

ENERGY ABSOLUTE PLC

No. 73/2020
19 May 2020

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Guaranteed	AA
Outlook:	Stable

Last Review Date: 02/10/19

Company Rating History:

Date	Rating	Outlook/Alert
10/05/19	A	Stable
09/04/18	A-	Stable
02/06/16	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Energy Absolute PLC (EA) at “A”, and affirms the ratings on its senior unsecured debentures at “A-”. The senior unsecured debentures ratings’ one notch down from the company rating reflects the structural subordination of the senior unsecured debentures since EA is a holding company. TRIS Rating also affirms the ratings on the company’s guaranteed debentures at “AA”. The debentures are guaranteed by Siam Commercial Bank PLC (SCB), which is rated “BBB+” (international scale) by S&P Global Ratings.

EA’s ratings continue to reflect robust cash flows from its power generation portfolio, consistent performance of its power generation assets, and sound financial profile. However, the ratings are constrained by the large scale investment and execution risks of its new battery related businesses.

KEY RATING CONSIDERATIONS

Robust cash flows from the power generation business

EA’s credit strength is primarily backed by the solid cash inflows from its power portfolio. EA’s total power generation capacity is 664 megawatts (MW), covering four solar farms (278 MW) and two wind projects (386 MW). Currently, all of EA’s renewable power projects are operating commercially.

The cash flows from EA’s power portfolio are sizable and predictable, supported by long-term power purchase agreements (PPAs) with strong utility off-takers, including the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). The conditions of the PPAs mitigate demand risk and guard the company from the impacts of economic cyclicality. The low operational risks of solar and wind farms also support stability of cash flow generation. All of EA’s PPAs render 10-year adder tariffs, enlarging cash flow and profitability for a lengthy period.

Consistent operating performance

The overall operating performance of EA’s power plants remains smooth and consistently beats the benchmark of a 50% probability of energy production (P50). In 2019, total power output was 1,389 gigawatt hours (GWh), up by 55% from 891 GWh in 2018. The surge was due to commencement of the 260-MW Hanuman wind project in April 2019. The power output in the first quarter of 2020 was about 381 GWh, grew by 51% from 251 GWh over the same period last year.

TRIS Rating believes that EA’s power plants will deliver steady power outputs over the long term. We expect total power output to reach approximately 1,480 GWh per annum during 2020-2022.

Diversification into non-power generation businesses

EA entered the battery business in 2016 via an investment in Amita Technologies, a Taiwanese battery manufacturing company. With technical assistances from Amita Technology, EA is now developing the first-phase of a battery plant in Chachoengsao province for a capacity of 1 GWh. To reinforce its battery manufacturing business, EA also invests in other battery-related companies and builds new electric vehicle (EV) ferries and an assembly plant for EV cars.

Additionally, EA is expanding its biodiesel business to cover a broader variety of products, like green diesel and phase change materials. The company is integrating into the upstream of the biodiesel business chain. The company acquired a 75% equity stake in Larp Pakdee Palm Co., Ltd. for the business of palm crushing mills and a 70% equity stake in Combine Energy Tech Co., Ltd. for the business of storage tank rentals and crude palm oil logistics.

After gaining approval from the shareholder meeting, the company will invest in a share of Land Prosperity Holding Co., Ltd, not exceeding 19%, to engage in industrial estate development in Chachoengsao province.

Business risks of the battery venture

EA's credit profile is hindered by its planned material investment in battery manufacturing factories for a targeted annual production capacity of 50 GWh. The investment cost, estimated at Bt100 billion, is huge for the company's current financial status. The company is exposed to the venture risks of battery manufacturing that include the risk of technology change, cyclical and competitive end markets, and a scenario of price downtrends pushed by declining battery costs. The company's limited experience and lack of a track record in the sector also cause uncertainty in its long-term revenue and earnings prospect.

The company is attempting to minimize these risks by securing battery manufacturing technology and initiating new projects to stimulate battery demand in Thailand. We believe EA will take a prudent approach by developing the project phase-by-phase to balance the supply-demand, and by establishing partnerships to share investment risks and mitigate the risk of financial deterioration caused by the new ventures.

