

AMATA B.GRIMM POWER (RAYONG) 2 LTD.

No. 8/2024
31 January 2024

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 31/01/23

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” outlook. The company rating is predicated on 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 reliability of ABPR2’s cash flow, underpinned by long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/stable”). The SACP also factors in a decent performance track record of its cogeneration power plant. Nevertheless, the SACP is tempered by the risk of reliance on its single operating asset.

KEY RATING CONSIDERATIONS

Reliability of cash flow from long-term PPA with EGAT

ABPR2 owns and operates a combined cycle cogeneration power plant, which commenced commercial run in June 2013. The company sells electricity to EGAT under the Small Power Producer (SPP) scheme, with contracted capacity of 90 megawatts (MW). The company 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. The counterparty risk is minimal.

ABPR2’s electricity sales to EGAT generally represent about 75%-80% of total sales per annum, suggesting a well-mitigated market risk. The reliable earnings are also predicated on the capacity payments. In addition, the adverse impact from volatile fuel price and exchange rate is alleviated through the index-based tariff adjustment.

Offtake agreements with an industrial customer

ABPR2 also offer electricity and steam to industrial customers in Amata City (Rayong) Industrial Estate (ACRIE) under long-term contracts. In November 2023, ABPR2 signed additional PPA of 1.5 MW with new industrial customer. As a result, the company currently holds multi-year offtake agreements, covering 25.5 MW of electricity and 14 tonnes per hour of steam. The company expects to dispatch electricity to the newly acquired customer in the first half of 2024.

Each industrial customer is obliged to purchase minimum amount of electricity and/or steam as agreed in its respective agreement. The sale volume hinges on demand, which is propelled by industrial activity levels. ABPR2 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 comprise a fuel adjustment charge, or Ft, to incorporate 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. A surge in fuel prices could significantly weaken the company’s earnings.

Despite the new PPA, ABPR2’s sale largely depends on one major industrial customer. This may cause ABPR2’s revenue more volatile than those of other cogeneration power plant operators. For the first nine months of 2023, electricity sale to the industrial customer totaled 93 gigawatt-hours (GWh), a 6.8% increase from 87 GWh year-on-year (y-o-y).

Decent 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.

ABPR2 has performed in accordance with operational expectations under the PPA since its commencement. For the first nine months of 2023, the plant’s actual availability factor was 98.7%. The heat rate was 7,493 British thermal units/kilowatt-hour (BTU/kWh), below the borderline of 8,000 BTU/kWh as required by the PPA with EGAT. In view 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 hold our view that the risk of performance penalties and PPA termination is very limited.

Strong cash flow to continue

For the first nine months of 2023, ABPR2’s earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to THB613 million, compared with THB488 million over the same period in prior year. The debt to EBITDA ratio (annualized with trailing 12 months) considerably declined to 2.7 times. We expect ABPR2 to arrive at about THB800 million in EBITDA for the full year ending 2023.

Looking forward, we expect ABPR2’s strong cash flow generation to continue, given our assumption that Ft adjustment will align with changes in gas prices. As a result, ABPR2 should maintain its profit margin from electricity sales to industrial customers. We also expect ABPR2’s plant availability factor to stay at around 98%.

In all, we forecast ABPR2’s EBITDA to range THB640-THB700 million per year during 2024-2026. The debt to EBITDA ratio is forecast to steadily decline to below 2 times over the forecast period. The debt to capitalization ratio should reduce to below 40% by 2026.

