

GULF ENERGY DEVELOPMENT PLC

No. 236/2024

24 December 2024

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A
Outlook:	Positive

Last Review Date: 25/07/24

Company Rating History:

Date	Rating	Outlook/Alert
13/01/23	A+	Stable
26/08/21	A	Stable
26/04/21	A	Alert Negative
25/12/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Gulf Energy Development PLC (GULF) at “A+” and affirms the ratings on GULF’s senior unsecured debentures at “A”. The issue ratings’ single notch below the company rating reflects the structural subordination of the senior unsecured debentures to the debt obligations of GULF’s operating subsidiaries.

At the same time, we revise the rating outlook to “positive” from “stable” to reflect our view that GULF will likely complete the amalgamation with Intouch Holdings PLC (INTUCH) as planned, with a potentially stronger financial profile for the combined entity (NewCo). The “positive” outlook suggests that an upgrade of the ratings could occur if we see NewCo will likely sustain the strengthened credit metrics.

The ratings continue to mirror GULF’s leading position in the domestic power industry, its large and well-diversified power portfolio, and its highly predictable cash flows, underpinned by long-term power purchase agreements (PPAs). The ratings also factor in risks associated with GULF’s overseas investments and its sizable outlays for committed investments.

KEY RATING CONSIDERATIONS

Substantially expanded cash flow base

We view GULF’s business profile as having successively strengthened following the incremental cash generation from its newly operated projects. The fully operational five gigawatts (GW) gas-fired power plants, under the Independent Power Producer (IPP) scheme have significantly boosted the company’s revenue and EBITDA over recent years.

In the years ahead, we expect GULF to stay on track with its growth path. The newly acquired renewable power projects under the state renewable power bidding should significantly increase its revenue and EBITDA from 2025 onwards. We anticipate that existing operating projects will maintain satisfactory operations while the company will develop and commission the new projects as planned. In our base-case forecast, we assume its aggregate equity capacity in the operational phase will reach 10 GW in the next three years.

Excluding impacts from the anticipated merger, we project GULF alone will reach THB135-THB145 billion in annual operating revenue during 2024-2027. We estimate its EBITDA to grow further, reaching THB45 billion per annum, with an EBITDA margin of about 30%.

Stronger credit metrics in NewCo

We consider the amalgamation as nearly certain as the shareholders of both GULF and INTUCH have already approved the proposed amalgamation. We assume the transaction will close in the second quarter of 2025.

We anticipate a strengthened financial profile in NewCo given that INTUCH is a debt-free company. NewCo will directly realize returns from Advanced Info Service PLC (ADVANC), doubling the amount of cash dividends GULF has received from INTUCH. We forecast NewCo to generate an EBITDA of about THB50 billion per annum over 2025-2027. At the same time, we do not expect a significant amount of incremental debt arising from the tender offers for the

shares of ADVANC and Thaicom PLC (THCOM). Also, we expect NewCo will not consolidate ADVANC into its financial statements.

We assume NewCo will incur total investment spending of about THB116 billion during 2025-2027, primarily based on GULF's committed investment outlays. As such, NewCo's debt to EBITDA ratio will likely stay in the 6-7 times range, as opposed to GULF's at 7-8 times. We project NewCo to maintain the debt to capitalization ratio at about 50% while GULF alone will maintain the ratio at around 65%.

The "positive" outlook reflects our view that the stronger credit metrics of NewCo will be maintained, which will widen investment headroom. We will assess the full impact of the amalgamation after detailed information including the corporate structure, post-merger business direction, and future investment outlays are available.

Market leader in power industry

GULF is one of the leading power producers in Thailand, considering its large power portfolio and capability to secure new projects. As of October 2024, its equity capacity (or installed capacity in proportion to its ownership stake in the power plants) totaled 12.8 GW, of which about 8 GW was in operation.

The company secured 1.8 GW in contracted capacity under the state renewable power bidding in 2023. Of this, about three fourths are solar and solar plus battery energy storage (BESS) power projects, scheduled for commercial operations from 2024-2029. The company has also joined with other successful bidders in developing renewable power projects including waste-to-energy (WTE) plants.

Apart from the power business, GULF has established a footprint in the telecom and digital businesses through investments in THCOM and INTUCH. The company has also expanded to the infrastructure business; co-developing the Map Ta Phut Industrial Port Development Phase 3 (MTP3) and the Laem Chabang Port Phase 3 (LCP3) projects. Despite the diversification, we expect the power business to remain the core investment of GULF and the forthcoming NewCo.