Growing new businesses to compensate declining cash flow from electricity in 2023

EA's earnings before interest, taxes, depreciation, and amortization (EBITDA) from the power business are projected to hold steady until 2023 before declining by 10% per annum upon adder expiration. The sustainability of EA's cash flow level will depend on the success of its new businesses. The new businesses, including battery manufacturing, green diesel, and phase change materials and EV cars, are expected to deliver new income streams from 2020 onwards, and gradually transform EA's assets and revenue mix as well as business profile.

We expect EA's revenue to grow continually, reaching Bt21 billion in 2022. The revenue from non-power generating businesses is projected to rise and accounts for 40%-45% of the total in 2022, while that from the power generation business will shrink from 75% in 2019 to 50%-55% in 2022. However, in terms of cash flow, we project the stable EBITDA from the power business will continue its dominant contribution of over 90% of total during 2020-2022. EA's EBITDA is expected to rise from Bt10.5 to Bt11.5 billion per annum over the same period.

Sound financial profile maintained

TRIS Rating forecasts EA's financial leverage will rise but stay at a fair level over the next three years. In our base-case scenario, the capital spending will be about Bt15 billion in 2020, including the construction of the first-phase battery plant (Bt3.3 billion), an assembly plant for EV cars (Bt2 billion), new-built EV ferries (Bt1 billion), and an acquisition of 19% equity interest in Land Prosperity Gain Holding (Bt5.31 billion). We expect the capital expenditures reduce significantly during 2021- 2022.

As a result, we expect EA's net debt to EBITDA ratio to stay below 4.0 times during 2020-2022. The ratio of funds from operations (FFO) to net debt should stay above 20% over the same period.

Adequate liquidity

We assess EA's cash inflow to be adequate to cover its debt repayments over the next 12 months. The sources of funds will be derived from cash and cash equivalent of Bt10.5 billion at the end of March 2020 and an estimated FFO of Bt8.75 billion. The company's debt repayments over the next 12 months will be Bt5.7 billion, including debentures of Bt3 billion coming due in July 2020.

BASE CASE ASSUMPTIONS

- EA's revenue to grow to Bt16-Bt21 billion during 2020-2022.
- EA's EBITDA to rise from Bt10.5 to Bt11.5 billion per annum during 2020-2022
- Capital expenditure of Bt15 billion in 2020 and about Bt4.5 billion each year in 2021-2022
- Dividend payout ratio of around 18%-20%

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating's expectation that EA's solar and wind power plants will generate reliable cash flows as planned. TRIS Rating believes that the company will take a prudent approach in making investment decisions regarding its new battery related businesses.

RATING SENSITIVITIES

A rating upgrade is limited in the medium term due to the risk from the large scale investment in the battery related businesses. However, a rating upside may occur if EA can materially enlarge its cash flow base while maintaining sound financial status. On the other hand, we could lower the ratings if EA's financial profile is materially weaker than our expectation. This could happen due to aggressive debt-funded investments or large equity losses from the new businesses.

The ratings and outlook for EA's guaranteed debentures solely reflect the creditworthiness of its guarantor, SCB, which is assigned a global-scale company rating of “BBB+” with a “stable” outlook by S&P Global Ratings. The ratings and outlook for the guaranteed debentures could be revised should there be any changes in the credit ratings on SCB.

COMPANY OVERVIEW

EA is a holding company, investing in solar and wind power plant. Established in 2006, the company was previously known as Suntech Palm Oil Ltd., a biodiesel manufacturer, before changing its name to Energy Absolute PLC in 2008. In late 2012, EA expanded into the renewable energy business through the development of solar and wind power projects. The company was listed on the Market for Alternative Investment (MAI) in 2013 and was moved to the Stock Exchange of Thailand (SET) in January 2017.

EA's power business has a total contracted capacity of 664 MW, including four solar power projects (278 MW) and two wind power projects (386 MW). All of the power plants are in commercial operation. The company plans to widen its business scope into energy storage, electric vehicles and charging stations.

