PRIME ROAD POWER PLC

No. 103/2023
8 June 2023

CORPORATES

Company Rating:	BBB-
Outlook:	Negative

Last Review Date: 27/07/22

Company Rating History:

Date	Rating	Outlook/Alert
30/07/21	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Prime Road Power PLC (PRIME) at “BBB-”. At the same time, we revise the rating outlook to “negative” from “stable” to reflect the company’s weakened financial profile following its aggressive investment and expansion into low-margin businesses.

The rating continues to mirror PRIME’s experience in developing and operating solar power projects in Thailand and the highly predictable cash flows backed by its long-term power purchase agreements (PPAs). These strengths are offset by the company’s small business scale and the overseas investment risks. The rating also factors in its growth strategy with a tendency to rely heavily on debt funding.

KEY RATING CONSIDERATIONS

Weakened financial profile

PRIME’s financial profile deteriorated substantially. The 2022 results fell below expectations due to the lower-than-expected dividends it received from its investments in solar power projects and the poor performances of its solar-related equipment trading and solar rooftop installation businesses. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2022 was THB345 million, down 40% year-on-year (y-o-y). Its net debt nearly doubled to THB4.6 billion from THB2.3 billion in the prior year. The surge in leverage came from PRIME’s rapid expansion in its power projects, plus additional funding needs for new businesses.

The debt to EBITDA ratio shot up to 12.2 times in the first quarter of 2023, from about 4 times in 2021. The funds from operations (FFO) to debt ratio deteriorated to 3.6% in the first quarter of 2023, from above 15% during the past several years.

Experience in solar power projects

The rating is built on PRIME’s experience in developing and operating several solar power projects in Thailand. As one of the first movers in the renewable power business, the company started developing solar power projects in Thailand in 2011, with a total contracted capacity of 72 megawatts (MW).

PRIME keeps expanding its power portfolio, both in Thailand and overseas. As of March 2023, its aggregate contracted capacity, across all solar power assets, was 262 MW. This included solar power projects in Thailand (128 MW), Cambodia (60 MW), Taiwan (56 MW), and Japan (18 MW). Of the total, about 225 MW was operational.

Highly predictable cash flows from power business

We expect the power business will remain PRIME’s core earnings generation. Currently, the power business constitutes almost all the company’s EBITDA.

The rating is chiefly predicated on the reliable cash flows from PRIME’s power-generating assets, resulting from the low operational risk, minimal demand risk, and minimal payment risk. Solar power has proven to generate highly predictable power outputs and cash flows. During the past five years, the annual output of the solar power plants, in all, has reached satisfactory levels, with an EBITDA margin of 70%-80%.

The power business carries minimal demand risk and minimal payment risk. Most of PRIME's power plants have long-term PPAs with state-owned power utilities. These PPAs contain commercial terms of electricity sale for up to 25 years. The company has recently moved towards selling electricity to the private sector which entails higher payment risk. However, the capacity under private PPAs accounts for less than 10% of total capacity.

Overseas investment risks

Like other power developers, PRIME has expanded internationally. In addition to a target country like Taiwan, the company has successfully developed its first solar power project in Cambodia, starting operations in late 2022. The 60-MW National Solar Park is its largest power project, representing 23% of the total contracted capacity.

Investments in Cambodia carry higher country and regulatory risks relative to Thailand based power generation assets. The track record of solar power generation in Cambodia is limited as it remains in the early stages of development. We also hold the view that the credit profile of the state-run Electricity of Cambodia (EDC), the purchaser of electricity, is not as strong as the state-owned power buyers in Thailand. The involvement of the Asian Development Bank (ADB), as the project advisor and main financier, helps alleviate concerns over the investment risk to some extent.

Also, the Cambodia solar power project offers a low feed-in-tariff (FiT) of 3.877 US cents per kilowatt-hour (kWh), challenging the project's performance. PRIME entered into the operating and maintenance agreement on agreed prices to control operating costs. The project has rendered satisfactory power output since operations began. However, its long-term results remain to be seen. As this project represents almost one fourth of the total contracted capacity, its performance will have material impact on PRIME's operating performance.

