ELECTRICITY GENERATING PLC

No. 162/2022
23 September 2022

CORPORATES

Company Rating:	AA+
Outlook:	Negative

Last Review Date: 08/10/21

Rating History:

Date	Rating	Outlook/Alert
08/10/21	AA+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Electricity Generating PLC (EGCO) at "AA+". At the same time, we revise the rating outlook to "negative" from "stable". The outlook revision reflects the tendency of rising financial leverage, given EGCO's ongoing growth strategies.

The rating mirrors EGCO's position as a leading power producer in Thailand with a large and well-diversified power portfolio. The rating also recognizes the high reliability of cash flows, aided by long-term power purchase agreements (PPAs) and the company's long-standing track record of outstanding operations.

The rating takes into account EGCO being a strategic affiliate of the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable" by TRIS Rating). The rating incorporates a one-notch uplift from EGCO's stand-alone credit profile of "aa" to reflect the strong support EGCO receives from EGAT.

KEY RATING CONSIDERATIONS

A leading power producer

As a leading power producer in Thailand, EGCO has a large power portfolio and strong market presence. The company is the country's first Independent Power Producer (IPP), with a long-established record of developing and operating several types of power plants. Most of its power projects have been completed on time and within budget, having met the criteria set forth in the respective PPAs. EGCO's power projects have generally performed in accordance with their respective guidance.

Currently, the company's aggregate equity capacity (or contracted capacity in proportion to its ownership in the power plants) is 6,071 megawatts (MW). Of this, 5,797 MW is from power plants in operation.

Our base-case forecast predicts EGCO's total operating revenue to rise to THB40-THB55 billion per annum during 2022-2024, bolstered by a surge in fuel prices and the resumption of economic activities. Its annual earnings before interest, taxes, depreciation, and amortization (EBITDA) should stay in the THB18-THB20 billion range over the projected period.

Reliability of cash flows with long-term PPAs

EGCO's cash flows are highly predictable. Most of its power projects (about 80% of total equity capacity) operate under multi-year PPAs, with typical terms of 15-30 years. EGCO's conventional power plants, which are the core operating assets, hold PPAs that are structured to ensure investment cost recovery and fuel price pass-through. This mechanism helps ease market risk and fuel price risk and so supports the predictability of earnings.

EGCO holds PPAs with credible off-takers, ensuring that the company will receive timely payments with minimal payment risk. Under the current PPAs, EGAT is the main off-taker, holding approximately 56% of EGCO's total equity capacity. EGAT is rated "AAA" by TRIS Rating. Manila Electric Company (Meralco), one of the largest electricity distributors in the Philippines, comes in second accounting for 11% of EGCO's equity capacity.

Well-diversified portfolio

EGCO has a well-diversified power portfolio in terms of the types of generation, primary fuel used, and geography. This helps stabilize its revenue and earnings. The company, through its subsidiaries and affiliates, owns and operates 31 operational power plants. EGCO's power plants are located in eight countries. Domestic power plants account for half of total equity capacity with overseas power plants accounting for the rest. No single plant accounts for more than 20% of the total equity capacity, a reflection of low concentration risk.

Growth strategy continues

EGCO is forging ahead with its growth strategies to ramp up its power production capacity and invest in new power-related businesses. We have seen a substantial growth of EGCO's overseas projects during the past three years. The company recently acquired a 17.46% stake in Apex Clean Energy Holdings, LLC (Apex), a large clean energy project developer in the US, amounting to THB8.2 billion. As Apex has several solar and wind power projects under development, this investment will enable EGCO to increase its capacities in renewable power. However, the PPAs for renewable power plants are unlikely to provide mechanisms for investment cost recovery and fuel price pass-through. EGCO has also expanded into oil pipeline transport, smart industrial estate, liquefied natural gas (LNG) importation, and innovation. However, we believe the power business will remain the core of its operating performance and assets.

Risks associated with overseas projects

EGCO has shifted focus to overseas expansion, which entails rising country specific risks stemming from less transparency and consistency of regulations in some domiciled countries, the credit risk of off-takers, and environmental challenges. Overseas projects in more developed markets are subject to other types of challenges despite their lower country and regulatory risks. In some countries, EGCO sells electricity to the wholesale markets without PPAs. Fluctuations in power demand and electricity prices could result in volatile revenue and earnings. Currently, the power plants supplying electricity pools make up nearly 20% of EGCO's total equity capacity.

Moreover, project management abroad is complicated. Due in part to the Coronavirus Disease 2019 (COVID-19) pandemic, EGCO has endured significant project delays and cost overruns in an offshore wind farm in Taiwan. As one of the project sponsors, EGCO is committed to providing a sizable amount of funds to the project company. We expect EGCO's prudent investment policies and strong business partners to help manage the investment risks in a measured way.

