TRIS RATING
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GULF ENERGY DEVELOPMENT PLC

No. 207/2019
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CORPORATES

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

Last Review Date: 25/12/18

Company Rating History:

Date	Rating	Outlook/Alert
25/12/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Gulf Energy Development PLC (GULF) at “A”. At the same time, we affirm the ratings on GULF’s senior unsecured debentures at “A-”. The one notch below the company rating reflects the structural subordination of the outstanding debentures compared with the debt obligations of the operating subsidiaries.

The ratings reflect the company’s position as one of the leading power producers in Thailand, its well-diversified portfolio, predictable cash flows from its long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA” by TRIS Rating), as well as proven record of developing and operating power plants. In contrast, the ratings are constrained by a surge in debt load during a period of massive expansion.

KEY RATING CONSIDERATIONS

Leading market position

GULF is one of the leading power producers in Thailand. The company has an aggregate equity capacity (or installed capacity in proportion to its ownership stakes in the power plants) in the operational phase of 2,701 megawatts (MWe). After completing all the power projects under development, its capacity will almost triple to 6,906 MWe. Most of the company’s power projects are gas-fired power plants under the Independent Power Producer (IPP) scheme (5,072 MWe, 73% of total) and cogeneration power plants under the Small Power Producer (SPP) scheme (1,403 MWe, 20% of total).

Predictable cash flows from PPA with EGAT

The ratings are predicated on the predictable cash flows GULF receives from its power plants. The company currently sells about 90% of its equity capacity to EGAT under the SPP and IPP schemes. After completing two large IPP projects, with an aggregate installed capacity of 3,710 MWe in late 2024, GULF will become the largest private power producer connected to the power grid operated by EGAT.

Each contract with EGAT is effective for 25 years from the date the power plant commences commercial operations. For the IPP projects, EGAT has to pay the full amount of the availability payment (AP) as long as GULF has maintained the availability of the plant as agreed in the PPA. Even if EGAT has not dispatched electricity from GULF’s IPP power plants, EGAT has to pay the AP. A PPA under the SPP scheme is slightly different. Under the terms of PPA for an SPP plant, EGAT is obliged to buy not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP power plants contain gas price pass-through mechanisms. Cash flows generated from these power plants have been highly predictable, as a result.

Well-diversified asset portfolio

GULF has a well-diversified portfolio with more than 30 power projects in Thailand and abroad. Gas-fired power plants are the centerpiece of its power-generating assets, making up 93% or 6,450 MWe of the power capacity. The remaining 456 MWe is made up of renewable power projects including solar power and wind power plants in Vietnam (430 MWe), and a bio-mass power plant in Thailand (25 MWe). GULF recently expanded internationally, as part of its growth strategy.

Most of the company's gas-fired power plants are in the central and eastern regions of Thailand. The gas-fired power plants in Thailand comprise 19 co-generation power plants (1,256 MWe of installed capacity), operated under the SPP scheme, and four combined-cycle power plants (5,072 MWe of installed capacity), operated under the IPP scheme. The co-generation power plants are spread across seven industrial estates in the central and Eastern Economic Corridor (EEC) areas. The IPP power plants are located in Saraburi, Ayudhya, and Rayong province.

Proven record of operating IPP/SPP plants

The company's management and operating teams have over 20-year experience in developing and operating power plants in Thailand. The management team demonstrates its capability of project management. All power projects currently in operation were completed on time and within budget. This track record helps build confidence that projects currently under development and construction can be completed on time. Additionally, GULF's power plants, both SPP and IPP plants, have consistently exceeded the plant availability targets.

GULF's IPP and SPP power plants employ proven technology from reputable suppliers such as Siemens, GE, and Mitsubishi. GULF also holds long-term service agreements (LTSA) and long-term parts agreements (LTPA) with the original equipment suppliers. The service agreements, which cover the life of the PPA agreements, ensure reliable maintenance service for major pieces of equipment and mitigate fluctuations in the prices of spare parts. Having such a large power portfolio, GULF benefits from economies of scale and enjoy favorable terms with suppliers. The identical plants under the SPP portfolio and the pooling of spare parts help ensure parts availability and cost efficiency.

