

AMATA B. GRIMM POWER (RAYONG) 1 LTD.

No. 5/2022
31 January 2022

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 21/01/21

Company Rating History:

Date	Rating	Outlook/Alert
28/02/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Amata B. Grimm Power (Rayong) 1 Ltd. (ABPR1) at “A-” with a “stable” rating outlook. The company rating incorporates ABPR1’s stand-alone credit profile (SACP) of “a-” and its status as a “strategic” subsidiary of B. Grimm Power PLC (BGRIM, rated “A/Stable” by TRIS Rating).

The SACP reflects the high reliability of ABPR1’s earnings stemming from a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT), the commercially proven technology of its cogeneration power plant, and a streak of strong operational performance. However, the company rating is constrained by the risk of reliance on single operating asset.

KEY RATING CONSIDERATIONS

Benefits from long-term PPA with EGAT

ABPR1 owns and operates a combined cycle cogeneration power plant, which commenced commercial run in 2013. The company holds a 25-year PPA with EGAT, covering 90 megawatts (MW), under the Small Power Producer (SPP) scheme. The PPA, which is on take-or-pay basis, meaningfully mitigates market risk. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. ABPR1’s sales to EGAT generally constitute about 75% of total sales per annum while the payment risk of the power buyer is very minimal.

The reliability of cash flow is also supported by the capacity payments. In addition, the adverse impact from wild swing of fuel price and exchange rate is mitigated through the index-based tariff adjustment.

Offtake agreements with industrial customers

In addition, ABPR1 also sells electricity and steam to industrial customers in Amata City (Rayong) Industrial Estate (ACRIE). The company holds multi-year off-take agreements, covering 33.8 MW of electricity and 14 tons per hour of steam. Each industrial customer is obliged to purchase minimum amount of electricity and/or steam as agreed in its respective agreement.

ABPR1 sells electricity to the industrial customers at discounts on tariff rates charged by the Provincial Electricity Authority (PEA) to large general service customers. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in the fuel price. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion on the timing and magnitude of the adjustments. As such, a spike in fuel prices could have significant impact on the company’s earnings. In addition, the sale volume hinges on demand, which is driven by industrial activity levels.

Higher electricity sales to a new industrial customer

For the first nine months of 2021, electricity sales to industrial customers totaled 123 gigawatt-hours (GWh), an increase of 56% from 79 GWh year-on-year (y-o-y). The sharp increase in sale volume was due in large part to a new industrial customer, which holds 16-MW offtake agreement. Over the same period, the electricity sales to existing customers also rose by 12% to 89 GWh, suggesting a recovery from the fallout of the Coronavirus Disease 2019 (COVID-19) pandemic in the prior year. However, we hold our view that the lingering pandemic could weigh negatively on the electricity and steam demands from

industrial customers. In 2021, ABPR1 signed a 15-year PPA of 0.8 MW capacity with a new industrial user. The company expects to dispatch the electricity in March 2022.

Commercially proven technology of cogeneration power plant

ABPR1's combined cycle cogeneration power plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by Siemens, a leading manufacturer and supplier for power generation in global market. The Siemens SGT 800 gas turbines have bypass stacks, which give the power plant additional flexibility. For example, ABPR1 can operate the gas turbines even when the steam turbine is undergoing maintenance or for load management purposes.

The plant operation is supported by long-term service agreement (LTSA) with Siemens, which has been extended until 2035. The extended LTSA covers the next two major overhaul cycles of the power plant, helping ABPR1 achieve high availability factor and efficiency.

A streak of strong operational record

ABPR1 has its own operation and maintenance teams for day-to-day operations. The teams leverage BGRIM's expertise in the operation and maintenance of cogeneration power plants. Since the outset, ABPR1 has performed in accordance with operational expectations under the PPA. For the first nine months of 2021, the plant's actual availability factor was 100% and the heat rate was 7,537 British thermal units/kilowatt-hour (BTU/kWh), well below the borderline of 8,000 BTU/kWh as required by the PPA. In terms of energy efficiency, the ABPR1 plant achieved the primary energy saving (PES) expectation and received an additional tariff of THB0.36/kWh from EGAT as a fuel-saving (FS) payment. We consider the risk of performance penalties and PPA termination is very limited.

High reliability of cash generation

ABPR1 has consistently delivered high reliability of cash generation. During 2018-2020, its revenues ranged from THB2.3-THB2.6 billion per year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged between THB596-THB728 million per year. For the first nine months of 2021, both revenues and EBITDA came in above our forecast. In our base-case forecast for 2021-2024, we expect ABPR1 will generate about THB2.7-THB2.9 billion a year while EBITDA will range THB640-THB700 million per year. The debt to EBITDA ratio is projected to steadily decline towards 3 times over the forecast period, while the ratio of debt to capitalization to slide and stay below 50% in 2024.