Leverage to increase

Our base-case projection assumes EGCO will incur total capital expenditures of THB60.5 billion throughout the next three years to complete projects in the pipeline and acquire new assets. At this pace of expansion, we expect a deterioration in EGCO's financial profile as the company should load up considerable debt, while it will likely take some time before new investments start generating cash.

Looking forward, in absence of a capital increase, EGCO's debt to EBITDA ratio could stay over 5 times, reaching 6 times in 2023, surpassing our previous forecast of 4-5 times. However, considering its wealth of investment projects and prudent financial policy, it is possible that EGCO may consider divesting parts of its existing projects as an option to reduce debt load.

Strategic affiliate of EGAT

We continue to view EGCO as a strategic affiliate of EGAT. EGCO was spun off from EGAT as a holding company engaging in generating and selling electricity to EGAT and other power buyers. EGAT has remained EGCO's major shareholder ever since and it has a significant influence on EGCO's business direction. EGCO's president is normally nominated from EGAT's top management. Five of the fifteen members of EGCO's board of directors are also appointed by EGAT. Moreover, their discernible relationship is tied to long-term contractual commitments in electricity supply and business synergy. Some investment opportunities are initiated by EGAT, especially government-to-government projects.

We believe EGCO will remain a strategic affiliate of EGAT over the long term. Based on the assessed linkages and likelihood of support from EGAT in times of need, the assigned rating incorporates a one-notch uplift from EGCO's stand-alone credit profile.

Strong liquidity

EGCO has strong liquidity. As of June 2022, the company had cash and undrawn credit facilities of approximately THB29.4 billion in total. We forecast the funds from operations (FFO) over the next 12 months to be THB13.4 billion. Sources of cash add up to THB42.8 billion, entirely covering all the debt coming due over the next 12 months that add up to THB8.3 billion.

Debt structure

As of June 2022, EGCO's consolidated debt, excluding lease liabilities, was THB115.4 billion, of which THB73.8 billion was basically considered priority debt, comprising secured debt owed by EGCO and all borrowings incurred by its subsidiaries.

The priority debt to total debt ratio was 64%, suggesting that the company's unsecured creditors could be disadvantaged to the priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Total operating revenues to range from THB40-THB55 billion per annum over the next three years.
- EBITDA margin at 33% in 2022 and 40%-50% during 2023-2024.
- Dividend income received from affiliates to range from THB6-THB9 billion per annum.
- Capital spending of THB60.5 billion throughout 2022-2024.
- Annual dividend payment of THB6.5 per share.

RATING OUTLOOK

The "negative" outlook reflects the tendency of EGCO's financial profile to weaken over coming years. The ongoing expansion will likely push up its debt level considerably over the heavy investment period.

RATING SENSITIVITIES

A rating downgrade could occur if EGCO's debt to EBITDA ratio stays above 5 times without clear signs of reduction, possibly due to a rapidly continuing expansion, material delays in projects under development, or project cost overruns. In contrast, the rating outlook could be revised to "stable" if EGCO manages to improve its financial profile during the period of heavy investments, with the debt to EBITDA ratio staying below 5 times. This could develop from a capital increase or divesting parts of its power projects. A downward revision to the rating on EGAT could also affect the rating on EGCO.

COMPANY OVERVIEW

EGCO, the country's first IPP, was founded by EGAT in 1992 under the government's privatization scheme. Initially, EGAT held a 100% ownership in EGCO, which was subsequently diluted to about 48% when EGCO was listed on the Stock Exchange of Thailand (SET) in 1995.

As of June 2022, EGAT remained a major shareholder, with a 25.4% stake in EGCO, followed by TEPDIA Generating B.V. (TEPDIA), which held 23.9%. TEPDIA is owned by three major shareholders including 1) a joint venture (JV) between Tokyo Electric Power Group and Chubu Electric Power Group, 2) Mitsubishi Corporation, and 3) Kyushu Electric Power.

EGCO is a holding company engaging in the power business through its operating subsidiaries and affiliates. The company has also leveraged its expertise in power plant operations, providing operation and maintenance services for others. Currently, the total equity capacity of its power projects is 6,071 MW, of which 5,797 MW is in operation.

EGCO has a well-diversified power portfolio in terms of the types of generation, primary fuel used, and geography. Offshore power projects are located in South Korea (15% of the total equity capacity), the Lao People's Democratic Republic (Lao PDR) (11%), the Philippines (11%), the US (5%), Indonesia (3%), Taiwan (3%), and Australia (2%). Conventional power plants using natural gas and coal as primary fuels make up the majority of 77% of the total equity capacity. The remainder is accounted for by renewable power plants, including hydropower, wind, solar, geothermal, biomass, and fuel cells. EGCO aims to enlarge the proportion of renewable power in response to global energy trends.

