels driven by global supply scarcity. EBITDA was up 348% with a margin of 34.9%. We expect PVC demand to continue to be strong for the remainder of the year, although PVC prices should start to ease in the second half of the year as supplies return to normalized levels. However, as we have been saying for some time, we do anticipate that PVC prices to sit at a comparatively higher level until more capacity is added.

Wavin posted another high performance, reaching all-time records. (INAUDIBLE) profitabilities were supported by the very strong demand in the building, infrastructure, and agriculture market, both in Europe and LatAm Revenue were also up 93% from the very weak second quarter of 2020. We also saw some pre-buying as customers remain cautious about supplies. While we experienced higher input cost constraints, we offset most of the input with operational cost improvements coming from continued footprint (sp) optimization and STU (sp) rationalization. Commercial actions would increase volume of high value-added products. We were able to meet demand in Europe and LatAm, despite raw material scarcity due to our integrated business model that Sameer mentioned earlier. EBITDA reached $140 million, up 419%, representing a margin of 17.8%. We expect that LatAm will continue to be strong globally. In this environment, Wavin continues to expand its market share in the more attractive, above-ground segment while also investing in high growth regions such as India and Indonesia.

Now, let me turn to Netafim, which also experienced a continued strong market demand driven by strong agricultural market following higher-commodity prices for crops, including corn, (Inaudible) coffee and others which draw revenue growth. Significant increases in raw material costs, not yet fully reflected in our pricing, temporarily impacted margins. Revenue increased 27% on a broad-based geographical demand while the U.S., Europe and Turkey were ahead of the rest and more than offset the market weakness due to COVID-19 in regions such as India and to some extent, countries in LatAm. EBITDA decreased by 4%, reaching a margin of 16.1%. We have been facing unprecedented levels of cost inflation, in particular in raw material and transportation, for some months now. We expect demand to continue to remain robust and we will continue to invest in capacity to keep up with this positive dynamic.

In Dura-Line, and in spite of a healthy demand from Europe and U.S., we are experiencing significant pressure on our margins, driven by the continued increase of raw materials and freight costs that are not yet fully reflected in our pricing, partially due to a pricing formula mechanism embedded in long-term contract with our key customers. We also experienced longer lead time related to labor shortage in the U.S. and Europe. Revenue increased 24%, driven by higher volume in prices, geographic expansion, and size coverage. EBITDA, however, was down 44% following the reasons I just commented on. I also want to remind you that the second quarter of last year was an extraordinarily high performance for Dura-Line, as we benefited from the historically low cost of rents. We expect raw material cost inflation and supply chain challenges to persist into the third quarter, however, we do see an improvement in our profitability in the fourth quarter when prices will fully offset the current raw material environment. The fundamentals of Dura-Line are very strong, following many a trend investing in high-speed connectivity around the world.

Last but not the least, Koura revenue increased by 21% from higher volume in prices, in (INAUDIBLE) and HS segments. However, the assets for an aluminum fluoride market remain challenged. EBITDA increased by 6%, offset partially by higher input costs. This resulted in an EBITDA margin of 34.4%. We expect demand in Koura markets to strengthen and we are cautiously optimistic that improvement in result of this quarter show the start of a sustained recovery for Koura.

In summary, another quarter of strong financial performance with a focus on execution for operational and commercial excellence, while deploying our growth strategy. Now, please let me turn it back to Sameer for final comments.

Sameer Bharadwaj
Thank you, Edgardo. I am now on slide six.

Next, I would like to discuss our strategy. As we have demonstrated, our integrated business model provides significant advantages, with security of supply being the most evident. Other benefits include realizing efficiencies in product development, cost synergies and the ability to leverage a geographic footprint. We are seeing a strong rebound in most upper-end markets and are pursuing value-generating, organic growth projects in each of our businesses. We have identified target areas for potential bolt-on acquisitions, and we are well positioned with lower leverage and historically low borrowing costs.

Finally, we continue to emphasize sustainability, investing in the communities in which we operate and enhanced project governance. In sum, our strategy is to invest in growth and focus on value creation for global leverage, while maintaining a commitment to advance life around the world. We are expanding capacity to meet demand in investing in geographic expansion, downstream growth, high-margin services, and developing or requiring cutting-edge technologies and capabilities.