Well-diversified power portfolio

The ratings factor in GULF's diversified pool of power projects across different sites. Gas-fired power plants are currently the centerpiece of the company's operating power-generating assets, comprising 93% of the aggregate equity capacity or 7.5 GW. Most are domestic plants under the IPP and the Small Power Producer (SPP) schemes (6.7 GW in total). It has also expanded overseas, with its investments in a merchant plant in the US (588 MW) and a captive plant in Oman (160 MW).

Aligning with the decarbonization trend, GULF is focused more on renewable power. Looking forward, renewable power will comprise nearly 40% of total capacity, based on its committed projects. Most will come from domestic solar power projects typically generating highly predictable power output and carrying low operational risks. The company's investment base for renewable power projects includes Thailand, Vietnam, Germany, UK, and the Lao PDR.

Highly predictable cash flows

Cash generation from GULF's power projects is highly predictable, underpinned by long-term sales contracts of up to 25 years with state-owned producers and distributors of electricity, which translates into minimal counterparty risk to the company. Currently, about 90% of its electricity sales stem from PPAs with Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable"), under the IPP and SPP schemes. With fuel price pass-through mechanisms in the PPAs, fluctuations in gas prices should have no significant impacts on the power plant performances.

The stable cash flows also come from GULF's established record of developing and operating power plants. The company employs proven technology from well-known suppliers, holding long-term service agreements (LTSA) and long-term parts agreements (LTPA) with the original equipment suppliers, to ensure efficient operations. Its IPP and SPP power plants have consistently exceeded the plant availability targets. The company's large-scale power projects additionally bring in economy of scales and thus cost efficiency.

Risks associated with overseas investments

GULF has continued to expand its presence outside Thailand. Despite the growth opportunities, we view some overseas projects as exposed to higher levels of risks such as higher country and counterparty risks, inadequate infrastructure, and more intense market competition. For example, its Vietnam-based offshore wind power project has encountered long-pending final tariff resolution. Most units of the project are currently receiving a temporary tariff amounting to 50% of the ceiling price (or equivalently VND908 per kilowatt hour) while the final tariff negotiation continues. Also, GULF owns a 49% stake in Jackson Generation, LLC which operates a 1.2-GW gas-fired power plant selling electricity in the PJM merchant market (PJM). PJM is an established wholesale electricity market, covering 13 states in the U.S. We view the Jackson power plant as vulnerable to volatile electricity demand and prices. Therefore, the project's performance tends to fluctuate more than the power projects holding PPAs with EGAT in Thailand.

Nevertheless, we believe overseas investment risks will remain manageable with limited impacts on GULF. Investments in Vietnam are relatively small, while investments in the merchant power plants are made through joint ventures.

Sizable investments ahead

GULF (and NewCo) has several committed capital expenditures and equity investments in years ahead. These chiefly include the 1.8-GW renewable power projects, the MTP3 project, and three hydropower projects in the Lao PDR. We project NewCo will spend a total of about THB116 billion throughout 2025-2027, as aforementioned. We view NewCo as having greater investment headroom than GULF, given the anticipated better capital structure and incremental dividend income. Therefore, we do not rule out the possibility of larger investment amounts post-merger. We believe NewCo will maintain the stronger credit metrics, which is the key factor for a rating upgrade.

Ample liquidity

We assess GULF as having ample liquidity. As of September 2024, the company had undrawn credit facilities, plus cash and cash equivalents, of about THB74 billion. These should sufficiently cover debt coming due in the next 12 months of almost THB50 billion. GULF's established record in the domestic capital markets also helps ensure sufficient liquidity whereas INTUCH is debt-free. We also expect GULF to comfortably remain compliant with the financial covenants with respect to its debt obligations.

Debt structure

We expect GULF's priority debt, comprising secured debt owed by GULF and all borrowings incurred by its operating subsidiaries, to remain a significant portion. Its priority debt to total debt ratio has consistently decreased over the past years, following a series of senior unsecured debentures issuances. Nevertheless, we consider it likely the ratio will remain about 50%, given GULF's tendency to use project finance for its upcoming renewable power projects. As a result, we currently assess GULF's unsecured creditors as possibly subject to significant risk regarding structural subordination.

Nevertheless, we may no longer notch down the issue ratings if we see NewCo's debt structure as having a lower priority debt portion and its planned financing structure assures us the company is committed to sustaining the priority debt ratio below our 50% threshold over the long term.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2025-2027 are as follows:

- The amalgamation with INTUCH to be completed in the second quarter of 2025.
- Total equity power capacity in the operational phase to reach 10 GW in the next three years.
- NewCo to have total operating revenues ranging between THB140-THB145 billion per annum.
- NewCo to arrive at an EBITDA of about THB50 billion per year on average.
- Capital expenditures and equity investments of NewCo to total THB116 billion.
- Tender offers for ADVANC and THCOM to not significantly push up the debt burden.
- ADVANC to be an affiliate company of NewCo.