EGCO has diversified into oil pipeline transport, jointly investing with Thai Pipeline Network Co., Ltd. (TPN) to expand the oil pipeline system from the central to the northeastern parts of Thailand. EGCO is developing its first industrial estate located at the site of its retired power plant in Rayong province and it has been granted permits by the Energy Regulatory Commission (ERC) to engage in the LNG shipping business. It is also focusing on the power innovations and energy trading platform in response to energy trends.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (as of Aug 2022)

Project	Location	Plant Type	Holding (%)	100% Contracted Capacity (MW)	EGCO Contracted Capacity (MWe)
Projects in Operation					
IPP (Domestic)					
1. KN4	Nakorn Si Thammarat	CCGT	100	930	930
2. GPG (KK2)	Saraburi	CCGT	50	1,468	734
3. BLCP	Rayong	Coal-fired	50	1,347	673
SPP (Domestic)					
4. EGCO Cogen	Rayong	Cogen	80	116	93
5. KLU	Pathum Thani	Cogen	100	102	102
6. BPU	Ratchaburi	Cogen	100	215	215
Renewable (Domestic)					
7. NED	Lopburi	Solar	67	63	42
8. SPP 2-5 (4 projects)	Saraburi, Si Saket, Ubon Ratchathani	Solar	100	30	30
9. GYG	Yala	Biomass	50	20	10
10. GPS	Chai Nat, Nakhon Sawan, Phetchabun	Solar	60	26	16
11. TWF	Chaiyaphum	Wind	90	7	6
12. CWF	Chaiyaphum	Wind	90	80	72
13. RG	Roi Et	Biomass	70	9	6
14. Solarco	Nakhon Pathom, Suphan Buri	Solar	49	57	28
Renewable (Overseas)					
15. NTPC	Lao PDR	Hydro	35	1,070	375
16. SEG	Indonesia	Geothermal	20	227	45
17. Salak	Indonesia	Geothermal	20	377	76
18. Darajat	Indonesia	Geothermal	20	270	54
19. BRWF	Australia	Wind	100	113	113
20. XPCL	Lao PDR	Hydro	13	1,280	160
21. Gangdong	South Korea	Fuel cells	49	20	10
22. Yunlin (partial COD)	Taiwan	Wind	25	72	18
23. APEX (Mulligan Solar)	US	Solar	17	70	12
24. NT1PC (partial COD)	Lao PDR	Hydro	25	514	129
Overseas					
23. QPL	Philippines	Coal-fired	100	460	460
24. SBPL	Philippines	Coal-fired	49	455	223
25. Paju	South Korea	CCGT	49	1,823	893
26. Linden Cogen	US	CCGT	28	972	272
Subtotal - Projects in Operation				**12,193**	**5,797**
Projects under Construction					
1. Yunlin (Partial)	Taiwan	Wind	25	568	142
2. NT1PC (Partial)	Lao PDR	Hydro	25	130	33
3. APEX (Great Pathfinder)	US	Solar	17	224	39
4. EGCO Cogen Replacement	Rayong	Cogen	80	75	60
Subtotal - Projects under Construction				**997**	**274**
Grand Total				**13,190**	**6,071**

Source: EGCO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022		-------------Year Ended 31 December ------- 2021	2020	2019	2018
Total operating revenues	26,922		37,963	35,730	39,822	37,475
Earnings before interest and taxes (EBIT)	10,703		15,430	13,819	15,201	14,455
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,340		18,788	19,717	24,684	17,098
Funds from operations (FFO)	6,944		14,256	14,851	19,314	11,701
Adjusted interest expense	1,919		3,714	3,869	4,252	4,351
Capital expenditures	598		704	251	329	1,177
Total assets	258,956		241,932	214,438	208,523	206,428
Adjusted debt	92,923		89,434	73,639	67,702	54,893
Adjusted equity	124,718		114,037	102,834	105,106	100,850
Adjusted Ratios						
EBITDA margin (%)	34.09		48.57	54.03	60.74	44.92
Pretax return on permanent capital (%)	8.26	**	7.22	6.95	7.74	7.54
EBITDA interest coverage (times)	4.87		5.06	5.10	5.81	3.93
Debt to EBITDA (times)	4.88	**	4.76	3.73	2.74	3.21
FFO to debt (%)	15.37	**	15.94	20.17	28.53	21.32
Debt to capitalization (%)	42.70		43.95	41.73	39.18	35.25

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

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Electricity Generating PLC (EGCO)

Company Rating:	AA+
Rating Outlook:	Negative

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