In the second quarter, we continue to make these growth investments. Let me share a few examples with you.

In polymer solutions, we are actively exploring options to expand our capacity in a capital-efficient manner in order to meet demand. Alpha Gary completed the acquisition of the majority shareowner's trip of Shakun Polymers Ltd. Shakun is a market leader in the production of compounds of wire and cable markets in the Indian subcontinent. While this is a smaller acquisition, it has a diversified footprint and next-generation products that will allow us to expand our market share in Asia.

In Wavin, investments in strategic high-value segments are driving momentum while we continue to work repurposing two former Dura-Line sites in India. We are also steering efforts to develop a site in Indonesia.

Netafim completed the acquisition of Gakon Horticultural products, and also launched a new groundbreaking product, AlphaDisc, the most advanced disc filtration solution in the market. These investments enable Netafim to continue to help solve critical global challenges associated with water scarcity and food security.

In Dura-Line, we continue to invest in geographic sales coverage and technical skills. Major conduit capacity expansions are underway across the U.S. in the Southeast, Texas and on the West Coast.

Koura has brought to market Klea 473A, the first of its next-generation, low global warming potential refrigerants. This is the first touchpoint in launching a broad portfolio of sustainable, energy-efficient refrigerants for a variety of heating, cooling, and refrigeration applications.

Finally, Orbia Ventures led and completed an investment in battery resources which was announced last quarter and complements Koura's R&D work in lithium ion battery chemistries that enables the world's transition to sustainable energy.

We will continue to drive our growth agenda, investing across all our business groups and taking advantage of the high ROI opportunities that will help us create sustained value for shareholders. Finally, let me update you on our expectations for 2021 and capital allocation plans. I'm on slide seven.

Clearly, our businesses have been performing extremely well and better than we expected in the first half of the year. We anticipate that the conditions driving this growth will continue in the second half. As a result, we now expect EBITDA growth in the range of 32 to 35%, up from the previous 15% given in our last earning call. This revised outlook assumes no pandemic-related or other disruptions to Orbia's businesses. For the full year, we continue to expect strong cash generation as global markets continue to recover, supply chains improve, and additional investments in working capital normalize. We will continue to prioritize organic growth and strategic bolt-on acquisitions while maintaining our day-to-day investments and operational excellence in ESMG.

Let me close by reinforcing the resilience of Orbia's business model and strategy. I am on slide eight. We remain focused on growth while improving our cost position, recognizing, and using the advantage our integration provides and improving our liquidity and cash positions. We are also committed to embedding sustainability into our strategic decision-making process across our business portfolio. We are proud of the performance our global team has continued to deliver and are cautiously optimistic in our updated outlook. Our portfolio of businesses is well-positioned with opportunities for growth, as well as returning cash to shareholders. We will continue to be disciplined with your capital and focused on sustainable success.

Finally, I would like to thank Edgardo once more for his outstanding contributions to Orbia's transformation journey, and I wish him the very best in his future endeavors. Thank you.

Edgardo Carlos
Thank you, Sameer.

Javier Luna
Operator, we are ready to take questions.

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Nikolaj Lippman with Morgan Stanley. Please go ahead.

Nikolaj Lippman
Good morning. Congratulations on the phenomenal results.

On Wavin, first question. Can you provide a bit of color on the regional breakdown on some of the trends that you are seeing? To what degree was this driven by LatAm? To what degree was this driven by Europe? Anything you can say in terms of when you expect supplies for nonintegrated players to kind of normalize.

Then second question, if I may, if you could provide any color on Dura-Line and Netafim, the breakdown between volume and price. You commented, Edgardo, I think, on the strong volume outlook for Dura-Line. What are you seeing? We just don't have the data necessarily to separate volume and price in these two divisions, so any color there would be highly appreciated. Thanks a lot, and again, congrats on the numbers.

Edgardo Carlos
Thank you, Nik.

Let me address first the Wavin performance. Again, when we compare versus last year broadly, it's an easy comparison. But also, when you compare versus last quarter, there was very strong performance. I would say, roughly a $50 million increase in EBITDA coming from the first quarter. It's split $30 million in Europe and $20 million in LatAm, primarily. Really, there are several factors that are contributing to this outstanding performance in Wavin.

