PRIME ROAD POWER PLC

No. 120/2022
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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 30/07/21

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-", with a "stable" outlook. The rating reflects 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 execution risk associated with new overseas power projects. The rating also takes into consideration a potential rise in the company's debt load during its expansion.

KEY RATING CONSIDERATIONS

Experience in solar power projects

PRIME's strength is built on its long record of 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 an aggregate contracted capacity of 72 megawatts (MW). As part of its growth strategy, PRIME has recently expanded internationally.

At the end of June 2022, PRIME's aggregate contracted capacity, across all the solar power assets, was about 255 MW. Of this, about 143 MW was operational. In terms of equity capacity (or contracted capacity proportionate to its ownership in the power plants), PRIME had an aggregate capacity of 187 MWe. This includes solar power projects in Thailand (69 MWe), Cambodia (60 MWe), Taiwan (53 MWe), and Japan (4.6 MWe).

Highly predictable cash flows from power business

Though PRIME has recently expanded into new ventures including electrical equipment trading, solar rooftop construction, and innovations, we expect the power business to continue to contribute more than three fourths of the company's annual earnings before interest, taxes, depreciation, and amortization (EBITDA) over the next three years.

The rating takes into consideration the low-risk nature of the power business, which is attributed to low operational risk, minimal payment risk, and long-term PPAs. Solar power generation has proven to yield predictable power outputs and reliable cash flows. During the last 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 payment risk as almost all 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 should continue to account for less than 5% of total capacity.

Execution risk associated with new overseas power projects

PRIME continues to expand its solar power portfolio, particularly in Taiwan and Cambodia, raising execution risk associated with its projects under development. However, we hold the view that PRIME should be able to manage development risks and the new projects will generate satisfactory returns.

PRIME successfully developed its first 6-MW solar power project in Taiwan in 2019. Additional 47-MW solar power projects are currently under construction and development. The projects underway have recently been affected by fallout from the Coronavirus Disease 2019 (COVID-19) pandemic and chip shortages, with delays in the manufacture and transportation of solar panels. Project construction and the installation of equipment have also been severely affected by travel restrictions and lockdown measures imposed by the Taiwanese government. However, the Taiwanese government has already extended the completion deadlines for these projects. Though construction risk remains, we believe PRIME will be able to complete the projects on time.

The company's largest committed overseas project is the first phase of National Solar Park in Cambodia. The 60-MW solar power project is scheduled to begin operations in late 2022. In our view, investments in Cambodia carry higher risks than those in Thailand. One of the key risk factors is the counterparty risk of the state-run Electricity of Cambodia (EDC), the purchaser of electricity, whose credit profile is not as strong as Thai state-owned power buyers. The track record for solar power generation in Cambodia is also limited as it is in the early stages of development. The involvement of the Asian Development Bank (ADB), as the project advisor and main financier, helps alleviate concerns over the development risk to some extent. However, cost control will be challenging as the project offers a low feed-in-tariff (FiT) of 3.877 US cents per kilowatt-hour (kWh). PRIME has entered into the operating and maintenance agreement on agreed prices to control operating costs. As this project represents about one third of the company's aggregate equity capacity, its performance will have a material impact on PRIME's operating performance in coming years.

Small business scale, but on a growth path

PRIME's business scale is small, compared with other power producers rated by TRIS Rating. However, we project revenue from the core power business and the three new ventures will grow significantly over the next three years. Our base-case forecast predicts PRIME's total operating revenue to reach THB1.5 billion in 2024, assuming the company adds 30 MW of power capacity annually during 2022-2024, on top of the power capacity under existing projects. We exclude two massive projects in Taiwan as they are in the early stages of development. Given these assumptions, revenue from the power business will likely reach THB1.1 billion in 2024, up from THB368 million in 2021. Revenue from the other three businesses would be in the range of THB300-THB400 million per annum over the next three years.

We estimate PRIME's EBITDA to grow steadily to about THB900 million in 2024, from THB577 million in 2021. Its EBITDA margin will likely range from 55% to 75% over the next three years, compared with 76.1% in the first quarter of 2022. The decline in the EBITDA margin reflects the greater contribution of the three new businesses which carry lower margins than the power business.

Leverage on the rise

The rating is constrained by a potential rise in financial leverage during the company's expansion. In our base-case forecast, PRIME's capital expenditures are expected to total THB1.5-THB4 billion per annum over the next three years. Funds from operations (FFO), expected at THB350-THB650 million per annum, would not be sufficient to cover the planned capital spending. Significant external funding will be required to fund new investments. Without a capital increase, we project the FFO to debt ratio to fall to 6%-10% during 2022-2024, from above 15% in the past, and the debt to EBITDA ratio to rise to 7-10 times over the same period, from 4.5 times in the first quarter of 2022. Including the two large-scale projects under development in Taiwan, leverage will rise even further. However, we expect PRIME to deal with the leverage pressure properly, considering its plan to raise equity to support growth.