Completion risk mitigated by reputable EPC contractors

GULF currently has a number of projects under development. The company has mitigated construction risk by signing engineering procurement and construction (EPC) contracts with reputable EPC contractors. GULF selected Toyo Engineering Corporation as the EPC contractor for most of its SPP power plants. All the plants were completed on time and within budget. Mitsubishi Hitachi Power System (MHPS) is another EPC contractor chosen for GULF's two new IPP power plants. MHPS also has a solid track record, completing two IPP plants for GULF on time and within budget. GULF recently signed EPC contracts with the PowerChina HDEC- INTL Consortium for its wind power projects in Vietnam. The PowerChina HDEC- INTL Consortium comprises PowerChina Huadong Engineering Corporation Limited and PowerChina International Group Limited, both of which are Chinese state-owned companies. PowerChina Group has extensive experience in the construction of many types of power plants including wind farms.

Expansion to Vietnam

GULF recently initiated development of 430 MWe renewable projects in Vietnam, as part of its growth strategy. The projects include three solar power plants (135 MWe) and one off-shore wind power plant (295 MWe). The first two solar power plants with a combined capacity of 107 MW are in operation. The rest are scheduled to commence operation in 2020 and 2021. The performance of the first two solar power plants has been satisfactory. Since their inception in the first half of 2019, the actual outputs have reached initial estimates, based on a 75% probability (P75 level) of energy production.

Power projects in Vietnam typically carry several risks. The company is exposed to changes in regulations, contract enforcement, insufficient infrastructure, and construction delays. TRIS Rating also views that the credit profile of the state-run Vietnam Electricity (EVN) is not as strong as the Thai state-owned power buyers. Additionally, the national power grid in some provinces, especially Binh Thuan and Ninh Thuan, is facing overcapacity, while the grid upgrade should take at least two years, in our view.

GULF's investments in Vietnam will make up less than 10% of the total power portfolio, when all of the company's power projects are operating. We expect the projects in Vietnam to be less susceptible to curtailments, considering their locations.

Diversification into infrastructure projects

GULF recently moved into a new area of business. The company, through GULF MTP LNG Terminal, is developing the Map Ta Phut Industrial Port Development Phase 3 Project, under a Public Private Partnership (PPP) contract with the Industrial Estate Authority of Thailand (IEAT). GULF MTP LNG Terminal is a joint venture between GULF and PTT Tank Terminal. The project, worth more than Bt40 billion, includes infrastructure work (dredging and land reclamation) and superstructure work (seaport and LNG terminal construction). As the project is in its initial stage of development, our base-case forecast includes only the infrastructure work. The joint venture company will receive annual fixed payments of about Bt1 billion from IEAT for 30 years after the completion of the infrastructure work, scheduled for 2023. Considering its policy, GULF is likely to invest in infrastructure projects which have no market risk and generate fixed returns and predictable cash flows. However, we expect revenue from the infrastructure projects to be small over the next few years.

Surge in leverage to fund ambitious expansion

GULF has planned a massive investment budget for the forecast period of 2019-2024. Total capital expenditures and investments are forecast to reach approximately Bt142 billion. About Bt91 billion will be used to complete the two IPP projects, about Bt24 billion will be used for the renewable projects in Vietnam, and about Bt17 billion will be used for the infrastructure projects (the Map Ta Phut Industrial Port Development Phase 3 and M6-M81 Motorways). The remainder of about Bt10 billion will go to other projects.

Given the number of projects under construction, TRIS Rating expects GULF's leverage to rise steeply over the next three years. Our base case assumes the debt to capitalization ratio will rise to about 73% in 2022, from 56.2% as of September 2019. The ratio of debt to EBITDA (earnings before interest, tax, depreciation, and amortization) should peak at about 10 times. The debt to EBITDA ratio should start to improve in 2022 and reach a much more comfortable level of 4-5 times by 2025, when all the power projects are fully operational. The renewable projects in Vietnam come with EPC financing. GULF will pay most of the construction costs after the projects are operational. This mechanism helps reduce pressure on the debt to EBITDA ratio during the construction stage.

Harvesting period from 2025 onwards

GULF is expected to realize the full return from all its SPP and IPP projects from 2025 onwards. The two new IPP projects will be the key growth drivers. We assume total operating revenue will increase significantly, reaching approximately Bt100 billion in 2025, from nearly Bt30 billion in 2019. EBITDA should triple to about Bt30 billion in 2025, from almost Bt10 billion in 2019.

TRIS Rating expects the performance of the company's power projects will remain satisfactory, considering its proven record in operating IPP/SPP plants. As cash flows generated from IPP/SPP power plants are predictable, the EBITDA margin (earnings before interest, taxes, depreciation, and amortization as a percentage of revenue) is likely to remain stable at above 30% over the next few years.

