TRIS RATING
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BETTER WORLD GREEN PLC

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CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 26/10/23

Company Rating History:

Date	Rating	Outlook/Alert
26/10/23	BB+	Stable
18/04/23	BBB-	Alert Negative
31/10/22	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Better World Green PLC (BWG) at "BB+" with a "stable" outlook. The rating continues to reflect BWG's established presence in the waste management industry, as well as reliable revenues from its power business. However, the rating is constrained by BWG's committed investment outlays and the substantial risks tied to its new waste-to-energy (WTE) projects and Solid Recovered Fuel (SRF) manufacturing plants. The rating also reflects the anticipated increase in BWG's financial leverage over the coming years.

KEY RATING CONSIDERATIONS

Large-scale investments ahead

The rating incorporates the group's aggressive growth plan which will drastically increase BWG's financial leverage, given the project companies' plans for substantial debt financing to fund project development during 2025-2026. The growth plan is driven by investments in 12 new WTE projects through its core power subsidiary, Earth Tech Environment PLC (ETC, rated "BB+/Stable").

ETC will invest in 10 WTE projects under Get Green Power Co., Ltd. (GPP) and 2 WTE projects under Suntech Innovation Power Co. Ltd. (SIP), in which it will hold 50% and 33% stakes, respectively. The 12 new industrial WTE projects have a combined capacity of 96 megawatts (MW) under the Very Small Power Producer (VSPP) scheme, with 45.3 MW attributable to ETC. Each project has an estimated project cost of THB1.5-THB1.6 billion.

Concurrently, BWG will also invest in a 50% stake in three new SRF production facilities, which will supply SRF fuel to the upcoming WTE power plants. The new SRF facilities will have a combined production capacity of 3,000 tonnes per day. Total project cost is about THB2.6 billion.

Project development risks

All of the planned projects are in the stage of funding negotiations, with construction expected to begin in early 2025. They will contribute to a total development cost of THB9.5-THB10.0 billion during 2024-2026, in proportion to BWG Group's equity stakes. All of the new WTE projects are required to commence commercial runs within 2026, about two years from now. The SRF production facilities should therefore be fully onstream at about the same time. Based on the projects development plan, the rating also factors in the associated execution risks of the projects at hand, including potential delays in construction, cost overruns, insufficient SRF raw material procurement, and operation risks of the WTE plants.

Potential surge in financial leverage during development phase

We expect material deterioration in BWG's financial risk profile caused by potential project debt spikes during the concentrated project development period of 2025-2026. We assume that the 12 new power plants and the SRF plants will be funded by project financing, with a debt-to-equity ratio assumed to be 2.33 times and 1.5 times, respectively. While the long-term project loans are still under negotiation, we conservatively assume the lenders will require sponsor guarantee, a condition similar to that imposed on the group's existing project loans. For analytical purposes, we apply proportional consolidation of the new projects—consolidating the assets, loans, and earnings of all new projects into BWG's accounts corresponding to its potential guarantee exposure.

We anticipate that project financing loans, totaling about THB6.7 billion, will be added to BWG's total debt. We forecast net debt to peak at THB9.5-THB10.0 billion at the end of 2026. This will exert significant pressure on financial leverage, with the debt to EBITDA ratio rising from 0.7 times in the first nine months of 2024 to the 12-13 times in 2026. The debt to capitalization ratio could peak at about 66% in 2026. However, the leverage ratio is likely to decrease gradually following the commencement of commercial operations of the projects. This decline in leverage would depend on the successful completion of a two-year development phase over 2025-2026, which carries considerable development risks. We however note that BWG's financial leverage level is eventually subject to the final financing structure and the company's net exposure and obligations tied to the projects. From a long-term business risk perspective, we expect the investments to have a positive impact due to the increased scale of operations and earnings, as well as enhanced diversification.

Growing power business helps stabilize earnings

In our view, BWG Group's downstream integration along the WTE value chain helps stabilize its overall earnings. The downstream power generation business provides a significant cushion against earnings volatility from the highly competitive waste management business with limited growth prospects. The operating performance of the power business has recovered in the first nine months of 2024, following efficiency improvement and maintenance in 2023. EBITDA from the power business in the same period recovered to THB223 million, a 17% year-on-year (y-o-y) increase.

We expect ETC's role within the group to grow significantly as the group expands its power projects. The power business's EBITDA contribution is projected to increase substantially to 65%-70% upon successful project completion, compared to 40%-60% in the past three years. While ETC's planned capital raise through a private placement may dilute BWG's stake, we anticipate BWG will retain its controlling interest.

