

AMATA B.GRIMM POWER (RAYONG) 2 LTD.

No. 10/2023
31 January 2023

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 31/01/22

Company Rating History:		
Date	Rating	Outlook/Alert
28/02/17	A-	Stable

Contacts:

Narongchai Ponsirichusopol
narongchai@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Amata B.Grimm Power (Rayong) 2 Ltd. (ABPR2) at “A-” with a “stable” outlook. The company rating incorporates ABPR2’s stand-alone credit profile (SACP) of “a-” and its status as a strategic subsidiary of B.Grimm Power PLC (BGRIM, rated “A/Stable”).

The SACP reflects reliable cash flow from ABPR2’s long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) and a strong record of power plant performance. Contrarily, the company rating is constrained by the risk of reliance on its single operating asset.

KEY RATING CONSIDERATIONS

Majority of earnings backed by long-term PPA with EGAT

ABPR2’s combined cycle cogeneration power plant is operated under the Small Power Producer (SPP) scheme to sell electricity to EGAT, with contracted capacity of 90 megawatts (MW). ABPR2 holds a 25-year PPA, which is on take-or-pay basis. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. ABPR2’s electricity sales to EGAT generally represent about 75%-80% of total sales. Hence, the market risk is largely mitigated while the counterparty risk is very low. The reliability of earnings is also built from the capacity payments. Additionally, the adverse impact from volatile fuel prices and exchange rates is mitigated through the index-based tariff adjustment.

Offtake agreements with an industrial customer

ABPR2 also sells electricity and steam to an industrial customer in Amata City (Rayong) Industrial Estate (ACRIE). The company holds multi-year offtake agreements, covering 24 MW of electricity and 14 tons per hour of steam. The industrial customer is obliged to purchase a minimum amount of electricity and steam. The sale volume is driven by demand, which is tied to industrial activity levels.

Solid record of plant performance

ABPR2’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 company 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. ABPR2 also holds the 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 ABPR2 achieve high availability factor and efficiency.

Since its commencement, ABPR2 has performed in accordance with operational expectations under the PPA. For the first nine months of 2022, the plant’s actual availability factor was 98.7%. The heat rate was 7,526 British thermal units/kilowatt-hour (BTU/kWh), well below the borderline of 8,000 BTU/kWh as required by the PPA with EGAT. In terms of energy efficiency, the ABPR2 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.

Concentration risk of a single industrial customer

ABPR2 has only one industrial customer. This may cause ABPR2's revenue more volatile than those of other cogeneration power plant operators. For the first nine months of 2022, electricity sale to the industrial customer totaled 87 gigawatt-hours (GWh), a 10% decrease from 97 GWh year-on-year (y-o-y). The lower electricity demand from the industrial customer was the result of economic slowdown. However, we expect the electricity sales to gradually increase in 2023-2025 from the resurgent electricity demands of the existing industrial customer and new ones.

Exposure to fuel price risk

In selling electricity to the industrial user, ABPR2 is susceptible to fuel price risk in the event of surging gas prices. The company sells electricity to its industrial customer 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. However, the Ft adjustment carries a time lag and is subject to the authorities' discretion on the timing and magnitude of the adjustments. Hence, a surge in fuel prices could significantly impact the company's earnings.

Pressure from surging gas prices

ABPR2 faced acute pressure from rising fuel cost during 2022. Gas prices soared to a record of above THB550 per metric million British thermal unit (MMBTU) in the third quarter of 2022, due to the post-pandemic reviving demand and the prolonged Russia-Ukraine conflict. Meanwhile, the adjustment of Ft did not keep pace with the rise in fuel cost. Ft for the four-month period from September to December 2022 was raised to THB0.9343 per kWh. In effect, we estimate ABPR2's earnings before interest, taxes, depreciation, and amortization (EBITDA) to drop to THB677 million in 2022, from THB762 million in 2021. The debt to EBITDA ratio is estimated at 3 times.

Strong cash flow to continue

We expect ABPR2's strong cash flow generation to continue, given our expectation of further Ft upward adjustment and normalized gas prices. In our base-case projection, we assume gas prices to remain high in 2023. At the same time, we expect Ft to continue to edge up in 2023 to make up for the hefty subsidy of electricity charges incurred by EGAT. For the first four months of 2023, Ft for the large electricity users has been adjusted to THB1.5492 per kWh. In anticipation of easing demand-supply imbalance, we expect gas prices to steadily normalize from 2024 onwards while Ft will be adjusted accordingly. In our base case, we forecast ABPR2 to arrive at THB680-THB720 million in EBITDA per year during 2023-2025. The debt to EBITDA ratio should steadily decline to below 3 times over the forecast period, with the ratio of debt to capitalization to further drop and stay below 50% in 2025.