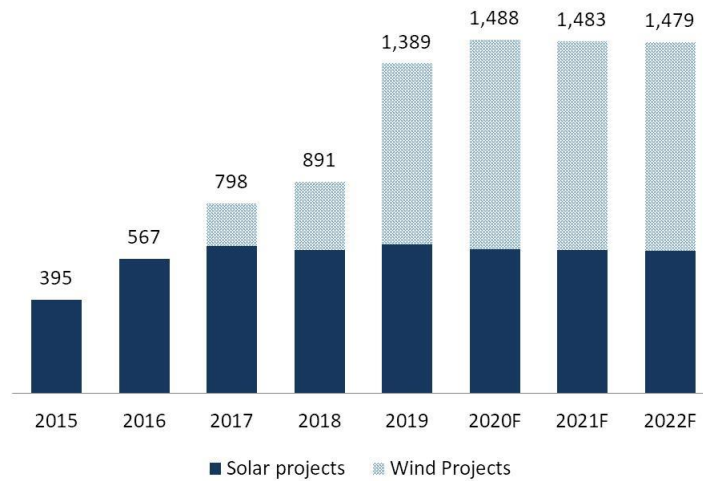
KEY OPERATING PERFORMANCE

Table 1: Power Portfolio as of Mar 2019

Project/Country	Type	Hold (%)	Status	Contracted Capacity (MW)	Tariff Scheme	Commercial Operating date
Thailand						
ESLO	Solar	100	Operating	8	Adder Bt8	Oct-12
ESN	Solar	100	Operating	90	Adder Bt6.5	Dec-13
ESL	Solar	100	Operating	90	Adder Bt6.5	Feb-15
ESP	Solar	100	Operating	90	Adder Bt6.5	Apr-16
Hadkanghan	Wind	100	Operating	126	Adder Bt3.5	Jun-17
Hanuman	Wind	100	Operating	260	Adder Bt3.5	Apr-19
				664		

Source: EA

Chart 1: EA's Total Power Outputs (Million Units)



Source: EA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Mar 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total operating revenues	4,761	14,913	11,578	11,584	10,415
Earnings before interest and taxes (EBIT)	1,826	7,423	5,302	4,907	4,256
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,420	9,970	7,168	6,503	5,466
Funds from operations (FFO)	1,984	8,574	6,033	5,344	4,463
Adjusted interest expense	435	1,407	1,106	1,202	1,009
Capital expenditures	1,737	14,726	5,779	3,524	8,212
Total assets	74,041	70,220	59,208	44,530	41,507
Adjusted debt	35,247	34,372	24,803	24,292	24,533
Adjusted equity	26,422	24,866	19,518	14,744	11,389
Adjusted Ratios					
EBITDA margin (%)	50.8	66.9	61.9	56.1	52.5
Pretax return on permanent capital (%)	12.0	12.4	11.3	11.7	11.9
EBITDA interest coverage (times)	5.6	7.1	6.5	5.4	5.4
Debt to EBITDA (times)	3.4	3.4	3.5	3.7	4.5
FFO to debt (%)	25.2	24.9	24.3	22.0	18.2
Debt to Capitalization (%)	57.2	58.0	56.0	62.2	68.3

* Consolidated financial statements

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Energy Absolute PLC (EA)

Company Rating:	A
Issue Ratings:	
EA207A: Bt3,000 million guaranteed debentures due 2020	AA
EA217A: Bt4,000 million guaranteed debentures due 2021	AA
EA227A: Bt1,000 million senior unsecured debentures due 2022	A-
EA228A: Bt500 million senior unsecured debentures due 2022	A-
EA248A: Bt1,500 million senior unsecured debentures due 2024	A-
EA260A: Bt3,000 million senior unsecured debentures due 2026	A-
EA297A: Bt2,000 million senior unsecured debentures due 2029	A-
EA298A: Bt2,000 million senior unsecured debentures due 2029	A-
Rating Outlook:	Stable

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