Single operating asset

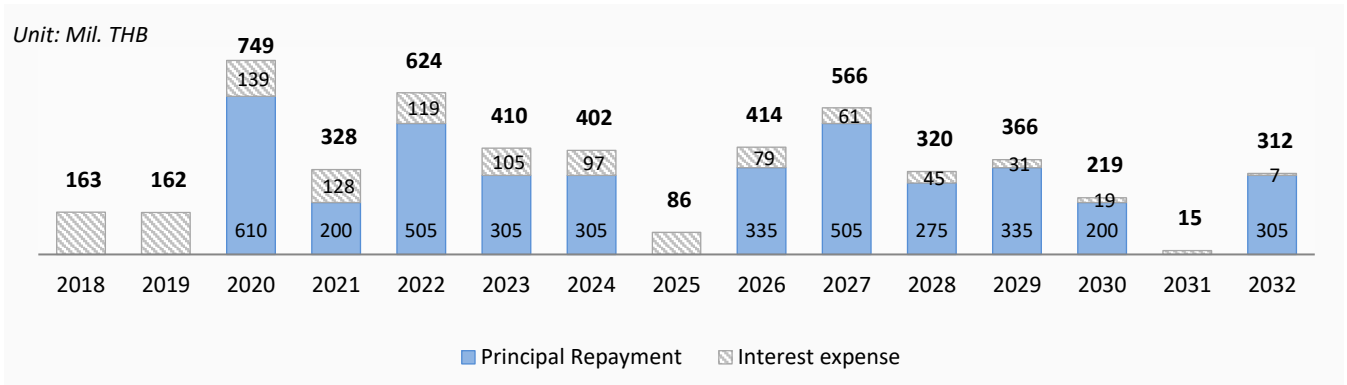
The rating is constrained by ABPR1's single operating asset. ABPR1's business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Due to the lack of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. That said, we view the likelihood of such scenario is remote, given the proven track record of operation and the supportive LTSA.

Satisfactory debt service capability

In April 2017, ABPR1 borrowed an inter-company loan of THB3.88 billion from Amata B. Grimm Power SPV1 Ltd. (ABPSPV). The proceeds were used to refinance an outstanding bank project loan. The repayment schedule of the inter-company loan matches the maturity of the bonds issued by ABPSPV. ABPR1's debt service obligations vary significantly from year to year. Debt services range from THB15 million to THB749 million per year during 2018-2032 with no principal repayments called for in 2018, 2019, 2025, and 2031. The first principal repayment was made in April 2020. We expect ABPR1 to manage its liquidity needs and reserve cash for the years in which large principal repayments are scheduled to be made.

As of September 2021, ABPR1 had cash on hand and cash equivalents of THB655 million. The available cash and cash equivalents, combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB402-THB624 million in 2022-2024.

Chart 1: Debt Service Schedule of ABPR1's Inter-company Loans



Sources: ABPR1 and TRIS Rating's estimates

Guarantee obligation to ABPSPV's debentures

ABPR1 is one of the guarantors of the guaranteed debentures issued by ABPSPV. The other two guarantors of the debt issue are Amata B. Grimm Power 3 Ltd. (ABP3) and Amata B. Grimm Power (Rayong) 2 Ltd. (ABPR2). Under the terms of the guarantee, the guarantors jointly and severally provide unconditional and irrevocable guarantees on all amounts due under the debentures, including the principal amount of up to THB11.5 billion, interest accrued thereon, and related expenses.

Strategic subsidiary under BGRIM Group

ABPR1 is one among 22 cogeneration power plants under BGRIM Group. As of December 2021, ABPR1's installed capacity accounted for 4% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, ABPR1's EBITDA represents approximately 5% of the group's total EBITDA. Notwithstanding its small revenue contribution, we view ABPR1 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM's power portfolio, representing 73% of BGRIM's total power generation capacity.

BGRIM has five cogeneration power plants in ACIRE, including ABPR1. We view ABPR1 is important to BGRIM in managing overall operating efficiency of the group's power plants in ACIRE. Based on this, we expect ABPR1 will obtain parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS (2021-2024)

- The plant availability factor to be in the range of 92%-98%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 33.8 MW (Including PPA with new industrial customers of 0.8 MW, starting to dispatch in March 2022.), and steam purchase agreements with industrial customers to be 14 tons/hour.
- Annual electricity sales to be 798-851 GWh and annual steam sales of 68-73 kilotons.
- Capital expenditure to be THB5-THB38 million per year.
- The inter-company loan repayment to be made according to repayment schedule of the guaranteed debentures issued by ABPSPV.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that ABPR1 will sustain its strong operational efficiency, and the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The credit upside for ABPR1 is limited over the next 12-18 months. Contrarily, downward pressure on the rating would develop if ABPR1's operating performances significantly fall short of our forecast. Downward pressure on the rating may also develop in the event of significant deterioration of debt service capability.

