

ABSOLUTE CLEAN ENERGY PLC

No. 150/2024
30 August 2024

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 02/08/23

| Company Rating History: | | |
|-------------------------|--------|---------------|
| Date | Rating | Outlook/Alert |
| 11/10/21 | BBB+ | Stable |

Contacts:

Narongchai Ponsirichusopol
narongchai@trisrating.com

Tern Thitinuang, CFA
tern@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Absolute Clean Energy PLC (ACE) at “BBB+” with a “stable” rating outlook. The rating considers ACE’s reliable cash flows through long-term power purchase agreements (PPAs) with state-owned utilities and a decent performance track record of its power plants. However, the rating is tempered by its sizable strategic growth investments, which bear construction and operational risks, as well as elevate its financial leverage.

KEY RATING CONSIDERATIONS

Reliable cash flow through long-term PPAs

The reliability of cash flows remains the key component of our rating assessment on ACE. The company has a strong operational base from its portfolio of 23 power operating plants across Thailand. As of June 2024, ACE’s net operating capacity totaled 277.5 megawatts (MW), or capacity in proportion of ACE’s ownership stake. Biomass power plants dominated ACE’s capacity, accounting for 45%, followed by a gas-fired combined cycle cogeneration plant at 41%.

Most of ACE’s power projects hold long-term power purchase agreements with Electricity Generating Authority of Thailand (EGAT) and Provincial Electricity Authority (PEA), which provide reliable cash flows. Both stated-owned power purchasers are rated “AAA/Stable”, suggesting minimal counterparty risk.

ACE’s biomass power plants are contracted through PPAs with PEA to earn a mix of fixed, inflation-adjusted, and premium tariffs. Currently, only a few power plants continue to benefit from the premium tariff. Meanwhile, ACE’s cogeneration power plant holds a 25-year PPA with EGAT, with a capacity of 90 MW. EGAT is obligated to dispatch at least 80% of the contracted capacity based on plant operating hours. The PPA’s take-or-pay provision as well as adjustments for fuel prices and exchange rates significantly mitigate the demand and price risks.

Exposure to biomass feedstock risks

ACE’s biomass power plants are exposed to feedstock supply risk. Wood bark, woodchips, and wood scraps are ACE’s primary fuels. The availability of agricultural waste depends on several factors including seasonality, use of biomass in other industries, and numbers of biomass power plants. Also, ACE’s biomass power plant performance is vulnerable to the volatile feedstock prices. Biomass fuel prices can swing wildly, while feedstock varies in terms of humidity and calorific value. In 2023, the average fuel cost per sold kilowatt-hour (kWh) for ACE’s biomass power plants was THB1.78 kWh, an 8% increase from THB1.65 per kWh in 2022, primarily driven by higher feedstock prices.

We view ACE’s well-designed power plants which accommodate a wide range of feedstock types as a risk mitigation. Moreover, ACE’s biomass power plants are strategically located near sources of biomass feedstock to facilitate supply and minimize transportation costs. To further mitigate feedstock risks, ACE leverages the expertise of its major shareholders in the eucalyptus plantation and wood chip businesses. ACE has secured long-term supply agreements with related companies to ensure a reliable supply of eucalyptus wood bark.

Decent performance record

ACE's reliable cash flows also stem from the decent performance track record of its power plants. In 2023, the biomass power plants achieved an average availability factor of 91%, a notable improvement from 86% in 2022, primarily due to the enhanced availability of the three biomass power plants acquired in 2020. The average electricity dispatch factor consistently hovered around 97% of the contracted capacity, indicating a high level of utilization.

The cogeneration power plant has consistently met the performance targets specified in the PPA since its commissioning in 2017. The plant has maintained an exceptional average availability factor above 96% with minimal forced outage factor, demonstrating its reliability and operational efficiency. The heat rate has consistently ranged between 7,700-7,800 British thermal units per kilowatt-hour (BTU/kWh), below the PPA threshold of 7,950 BTU/kWh, underscoring the plant's sound energy efficiency.

ACE's municipal solid waste (MSW) power plants demonstrated reliable operational performance throughout 2021-2023. During this period, the plants achieved an average availability factor of 84%-96%, with an average forced outage factor of around 3%-4%. The electricity dispatch factor consistently remained within the 93%-100% range of the contracted capacity.

