TRIS RATING
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EASTERN POWER GROUP PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 07/12/18

Company Rating History:

Date	Rating	Outlook/Alert
07/12/18	BBB-	Stable
01/12/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Eastern Power Group PLC (EP) at "BBB-" with a "stable" outlook. The rating reflects the reliable cash flows from solar power plants and profits from investments in two gas-fired cogeneration power plants under the small power producer scheme (SPP). The rating is partially weighed down by the company's highly-leveraged capital structure and execution risks from overseas operations.

KEY RATING CONSIDERATIONS

Reliable cash flows from power portfolio

The rating reflects the reliable cash streams EP earns from its power plants in Thailand and overseas. Currently, EP's operating assets comprise several solar power projects and two cogeneration power plants.

For its domestic solar power plants, EP has secured long-term power purchase agreements (PPAs) with state-owned utilities and private power buyers. Overseas, EP's solar power projects hold long-term PPAs with Vietnam Electricity (EVN) and contracts with reliable power buyers in Japan. Cash flows from the solar power plants are highly predicable, thanks to the committed tariff, and low operational risks. All solar PPAs are on a non-firm basis.

In all, the performance of EP's solar projects is considered satisfactory. On the whole, the actual annual output of the company's solar plants has reached the level of P50 estimates (the energy production which is reached with a probability of 50%).

EP has also invested in two cogeneration power plants (SPPs), which have a combined contract capacity of 270 megawatts (MW), under PPAs with the Electricity Generating Authority of Thailand (EGAT). Overall, the performance of the cogeneration plants has been deemed fair as one of the two plants experienced an unplanned outage.

Divestiture of power projects strengthens capital structure

EP recently announced the divestiture of its first two solar farm projects in Vietnam (Xuan Tho 1 and Xuan Tho 2), with a combined capacity of 99.2 MW. Both projects hold 20-year power purchase agreements (PPAs) with EVN and have been in commercial operation since June 2019. In total, the divestiture will bring in Bt1.26 billion in cash.

TRIS Rating expects the divestiture process to be completed in early 2020. The divestment will strengthen EP's capital structure and enlarge covenant headroom as the company will recognize a gain on disposal of approximately Bt500 million. We forecast a debt to capitalization ratio of 75% at the end of 2019, which will decline to 67% after the transaction is completed. At the same time, we expect the ratio of net debt to equity to decline to 2.1 times, below the limit of 3.25 times specified under the bond condition.

Added to that, the proceeds will enhance the company's liquidity profile, given that EP has around Bt800 million in bonds coming due in the next 12 months.

Overseas expansion to drive growth

After the divestiture of the solar projects, we expect EP will seek to replenish its power portfolio. As growth opportunities in the domestic market have languished, EP aims to strengthen its foothold overseas. The company is now considering development of several large-scale wind and solar power projects in Vietnam with a total installed capacity of nearly 400 MW.

We view that EP is likely to invest in on-shore wind farms as the tariff for these projects is set at US$8.5 cents per kilowatt-hour (kWh) which is higher than the declining tariff for solar projects. In our base case for 2020-2022, we assume EP will develop a 96-MW wind power project, with construction spanning the period 2020-2021. As such, the company's power plants in Vietnam could account for almost 40% of its total power portfolio. In our base-case forecast, EBITDA (earnings before interest, taxes, depreciation, and amortization) is projected to be Bt700 million per year in 2020-2021, reaching Bt1.1 billion in 2022. Funds from operations (FFO) are forecast to be in the Bt220-Bt270 million per year range in 2020-2021, before rising to Bt500 million in 2022.

Execution risks of overseas projects

Although EP has been successful in developing large-scale solar farms in Vietnam within tight schedules, TRIS Rating is of the view that wind farm development entails relatively higher construction risks due to the complexity of technology selection and plant designs. Moreover, wind farms generally carry higher operation risks than solar projects.

Added to that, EP's growth strategy will broaden the company's exposure to higher country risk. Despite fast-growing demand for electricity and the government's supportive measures, power projects in Vietnam carry several risks, including changes in regulations, contract enforcement, and curtailment risks. Counterparty risk is also higher. We are also of the opinion that the credit profile of the state-run Vietnam Electricity (EVN) is not as strong as the Thai state-owned power buyers.

Potential surge in leverage

Although EP's leverage is likely to fall following the asset divestiture, we believe the low level will be temporary as the company will probably choose to develop new power projects. In our base-case forecast for 2020-2022, we assume that EP's new power projects will initially be financed by engineering, procurement, and construction contractors (EPC contractors) and then replaced by bank loans a year after the projects start commercial operations. Financing schemes of this type help lessen debt loads during the construction period. In our base case, total debt is forecast to decrease at about Bt7 billion in 2020-2021 before surging to Bt10 billion in 2022 when loans from the new projects are counted-in.

As a result, the debt to capitalization ratio is forecast to drop to 65%-67% in the next two years, then increase to 72% in 2022. The ratio of net debt to equity could increase to 2.5 times and the ratio of debt to EBITDA could peak at 10.1 times during the forecast period, while the FFO to debt ratio should remain low at about 3%-5%.

We expect that EP will maintain this level of leverage over the course of rebuilding its power portfolio. If EP's expansion is larger than our estimates, we believe the company will maintain leverage at the expected levels, with capital injections and further divestiture of existing projects being options.

