ASIA GREEN ENERGY PLC

No. 92/2022
6 June 2022

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 01/10/21

Company Rating History:

Date	Rating	Outlook/Alert
01/10/21	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Asia Green Energy PLC (AGE) at "BB+" with a "stable" outlook. The rating reflects AGE's established position in the coal trading business in Thailand as well as its competitive advantage from coal trading facilities and logistics management. The credit strengths are offset by its volatile earnings, customer concentration risk, as well as long-term concerns over coal consumption in view of the global decarbonization trend.

KEY RATING CONSIDERATIONS

Established position in coal trading

AGE is a medium-sized coal trader in Thailand. The company primarily imports coal from Indonesia, Russia, and Australia for distribution in the Thai market. The company has been in the coal trading business for over 18 years and has successfully established customer bases in various industries.

AGE's market position has continued to strengthen over the past several years, resulting from expanding customer bases and a decreasing number of coal traders in Thailand. The company's market share, measured by domestic sales volume as a percentage of total coal imported to Thailand, climbed to 19.8% in 2021, from 9.4% in 2017. The company's coal volume sold in Thailand rose to 4.77 million tonnes, from 2.1 million tonnes over the same period.

Competitiveness from riverfront facilities and proximity to customers

AGE's core facilities in Ayutthaya province play an essential role in supporting its business. The main facilities comprise a sizable stockpile area with one-million-tonne storage capacity, three owned loading ports, 2 warehouses, 5 screening plants, and a fleet of trucks and lighters. These assets enable the company to undertake large-volume orders, and ensure reliable supplies and prompt deliveries. Also, the company's coal-screening plants help capture a broad range of coal demand in the retail market since retail customers require different sizes of coal according to the specifications of their machines.

The company's location on the Pasak River in Ayutthaya province also benefits coal trading activities, allowing the company to transport coal economically by barge. The company also benefits from its proximity to Saraburi province, which is the hub of cement production, one of the main coal-consuming industries.

Capable logistics management

We view AGE's extensive experience in managing logistics continues to enhance its cost advantage over local coal traders. Logistics costs for coal trading are relatively high, accounting for 20%-25% of AGE 's total costs.

The company has experienced chartering and logistics teams to oversee its supply chains, with dry-bulk vessel transportation from international coal mines to Sichang Island, barge transportation from Sichang Island to ports in Ayutthaya province, and in-land transportation to customer factories. The company's competitiveness in logistics has been further enhanced after the company doubled the number of owned trucks in its fleet and began importing coal via Capesize vessels, the largest class of dry-bulk carrier, in 2021.

Volatile earnings due to coal price fluctuations

AGE's profitability tends to fluctuate in tandem with movements in global coal prices. We view the company's vulnerability to changes in the coal price poses a risk of inventory losses and a potential plunge in earnings when the price drops sharply. Over the last 10 years, the company's gross profit margin has swung in a range of 5%-13%. Nevertheless, the impact of price risk is mitigated by fast inventory turnover and back-to-back orders with large customers, which have made up around 40%-50% of total revenue over the last five years.

Industry and customer concentration risk

AGE's revenue profile demonstrates its significant risk of reliance on the cement industry and a single cement producer. About 40%-50% of the company's total revenue originates from the Thai cement industry, while its largest customer makes up 25%-30% of the total revenue.

Coal demand under pressure from decarbonization trend

The long-term prospects for coal are clouded by the global decarbonization trend. This is exacerbated by increasing pressures surrounding coal-related businesses, such as stricter environmental measures, the government's carbon reduction policy, and limited support from financial institutions. The ongoing surge in the coal price is also playing a part in convincing coal users to shift to alternative fuels or greener energy. The coal-reduction plans being implemented by leading Thai cement producers reflect the risk of declining coal sales in Thailand.

Diversification to logistics and non-coal businesses

AGE has a policy to diversify its sources of revenue to lessen its reliance on coal trading. The company has developed its own fleet to facilitate coal trading since 2017, which can also support logistics services for non-coal products. In 2021, the company doubled the number of trucks to 101 vehicles, from 48 in 2020, and, at the same time, increased its number of ports and warehouses by acquiring leasehold rights in an agricultural business center. The company plans to purchase 10 new trucks in 2022 and may continue to add 50-100 trucks per year in later years. The company founded two new companies, AGE Agri Trading Co., Ltd. and AGE Commodity Trading Co., Ltd. to trade agricultural and industrial products such as tapioca, ore, and clinker, in the future. Non-coal trading operations are slated to commence in late 2022.