Sizable growth investments ahead

Currently, ACE has several committed projects to invest simultaneously, all of which are renewable power across different types. These primarily include several new biomass power projects slated to start commercial operation by 2026. ACE's future earnings heavily rely on the successful execution of these projects. Against the backdrop of a hike in capital expenditures over the next few years, we note that these projects would bear both construction and operational risks that could delay the profitability stage. ACE's operating capacity will increase to above 600 MW when all committed projects are fully operational.

The company's exposure to execution risks, particularly those associated with developing multiple projects concurrently, could lead to construction delays and cost overruns, potentially impacting project returns. ACE's heightening exposure to feedstock risks is also expected. We expect ACE's experience in green power generation to mitigate the risks associated with its investment plan.

Financial leverage on the rise

We expect the ramp-up of capital expenditures will elevate ACE's financial leverage over the forecast period of 2024-2027. Our base case assumes ACE to spend a total of THB13.7 billion in capital expenditures. A significant portion of that amount will go into biomass power. We forecast EBITDA to stay around THB1.9-THB2.1 billion per year during 2024-2025 as new power projects are under construction. Looking further ahead, we view the incoming investments will lift the EBITDA to reach THB3.0 billion per year from 2027 onwards.

We forecast ACE's net debt to peak at THB12.8 billion in 2026 before tapering off in the following years. We anticipate the debt to EBITDA ratio to rise to 2.5 times in 2024, and to stay about 5 times over 2025-2026. The debt ratio is projected to start declining in 2027. We also forecast the debt to capitalization ratio to increase exceeding 40% in 2026. In all, we view the forecast credit metrics as having ample headroom to maintain the current rating.

Adequate liquidity

We assess ACE as having adequate liquidity. As of June 2024, ACE had a cash balance of about THB901 million. We forecast ACE to generate funds from operations (FFO) of about THB1.6 billion in the next 12 months. The combination of cash, unused credit facilities, and expected FFO should enable ACE to meet debt obligations coming due in the next 12 months of about THB1.2 billion.

Debt structure

As of June 2024, ACE reported consolidated debt of THB6.4 billion, excluding lease liability. Most debt was at the subsidiary level, which is considered priority debt. The company's priority debt to total debt ratio was 94%, suggesting that ACE's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

The key assumptions underpinning our base case for 2024-2027 include:

- Average availability factor
 - Biomass ~ 92%
 - MSW ~ 92%
 - Cogeneration ~ 97%
- Average dispatch factor
 - Biomass ~ 97%
 - MSW ~ 97%
 - Cogeneration ~ 80%
- Capacity factor for solar power projects to hover around 14%.
- Capital expenditures to add up to THB13.7 billion.
- ACE to obtain project loans for all new projects.

RATING OUTLOOK

The “stable” outlook reflects our view that ACE will likely continue generating robust cash flows and achieve commercial commencement of new power projects as planned. While sizable capital expenditures are carried through, we expect ACE’s credit metrics to remain within our forecast range.

RATING SENSITIVITIES

We currently see a higher rating as unlikely, due to ACE’s committed investment plan. Nevertheless, we could consider raising the rating if ACE could attain a far lower-than-expected leverage level over the course of new project development. Conversely, a negative action on the rating could be triggered from material deterioration in operating performance, or a materially worsening capital structure. This could arise from more aggressive debt-financed investments, considerable cost overruns, and significant project delays.

COMPANY OVERVIEW

ACE was founded in December 2015 as a holding company to invest in companies that own and operate power plants. The company was listed on the Stock Exchange of Thailand (SET) in November 2019. As of March 2024, ACE’s major shareholder was the Songmetta Family, owning 76.5% of the company’s shares.

As of June 2024, ACE owned and operated a diverse portfolio of 23 operating power plants across Thailand, with net capacity of 277.5 MW. Biomass power plants dominated ACE’s capacity, accounting for 45%, followed by a gas-fired combined cycle cogeneration plant at 41%. A hybrid power plant combining biomass and solar contributed 7% of the net installed capacity. The remaining 7% was distributed across MSW power plants, solar rooftop projects, and a solar floating project.

