

AMATA B. GRIMM POWER (RAYONG) 2 LTD.

No. 5/2020
8 January 2020

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 11/01/19

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) 2 Ltd. (ABPR2) at “A-” with a “stable” rating outlook. The rating reflects the reliable cash flows ABPR2 receives through a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme. The rating also reflects the uses of proven technology in its cogeneration power plant. In addition, its major shareholder, B.Grimm Power PLC (BGRIM), has a strong track record in the operation of gas-fired power plants.

KEY RATING CONSIDERATIONS

Predictable cash flow from long-term PPAs with EGAT

ABPR2 has a 25-year PPA with EGAT, covering 90 megawatts (MW), under the SPP scheme. Under the terms of a standard PPA for an SPP cogeneration plant, EGAT agrees to dispatch at least 80% of the contracted capacity, based on operating hours. The PPA is on a take-or-pay basis, which stabilizes the cash flow ABPR2 receives. In addition, the risks of fuel price and exchange rate fluctuations are largely mitigated through the tariff formula specified in the PPA.

In addition to the PPA with EGAT, ABPR2 has long-term off-take agreements with industrial customers in Amata City (Rayong) Industrial Estate (ACRIE). The agreements cover 24 MW of electricity and 14 tonnes 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.

The electricity tariffs charged to the industrial customers are based on the electricity tariffs the Provincial Electricity Authority (PEA) charges to large general service customers. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in the price of fuel. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion on the timing and size of the adjustments.

Proven technology mitigates operational risks

ABPR2’s combined cycle cogeneration power plant employs proven technology from Siemens, one of the world’s leading suppliers in the power industry. The Siemens SGT 800 gas turbine has a proven track record, with more than 100 units sold worldwide since 1997. ABPR2’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. The Siemens gas turbines have bypass stacks, which give the power plant additional flexibility. For example, ABPR2 can operate the gas turbines even when the steam turbine is undergoing maintenance or for load management purposes.

ABPR2 has an eight-year long-term service agreement (LTSA) with Siemens which will expire in 2020. However, the company has extended the period of the LTSA to 2035, which will cover next two major overhaul (MO) cycles of the power plant. The extended LTSA was signed under the collaboration between Siemens and BGRIM, which will benefit the power plant through a higher availability factor and improved efficiency.

Under the LTSA, Siemens provides maintenance services, including spare parts and performance upgrades, for the gas turbine units. The LTSA helps ensure the reliability of the turbines and keeps maintenance costs under control.

Proven track record in power plant operations

For day-to-day operations, ABPR2 has its own operation and maintenance teams. The teams leverage BGRIM’s expertise in the operation and maintenance of cogeneration power plants. ABPR2’s operations have met the targets specified in the PPA since the plant started up in 2013. For the first nine months of 2019, ABPR2 sold about 463 gigawatt-hours (GWh) of electricity to EGAT, 104 GWh to industrial customers, and 50 GWh to related companies (other power plants in ACRIE owned by BGRIM) for load management purposes. Total electricity sales increased 1.1% from the same period of the previous year due to higher dispatch rate from industrial customers.

Sales to EGAT constituted about 75% of total electricity sales. The actual availability factor was 95.3% and the heat rate was 7,507 British thermal units/kilowatt-hour (BTU/kWh), better than the figure of 8,000 BTU/kWh specified in the PPA. In terms of energy efficiency, the ABPR2 plant achieved the primary energy saving (PES) threshold and received an additional tariff of 0.36 Bt/kWh from EGAT as a fuel saving (FS) payment.

Financial performance in line with expectations

ABPR2’s revenue and earnings have been stable for the past several years. During 2016-2018, revenues ranged from Bt2.37-Bt2.56 billion per year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged from Bt659-Bt788 million per year over the same period. Revenues for the period 2016 to 2018 were derived from electricity sold to EGAT (75%), electricity sold to industrial customers (16%), and steam sold to industrial customers (4%). The balance (5%) was from electricity sold to related companies that own and operate power plants located in ACRIE. The inter-company transactions, which are on an arm’s length basis, help balance the load for the industrial customers in ACRIE.

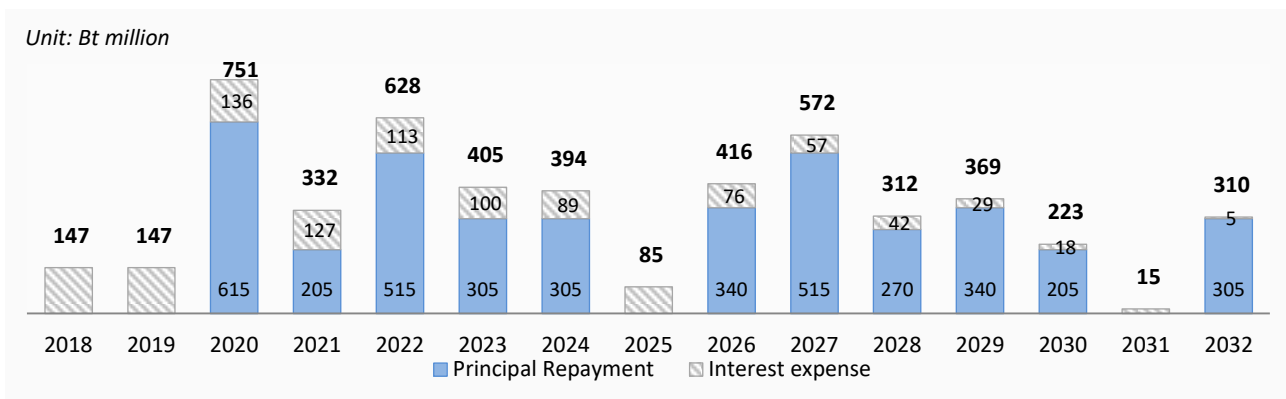
For the first nine months of 2019, ABPR2’s revenues increased by 6% to Bt2 billion. ABPR2 sold more electricity to industrial customers and related companies. EBITDA decreased by 1% to Bt540 million due to the higher gas price while the Ft remained fixed.