Liquidity to stay manageable

TRIS Rating believes GULF will be able to manage its liquidity properly. FFO should be sufficient to repay the annual long-term debt repayment. Over the next three years, FFO is expected to range between Bt7 billion and Bt13 billion per annum, whereas the annual long-term debt repayment is in the Bt3-Bt5 billion range. As of September 2019, GULF also had undrawn credit facilities, plus cash and marketable securities, of about Bt20 billion, as additional sources of liquidity.

GULF has a financial covenant on its debentures. The company is required to maintain the net interest-bearing debt to equity ratio below 3.5 times. The ratio stood at 1.3 times, as of September 2019. TRIS Rating expects GULF will be able to comply with the financial covenant.

BASE-CASE ASSUMPTIONS

- Aggregate installed capacity of power plants in the operational phase to reach 5,000 MWe in the next three years.
- Total operating revenues to grow steadily to Bt62.3 billion in 2022.
- EBITDA margin to stay above 30%.
- Capital expenditures and equity investments to range between Bt20-Bt40 billion per annum.
- GULF receives long credit terms from its EPC contractors for construction of the renewable projects in Vietnam.

RATING OUTLOOK

The "stable" outlook reflects the expectation that the plants in operation will run smoothly and generate cash as planned, while the plants under construction will commence operations as scheduled.

RATING SENSITIVITIES

GULF's rating upside is limited over the next 12-24 months. A rating downside may occur if the projects under development are materially delayed from the schedule, which would have an impact on forecasted cash flow. Any huge debt-funded investment, which materially deteriorates the company's capital structure, is another factor that would put pressure on the ratings.

COMPANY OVERVIEW

GULF was established in 2011 as a holding company to invest in power and other energy-related projects. The company received the power portfolio transferred from Gulf Holding Co., Ltd., founded by Mr. Sarath Ratanavadi, in 2012. To date, GULF has invested in 33 power projects in Thailand and abroad with an aggregate installed capacity of 6,906 MWe. Of these, 27 power plants with a capacity of 2,701 MWe are in operation; the rest are under development and construction.

GULF was listed on the Stock Exchange of Thailand (SET) in late 2017. As of September 2019, Mr. Sarath and related parties held a 72.95% interest in the company.

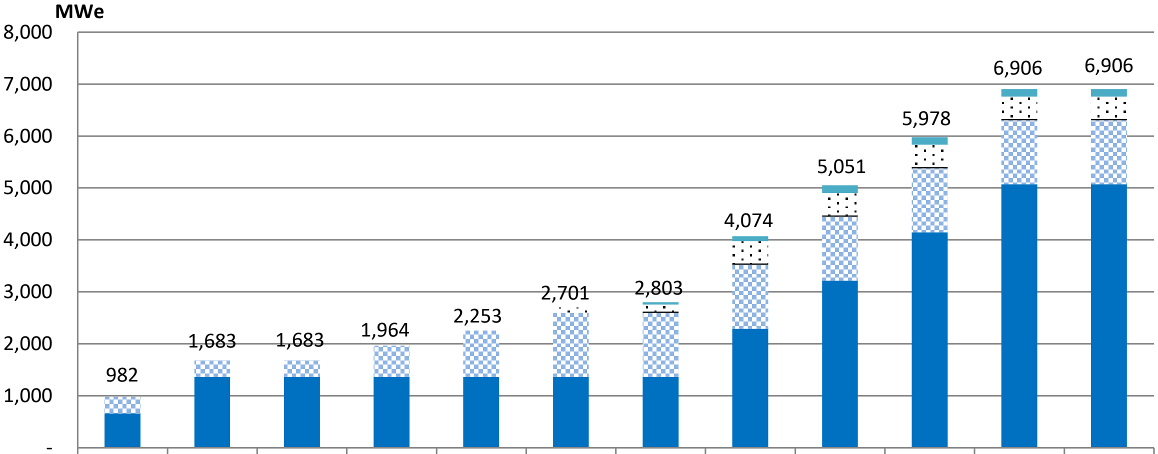
KEY OPERATING PERFORMANCE

Table 1: GULF's Power Portfolio (as of Nov 2019)