In 2021, revenue from logistics services rose by 35% to THB470 million, representing about 4% of total revenue. In our view, success in the new businesses will be positive for the company's credit profile, given the higher and more stable margin of logistics services compared to coal trading.

Earnings to normalize in 2023

AGE has benefited noticeably from a strong rally in coal prices, which started in mid-2021. The surge in coal prices was due to tight global supply, fueled by the Russia-Ukraine conflict. The global coal price rose from about USD85 per tonne in January 2021 to USD170 per tonne at the end of 2021 and approximately USD400 per ton in April 2022. AGE's earnings before interest, taxes, depreciation, and amortization (EBITDA) reached a new high of THB1.04 billion in 2021, more than doubling from THB482 million in 2020. In the first quarter of 2022, the company's EBITDA remained at an extraordinarily high level of THB487 million, compared to an average quarterly EBITDA of THB125 million under normal market conditions.

We expect AGE's exceptionally high earnings to normalize in the near term as we view the prospects for a further increase in coal prices to be limited. In our base case, we assume the global coal price will decline over the next two or three years, based on an expected gradual easing of the tight supply situation and softening coal demand as more countries pursue net-zero carbon emission targets. We project that the company will maintain a sales volume of 5 million tonnes per annum. Revenue from logistics should continue to grow at a double-digit rate. We forecast the company's EBITDA to be approximately THB1 billion in 2022 before shrinking to around THB700 million per annum during 2023-2024.

Sound financial profile

We expect AGE's financial leverage to remain close to the current level. We estimate AGE's capital spending to total THB950 million over the next three years, with THB640 million earmarked for new trucks, and THB100 million for warehouse expansions and logistics systems. AGE's net debt to EBITDA ratio is likely to stay between 4 and 5 times and the ratio of funds from operations (FFO) to net debt should remain in the 15%-25% range during 2022-2024.

Adequate liquidity

We assess AGE to have adequate liquidity over the next 12 months. The sources of funds include an estimated FFO of THB480-THB500 million over the next 12 months and cash on hand of THB84 million at the end of March 2022. Uses of funds consist of loan repayments of THB153 million, planned capital spending of about THB150 million, and dividend payments of THB200 million.

Capital structure

At the end of March 2022, AGE's outstanding debt, excluding financial lease, amounted to THB2.63 billion. About THB1.84 billion was secured loans. As its priority debt ratio of 70% is more than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that AGE's unsecured creditors are significantly disadvantaged concerning the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Total sales volume of around 5 million tonnes per annum.
- Revenue declining from THB13.7 billion in 2022 to THB12.5 billion in 2023 and THB11.5 billion in 2024.
- EBITDA margin in the 5.5%-7.5% range.
- Total capital spending of THB150 million in 2022 and about THB300-THB400 million per year during 2023-2024.
- Dividend payout of 40%-50%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AGE will maintain its market position and cost competitiveness, and that the company's cash flow and financial metrics will remain in line with our forecasts.

RATING SENSITIVITIES

An upgrade on the rating could happen if the company can sustain its EBITDA in the range of THB700-THB800 million per annum. This could be supported by rising revenue contributions from new businesses or sustained high levels of coal sales. An improvement in its financial structure, such as a net debt to EBITDA ratio of below 3.5 times on a sustained basis, would also be a positive factor to support a rating uplift.

In contrast, a rating downgrade scenario could stem from a material deterioration in its financial profile, which could happen as a result of heavy debt-funded investments, pushing its net debt to EBITDA ratio above 7-8 times and/or FFO to net debt ratio below 10% for an extended period.