First of all, as we commented, the value of the integration with the PVC chain is bringing a relevant position to satisfy our customer needs in this environment, most importantly LatAm and to some extent in Europe.

Second, there was a continued execution of our operational excellence plan following footprint rationalization. Now, we are focusing on Ireland, Lithuania, and Norway, but if you remember in late 2019 and June 2020, we conducted a significant downsizing or restructuring of our footprint, getting optimization in several facilities, consolidating production. That bringing a lot of value in terms of better logistics and much better cost optimization with core optimization of the facilities.

Third, this is very important and we mentioned several times, we continued doing significant inroads in the very high value-added segments like stormwater management and indoor climate systems, pretty much in Europe and now moving into LatAm as well. Where also, several of our high-end products are totally sold out at this point in time.

Four, definitely we have an easy comparison, as I said, with 2020, but the disciplining costs really help us to bring a significant value for LatAm and (INAUDIBLE). Also, we are continuing transitioning to monetizing services for prefab investment and piloting with connected product as well as market expansion in the (INAUDIBLE), incorporating the Dura-Line brownfield operation in India which is a very important project. We do see strong momentum as Wavin continues in Q3, while demand continues very strong. We are aiming to maintain our health margins.

I will pause it here and Sameer, you can go over Dura-Line and Netafim.

Sameer Bharadwaj
Sure, yes. Nic, I think great question on Wavin. Without a doubt, you can see the integrated model working here because the security of supply that we have, particularly in LatAm, has really been a benefit to us across the entire chain. Even in Europe, this has benefited us in a pretty strong way. Now, we can't comment on the supply chain issues that some of our competitors and other market participants have been experiencing because there's been a host of issues, but fundamentally, demand remains very strong.

You had a second question around Dura-Line, whether it's volume or price. What I can tell you is, fundamental demand in the Dura-Line business remains very strong, and this is driven by--a large part of it is U.S., driven by their growth of 5G, the global deployment of fiber, cloud computing. All of our major customers have significant growth plans, and as a result of it, we are having to accelerate our investments in debottlenecking and increasing our capacity. Volume performance for Dura-Line has been fundamentally strong.

Much of what we are seeing here has been caused by the two factors. One is the fact that it takes several months to catch up on price, and we did have disruptions related to raw material availability and labor shortages that prevented us from fulfilling as many orders as we would have liked in the last quarter.

Hopefully that helps, Nic.

Nicolaj Lippman
Very helpful. If I may, just a follow-up question on that. I think it becomes abundantly clear when you look at your numbers that integration works really, really well this quarter and probably going forward next quarter, given the supply issues. I thought the answer related to the structural part was quite interesting. Is there any way we can sort of quantify--I know year and year sequential, everything is kind of difficult. But can we say it played a 30% role or can we quantify the importance of having taken some cost out of the system on a more structural basis, in other words, to see how sticky these higher margins could turn out to be?

Sameer Bharadwaj
Nic, I think we have been continually optimizing our structural costs in Wavin and of course, when we combine Wavin among core LatAm operations, and we are continually looking at ways to optimize our footprint, improve our cost position. It's a relentless journey and this doesn't happen overnight, and with every step we take, we are improving our overall margins by half a percentage point, one percentage point, and inching our way to the mid-teens for overall Wavin, right? I think that's the best way I can answer that question.

We are not done yet. There are a few more opportunities where we are looking to improve our structural cost position and we'll keep doing that.

Operator
Our next question comes from Frank McGann with Bank of America. Please go ahead.

Frank McGann
Okay, good morning. Thank you very much.

Just to follow up in polymer solutions, the JV with Oxychem. I was wondering if you could comment on how important improvements were there this quarter and how over the next two to three quarters, you could see those potentially staying as strong as they are or potentially softening a bit.

Sameer Bharadwaj
Yes, very good question, Frank. So, in the polymer solutions business group, the Cracker JV with Oxy plays an extremely critical role in positioning us much closer to the left of the supply curve versus the competition. I would say despite the challenges we faced in the quarter, the weather-related challenges, the logistics-related challenges, it's the integration in the cracker that's really benefiting us in the attain spread that we are seeing, as well as the downstream BCM PVC spread. For us, that's absolutely critical.