RATING OUTLOOK

The "positive" outlook reflects our view that we could raise the ratings by one notch if the amalgamation goes ahead as planned, without significant increase in debt relating to the tender offers. We anticipate NewCo will have stronger credit metrics than GULF, primarily based on our current assumptions on investment spending.

RATING SENSITIVITIES

We could upgrade the ratings if the amalgamation proceeds as expected. Also, if our full assessment of the company's business and financial prospects lead to the conclusion NewCo will maintain stronger credit metrics. An indication of this would be a debt to EBITDA around 6.5 times on sustained basis. Conversely, we could revise the rating outlook to "stable" if the amalgamation does not materialize or NewCo pursues more aggressive investment outlays that lead to weaker credit metrics than our current expectations. We could consider a rating downgrade if we see a sustained debt to EBITDA ratio of above 8 times although we now view this scenario as unlikely post-amalgamation.

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. GULF was

listed on the Stock Exchange of Thailand (SET) in late 2017. As of September 2024, Mr. Sarath and related parties held a 73.8% interest in the company.

As of October 2024, GULF had an aggregate equity installed capacity across all power projects of 12.8 GW. Of this, about 8 GW was in operation.

GULF has recently entered the infrastructure and digital businesses. The company, together with its strategic partners, is developing the MTP3 and the LCP3 projects. The THB40 billion MTP3 project includes infrastructure work (dredging and land reclamation) and superstructure work (seaport and liquefied natural gas (LNG) terminal construction). After completion of the infrastructure work, the project will receive annual fixed payments of about THB1 billion from the Industrial Estate Authority of Thailand (IEAT) for 30 years. The LCP3 project, valued at THB30 billion, is scheduled for completion from 2027-2031. The performance of the deep-sea container port project will be subject to transport demand. Given its appetite to invest in stable cash generating projects, GULF should put efforts to minimize demand risk.

Apart from the infrastructure projects, GULF accesses new opportunities in the telecom and digital businesses through owning a 41.1% stake in THCOM and 47.4% stake in INTUCH. Additionally, GULF and its partners, Singapore Telecommunications Ltd. (SINGTEL) and ADVANC, are jointly developing a data center business in Thailand. Also, GULF, in cooperation with Binance Group (BINANCE), has recently launched digital asset exchange and related businesses.

KEY OPERATING STATISTICS

Table 1: Revenue Breakdown

Unit: %

	2020	2021	2022	2023	Jan-Sep 2024
Power	98	99	95	93	94
Consulting	1	1	1	1	1
Infrastructure	1	0	4	4	3
Satellite	-	-	-	2	2
Total	100	100	100	100	100
Total revenue (mil. THB)	32,863	47,467	94,151	114,054	93,642

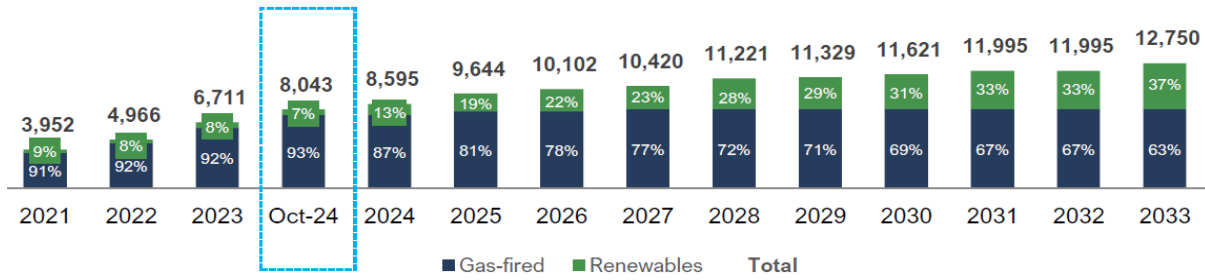
Source: GULF

Table 2: GULF's Power Portfolio (as of October 2024)

Project	Location	Held by GULF (%)	Equity Installed Capacity (MW)
Projects in operation			
Conventional energy (gas-fired)			
IPP	Thailand	40-70	5,456
SPP	Thailand	40-70	1,266
DIPWP	Oman	49	160
Jackson	US	49	588
Renewable energy			
Solar private PPA	Thailand	80	114
Wind	Thailand	50	89
Biomass	Thailand	100	25
Solar and wind	Vietnam	90-95	229
Wind	Germany	25	116
Sub total - projects in operation			8,043
Projects under construction and development			
Conventional energy (gas-fired)			
IPP	Thailand	35-49	587
Renewable energy			
Solar private PPA	Thailand	80	94
Solar and solar plus BESS	Thailand	100	2,538
Waste	Thailand	51-100	66
Hydro	Laos	20-49	1,047
Wind	UK	25	375
Sub total - projects under construction and development			4,707
Grand total			12,750