Satisfactory debt service capability

In April 2017, ABPR2 borrowed Bt3.92 billion from Amata B. Grimm Power SPV1 Ltd. (ABPSPV) as an inter-company loan. 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. ABPR2’s debt service obligations vary significantly from year to year. Debt services will range from Bt15 million to Bt751 million per year during 2019-2032 with no principal repayments called for in 2018, 2019, 2025, and 2031. The first principal repayment will be in April 2020. ABPR2 expects to manage its liquidity needs and reserve cash for the years in which large principal repayments must be made.

As of September 2019, ABPR2 had cash on hand and cash equivalents of Bt1.2 billion. EBITDA is forecast at Bt657-Bt729 million per year during 2019-2022. The cash on hand and cash equivalents plus the forecast EBITDA exceed its debt service obligation of Bt751 million due in 2020.

Chart 1: Debt Service Schedule of ABPR2’s Inter-company Loans



Source: ABPR2 and TRIS estimates

BASE-CASE ASSUMPTIONS

- During 2019-2022, we assume the plant availability factor to be in a range of 92.9%-98.4%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 24 MW, and the steam purchase agreements (SPAs) with industrial customers to be 14 tonnes/hour.
- During 2019-2022, revenue is forecast to be in a range of Bt2.55-Bt2.72 billion per year. EBITDA is projected in a range of Bt650-Bt730 million per year. Cash on hand will stay around Bt1.1-Bt1.3 billion per year.
- Maintenance capital expenditure to be Bt24-Bt77 million per year.
- The first inter-company loan repayment is made in 2020.

RATING OUTLOOK

The “stable” rating outlook reflects TRIS Rating’s expectation that ABPR2 will maintain smooth operations and generate a reliable EBITDA of around Bt650-Bt730 million per year.

RATING SENSITIVITIES

The upside for the rating on ABPR2 is limited over the next 12-18 months. The rating downside case may arise if ABPR2's operating performance or financial results deteriorate significantly, hurting its ability to generate cash.

COMPANY OVERVIEW

ABPR2 was established in 2011 to own and operate a cogeneration power plant under the SPP scheme. The plant is located in ACRIE, Rayong province. The power plant has an installed capacity of 124.4 MW plus 30 tonnes per hour of steam. Of the 124.4 MW, 90 MW is sold to EGAT under a 25-year PPA while the rest is sold to industrial customers in ACRIE. ABPR2 also has a 25-year gas supply contract with PTT PLC and a long-term water supply agreement with AMATA Water Co., Ltd. The company entered into an LTSA with Siemens, the technology provider, under which Siemens will maintain the gas turbines, ensuring reliable operations. ABPR2 has a contract with the PEA to purchase backup power in the event of an emergency. ABPR2's plant commenced commercial operation on 21 June 2013. As of September 2019, ABPR2's share-holders 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%).

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABPR2

Plant Performance	Unit	Jan-Sep 2019	2018	2017	2016	2015	2014
Net output energy *	GWhe	619.9	824.5	874.8	793.2	820.6	813.6
Plant heat rate	BTU/kWh	7,507	7,542	7,474	7,571	7,553	7,550
Primary energy saving factor	%	15.1	14.6	15.9	14.4	16.2	16.4
Availability	%	95.3	98.0	99.7	93.2	96.3	98.1
Unplanned outage	%	1.0	0.1	0.3	1.4	2.7	1.2
Planned outage	%	3.7	1.9	0.0	5.4	1.0	0.7

* Net output of electricity and steam

Source: ABPR2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----			
	2018	2017	2016	2015
Total operating revenues	2,605	2,598	2,406	2,848
Earnings before interest and taxes (EBIT)	501	559	429	505
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	730	788	659	733
Funds from operations (FFO)	568	573	458	372
Adjusted interest expense	162	216	201	360
Capital expenditures	7	4	2	7
Total assets	5,920	5,898	5,511	5,757
Adjusted debt	2,996	2,920	3,043	3,385
Adjusted equity	1,538	1,512	1,378	1,429
Adjusted Ratios				
EBITDA margin (%)	28.04	30.34	27.38	25.73
Pretax return on permanent capital (%)	9.10	10.45	8.06	9.26
EBITDA interest coverage (times)	4.50	3.66	3.28	2.03
Debt to EBITDA (times)	4.10	3.70	4.62	4.62
FFO to debt (%)	18.96	19.61	15.06	11.00
Debt to capitalization (%)	66.08	65.89	68.83	70.32

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Amata B. Grimm Power (Rayong) 2 Ltd. (ABPR2)
Company Rating:
A-
Rating Outlook:
Stable
TRIS Rating Co., Ltd.

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