As of March 2022, total debt, excluding financial lease, was reported at THB3.7 billion. The priority debt, including secured debt at the company and total debt at the subsidiary level, was about THB2.3 billion. This translates to a priority debt to total debt ratio of 60%. Since PRIME's priority debt ratio exceeded our trigger of 50%, we expect unsecured creditors to be significantly disadvantaged to the priority debt holders.

Manageable liquidity

PRIME should be able to manage its liquidity adequately. During the next 12 months of 2022, debts of about THB662 million will come due, comprising THB51 million in short-term loans for working capital and THB611 million in long-term bank loans. At the end of March 2022, cash and marketable securities were THB986 million. FFO over the next 12 months are forecast to be THB465 million. The liquid assets and cash from operations totaling THB1.5 billion should cover the repayments coming due. The company also had undrawn credit facilities worth THB189 million at the end of March 2022, which can be used as another source of liquidity.

A financial covenant of the debentures requires PRIME to maintain the net interest-bearing debt to equity ratio below 3 times. The ratio stood at 0.9 times as of March 2022. TRIS Rating believes that PRIME will stay compliant with the covenants for the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- PRIME to add 30 MW in power capacity annually during 2022-2024.
- Total operating revenues to reach THB1.5 billion in 2024.
- EBITDA margin to range from 55%-75%.
- Annual capital spending to range from THB1.5-THB4 billion per year.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the power business will remain the core contributor to PRIME's operating performance and that the company's power plants will continue to perform satisfactorily and generate reliable cash flows. The company is also expected to successfully execute the projects under development and earn satisfactory returns.

RATING SENSITIVITIES

A rating upside is limited during a period of major expansion. However, it could occur if PRIME can significantly enlarge its cashflow base, while maintaining a healthy capital structure. In contrast, the rating could be revised downward if the performances of its power assets fall significantly short of the estimates or respective guidance. Downward pressure on the rating could also occur if the company's financial position deteriorates materially.

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 as it was 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 51.9% stake in PRIME as of March 2022.

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 more than two thirds of revenue and three fourths of EBITDA. As of June 2022, its aggregate capacity was 255 MW, across 45 solar power projects. About 143 MW of this was operational. The company has recently expanded into new ventures including electrical equipment trading, solar rooftop construction, and innovations.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

Sources of Revenue	2018	2019	2020	2021	Jan-Mar 2022
Power	100	100	70	65	89
Solar rooftop construction	-	-	25	26	8
Innovations	-	-	-	-	-
Electrical equipment trading	-	-	4	9	3
Total	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**216**	**334**	**495**	**568**	**113**

Source: PRIME

Table 2: Solar Power Project Portfolio (as of June 2022)

Country	No. Of Project	Gross Contracted Capacity (MW)	Equity Contracted Capacity (MWe)	Tariff
Solar Projects				
Thailand	11	73.0	22.5	Adder: THB8
Thailand	8	40.6	36.7	FiT: THB4.12-THB5.66
Thailand	10	10.0	10.0	Electricity: Bill
Taiwan	12	53.1	53.1	FiT: NTD4.2567-NTD4.552
Cambodia	1	60.0	60.0	FiT: 3.877 US cents
Japan	3	18.3	4.6	FiT: JPY36-JPY40
Grand total	**45**	**255.0**	**186.9**	

Source: PRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022		---Year Ended 31 December --- 2021	2020	2019	2018
Total operating revenues	115		573	495	336	216
Earnings before interest and taxes (EBIT)	100		348	403	370	268
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	87		577	487	399	373
Funds from operations (FFO)	50		459	385	299	292
Adjusted interest expense	37		114	99	100	81
Capital expenditures	254		962	108	355	532
Total assets	7,725		6,450	5,838	5,277	3,666
Adjusted debt	2,629		2,329	1,505	1,874	1,431
Adjusted equity	3,174		3,086	2,817	2,337	1,811
Adjusted Ratios						
EBITDA margin (%)	76.09		100.70	98.27	118.90	172.98
Pretax return on permanent capital (%)	5.43	**	6.46	8.71	9.28	10.84
EBITDA interest coverage (times)	2.36		5.07	4.92	4.00	4.59
Debt to EBITDA (times)	4.49	**	4.04	3.09	4.69	3.83
FFO to debt (%)	17.26	**	19.71	25.59	15.98	20.41
Debt to capitalization (%)	45.30		43.01	34.83	44.49	44.14

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

RELATED CRITERIA

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

Prime Road Power PLC (PRIME)

Company Rating:	BBB-
Rating Outlook:	Stable

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