We see that benefit continuing going forward. In this value chain, it's incredibly important to be integrated all the way, right from cost of chlorine to ethylene, to BCM and to PVC. It's a critical part of our success and ability going forward.

Edgardo Carlos
If I can add something to give color, Frank, earlier today--of course, the margins are very, very high but even last year, remember when the price of the PVC was close to $550, $600. We were able to get very reasonable valuable cost structures to continue making profit in that environment because of the full integration with the cracker. It has been proven in a very extreme condition like last year, not to mention now we are enjoying this incredible moment for the PVC.

Frank McGann
Is there any way to quantify how much it contributed in the quarter to you?

Sameer Bharadwaj
I think both factors, if you look at the components of the PVC chain, Frank, the margins in each of these components--there's the ECU, the ethylene cracker and the downstream. Historically, the profit pools have been more upstream in the cracker and in the ECU, but I

would say that in the past couple of quarters, it's more balanced both upstream in the cracker portion as well as on the downstream side, whether spread between BCM and PVC also are quite substantial.

I don't have any specific numbers off the top of my head, but I would say it's a very balanced view of profitability across that chain.

Operator
Our next question comes from Andres Cardona with Citibank. Please go ahead.

Andres Cardona
Hi, good morning, everyone. Congratulations on the second quarter results.

What I would like to ask has to do with the performance of the share because year to date, we have seen a very strong performance of the company at the operational level and the outlook remains very strong but there seems to be a disconnection between the performance of the operation of the company and the equity performance. What I'd like to get from you is what type of concern have you provided from the market about the business plan or whatever you get from the market? The second one would be, what can management do to solve these types of concerns and help the performance of the equity to follow the strong performance of the operational business?

Thanks.

Sameer Bharadwaj
Andres, thank you for the question and also thank you for the coverage there. We see that your understanding of our business is actually quite good. It is disappointing to not see the stock follow the performance of the company, and as we have talked to a number of analysts and investors, what we realize is that it's still a perception out there around our earlier strategy, that we were going to sell the vinyl business and essentially become a downstream company and participate only in the higher value, downstream part of the chain. What me, Edgardo and the rest of the management team are going to be focused on going forward is to really help analysts who cover us and investors understand that the perception that the upstream part of the chain is low value is not the right perception, okay?

This apparently commodity business is having extremely high EBITDA margins and even when it normalizes, it will settle down at substantially high levels, and it's a strong generator of cash that we can deploy across our value chain in other much higher value-added opportunities. I think it's very important for everybody to understand our growth strategy and note that we are now seeing a lot of benefit from the integrated chain. We have substantial growth opportunities in each and every one of our businesses, both organic opportunities as well as strategic bolt-ons, that we can continue growing this company.

I think in order to do that, we plan to sometime in the next few months organize an investor day, and we'll invite all of you to come and spend time with me, with the business group leaders, and we will go deep and explain the excitement we have in each of our businesses. Hopefully, that's going to address any concerns people have about strategy and the fact that this company, post-pandemic, is incredibly well positioned to grow. We have a strong post-pandemic recovery in most of our businesses. We are yet to see a recovery in Koura but that should come, as the supply/demand situation corrects in that part of the chain. We have historically the lowest cost of borrowing and we have strong cash generation, and now is the time to invest and grow. That's what we're going to be focused on.

I think when analysts like yourself and investors appreciate the magnitude of the opportunities we have in each of these businesses, and the relentless focus we have on execution while being extremely disciplined from a commercial excellence standpoint, cost management standpoint, and we're able to deliver sustainable growth, the stock price should follow.

Andres Cardona
Thanks so much for the ability to answer and for the kind words. Again, congratulations on the results.

Sameer Bharadwaj
Thank you, Andres.

Operator
Our next question comes from Luis Carvalho with UBS. Please go ahead.

Luis Carvalho
Hi, everyone. Thanks, Sameer, for taking the question. Edgardo, very good luck and best of luck, and thanks for the partnership during the times. Also, to all of you, congrats on the results, very strong.