According to TRIS Rating's "Group Rating Methodology", any material change in credit profile of BGRIM or any material change in the linkage between ABPR1 and BGRIM could also impact the company rating on ABPR1.

COMPANY OVERVIEW

ABPR1 was established in 2011 to own and operate a cogeneration power plant under the SPP scheme. Located in ACRIE, Rayong province, ABPR1's plant commenced commercial operations on 1 November 2013. The power plant has an installed capacity of 123.3 MW plus 30 tons per hour of steam. ABPR1 has a 25-year PPA with EGAT, covering 90 MW while it has multi-year off-take agreements with industrial customers in ACRIE to sell 33.8 MW of electricity and 14 tons per hour of steam. The contracts with the customers in the industrial estate specify the minimum amounts of electricity and/or steam each customer is obligated to purchase.

ABPR1's combined cycle cogeneration power plant employs proven technology from Siemens. The Siemens SGT 800 gas turbine has a proven track record, with more than 100 units sold worldwide since 1997. ABPR1's power plant comprises two gas turbine units with bypass stacks, two heat recovery steam generators, and one steam turbine. The gas turbines and the steam turbine are all made by Siemens.

ABPR1 has entered into the LTSA with Siemens. Siemens will provide maintenance services, including spare parts and performance upgrades, for the gas turbine units. The collaboration between Siemens and BGRIM will help ensure the reliability of the turbines and keeps maintenance costs under control. ABPR1 has a 25-year gas supply contract with PTT PLC and a long-term water supply agreement with AMATA Water Co., Ltd. Moreover, the company has a contract with the PEA to purchase backup power in the event of an emergency.

During 2018-2020, ABPR1 annually sold about 613-645 GWh of electricity to EGAT, 107-141 GWh to industrial customers, and 24-45 GWh to related companies (other power plants in ACRIE owned by BGRIM) for load management purposes. ABPR1's revenue and earnings have been stable in the past several years. During 2018-2020, revenues ranged from THB2.3-THB2.6 billion per year. EBITDA ranged between THB596-THB728 million per year over the same period. Revenues for the period from 2018 to 2020 were derived from electricity sold to EGAT (77%), electricity sold to industrial customers (15%), and steam sold to industrial customers (4%).

As of September 2021, ABPR1's shareholders were BGRIM (61.7%), Sunrise Energy Co., Ltd. of the Sumitomo Group (SSEC -- 18.6%), Amata Corporation PLC (AMATA --16.6%), and B. Grimm Joint Venture Holding Ltd. (BGJV -- 3%). The major shareholder, BGRIM, was established in 1993 as a holding company for the power business under the conglomerate of the B. Grimm Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. As of September 2021, BGRIM had installed capacity of 4,015 MW, 2,894 MW of which was in operation.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABPR1

Plant Performance	Unit	Jan-Sep 2021	2020	2019	2018	2017	2016
Net output energy ¹	GWhe ²	601.6	764.1	789.0	813.6	792.2	824.7
Plant heat rate	BTU/kWh	7,537	7,574	7,525	7,543	7,515	7,559
Primary energy saving factor	%	14.3	14.0	14.4	14.3	14.2	14.1
Availability	%	100.0	93.4	96.1	98.0	97.9	96.0
Unplanned outage	%	0.0	0.3	3.1	0.1	0.1	1.1
Planned outage	%	0.0	6.3	0.8	1.9	1.9	2.9

Remarks: ¹ Net output of electricity and steam

² Gigawatt-hour equivalent

Source: ABPR1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total operating revenues	2,360	2,571	2,606	2,552	2,626
Earnings before interest and taxes (EBIT)	374	442	511	514	527
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	596	662	728	731	741
Funds from operations (FFO)	455	492	559	520	526
Adjusted interest expense	139	162	163	211	215
Capital expenditures	58	2	22	19	59
Total assets	5,011	5,873	5,815	5,852	5,407
Adjusted debt	2,799	2,886	3,038	2,790	2,991
Adjusted equity	1,497	1,467	1,495	1,463	1,341
Adjusted Ratios					
EBITDA margin (%)	25.25	25.74	27.93	28.64	28.23
Pretax return on permanent capital (%)	7.31	8.15	9.44	9.77	10.17
EBITDA interest coverage (times)	4.29	4.09	4.46	3.47	3.45
Debt to EBITDA (times)	4.70	4.36	4.17	3.82	4.03
FFO to debt (%)	16.25	17.06	18.41	18.65	17.60
Debt to capitalization (%)	65.15	66.30	67.02	65.61	69.04

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Amata B. Grimm Power (Rayong) 1 Ltd. (ABPR1)

Company Rating:

A-

Rating Outlook:

Stable

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