EASTERN POWER GROUP PLC

No. 148/2017 9 November 2017

Company Rating: BBB

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
01/12/15	BBB	Stable

Contacts:

AuypornVachirakanjanaporn
auyporn@trisrating.com

Narongchai Ponisirichusopol
narongchai@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Eastern Power Group PLC (EP) at "BBB". The rating reflects the company's satisfactory performance, the predictable cash flows from its solar power projects, and a positive outlook for renewable energy as a way to meet the nation's energy needs. These strengths are partially offset by EP's short track record as a power producer, the execution risks of the projects, as well as the highly-leveraged capital structure to fund its growth opportunities.

EP was established in 2010 as a renewable energy company. In 2012, the company became a subsidiary of Eastern Printing PLC (EPCO), a leading provider of printing services in Thailand, after EPCO acquired EP from Inter Far East Engineering PLC (IFEC). Based upon its sizable contribution to EPCO and the promising prospects for solar power, EP is considered a core subsidiary of EPCO.

In January 2016, the company changed its legal status to a public company and changed its name from "BorPloi Solar Co., Ltd." to "Eastern Power Group PLC". In mid 2016, EP increased its capital through private placement and received Bt750 million in new funds in a bid to support the acquisitions of two cogeneration power companies. As of August 2017, EPCO remained the major shareholder of EP, with 75% ownership.

The rating reflects the predictable cash flows EP receives from its solar power projects. EP has secured long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) and the Metropolitan Electricity Authority (MEA). In 2012, EP launched two pilot solar farm projects in Kanchanaburi province, with a total contracted capacity of 10 megawatts (MW). The two projects commenced operations in mid-October 2012. In 2013, EP added a solar farm project in Lopburi province, with a contracted capacity of five MW. The project has been operational since February 2014. During 2014-2015, the company invested in eight solar rooftop projects in Bangkok and Samutprakan province, with a contracted aggregate capacity of 1.5 MW. All solar farm and rooftop projects are in operation, each obtaining favorable tariffs according to multi-year PPAs with the state-owned electricity distributors. The predictable cash flows from the solar power projects are partly substantiated by the contractually committed tariff and the minimal payment risk of the power buyers.

During 2015-2016, EP acquired and developed a 9.9-MW solar farm project in Kyoto, Japan, at a cost of Bt1.03 billion. The project commenced operation in November 2016. EP also acquired a 5-MW co-operative solar farm project in Prachinburi province, at a cost of Bt268 million. The project commenced operation in December 2016. The co-operative solar farm project has PPAs with MEA and obtained a favorable feed-in-tariff (FiT) of Bt5.66 per kWh for 25 years.

EP has invested Bt3.16 billion in two cogeneration power companies, a move that significantly increases capacity and broadens the mix of energy it produces. EP purchased 49.5% of PPTC Co., Ltd. (PPTC) and a 40% stake in SSUT Co., Ltd. (SSUT). Both companies produce cogeneration power under the Small Power Producer (SPP) scheme and have 25-year PPAs with the Electricity Generating Authority of Thailand (EGAT) and long-term contracts with industrial users (IUs).

Located in Latkrabang, Bangkok Industrial Estate, PPTC's cogeneration power plant has been operational since March 2016. The plant can produce up to 120

MW of electricity and 30 tonnes of steam per hour. PPTC, to date, has secured 90-MW PPAs with EGAT and purchased agreements with IUs for 30 MW in electricity and two tonnes in processed steam. Meanwhile, SSUT owns two plants, with an aggregate capacity of 240 MW of electricity and 60 tonnes of steam per hour, located in Bang-Pu Industrial Estate, Samutprakarn province. SSUT achieved full operation of its two plants in December 2016. SSUT currently has secured 180-MW PPAs with EGAT and purchased agreements with IUs for 27 MW in electricity and 11.6 tonnes in process steam. TRIS Rating expects SSUT to enlarge its PPAs to meet prospective demand in the area. The acquisitions will boost EP's earnings as the cogeneration power plants combined add 155.4 megawatts equity (MWe) of capacity (or capacity in proportion to EP's ownership of the respective power plants). In all, EP currently holds the power projects with aggregate installed capacity of about 192 MWe.

The rating also incorporates EP's satisfactory performance. With respect to the solar power, EP's average plant performance ratio was acceptable at above 80%. Power output in the first half of 2017 was 17.6 gigawatt hour (GWh), up 10% from the same period last year. Output rose because EP added new capacity with the co-operative solar farm and the Kyoto project. The solar power projects generated revenue of Bt249 million in the first half of 2017, up 43% from the same period in 2016. EP also recognized share of profit on investment in the two cogeneration companies of Bt64 million in the first half of 2017. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) ranged between 70%-80% during 2013 through the first half of 2017.