Tightened industry regulations reduced price competition and enhanced profitability

BWG's leading position in the waste management industry has enabled the company to benefit from stricter industry rules. The Department of Industrial Works' new regulation, effective from November 2024, mandates that waste generators are responsible for managing their waste from production to disposal.

Due to customer confidence in BWG's proper waste disposal processes and growing demand for more environmentally friendly disposal methods, BWG's industrial waste disposal revenue increased by approximately 9% in the first nine months of 2024, primarily due to higher service fees. As a result, we estimate that BWG's waste management EBITDA in the first nine months of 2024 rose to THB404 million, a 125% y-o-y increase.

Looking ahead to 2026, we forecast the company's overall EBITDA to gradually increase to THB750-THB800 million from THB702 million in 2024, primarily driven by growth in waste management businesses. We forecast a 2%-3% annual increase in the company's waste management volume from 2024 to 2026, driven by increased domestic manufacturing activity and stricter waste disposal regulations. Additionally, fuel and transportation costs in 2024-2026 are expected to decrease, aligned with our outlook on energy prices.

Sufficient liquidity for investments, with further funding needs ahead.

The proceeds from fresh equity raised by BWG and ETC in 2020-2021, along with debenture issuances in 2022-2023 for investment expansion, have bolstered BWG Group's liquidity. In assessing the company's liquidity position, we do not apply the aforementioned 'proportional consolidation'. We evaluate BWG Group's current liquidity position as sufficient to cover its financial obligations over the next 12 months.

The company's sources of liquidity at the end of September 2024 comprised THB2.5 billion in cash and cash equivalents, including restricted cash deposits, and approximately THB300 million in undrawn bank credit facilities. We forecast BWG will generate THB340-THB420 million in funds from operations (FFO) over the next 12 months, which should be sufficient to cover maintenance capital expenditures and maturing debt obligations totalling approximately THB1.3 billion.

Looking ahead, we expect the group to secure sufficient fund to be used for equity injections to develop the new WTE and SRF projects, with the majority expected in 2026. This rests on our assumption that BWG and ETC will successfully roll over their three debenture issues, totalling THB2.0 billion, which will mature in 2025-2026. Any funding gap could be covered by capital increases or additional debenture issuances.

Debt structure

At the end of September 2024, BWG's total debt, excluding lease liabilities, stood at THB2.9 billion. Priority debt totaling THB2.1 billion comprised secured debts owed by BWG and all debts incurred by its subsidiaries. The priority debt to total debt ratio was 72%, suggesting that the company's unsecured creditors could be significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

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

- Operating revenues in its existing waste management businesses to be around THB1.8-THB1.9 billion per year.
- EBITDA margin of waste management segment to gradually improve to about 28% in 2026, from about 23% in 2023.
- Overall availability factors of the three existing WTE power plants to range of 86%-88%.
- New investments include i) 50% stake in three new SRF facilities ii) 50% stake in ten 9.9-MW WTE power plants, and iii) 33% stake in two additional 9.9-MW WTE plants.
- The new WTE projects to start commercial run by mid-December 2026, with the new SRF facilities being operational prior to that.
- Total outlays for the new projects of THB9.5-THB10.0 billion
- Project financing structure with a debt-to-equity ratio of about 2.33 times for power plants, and 1.5 times for SRF facilities.
- BWG's capital structure has yet to incorporate a potential fresh capital injection from a private placement of new shares.

RATING OUTLOOK

The "stable" outlook reflects our expectation that any increase in BWG's financial leverage and new investments will align with our projections, and that BWG will develop and commission new capacity on schedule and within budget.

We also expect the improvement of operating performance of the waste management business and the existing power plants to continue over the next three years. In addition, we expect BWG to maintain its controlling interest in ETC despite the possibility of a dilution of its ownership due to ETC's private placement of new shares.

RATING SENSITIVITIES

We view the prospect of a rating upgrade is remote in the near term, given the scale of BWG's upcoming investments and associated risks. Although unlikely, we may consider an upgrade if BWG's financial leverage remains well below our baseline forecast, which could occur if BWG pursues a more conservative expansion plan and/or strengthen its equity base with fresh capital.

In contrast, we could downgrade the rating if BWG's operating performance falls materially short of our estimates or the company elects to pursue more aggressive debt-financed investments beyond our expectations. A lower rating could also result from any issues that materially impact the viability of the projects, such as significant cost overruns or serious delays in the commencement of operations.

COMPANY OVERVIEW

BWG began its waste management business in 1997 with waste sorting and landfill services for industrial customers. After over 20 years in business, BWG has become a leader in the industrial waste management industry. The company provides a broad range of waste management services, including landfill disposal, wastewater treatment, hazardous waste incineration, consultation, and waste transportation.