ACE’s first power plant started operation in April 2012, a 9.9-MW biomass power plant in Chonburi. During 2012-2019, ACE expanded its biomass power plant portfolio to include nine power plants, with a total capacity of 89 MW. In 2020, ACE acquired three biomass power plants from Ua Withya PLC (UWC), bringing biomass capacity to 116 MW. The PPA terms of the biomass power plants are 20 years. Most PPAs carry a fixed feed-in tariff (FiT) of THB2.39 per kWh, core inflation-linked variable FiT of THB1.85 per kWh, and a premium FiT of THB0.3 per kWh for the first eight years. However, the premium FiT for ACE’s power plants was phased out gradually beginning in 2020. Currently, only a few power plants continue to benefit from the premium FiT. Wood bark, woodchips, and wood scraps are the primary fuels used in ACE’s biomass power plants, accounting for around 70% of total fuel consumption. The remainder comprises other agricultural residues, such as palm, rice, and sugar cane.

ACE also owns and operates a 114.4-MW gas-fired cogeneration power plant in Chachoengsao. The cogeneration power plant holds a 25-year PPA with EGAT under the small power producer (SPP) scheme. ACE also owns two MSW power plants in Khon Kaen and Krabi, with a total capacity of 12 MW. The two MSW power plants carry different tariff structures: an adder scheme and a FiT scheme. The first MSW power plant, received an adder of THB3.5 per kWh on top of the base tariff, which expired in November 2023. The latter receives a fixed FiT of THB2.39 per kWh and a variable FiT of THB2.69 per kWh linked to the core inflation rate. It also receives a premium FiT of THB0.7 per kWh for the initial eight years.

ACE has five solar rooftop projects and one solar floating project. These solar projects have private PPAs with industrial users. The solar power projects tariffs are based on the PEA tariff with some percentage discount from the tariff. In addition, ACE’s hybrid power plant (biomass and solar rooftop), a 20-MW power plant in Kamphaeng Phet, started operation in 2024.

In 2023, ACE's revenue was THB6.6 billion, a 4% decrease from THB6.9 billion in 2022. This decrease was primarily attributable to lower energy payments from the gas-fired cogeneration power plant, which resulted from tariff adjustments made to reflect lower gas prices. Also, the gradual phase-out of premium FiTs in 2022-2023 for two biomass power plants contributed to the revenue decrease. Administrative expenses totaled THB444 million, up from THB419 million in 2022, primarily driven by higher expenses related to business expansion initiatives and pre-operational activities for new projects under development. Consequently, EBITDA decreased to THB2.1 billion in 2023, from THB2.3 billion in 2022. In the first half of 2024, EBITDA was THB1.1 billion, a slight 2% decline from the same period of the previous year. This decrease was primarily attributable to the phase-out of the adder tariff for the MSW power plant in November 2023.

KEY OPERATING PERFORMANCE

Table 1: ACE's Net Operating Power Portfolio (Jun 2024)