The rating also takes into account the positive prospects for the use of renewable sources of energy in Thailand, chiefly evidenced by the government's concrete long-term plan to develop alternative energy sources, the support given to producers of solar power, and the steady growth in energy consumption.

On the other hand, EP's short track record in the power segment keeps a lid on the rating. EP's performance over the long haul has yet to be proven. EP is heavily invested in cogeneration, which is more complicated and carries higher execution risks than solar power. PPTC has so far demonstrated satisfactory performance. Conversely, SSUT's plants still need to be fine-tuned.

The rating is tempered by the high-leveraged capital structure used to fund EP's growth opportunities. The total debt to capitalization ratio was 71.6% at the end of June 2017, up from 67.2% in 2016, due in large part to EP's investment in cogeneration power projects. The ratio of funds from operations (FFO) to total debt sharply declined to 4% as of 2016 and 3.3% (annualized with trailing 12 months) in the first half of 2017, a precipitous drop from above 20% during 2013-2015. EP sees growth ahead for solar power in both Thailand and Japan. The company plans to invest in more solar farm projects in Japan, adding 25 MW of new capacity. The total cost of the new projects abroad is Bt2.7-Bt3 billion, with construction spanning 2018-2019. Should the deals be executed, EP would shoulder a higher debt load during the development phase. The large-scale investments will put pressure on its financial profile during 2017-2020. In the near term, TRIS Rating does not expect huge investments apart from the 25-MW Japan-based solar farms unless EP is able to raise additional capital, in particular from an initial public offering (IPO).

TRIS Rating's base-case scenario assumes EP's installed capacity will be 192 MWe, comprising 36.5 MW of solar power and 155.4 MWe of cogeneration power. The performance ratio for the solar power plants will stay above 80%. The amount of electricity produced in the base-case scenario is expected to range from 45-50 GWh per annum. During 2017-2020, revenues from solar power are expected to range between Bt450-Bt500 million per annum. In addition, TRIS Rating expects cogeneration companies to improve their plant performance and secure additional power purchase agreements, which will cause EP to recognize a substantial share of profit from 2018 onwards. The earnings before interest, tax, depreciation, and amortization (EBITDA) in 2017 is expected to be around Bt400 million and soar to Bt700-Bt750 million per year during 2018-2020. EP's operating margin should stay in the range of 75%-80%. FFO is expected at Bt500-Bt550 million per annum. EBITDA and FFO are expected to rise as the company begins to see returns from the investments in the cogeneration projects. However, EBITDA is expected to gradually decline as the electricity tariff adder scheme starts to expire from 2022 onwards. During 2017-2020, the debt to capitalization ratio is expected to range between 70%-75% as EP borrows to fund its investments.

Rating Outlook

The "stable" outlook reflects the expectation that EP is capable of operating a larger portfolio of power-generating assets. EP's existing solar plants will keep performing satisfactorily, without any significant replacement costs. In the meantime, the new power plants are expected to operate as planned, leaving EP with sizable and sustainable cash flows, as well as satisfactory returns. In addition, EP's capital structure is not expected to substantially deteriorate from the current level.

A credit upside could develop as EP builds a track record in its business and enlarges the cash flow base, despite greater exposures to operational risk. In contrast, the downward pressure on the rating could emerge should EP fail to maintain satisfactory performance and build its track record, fail to generate sufficient cash flow, or if the capital structure deteriorates markedly.

Eastern Power Group PLC (EP)

Company Rating:	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-----------------------Year Ended 31 December --------------------				
	Jan-Jun 2017	2016	2015	2014	2013	2012
Revenue	248.8	343.0	353.1	215.1	205.9	43.2
Gross interest expense	86.1	93.8	49.6	34.3	35.1	4.9
Net income from operations	102.3	78.2	179.4	117.0	116.4	7.6
Funds from operations (FFO)	109.7	156.0	248.5	157.3	154.9	(14.1)
Earnings before interest, tax, depreciation, and amortization (EBITDA)	253.4	239.4	297.1	192.8	192.0	12.6
Capital expenditures	169.4	1,053.0	75.7	12.6	45.3	0.6
Total assets	6,555.4	6,010.1	1,971.7	959.9	1,034.1	977.0
Total debts	4,612.6	3,946.3	1,147.5	606.3	676.5	735.2
Shareholders' equity	1,833.4	1,926.2	730.8	275.1	280.4	238.8
Operating income before depreciation and amortization as % of sales	72.2	67.3	83.4	85.2	92.6	27.6
Pretax return on permanent capital (%)	5.0**	4.3	16.6	16.4	15.7	2.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.9	2.6	6.0	5.6	5.5	2.6
FFO/total debt (%)	3.3**	4.0	21.7	25.9	22.9	(1.9)
Total debt/capitalization (%)	71.6	67.2	61.1	68.8	70.7	75.5

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

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com