Additional funding needs for new businesses

PRIME recently entered into solar-related equipment trading and solar rooftop installation, both of which made up about 60% of its revenue in 2022, up from 35% in 2021. The company should benefit from business integration as solar-related equipment trading, solar rooftop installation, and solar power production are complementary in nature. The one-stop services should bring in business opportunities including private PPAs as the company has targeted.

However, expansion into these equipment trading and installation businesses could strain the company's cash generation. With squeezed profit margins, ventures recently suffered from losses. We believe PRIME will strive for earnings improvement as revenue increases should bring in economies of scale. Our base-case forecast estimates the gross margins of the ventures will stay low at 2%-3% in 2023, before improving gradually to 8%-10% in 2025. Severe competition remains the major challenge.

Apart from the thin profit margins, the ventures require additional working capital to support operations. PRIME's accounts receivable, plus inventory, increased substantially to THB459 million in 2022 from THB70 million in 2021. The company's FFO could not support the increases in working capital, partly resulting in negative cash flows from operations of about THB700 million in 2022. PRIME has attempted to match the terms of trade receivables and trade payables to reduce working capital needs.

Small business scale, on high-growth path

PRIME's business scale is relatively small. However, the core power business and the new ventures will boost growth. We project its total operating revenue to rise to THB2 billion in 2025 from THB1.1 billion in 2022. Revenue from the power business will likely more than double, reaching THB1.1 billion, based on our assumption that the company will add 30 MW of power capacity annually, on top of the power capacity in the pipeline.

Our base-case projection excludes the massive projects in Taiwan as they are in the early stages of development. Revenue from the solar-related equipment trading and solar rooftop installation businesses will likely stay in the THB850-THB950 million range per annum during 2023-2025.

Earnings to rise, narrower profit margins

We expect PRIME's EBITDA to grow steadily to about THB800 million in 2025, from a low of THB345 million in 2022. The company's power-generating assets should add more earnings, following its continued expansion. Additional incomes from new power projects are anticipated to offset the performance contractions of the existing 72-MW power projects, resulting from the adder expiry in 2024. The company owns a 30% stake in these power projects under the adder scheme and recognizes earnings in the form of shared profit and dividend.

We estimate the company to have softened profit margins, weighted by the trading and installation businesses. Our base-case projection predicts its EBITDA margin to range between 37%-40% over the next three years, down from our previous forecast of 55%-75%. The decline in EBITDA margin reflects the greater contribution of the new ventures.

Given the annual capital expenditures of THB1-THB2 billion, we project the debt to EBITDA ratio to fall to 9-10 times over the next three years. The FFO to debt ratio should improve and remain above 6% during the forecast period. Adding the large-scale power projects under development in Taiwan, its financial leverage will deteriorate even further. However, we expect PRIME to manage its leverage properly, potentially considering raising equity to support growth.

Debt structure

As of March 2023, PRIME's consolidated debt, excluding lease liabilities, was THB5.9 billion. The priority debt totaled THB3.6 billion, comprising secured debt owed by PRIME and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 60%, suggesting that PRIME's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Refinancing risk expected to be manageable

PRIME should be able to manage its liquidity adequately. Over the next 12 months, debts of about THB1.2 billion will come due, comprising THB178 million in short-term loans for working capital, THB541 million in long-term bank loans, and THB500 million in debentures. At the end of March 2023, sources of liquidity totaled THB796 million, including cash and unused credit facilities of THB418 million and FFO over the next 12 months of THB378 million. The shortfall of THB420 million could be covered by the project finance from banks and the proceeds from new debenture issuance.

A financial covenant on the debentures requires PRIME to maintain the net interest-bearing debt to equity ratio below 3 times. The ratio stood at 1.7 times as of March 2023. We believe that PRIME will remain compliant with the debt covenants for the next 12-18 months. However, its subsidiary breached a financial covenant on its bank loans that required it to maintain the interest-bearing debt to equity ratio below 2 times. We expect the subsidiary to get the covenant waivers, given the performance improvement.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2023-2025 as follows:

- PRIME to add 30 MW in power capacity annually.
- Total operating revenue to reach THB2 billion in the next three years.
- EBITDA margin to range between 37%-40%.
- Capital spending to range between THB1-THB2 billion per year.