Source: GULF

Chart 1: GULF's Equity Installed Capacity in Operational Phase (Based on Projects in Pipeline)



Sources: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	93,862	114,440	94,187	47,475	32,883
Earnings before interest and taxes (EBIT)	27,089	30,996	23,162	16,184	10,050
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	30,983	35,625	29,169	20,556	13,717
Funds from operations (FFO)	21,706	24,780	20,140	13,548	9,040
Adjusted interest expense	8,779	10,641	8,745	6,831	4,676
Capital expenditures	13,582	20,215	20,593	22,196	18,611
Total assets	486,837	459,514	418,172	362,674	245,581
Adjusted debt	257,099	242,085	206,385	200,370	120,797
Adjusted equity	148,416	144,104	135,802	107,509	72,080
Adjusted Ratios					
EBITDA margin (%)	32.5	30.8	30.7	43.1	41.7
Pretax return on permanent capital (%)	8.0 **	7.6	6.4	5.9	5.9
EBITDA interest coverage (times)	3.5	3.3	3.3	3.0	2.9
Debt to EBITDA (times)	6.7 **	6.8	7.1	9.7	8.8
FFO to debt (%)	10.4 **	10.2	9.8	6.8	7.5
Debt to capitalization (%)	63.4	62.7	60.3	65.1	62.6

* 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
- Issue Rating Criteria, 15 June 2021

Gulf Energy Development PLC (GULF)

Company Rating:	A+
Issue Ratings:	
GULF252A: THB10,000 million senior unsecured debentures due 2025	A
GULF258A: THB2,500 million senior unsecured debentures due 2025	A
GULF258B: THB7,000 million senior unsecured debentures due 2025	A
GULF261A: THB2,000 million senior unsecured debentures due 2026	A
GULF263A: THB4,100 million senior unsecured debentures due 2026	A
GULF263B: THB5,805 million senior unsecured debentures due 2026	A
GULF268A: THB2,200 million senior unsecured debentures due 2026	A
GULF268B: THB15,927.4 million senior unsecured debentures due 2026	A
GULF269A: THB6,000 million senior unsecured debentures due 2026	A
GULF272A: THB8,000 million senior unsecured debentures due 2027	A
GULF273A: THB4,400 million senior unsecured debentures due 2027	A
GULF274A: THB2,000 million senior unsecured debentures due 2027	A
GULF278A: THB2,000 million senior unsecured debentures due 2027	A
GULF278B: THB1,000 million senior unsecured debentures due 2027	A
GULF279A: THB3,664 million senior unsecured debentures due 2027	A
GULF279B: THB2,500 million senior unsecured debentures due 2027	A
GULF283A: THB4,500 million senior unsecured debentures due 2028	A
GULF284A: THB4,528 million senior unsecured debentures due 2028	A
GULF289A: THB3,000 million senior unsecured debentures due 2028	A
GULF289B: THB1,500 million senior unsecured debentures due 2028	A
GULF289C: THB2,687 million senior unsecured debentures due 2028	A
GULF291A: THB1,000 million senior unsecured debentures due 2029	A
GULF292A: THB1,000 million senior unsecured debentures due 2029	A
GULF294A: THB6,472 million senior unsecured debentures due 2029	A
GULF298A: THB800 million senior unsecured debentures due 2029	A
GULF298B: THB5,071.8 million senior unsecured debentures due 2029	A
GULF299A: THB10,013 million senior unsecured debentures due 2029	A
GULF303A: THB3,500 million senior unsecured debentures due 2030	A
GULF308A: THB1,000 million senior unsecured debentures due 2030	A
GULF309A: THB3,031 million senior unsecured debentures due 2030	A
GULF314A: THB3,000 million senior unsecured debentures due 2031	A
GULF319A: THB9,000 million senior unsecured debentures due 2031	A
GULF319B: THB4,800 million senior unsecured debentures due 2031	A
GULF322A: THB5,000 million senior unsecured debentures due 2032	A
GULF328A: THB3,000 million senior unsecured debentures due 2032	A
GULF333A: THB3,500 million senior unsecured debentures due 2033	A
GULF339A: THB1,000 million senior unsecured debentures due 2033	A
GULF344A: THB4,000 million senior unsecured debentures due 2034	A
GULF349A: THB5,000 million senior unsecured debentures due 2034	A
Rating Outlook:	Positive

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