BWG has prioritized its waste disposal operating assets in its business strategy. Its landfill operations can process up to 500 tonnes of hazardous and 1,000 tonnes of non-hazardous waste daily. Its wastewater treatment facilities can handle up to 950 cubic meters per day. BWG's fleet of approximately 250 trucks enables it to provide on-site service to its customers. Its primary waste disposal locations in Saraburi and Ayutthaya Provinces allow it to serve clients in the key industrial regions of Central and Eastern Thailand.

BWG also leverages its strength in waste management to create value along the WTE chain. Through ETC, a 48% directly and indirectly owned subsidiary, BWG Group owns and operates three industrial WTE power plants with a total contracted capacity of 16.5 MW, backed by the VSPP scheme to sell electricity to Provincial Electricity Authority of Thailand (PEA). Fuel for the group's power plants is secured internally through BWG's own SRF manufacturing facilities and abundant industrial waste feedstock.

BWG currently has several project investments in the pipeline, including three SRF manufacturing plants, 10 WTE projects under GPP, and two WTE projects under SIP. The 12 new industrial WTE projects have a combined capacity of 96 MW under the VSPP scheme. These projects are currently in funding negotiations, while construction is expected to commence in early 2025.

Table 1: BWG's Power Portfolio as of 30 Sep 2024

1. Projects in Operation	Plant Type	Installed Capacity (MW)	Contracted Capacity (MW)	ETC's Holding (%)	PPA Term (Year)	Expiry Year
1.1 ETC PP	Industrial WTE	9.4	8.0	100.0	20	2037
1.2 RH PP	Industrial WTE	7.0	5.5	94.9	20	2039
1.3 AVA PP	Industrial WTE	4.0	3.0	97.0	20	2039
Total (in operation)		***20.4***	***16.5***			

2. Projects in Pipeline	Plant Type	Installed Capacity (MW)	Contracted Capacity (MW)	ETC's Holding (%)	PPA Term (Year)	SCOD
2.1 GGP's 10 WTE projects	Industrial WTE	99.0	80.0	50.0%	20	2026
2.2 SIP's 20 WTE projects	Industrial WTE	19.8	16.0	33.0%	20	2026
Total (in pipelines)		***118.8***	***96.0***			

Sources: ETC & BWG

KEY OPERATING PERFORMANCE

Table 2: BWG's Consolidated EBITDA Breakdown by Segments

BWG's consolidated EBITDA		9M24	2023	2022	2021	2020
Waste management	**EBITDA (Mil. THB)**	**404**	**270**	**205**	**216**	**323**
	%- contribution	*64%*	*49%*	*39%*	*37%*	*61%*
	EBITDA margin	28%	16%	13%	15%	26%
Electricity	**EBITDA (Mil. THB)**	**223**	**269**	**318**	**370**	**388**
	%- contribution	*35%*	*48%*	*60%*	*63%*	*73%*
	EBITDA margin	33%	36%	41%	49%	58%
Construction	**EBITDA (Mil. THB)**	**2**	**18**	**9**	**-**	**(180)**
	%- contribution	*0%*	*3%*	*2%*	*-*	*(34%)*
	EBITDA margin	2%	5%	5%	-	(793%)
BWG's Total	**EBITDA (Mil. THB)**	**630**	**557**	**532**	**586**	**531**
	Overall EBITDA margin	23%	22%	21%	26%	28%

Sources: BWG and TRIS Rating's estimation

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		------------Year Ended 31 December ---------			
	Jan-Sep 2024	2023	2022	2021	2020
Total operating revenues	1,975	2,509	2,545	2,213	1,928
Earnings before interest and taxes (EBIT)	255	88	84	116	105
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	630	557	532	586	531
Funds from operations (FFO)	467	334	401	439	357
Adjusted interest expense	152	213	122	135	164
Capital expenditures	312	1,147	169	119	400
Total assets	9,536	9,945	8,582	8,322	8,847
Adjusted debt	550	1,331	543	329	1,043
Adjusted equity	5,974	5,604	5,380	5,436	5,176
Adjusted Ratios					
EBITDA margin (%)	31.9	22.2	20.9	26.5	27.5
Pretax return on permanent capital (%)	3.5 **	1.0	1.1	1.4	1.4
EBITDA interest coverage (times)	4.2	2.6	4.3	4.3	3.2
Debt to EBITDA (times)	0.7 **	2.4	1.0	0.6	2.0
FFO to debt (%)	107.2 **	25.1	73.7	133.7	34.2
Debt to capitalization (%)	8.4	19.2	9.2	5.7	16.8

* *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

Better World Green PLC (BWG)

Company Rating:	BB+
Rating Outlook:	Stable

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