Single operating asset

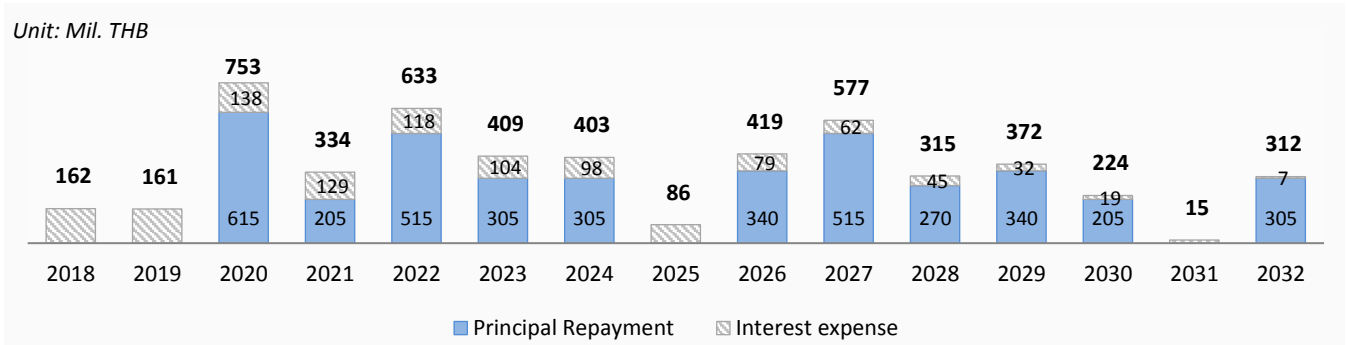
The rating is constrained by ABPR2's single operating asset. ABPR2's business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Given the lack of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. Nevertheless, 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, ABPR2 borrowed an inter-company loan of THB3.92 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. ABPR2's debt service obligations vary significantly from year to year. Debt services will range from THB15 million to THB753 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 ABPR2 to manage its liquidity needs and reserve cash for the years in which large principal repayments are scheduled to be made.

As of September 2022, ABPR2 had cash on hand and cash equivalents of THB416 million. The available cash and cash equivalents combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB86-THB409 million per year during 2023-2025.

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



Sources: ABPR2 and TRIS Rating's estimates

Guarantee obligation to ABPSPV's debentures

ABPR2 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) 1 Ltd. (ABPR1). 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 THB1.5 billion, interest accrued thereon, and related expenses.

Strategic subsidiary under BGRIM Group

ABPR2 is one among 19 cogeneration power plants under BGRIM Group. As of September 2022, ABPR2's installed capacity accounted for 5% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, ABPR2's EBITDA represents approximately 6% of the group's total EBITDA. Notwithstanding its small revenue contribution, we view ABPR2 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM's power portfolio, representing 74% of BGRIM's total power generation capacity.

BGRIM has five cogeneration power plants in ACIRE, including ABPR2. We view ABPR2 is important to BGRIM in managing overall operating efficiency of the group's power plants in ACIRE. Based on this, we expect ABPR2 will obtain parental support in a distress scenario.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for ABPR2's operations during 2023-2025:

- The plant availability factor to be in the range of 92%-99%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 24 MW and increase to 27 MW in 2025, and steam purchase agreements with industrial customers to be 14 tons/hour.
- Annual electricity sales to be 734-798 GWh and annual steam sales of 51-66 kilotons.
- Capital expenditure to be THB6-THB26 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 ABPR2 will sustain its strong operational efficiency, and the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The prospect of a rating upgrade for ABPR2 is limited. Conversely, negative pressure on the rating would emerge in case of a sustained deterioration of ABPR2's operating performance. Downward revision to the rating may also develop in the event of its worsening debt service capability.

According to TRIS Rating's "Group Rating Methodology", a material change in the credit profile of BGRIM or a material change in the linkage between ABPR2 and BGRIM could also impact the company rating on ABPR2.

COMPANY OVERVIEW

ABPR2 was established in 2011 to own and operate a cogeneration power plant under the SPP scheme. Located in ACIRE, Rayong Province, the power plant of ABPR2 has an installed capacity of 124.4 MW plus 30 tons per hour of steam. ABPR2 has a 25-year PPA with EGAT, covering 90 MW while it has multi-year off-take agreements with an industrial customer in

ACRIE to sell 24 MW of electricity and 14 tons per hour of steam. The contracts with the customer in the industrial estate specify the minimum amounts of electricity and/or steam the customer is obligated to purchase. ABPR2's plant commenced commercial operations on 21 June 2013.

ABPR2'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. 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.

ABPR2 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. ABPR2 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.

As of September 2022, ABPR2'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 BGRIM Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. As of September 2022, BGRIM had installed capacity of 3,379 MW in operation.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABPR2

Plant Performance	Unit	Jan-Sep 2022	2021	2020	2019	2018	2017
Net output energy ¹	GWhe ²	603.5	832.0	759.2	838.0	824.5	874.8
Plant heat rate	BTU/kWh	7,526	7,478	7,546	7,508	7,542	7,474
Primary energy saving factor	%	13.7	14.9	14.4	14.4	14.6	15.9
Availability	%	98.7	99.9	92.4	96.5	98.0	99.7
Unplanned outage	%	0.4	0.1	1.4	0.8	0.1	0.3
Planned outage	%	0.9	0.0	6.2	2.8	1.9	0.0

Remarks: ¹ Net output of electricity and steam

² Gigawatt-hour equivalent

Source: ABPR2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	2,700	2,348	2,731	2,605	2,598
Earnings before interest and taxes (EBIT)	568	397	506	501	559
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	762	626	737	730	788
Funds from operations (FFO)	602	485	575	568	573
Adjusted interest expense	131	138	161	162	216
Capital expenditures	17	22	8	7	4
Total assets	5,059	5,053	5,989	5,920	5,898
Adjusted debt	2,388	2,557	2,606	2,996	2,920
Adjusted equity	1,670	1,551	1,549	1,538	1,512
Adjusted Ratios					
EBITDA margin (%)	28.23	26.65	26.97	28.04	30.34
Pretax return on permanent capital (%)	11.68	7.60	9.18	9.10	10.45
EBITDA interest coverage (times)	5.83	4.54	4.58	4.50	3.66
Debt to EBITDA (times)	3.13	4.09	3.54	4.10	3.70
FFO to debt (%)	25.22	18.96	22.06	18.96	19.61
Debt to capitalization (%)	58.85	62.25	62.73	66.08	65.89

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Amata B.Grimm Power (Rayong) 2 Ltd. (ABPR2)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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