Tight liquidity

We see significant refinancing risk in the company's debt profile. Some of EP's Japan-based solar farms are funded by bank loans with bullet payments at maturity of up to three and a half years. The tenors of the loans do not match the long-term nature of the projects. The company also has a sizable short-term loan from the parent company to fund its long-term financing needs.

EP's liquidity is tight. For the next 12 months, EP has long-term debt obligations coming due, including bonds of around Bt800 million, while its FFO is expected at Bt220 million. EP would need to refinance the maturing bonds. However, the sizable proceeds from the divestiture of the Vietnam solar projects should help enhance EP's liquidity and alleviate refinancing risk.

BASE-CASE ASSUMPTIONS

- Aggregate capacity of operating power plants to reach 171 MW in the next three years.
- Total operating revenues in the range of Bt0.86-Bt1.48 billion per annum during 2020-2022.
- EBITDA of Bt700 million per year during 2020-2021, increasing to Bt1.1 billion in 2022.
- Total capital spending of Bt4.9 billion during 2020-2021.
- EP obtains long credit terms from EPC contractors for the construction of new projects in Vietnam.

RATING OUTLOOK

The "stable" outlook reflects the expectation that EP's existing power plants will continue to perform well and in line with expectations. Moreover, the company will successfully develop and monetize new power projects as planned while maintaining its capital structure at the expected level. We expect EP to prudently manage liquidity as well.

RATING SENSITIVITIES

A rating upgrade may occur if EP can substantially strengthen its capital structure or its power plants perform beyond expectations. Conversely, negative rating pressure could build up if EP's operating performance falls short of estimates or if EP expands through the liberal use of debt.

Based on TRIS Rating's Group Rating Methodology, EP's credit rating will move in tandem with the rating of its parent, Eastern Printing PLC (EPCO; rated "BBB-/Stable"). Any change in EPCO's credit rating and/or outlook will affect EP's credit profile accordingly.

COMPANY OVERVIEW

EP was established in 2010 as a renewable energy company. In 2012, the company became a subsidiary of EPCO, a leading provider of printing services in Thailand, after EPCO acquired EP from Inter Far East Engineering PLC (IFEC). Based upon its sizable contributions 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 2016, EP increased its capital through a private placement and received Bt750 million in new funds in a bid to support the acquisition of two cogeneration power companies. As of September 2018, EPCO remained the major shareholder of EP, with 75% ownership.

In 2012, EP launched two pilot solar farm projects in Kanchanaburi Province, with a total contracted capacity of 10 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 5 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 aggregate contracted capacity of 1.5 MW. EP later expanded to solar power projects outside Thailand, as well as cogeneration power.

The company has invested in two cogeneration power companies, which have enhanced its overall profit. EP holds 49.5% of PPTC Co., Ltd. (PPTC) and 40% of SSUT Co., Ltd. (SSUT). Both companies produce cogeneration power under the SPP scheme, through 25-year PPAs with EGAT and long-term contracts with industrial users.

Table 1: Power Project Portfolio (After the divestment of Xuan Tho 1&2)

Project	Plant Type	Held by EP (%)	Installed (MW)	Equity (MWe)	SCOD/COD
OPERATING			**430.2**	**222.1**	
JKR	Solar Farm	100	5.5	5.5	Oct-13
RVP	Solar Farm	100	5.5	5.5	Oct-13
LOPBURI	Solar Farm	100	6.0	6.0	Feb-14
PS	Solar Farm	48	5.0	2.4	Dec-16
Solar rooftop	Solar Rooftop	100	1.5	1.5	Sep-14
KYOTEMBA	Solar Farm	98	12.0	11.8	Nov-16
KURIHARA1	Solar Farm	98	11.7	11.4	Oct-18
Commercial rooftop	Solar Rooftop	100	5.4	5.4	2018-2019
PPTC	CCGT (1)	50	120.0	59.4	Mar-16
SSUT	CCGT (1)	40	240.0	96.0	Dec-16
KURIHARA2	Solar Farm	98	17.6	17.2	Nov-19
CONSTRUCTING & DEVELOPING			**4.4**	**4.3**	
SHICHI KACHUKU1, 2	Solar Farm	98	4.4	4.3	Q4-20
Total Portfolio			**434.6**	**226.4**	

Remark: (1) Combined cycle gas turbine
Source: EP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2018	-----------Year Ended 31 December ----------- 2018	2017	2016	2015
Total operating revenues	706	603	501	353	371
Earnings before interest and taxes (EBIT)	605	499	395	165	244
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	497	388	335	248	312
Funds from operations (FFO)	221	125	124	154	262
Adjusted interest expense	253	263	202	94	50
Capital expenditures	3,499	808	907	1,093	255
Total assets	12,441	9,012	7,658	5,735	1,972
Adjusted debt	8,502	6,207	5,210	2,452	1,078
Adjusted equity	2,914	2,336	1,969	1,681	731
Adjusted Ratios					
EBITDA margin (%)	70.50	64.42	66.83	70.23	84.15
Pretax return on permanent capital (%)	6.98	6.11	6.03	4.40	17.64
EBITDA interest coverage (times)	1.97	1.48	1.66	2.64	6.28
Debt to EBITDA (times)	13.71	15.98	15.55	9.90	3.46
FFO to debt (%)	3.13	2.01	2.37	6.26	24.33
Debt to capitalization (%)	74.48	72.65	72.57	59.33	59.60

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Eastern Power Group PLC (EP)

Company Rating:	BBB-
Rating Outlook:	Stable

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