

BANPU POWER PLC

No. 238/2024
24 December 2024

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 22/12/23

Company Rating History:

Date	Rating	Outlook/Alert
09/11/21	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Banpu Power PLC (BPP) at “A+” with a “stable” outlook. At the same time, we affirm the ratings on BPP’s senior unsecured debentures at “A”.

We maintain our assessment of BPP as a “core subsidiary” of Banpu PLC (BANPU, rated “A+/Stable”), resulting in the ratings on BPP being at the same level as those assigned to BANPU. BPP’s stand-alone credit profile (SACP) remains at “a-”.

BPP’s SACP reflects the benefit from a well-diversified power portfolio and a strong track record of operational performance across its power plants. However, the rating is partly constrained by BPP’s higher exposure to the electricity merchant market, as well as increased financial leverage and associated interest expenses due to business expansion.

KEY RATING CONSIDERATIONS

Core subsidiary of BANPU

We continue to assess BPP as a core subsidiary of BANPU, given its role as the flagship subsidiary responsible for the power generation business. BPP is integral to BANPU’s strategic transition towards a greener and smarter energy future, with its operations and strategic direction closely aligned with BANPU’s overall business objectives. Also, BPP plays a crucial role in completing BANPU’s energy resource supply chain, providing a predictable cash flow stream that can partially offset the inherent volatility associated with the parent company’s energy resource business.

Given that BANPU holds a majority stake of about 79% in BPP, we believe BANPU will provide the necessary support to ensure BPP’s liquidity and enable it to execute its strategic initiatives in alignment with BANPU’s broader strategic goals.

Predictable baseline cash flow from diversified power portfolio

We view that BPP’s well-diversified power portfolio enables it to generate a baseline EBITDA of about THB2-THB3 billion per annum, sufficient to cover its debt obligations. This baseline EBITDA is derived from its power assets contracted with credible entities, accounting for about 79% of BPP’s net capacity (3,564 megawatts (MW), based on BPP’s shareholding in each plant). Also, a diversified customer base across the portfolio also helps mitigate overall demand risks.

In terms of geographical diversification, BPP’s operations are spread across various regions: 29% of net capacity in China, 43% in Thailand and Laos, 21% in the US, and the remaining 7% is distributed across various locations in Asia and Australia. This geographic spread mitigates the impact of potential regional market volatilities and regulatory changes.

Volatility in BPP’s earnings due to US assets

We view BPP’s increasing exposure to the US electricity merchant market adds volatility to its earnings, despite an overall increase in EBITDA. Over the past three years, BPP has expanded its power portfolio into the US to offset a decline in EBITDA from its legacy assets. BPP’s US assets operate in the merchant market, of which earnings are tied to the demand-supply balance. This dynamic can lead to substantial gains or losses based on market

conditions, adding volatility to earnings. This was evidenced over the last two years when BPP's spark spread, the difference between electricity tariff and fuel cost, dropped to USD22.3 per megawatt-hour (MWh) in the first nine months of 2024 from USD54.8 per MWh in the same period of the previous year due to the impact of extreme weather.

However, as an advanced market, there are various tools available to protect earnings. BPP has a policy to use such tools, like heat rate call options (HRCO) or spark spread hedging, to ensure earnings cover obligations at the US assets level. The effectiveness of these tools needs to be monitored.

As of September 2024, BPP holds a net capacity of 761.5 MW in two combined-cycle gas turbine (CCGT) power plants in Texas, accounting for about 21% of BPP's net capacity. In the first nine months of 2024, BPP's US assets sold around 6,133 gigawatt-hours (GWh) of electricity, a 32% increase from the 4,635 GWh sold in the same period of the previous year. This increase in electricity sales was primarily driven by the full-period recognition of the Temple II Power Plant. It generated about THB2.5-THB2.6 billion in EBITDA, accounting for about 50%-60% of BPP's EBITDA.

Gradual decline in leverage from improving performance is expected

For the first nine months of 2024, BPP's EBITDA plunged by 51% year-on-year (y-o-y) to THB4.1 billion, primarily due to an unusually high spark spread for its US assets caused by extreme weather conditions in 2023. However, we expect BPP's EBITDA to gradually increase from this level.

We anticipate the performance of BPP's combined heat and power (CHP) plants to gradually recover as coal prices in China continue to trend downward, while the electricity tariff and steam price decline at slower pace. For the first nine months of 2024, the average coal price for CHP plants decreased to about RMB900 per ton, from about RMB1,000 per ton in the same period of the previous year, while the average electricity tariff remained stable at RMB0.41 per kilowatt-hour (kWh). Also, we assume the spark spread for US CCGT plants will stay around USD25.1-USD26.1 per MWh during 2024-2026 in our base-case projection. As a result, we project BPP's EBITDA to be THB5.3 billion in 2024, improving to the THB5.7-THB5.9 billion per year range during 2025-2026.

As of September 2024, BPP's adjusted debt was THB31.4 billion, a 9.3% increase from THB28.8 billion in 2023. The debt to capitalization ratio increased to 36.5% from 34.5% in 2023. Given no substantial debt-funded investment and expected debt repayments, we expect BPP's adjusted debt to gradually decline to about THB28.2 billion by 2026. Additionally, BPP maintain the flexibility to optimize its portfolio, including potential divestments of selected power assets to further enhance its financial strength, if needed.