Company/Project	Type	Fuel	Installed Capacity (MW)	Ultimate Holding (%)	Equity Capacity (MW)	PPA with EGAT (MW)
In operation						
1. Under GMP						
1. GVTP	SPP	NG	137	52.5	72	90
2. GTS1	SPP	NG	134	52.5	70	90
3. GTS2	SPP	NG	134	52.5	70	90
4. GTS3	SPP	NG	130	52.5	68	90
5. GTS4	SPP	NG	130	52.5	68	90
6. GNC	SPP	NG	127	70.0	89	90
7. GBL	SPP	NG	127	52.5	67	90
8. GBP	SPP	NG	127	52.5	67	90
9. GNLL2	SPP	NG	127	52.5	67	90
10. GNPM	SPP	NG	135	70.0	95	90
11. GNRV1	SPP	NG	128	70.0	90	90
12. GNRV2	SPP	NG	128	70.0	90	90
Sub total			***1,563***		***911***	***1,080***
2. Under GJP						
1. GNS	IPP	NG	1,653	40.0	661	1,600
2. GUT	IPP	NG	1,752	40.0	701	1,600
3. GKP1	SPP	NG	114	40.0	46	90
4. GKP2	SPP	NG	114	40.0	46	90
5. GTLC	SPP	NG	114	40.0	46	90
6. GNNK	SPP	NG	114	40.0	46	90
7. GNLL	SPP	NG	123	30.0	37	90
8. GCRN	SPP	NG	119	40.0	48	90
9. GNK2	SPP	NG	133	40.0	53	90
Sub total			***4,237***		***1,682***	***3,830***
3. Under Gulf Solar						
1. BV	Rooftop	Solar	0	75.0	0	-
2. TS1	Rooftop	Solar	0	75.0	0	-
3. KKS	Rooftop	Solar	0	75.0	0	-
4. TS2	Rooftop	Solar	0	75.0	0	-
Sub total			***1***		***0***	***-***
4. Others						
1. TTCIZ-01	Solar farm	Solar	69	90.0	62	-
2. TTCIZ-02	Solar farm	Solar	50	90.0	45	-
Sub total			***119***		***107***	***-***
Total in operation			***5,919***		***2,701***	***4,910***
Under Construction/Development						
1. Others						
1. GSRC	IPP	NG	2,650	70.0	1,855	2,500
2. GPD	IPP	NG	2,650	70.0	1,855	2,500
3. GCG	SPP	Woodchip	25	100.0	25	21
4. Oman	Power&Water	NG	326	45.0	147	-
5. Mekong	Solar farm	Solar	30	95.0	29	-
6. Mekong	Wind farm	Wind	310	95.0	295	-
Sub total			***5,991***		***4,205***	***5,021***
Total under construction/development			***5,991***		***4,205***	***5,021***
Total portfolio			**11,910**		**6,906**	**9,931**

Source: GULF

Chart 1: GULF's Installed Capacity in Operational Phase



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Oman - Gas-fired	-	-	-	-	-	-	49	98	147	147	147	147
Vietnam - Solar and Wind	-	-	-	-	-	107	135	430	430	430	430	430
SPP - Biomass	-	-	-	-	-	-	25	25	25	25	25	25
SPP - Gas-fired	320	320	320	601	891	1,231	1,231	1,231	1,231	1,231	1,231	1,231
IPP - Gas-fired	661	1,362	1,362	1,362	1,362	1,362	1,362	2,290	3,217	4,145	5,072	5,072

Source: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------------- Year Ended 31 December -----------			
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	22,044	17,184	4,370	257	692
Earnings before interest and taxes (EBIT)	6,985	5,926	4,267	999	(337)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,007	7,838	2,724	(426)	(411)
Funds from operations (FFO)	4,900	4,700	(173)	(2,041)	(1,225)
Adjusted interest expense	2,113	3,159	2,952	1,663	774
Capital expenditures	10,306	18,558	19,016	19,831	8,135
Total assets	130,566	123,669	100,652	59,816	20,822
Adjusted debt	61,995	51,542	36,308	49,821	15,593
Adjusted equity	48,233	44,788	39,348	3,782	2,495
Adjusted Ratios					
EBITDA Margin (%)	31.78	45.61	62.34	(165.57)	(59.33)
Pretax return on permanent capital (%)	7.39 **	5.60	5.54	2.59	(2.28)
EBITDA interest coverage (times)	3.32	2.48	0.92	(0.26)	(0.53)
Debt to EBITDA (times)	6.44 **	6.58	13.33	(117.06)	(37.97)
FFO to debt (%)	10.71 **	9.12	(0.48)	(4.10)	(7.86)
Debt to capitalization (%)	56.24	53.51	47.99	92.94	86.21

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

RELATED CRITERIA

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

Gulf Energy Development PLC (GULF)

Company Rating:	A
Issue Ratings:	
GULF221A: Bt2,000 million senior unsecured debentures due 2022	A-
GULF241A: Bt2,500 million senior unsecured debentures due 2024	A-
GULF261A: Bt2,000 million senior unsecured debentures due 2026	A-
GULF291A: Bt1,000 million senior unsecured debentures due 2029	A-
Rating Outlook:	Stable

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