I basically have two questions here, if I may come back to the last question and take your answer, Sameer. At least to me, and maybe I missed something over the past couple quarters, but your speech is, I would say, at least to me again, it points to a different direction in terms of capital allocation strategy of the company. While you are here, you're saying that the polymer does bring some synergies with other businesses. It's way more cyclical than others and potentially nowadays, we're talking about the peak of the cycle, right?

Back to the capital allocation strategy. As you just said, you have a very low net debt to EBITDA level. You already paid some dividends. You gave some details about do not pursue to actually to divest from the polymer business anymore and gave some of the details about each of the segments. But what will be the driver here, in terms when you think about the capital allocation strategy? To the last question, would you consider to actually to perform some buybacks now or is it something you're looking, when you get to the acquisitions, for example, of the growth you're looking to--ROE,ROIC--what are the metrics or thresholds that you're looking that we can track looking forward?

The second question, it's also a follow-up in one previous question, in terms of how resilient and recurrent the results for the second quarter were. Of course, then you updated your EBITDA guidance for the rest of 2021, but I'm just trying to get a sense from you guys what will be the outlook for 2022 as we are almost in August and I think the investors are starting to look to 2022 results?

Thank you.

Sameer Bharadwaj
Luis, again, an excellent question. Let me address that head on.

This whole perception of peak of cycle, let's talk about cycle. What causes cyclicality in any commodity business? Demand is growing monotonically, it's growing continuously, and especially demand for PVC driven by emerging markets and demand for clean water, sanitation, building, and construction is growing at a significant clip, 4, 5, 6% a year globally which is higher than world GDP. Cyclicality is caused by extremely large additions of capacity at the same time, that the market cannot absorb that capacity and for a period of time, prices go down and it causes the cyclicality. That's what people have been used to.

Now, if you look at the vinyl chain, this is an industry that has been grossly underinvested in over the past decade. Most of the assets out there are very old and falling apart, which is why you have so many supply disruptions. Now, of course, all these force measures and supply disruptions will go away, and PVC prices will come back to some normalized level, but that normalized level is going to be a very different level than what it was only a couple, three, years ago because demand has continued to grow. I think it's very important to address this perception of peak part of the cycle because nobody can add capacity overnight, including us. Any of these projects we're talking about are multi-hundred-million-dollar or billion-dollar projects, and they need to be capital efficient. They take at least two to three years to execute.

I think everybody should understand that for the next few years, at least it's our view that this is an industry that will be constrained until there is substantial addition of capacity. Now, in that context, for us the integration has tremendous value. We will invest across the whole value chain. For example, we are looking at capital efficient ways to debottleneck our PVC assets, to see if we can create more capacity through minimal investment in capital. We are looking at potential alternatives to increase our BCM capacity as well. Keep in mind that there's very few players in the world that have the skill sets to operate in this space and it's not easy to thread the needle in an industry associated with more cost securing and with PVC. We are one of the few companies that has the ability to do so, and we will do that carefully.

Having said that, we will allocate capital across our chain. As I'd mentioned, we are looking at growth projects in Koura, in the refrigerants chain, in the energy storage chain. We are looking at expansions in Wavin, particularly in India and Indonesia. We are looking for ways to enter the U.S. markets. We have strong fundamental growth in Dura-line and Netafim, and frankly, the challenge will be to keep up with adding enough capacity to meet the demand. You can see from a capital allocation standpoint, it will be across the chain and we will prioritize projects that have the highest returns on investment capital, and create long-term value and have a strategic link to one another.

Your second question was on outlook for 2022 and Edgardo can shed some more light on this.

Edgardo Carlos
Sure, Sameer. Thank you, and thank you, Luis, also for the question and for the nice partnership we've developed together.

In terms of 2022, perhaps it's a little bit early to provide full color, but assuming that we will see PVC prices coming to a range of at least $200 or $300 per (INAUDIBLE) historical levels, we may see some impact on our earnings in the range of $200 or $250 million. However, it is very important to mention that some of our engines are not at full traction today, such as Dura-Line, Koura and Netafim. That deficit will help to mitigate this potential reduction. We do see 2022 significantly above 2019 level, both in top line and bottom line, and this is probably the most that we can share at this point in time.

Luis Carvalho
Okay, and thank you very much for your answers.