Based on this projection, the debt to EBITDA ratio could gradually improve to hover around 5 times in 2025-2026 from above 5.5 times in 2024, and the debt to capitalization ratio is expected to stay below 35% by 2026. The fund from operation (FFO) to debt ratio is projected to exceed 10% by 2026.

Satisfactory liquidity

We assess BPP's liquidity as adequate. As of September 2024, the company had THB6.6 billion in short-term and long-term debt obligations maturing within the next 12 months. At the same time, it had cash of THB6.8 billion. Furthermore, we expect FFO of about THB2.7 billion over the next 12 months.

Debt structure

As of September 2024, BPP had consolidated debt (excluding lease liabilities) of THB38.5 billion. BPP's priority debt was THB19.2 billion, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was about 50%. We expect the priority debt ratio to remain above 50% due to the significant proportion of short-term debt within non-priority debt, which is expected to be gradually repaid. Furthermore, the priority debt ratio may increase if BPP pursues future debt-funded expansion plans at the subsidiary level. Therefore, we see significant structural subordination risk to BPP's senior unsecured creditors. In effect, we assign the issue rating on BPP's senior unsecured debentures one notch below the company rating.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for BPP's operation during 2024-2026 are as follows:

- Electricity sales per year
 - US CCGT plants to be in the 7,663-7,797 GWh range.
 - CHP plants to be in the 894-1,000 GWh range.
- Steam sales of CHP power plants to range between 6.1-6.3 million tonnes per year.
- Dividend received from affiliates to hover around THB1-THB1.5 billion per annum.

RATING OUTLOOK

The “stable” outlook on BPP reflects the rating outlook on BANPU. This rests on our view that BPP has a status as a core subsidiary of BANPU and strong parental support will remain intact. The outlook further reflects our expectation that BPP’s power plants will continue to perform well and generate predictable cash flows. As such, BPP’s financial leverage and cash flow against debt obligations should be in line with our forecasts.

RATING SENSITIVITIES

Based on TRIS Rating’s “Group Rating Methodology”, the ratings on BPP will move in tandem with the ratings on BANPU. Any change in the credit ratings and/or outlook on BANPU will lead to a similar rating action on BPP. Also, we could lower the ratings on BPP if we view BPP’s strategic importance to the group as lessening.

We could consider raising the SACP if BPP demonstrates a significant improvement in its cash generation relative to its leverage level. Conversely, we could lower the SACP if BPP’s operating performance significantly underperforms our expectations or if its financial profile deteriorates significantly due to excessive debt-funded investments.

COMPANY OVERVIEW

BPP was established in December 1996 as a holding company for investing in the power generation and other related businesses. BPP was listed on the Stock Exchange of Thailand (SET) in October 2016. As of September 2024, BANPU held around 79% of the company’s total shares while the rest were held by the public.

As of September 2024, BPP owned an operating power portfolio of 3,564 MW through its operating subsidiaries and affiliates. Its subsidiaries owned 50% shares in the two US CCGT plants in Texas. The combined net capacity was 761.5 MW. BPP also owned 100% shares in two CHP plants in Hebei, China, and 70% shares in one CHP plant in Shandong, China. CHP plants has combined net capacity of 548 MW.

BPP holds equity interests of 50% and 40% in BLCP Power Ltd. (BLCP) and Hongsa Power Co., Ltd. (HPC), respectively, as well as a 30% share in Shanxi Lu Guang Power Co., Ltd. (SLG), a 1,320-MW coal-fired power plant in China, and a 13% share in Nakoso Power Plant. BPP also holds a renewable portfolio through its investment in a 50% stake in Banpu Next Co., Ltd. (BNEXT).

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	20,916	30,906	25,049	7,437	6,152
Earnings before interest and taxes (EBIT)	4,511	13,985	7,753	3,240	4,900
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,143	11,800	4,315	1,783	2,712
Funds from operations (FFO)	1,757	9,542	3,295	1,515	2,196
Adjusted interest expense	2,304	2,054	897	249	243
Capital expenditures	329	1,010	407	258	588
Total assets	97,345	98,903	77,665	74,867	49,563
Adjusted debt	31,353	28,769	17,190	18,983	3,505
Adjusted equity	54,652	54,677	52,792	49,579	41,978
Adjusted Ratios					
EBITDA margin (%)	19.8	38.2	17.2	24.0	44.1
Pretax return on permanent capital (%)	8.6 **	16.7	10.6	5.4	10.3
EBITDA interest coverage (times)	1.8	5.7	4.8	7.1	11.2
Debt to EBITDA (times)	4.1 **	2.4	4.0	10.6	1.3
FFO to debt (%)	13.7 **	33.2	19.2	8.0	62.7
Debt to capitalization (%)	36.5	34.5	24.6	27.7	7.7

* Consolidated financial statements

** Annualized with trailing 12 months

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
- Issue Rating Criteria, 15 June 2021

Banpu Power PLC (BPP)

Company Rating:	A+
Issue Ratings:	
BPP266A: THB1,500 million senior unsecured debentures due 2026	A
BPP296A: THB700 million senior unsecured debentures due 2029	A
BPP326A: THB1,900 million senior unsecured debentures due 2032	A
BPP346A: THB1,400 million senior unsecured debentures due 2034	A
Rating Outlook:	Stable

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