RATING OUTLOOK

The "negative" outlook reflects a significant deterioration in PRIME's cash flows against debt obligations. The company's ongoing expansion, plus the move to low-margin ventures, will likely continue to raise debt burden and keep leverage at high levels.

RATING SENSITIVITIES

A rating downgrade could occur if PRIME is unable to improve its financial profile. Conversely, the rating outlook could be revised to "stable" if the company can enhance earnings and cash generation with well managed financial leverage. That is, the existing power projects continue to generate reliable cash flows and satisfactory performances, while the projects under development are completed according to plan and produce satisfactory returns. The new ventures will not significantly weaken the company's earnings and cash flows.

COMPANY OVERVIEW

PRIME is a renewable power producer in Thailand. Formerly named Food Capital PLC, the company started transforming from its legacy property and restaurant businesses to renewable power generation after being taken over by the Prime Road Group. As a result, the company was renamed Prime Road Power PLC in July 2019 and became a listed company on the Stock Exchange of Thailand (SET) in October 2019. Mr. Somprasong Panjalak, the founder of the Prime Road Group, held a majority 46.7% stake in PRIME as of March 2023.

The Prime Road Group started to develop 72-MW solar power projects in Thailand in 2011. After the entire business transfer (EBT) was completed in July 2019, power generation has been the core business of PRIME, contributing 40%-60% of revenue and more than 90% of EBITDA. As of March 2023, its aggregate capacity was 262 MW, across 56 solar power projects. About 225 MW of this was operational. The company recently expanded into new ventures including solar-related equipment trading and solar rooftop installation.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: mil. THB

Sources of Revenue	2019	2020	2021	2022	Jan-Mar 2023
Power	334	347	368	437	181
Solar rooftop installation	-	126	146	254	101
Solar-related equipment trading	-	22	54	425	154
Total revenue	**334**	**495**	**568**	**1,115**	**436**

Source: PRIME

Table 2: Solar Power Project Portfolio (as of March 2023)

Country	No. Of Project	Gross Contracted Capacity (MW)	Equity Contracted Capacity (MWe)	Tariff
Solar Projects				
Thailand	11	73.0	22.6	Adder: THB8
Thailand	8	40.6	36.7	FiT: THB4.12-THB5.66
Thailand	20	14.6	14.6	Agreed Prices
Taiwan	13	55.9	55.9	FiT: NTD4.3591-NTD4.552
Cambodia	1	60.0	60.0	FiT: 3.877 US cents
Japan	3	18.3	4.6	FiT: JPY36-JPY40
Grand total	**56**	**262.3**	**194.3**	

Source: PRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	------------Year Ended 31 December ---------- 2022	2021	2020	2019
Total operating revenues	438	1,129	573	495	336
Earnings before interest and taxes (EBIT)	120	348	348	403	370
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	185	345	577	487	399
Funds from operations (FFO)	94	149	459	385	299
Adjusted interest expense	84	188	114	99	100
Capital expenditures	89	1,700	962	108	355
Total assets	10,378	10,491	6,450	5,838	5,277
Adjusted debt	5,409	4,607	2,329	1,505	1,874
Adjusted equity	3,275	3,252	3,086	2,817	2,337
Adjusted Ratios					
EBITDA margin (%)	42.11	30.58	100.70	98.27	118.90
Pretax return on permanent capital (%)	4.48 **	4.56	6.46	8.71	9.28
EBITDA interest coverage (times)	2.21	1.84	5.07	4.92	4.00
Debt to EBITDA (times)	12.22 **	13.34	4.04	3.09	4.69
FFO to debt (%)	3.56 **	3.23	19.71	25.59	15.98
Debt to capitalization (%)	62.29	58.62	43.01	34.83	44.49

* *Consolidated financial statements*
** *Adjusted 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

Prime Road Power PLC (PRIME)

Company Rating:	BBB-
Rating Outlook:	Negative

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