Sameer, if I may do a quick follow-up on your first answer, that idea of potentially listing Orbia in other stock exchange, like in the U.S. How close is this in mind nowadays? Thank you, and sorry for the third question.

Sameer Bharadwaj
No, that's a good question because it's been on people's minds. Look, while we don't rule out such a listing at some point in the future, that whole transition can be quite distracting to the business at a time when we need to be focused on driving growth and creating value. Our focus in the near term is going to be focused on value creation and over time, there are several levers for unlocking that value and capturing that value, and we will not hesitate to exercise those levers at that point of time. But to directly answer your question, it's not an urgent thing for us right now to focus on listing in the United States.

Operator
Again, if you'd like to ask a question, please press star then one. Our next question comes from Alejandro Zamacona with Credit Suisse. Please go ahead.

Alejandro Zamacona
Hi, Sameer and Edgardo, Javier. Thank you for the call and thank you for taking my question.

Just a quick question on the balance infrastructure plan. It's probably tough to quantify systems but any talks around any business (INAUDIBLE) to identify this infrastructure plan? Thank you.

Sameer Bharadwaj
Sure. It's a very good question and as you said, it's tough to identify across all the sectors. But if I go business by business, clearly the infrastructure plan is going to require basic and advanced materials. All of our businesses associated with those materials should benefit, whether it is PVC, specialty resins, specialty compounds, our pipe and fitting business. Dura-Line in particular, in addition to Biden's plan, there are already significant plans for rural deployment of fiber and providing broadband access more unilaterally across the country. We are already benefiting from that.

The new potential driver longer term for us would be some of the encouragement that the Biden Administration is providing for the transition to sustainable energy, particularly supporting any projects associated with lithium-ion batteries or product and technology development. We are investing in that area even as we speak.

Alejandro Zamacona

Thank you, Sameer.

Sameer Bharadwaj
Thank you as well.

Operator
Our next question comes from Ben Isaacson with ScotiaBank. Please go ahead.

Ben Isaacson
Hi, thank you. This is Ziad on for Ben, and congratulations again on the quarter. It's a great beat and a lot of what you said came true, which is excellent for us to see.

I just have a quick question on the growth initiatives. You talked briefly about in the capital allocation priorities how you're looking at organic growth as well as some bolt-on acquisitions. Is there any way we can frame the magnitude of those investments, in terms of a dollar amount spend or a target EBITDA that you're looking to achieve with the opportunities you're seeing in your pipeline today? Thank you.

Sameer Bharadwaj
Great, and again this is very high level, Ben, but in terms of size and scale of these opportunities, some of these are tens of millions of dollars of investment. Some range from $50 to 200 million and then, in the vinyl business, that's a much longer-scale projects and those are $700 million type of investments. I'm talking about organic growth projects or joint ventures where we coinvest capital in a growth opportunity.

In terms of bolt-on acquisitions, once again let me remind everyone, focus has been very selective in terms of either addressing a gap in our geographic footprint and/or acquiring technology that we can acquire and leverage worldwide. These typically, are in the range of tens of millions of dollars, to maybe a couple hundred or $300 million. Now, having said that, my philosophy on M&A and our company's philosophy on M&A is an M&A deal only makes sense if you have significant growth and significant synergies, such that the return-on-investment capital pay off over time. If you cannot make that happen, we aren't going to lose any such deal like that, we'll be very disciplined when it comes to M&A and very, very selective when it comes to M&A. But we don't rule that out.

Ben Isaacson
Thank you, that makes a lot of sense. I guess just to confirm, in terms of the specific timings, if we're thinking about the PVC businesses, that has a longer runway for us before we start seeing those initiatives whereas elsewhere, it could be shorter-term where we see those initiatives really start contributing to EBITDA?

Sameer Bharadwaj
Absolutely, Ben, more so in our downstream businesses as we are seeing strong fundamental growth and demand. This is about debottlenecking our plans, adding exclusion lines and these can happen on a much quicker time scale. Given the growth and demand, these will also pay off much quicker as well but it's a different scale we are talking about. With the diversification we have across our portfolio and the slew of opportunities we have; our goal is to deliver steady-earnings growth over the next several years.

Ben Isaacson

Perfect, thank you very much.

Operator
Our next question comes from Leonardo Marcondes with Itau BBA. Please go ahead.