Single operating asset

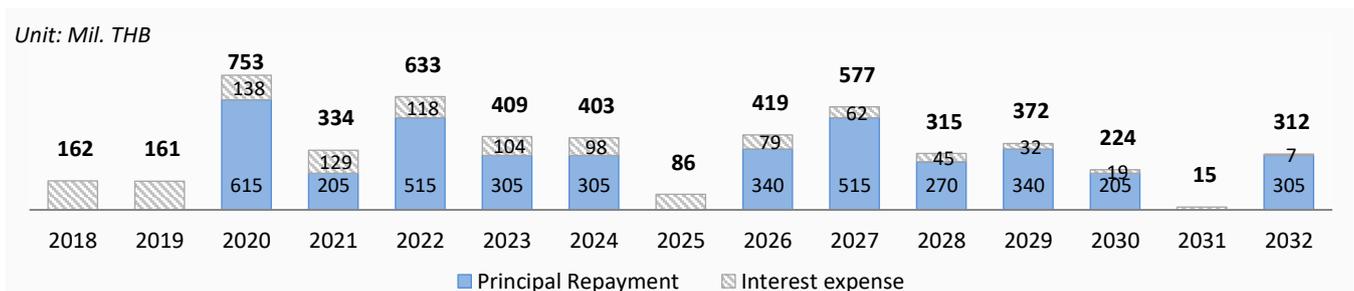
The SACP remains constrained by ABPR2’s single operating asset. ABPR2’s business risk profile is relatively weaker than those of large-scale power companies with multiple power-generating assets. In the absence of operational diversification, its earnings could be languished by major disruptions from 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 SPV 1 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 2023, ABPR2 had cash on hand of THB640 million. We view the available cash combined with the forecast EBITDA should enable the company to adequately meet the scheduled debt services of THB86-THB419 million per year during 2024-2026.

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 THB11.5 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 2023, 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 ACRIE. 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 2024-2026:

- The plant availability factor to be about 98%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 25.5 MW, and steam purchase agreements with industrial customers to be 14 tonnes/hour.
- Annual electricity sales to be 819-820 GWh and annual steam sales of about 58 kilotonnes.
- Capital expenditure to be THB20 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 reflects our expectation that ABPR2 will sustain its strong operational efficiency. The company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

We are unlikely to raise the SACP. To the contrary, we could lower the SACP due to a sustained deterioration of ABPR2's operating performance, which remarkably erodes its debt service capability. Negative pressure on the SACP could also occur following a substantial increase in debt upon demand for payment with respect to the guaranteed obligation.

According to TRIS Rating's "Group Rating Methodology", a material change in the credit profile of BGRIM or 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 ACRIE, Rayong Province, the power plant of ABPR2 has an installed capacity of 124.4 MW plus 30 tonnes 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 25.5 MW of electricity and 14 tonnes 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 2023, 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 October 2023, BGRIM had installed capacity of 3,830 MW in operation.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABPR2

Plant Performance	Unit	9M-23	2022	2021	2020	2019	2018
Net output energy ¹	GWhe ²	624.8	795.8	832.0	759.2	838.0	824.5
Plant heat rate	BTU/kWh	7,493	7,536	7,478	7,546	7,508	7,542
Primary energy saving factor	%	14.4	14.1	14.9	14.4	14.4	14.6
Availability	%	98.7	99.0	99.9	92.4	96.5	98.0
Unplanned outage	%	1.3	0.3	0.1	1.4	0.8	0.0
Planned outage	%	0.0	0.7	0.0	6.2	2.8	1.9

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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,806	2,700	2,348	2,731	2,605
Earnings before interest and taxes (EBIT)	466	568	397	506	501
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	660	762	626	737	730
Funds from operations (FFO)	502	602	485	575	568
Adjusted interest expense	123	131	138	161	162
Capital expenditures	4	17	22	8	7
Total assets	4,639	5,059	5,053	5,989	5,920
Adjusted debt	2,113	2,280	2,557	2,555	2,870
Adjusted equity	1,720	1,670	1,551	1,549	1,538
Adjusted Ratios					
EBITDA margin (%)	17.3	28.2	26.7	27.0	28.0
Pretax return on permanent capital (%)	10.2	11.7	7.6	9.2	9.1
EBITDA interest coverage (times)	5.4	5.8	4.5	4.6	4.5
Debt to EBITDA (times)	3.2	3.0	4.1	3.5	3.9
FFO to debt (%)	23.8	26.4	19.0	22.5	19.8
Debt to capitalization (%)	55.1	57.7	62.2	62.3	65.1

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.

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