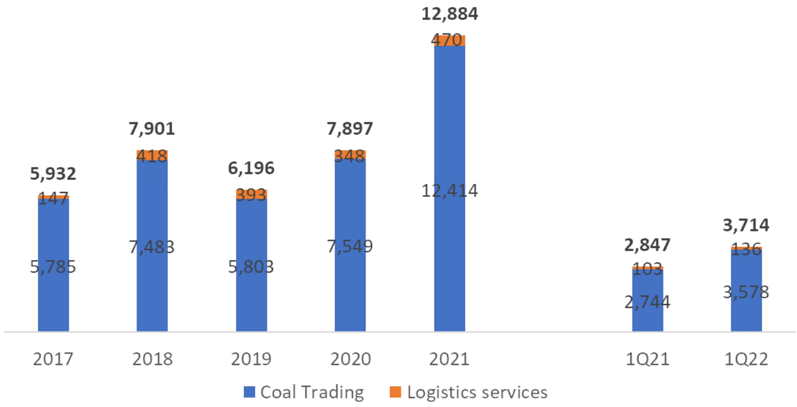
COMPANY OVERVIEW

AGE was established in 2004 to engage in the coal distribution business in Thailand and nearby countries. It sources the bulk of its coal from Indonesia, Russia, and Australia, focusing on high-quality coal. The company owns and operates three loading terminals, four coal screening factories, and a large coal storage area in Ayutthaya province. The company primarily outsources trucks and barges to support transportation by land and river. AGE's major shareholder is the Kuansataporn family, holding about 56% of the total shares as of December 2021.

In 2021, AGE's total revenue was about THB12.9 billion. The coal business accounted for 96% of the total, with the balance coming from oil sales and logistics services. Over 90% of coal sales are derived from the Thai market. AGE's domestic end-customers cover a broad spectrum of industries, including cement, power, food and beverage, paper, and textiles. The company also distributes coal overseas to countries such as Vietnam, Cambodia, China, Myanmar, and Taiwan. In 2021, the company's total sales volume was 5.1 million tonnes, comprising a domestic sales volume of about 4.78 million tonnes and about 0.34 million tonnes overseas.

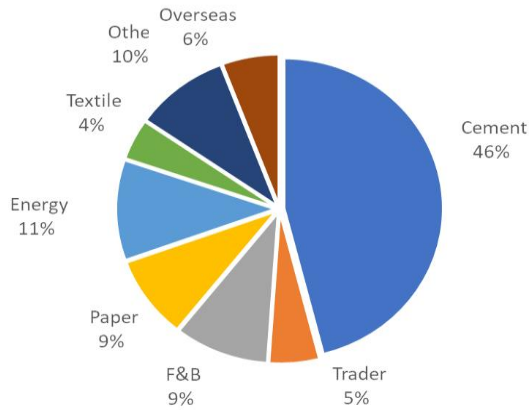
KEY OPERATING PERFORMANCE

Chart 1: AGE's Revenue Breakdown (Mil. THB)



Source: AGE

Chart 2: AGE's Coal Revenue Breakdown by Industry in 2021



Source: AGE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022		---------------Year Ended 31 December ----------- 2021	2020	2019	2018
Total operating revenues	3,717		12,960	7,931	6,210	7,911
Earnings before interest and taxes (EBIT)	432		862	307	360	226
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	487		1,039	451	476	314
Funds from operations (FFO)	370		819	375	382	218
Adjusted interest expense	29		71	47	57	65
Capital expenditures	4		139	216	190	332
Total assets	6,810		7,582	5,434	4,732	4,935
Adjusted debt	2,775		3,481	2,302	2,158	2,647
Adjusted equity	2,805		2,483	1,888	1,816	1,544
Adjusted Ratios						
EBITDA margin (%)	13.1		8.0	5.7	7.7	4.0
Pretax return on permanent capital (%)	19.7	**	16.0	6.9	8.2	5.5
EBITDA interest coverage (times)	16.5		14.5	9.7	8.3	4.8
Debt to EBITDA (times)	2.1	**	3.3	5.1	4.5	8.4
FFO to debt (%)	37.2	**	23.5	16.3	17.7	8.3
Debt to capitalization (%)	49.7		58.4	54.9	54.3	63.2

* *Consolidated financial statements*
** *Annualized with 12 months trailing*

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Asia Green Energy PLC (AGE)

Company Rating:	BB+
Rating Outlook:	Stable

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