| Project | Fuel | Hold by ACE (%) | Installed (MW) | Contracted (MW) | COD | Off-taker | Tariff Scheme |
|--------------------|---------------|-----------------|----------------|-----------------|-----------|-----------|----------------------|
| ACP1 | Biomass | 100% | 9.9 | 8.0 | 24-Apr-12 | PEA | FiT + FiT premium |
| ACP2 | Biomass | 100% | 9.9 | 8.0 | 04-Jun-13 | PEA | FiT + FiT premium |
| ACP3 | Biomass | 100% | 9.9 | 8.0 | 16-Aug-17 | PEA | FiT + FiT premium |
| ACP4 | Biomass | 100% | 9.9 | 8.0 | 26-Nov-21 | PEA | FiT + FiT premium |
| AAP1 | Biomass | 100% | 9.9 | 8.0 | 02-May-12 | PEA | FiT + FiT premium |
| AAPP1 | Biomass | 100% | 9.9 | 8.0 | 30-Oct-12 | PEA | FiT + FiT premium |
| AAPP2 | Biomass | 100% | 9.9 | 8.0 | 16-Jan-13 | PEA | FiT + FiT premium |
| ABA | Biomass | 100% | 9.9 | 8.0 | 09-Jul-14 | PEA | FiT + FiT premium |
| ALCP1 | Biomass | 100% | 9.9 | 8.0 | 26-Dec-13 | PEA | FiT + FiT premium |
| ALCP2 | Biomass | 100% | 9.9 | 8.0 | 14-Aug-15 | PEA | FiT + FiT premium |
| AAE1 | Biomass | 100% | 9.9 | 8.0 | 11-Oct-11 | PEA | FiT + FiT premium |
| ABE1 | Biomass | 100% | 9.5 | 8.0 | 06-Feb-08 | PEA | FiT |
| SBM | Biomass | 100% | 7.5 | 6.5 | 01-Jun-21 | EGAT | FiT |
| BPP3 | Biomass/Solar | 100% | 20.0 | 13.3 | 02-Apr-24 | EGAT | FiT firm |
| ALCP3 | MSW | 100% | 6.0 | 4.5 | 29-Nov-16 | PEA | TOU rate + Adder |
| ALCP6 | MSW | 100% | 6.0 | 4.4 | 28-Dec-20 | PEA | FiT + FiT premium |
| AAA1 | Gas | 100% | 114.4 | 90.0 | 10-Feb-17 | EGAT | CP + EP + FS |
| ACE SOLAR 3 | Solar | 100% | 1.0 | 1.0 | 20-Nov-18 | IU | Discount on PEA rate |
| ACE SOLAR 3 (Ext.) | Solar | 100% | 1.0 | 1.0 | 28-Sep-19 | IU | Discount on PEA rate |
| ACE SOLAR 4 | Solar | 100% | 0.7 | 0.7 | 22-Feb-19 | IU | Discount on PEA rate |
| ACE SOLAR 5 | Solar | 100% | 0.8 | 0.8 | 22-May-20 | IU | Discount on PEA rate |
| ACE SOLAR 6 | Solar | 100% | 0.2 | 0.2 | 25-Feb-21 | IU | Discount on PEA rate |
| ACE SOLAR 7 | Solar | 100% | 1.5 | 1.5 | 31-Mar-21 | IU | Discount on PEA rate |
| | | | 277.5 | 220.0 | | | |

MSW = Municipal solid waste

IU = Industrial user

CP = Capacity payment

EP = Energy payment

FS = Fuel saving payment

Source: ACE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Jun 2024 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|--------|
| | | 2023 | 2022 | 2021 | 2020 |
| Total operating revenues | 3,051 | 6,603 | 6,931 | 5,738 | 5,863 |
| Earnings before interest and taxes (EBIT) | 679 | 1,326 | 1,524 | 1,749 | 1,482 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,090 | 2,138 | 2,254 | 2,417 | 2,024 |
| Funds from operations (FFO) | 919 | 1,886 | 2,084 | 2,247 | 1,886 |
| Adjusted interest expense | 142 | 207 | 132 | 141 | 113 |
| Capital expenditures | 2,360 | 1,771 | 1,814 | 1,856 | 1,552 |
| Total assets | 23,367 | 21,737 | 20,071 | 18,740 | 16,430 |
| Adjusted debt | 5,585 | 4,119 | 4,265 | 3,463 | 3,196 |
| Adjusted equity | 15,797 | 15,303 | 14,185 | 13,369 | 11,993 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 35.6 | 32.1 | 32.5 | 42.1 | 34.5 |
| Pretax return on permanent capital (%) | 6.1 ** | 6.6 | 8.1 | 10.3 | 10.0 |
| EBITDA interest coverage (times) | 7.7 | 10.3 | 17.0 | 17.1 | 17.9 |
| Debt to EBITDA (times) | 2.6 ** | 1.9 | 1.9 | 1.4 | 1.6 |
| FFO to debt (%) | 32.3 ** | 45.8 | 48.9 | 64.9 | 59.0 |
| Debt to capitalization (%) | 26.1 | 21.2 | 23.1 | 20.6 | 21.0 |

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Absolute Clean Energy PLC (ACE)

| | |
|------------------------|--------|
| Company Rating: | BBB+ |
| 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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