Leonardo Marcondes
Hi, guys. Thank you for taking my questions.

First, I would like to know if you guys could explain a little bit the dynamics of passing through higher costs in the Dura-Line and at the Netafim segments. Basically, I'm trying to get a bit more color on the margin compression for this businesses during this quarter.

Second, I would like to know if you guys can give us a bit more color on your most recent acquisitions. What are the contributions in terms of revenues and margins you guys expect them to deliver over the next year? That's my two questions, thank you.

Sameer Bharadwaj
Edgardo, do you want to take the margin compression question for Dura-Line and Netafim, and then I can take the second question on the acquisitions?

Edgardo Carlos
Clearly, the impact of the raw material cost structure of Dura-Line is more severe than Netafim, which contains many other products, not only the resins. I will say that today, based on all the price increases that we have done, we have covered probably a little bit more than 60 to 65% of increasing raw materials. There's at least three months to catch up with the full impact of the raw materials. Again, we have been developing for many years excellent relationships with key customers that are on a long-term basis, and we are really respecting, of course, all the terms and conditions to continue supply on time. We know this sometimes goes, like last year, very positive for us. This year, it's exactly the opposite.

In the case of Netafim, I would say that today, we are having an impact of approximately 6 to 7% in the total costs that has not been yet recovered, but again there are a lot of actions that are taking place and of course, the more that we--but again, there was another increase in resins in July that was not expected. At the end of the day, it's taking longer to fully recover, but again the most significant one affected was Dura-Line.

Sameer Bharadwaj
I think, Leonardo, you'll see that the cycle with which we engage with customers in Dura-Line is different from Netafim. In Netafim, it's short cycle. With Dura-Line, it's long-term projects. It just takes longer to get the increases through, especially with some of these strategic customers. I'm fully confident the team has taken every measure possible to catch up and by Q4 we should have caught up. Netafim, will be earlier than that. While we are in Q3, Netafim should be fully caught up as well. Then once we are there, that's a good position to be in.

To answer your second question on our acquisitions, we announced an acquisition of a controlling interest, Shakun Polymer in India, and Shakun is the leader of high-end wire and cable products in the entire region; this includes India, Middle East, Africa, and have had tremendous growth over the years. We have confidently set up products and together with these synergies we will realize with Shakun, there is an opportunity to substantially grow the business not only in India but in the entire region. We have great expectations from this venture.

Then the second one is the acquisition of Gakon Horticultural Products, the greenhouse technology company that we acquired in the Netherlands. The contribution to earnings of that company are not material. That is mainly a technology and capability acquisition which we can now leverage across the world through our footprint in Netafim on every continent. We are very excited about the opportunities in the greenhouse space in the U.S., in China, in Australia and many other places. That in combination with Netafim has significant promise over the next several years.

Leonardo Marcondes
Okay, thank you.

Sameer Bharadwaj
Thank you, Leonardo.

Operator
Again, if you'd like to ask a question, please press star then one. Our next question is a follow-up from Nicolaj Lippman with Morgan Stanley. Please go ahead.

Nicolaj Lippman
Thank you, and sorry for coming back and perhaps being a bit slow. Edgardo, just to make sure that I understood what you were saying about growth next year, you expect growth at the top line and bottom line to show positive growth, 22 or 21, is that correct? If so, can you give any color on the importance, if any, of acquisitions in that statement? Thanks, guys.

Edgardo Carlos
No, Nic, my comment was referring to 2019. Basically 2020, I try to take aside because of the COVID issue. 2021, we do have some significant tailwinds. What I say is on a normalized basis, we're going to be landing in 2022 both from top line and bottom line significantly above 2019 levels.

Nicolaj Lippman
Got it, thanks for the clarification. Makes sense.

Edgardo Carlos
You are welcome.

Operator
Again, if there are any further questions, please press star then one at this time. Thank you and I will now turn the call back over to CEO Sameer for any closing comments.

CONCLUSION

Sameer Bharadwaj
Thank you Sarah. We are very well positioned to continue to capture growth and are confident in our ability to deliver strong returns as we support our stakeholders and

communities worldwide. I thank you again for joining us today and look forward to talking to you all again at the end of next quarter.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.