TRIS RATING
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SERMSANG POWER CORPORATION PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 29/09/23

Company Rating History:

Date	Rating	Outlook/Alert
19/09/22	BBB+	Stable
06/10/20	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sermsang Power Corporation PLC (SSP) at "BBB+" with a "stable" outlook. The rating reflects the company's predictable cash flows derived from its power portfolio, which mainly comprises solar power. The strong cash flows are built from long-term power purchase agreements (PPAs) and continued solid plant performance. However, the rating remains constrained by the company's strategic growth commitments which will likely lead to a rise in financial leverage.

KEY RATING CONSIDERATIONS

Solar power remains dominant

Solar power remains the foundation of SSP's power portfolio. As of June 2024, SSP owned a number of operating renewable power projects across Thailand and Asia, with a combined net capacity of 319 megawatts (MW) based on its ownership stake. Solar power projects, both ground mounted and rooftop, accounted for about 70% of the total capacity. The remainder was distributed across wind and biomass power projects.

Most of SSP's power plants are supported by long-term PPAs with state-owned counterparties, including the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable"), Vietnam Electricity (EVN), and credible power buyers in Japan. The presence of credible counterparties further enhances the stability of SSP's revenue streams. While these PPAs are on a non-firm basis, the cash flows generated from solar power generation are largely predictable due to the committed tariff structure and the relatively low operational risks associated with solar technology.

Solid performance expected to continue

SSP's solar power plants generally demonstrate satisfactory operating performance, consistently achieving the P50 level (the 50% probability of energy production), the threshold of expected operating performance. The average capacity factor for these plants has been maintained at 15%. Solar power generally accounts for a significant proportion of the company's total electricity sales, ranging from 50% to 60%.

In the first half of 2024, the company's electricity sales reached 297 gigawatt-hours (GWh), representing a 9.4% year-on-year increase from 272 GWh in the same period of the previous year. The growth in power sales volume was primarily driven by additional investment in wind power project in the first quarter of 2024. However, the performance of SSP's core 52-MW solar project, operated by the wholly owned Sermsang Palang Ngan Co., Ltd. (SPN), experienced a decline in electricity sales during the first half of 2024 due to lower PV module efficiency and inverter shutdowns. As a result, the plant's capacity factor was below expectations.

As a countermeasure, SSP has implemented a repowering plan, which involves replacing the PV modules and inverters at SPN. This project is expected to be completed in phases during the second half of 2024 and the first half of 2025. After full implementation of the plan, SPN's capacity factor is expected to increase to over 20% due to improved PV module efficiency.

Additional wind power investment to offset adder phase-out

SPN continues to be a significant revenue driver for SSP, contributing about 25%-30% of the company's revenue. SPN's earnings are currently supported by an adder of THB6.5 per kilowatt-hour (kWh) on top of the base tariff for the first 10 years of operation. This adder has generated approximately THB0.5 billion in annual revenue for SPN. However, it is scheduled to expire in January 2025.

To address this potential revenue contraction, SSP paid THB2.1 billion to acquire additional shares in Winchai Co., Ltd. (Winchai) in March 2024, increasing its ownership from 25% to 100%. Winchai owns and operates a 45-MW wind power project, which has been in operation since April 2019. Winchai is projected to contribute about THB0.7-THB0.8 billion in annual revenue to SSP, which should help mitigate the impact of the expiring adder of SPN.

Ambitious growth target

SSP has outlined a comprehensive five-year expansion strategy aimed at significantly increasing its net capacity to approximately 600 MW by the end of 2028. The company is actively developing projects across various geographic markets and energy sources, including solar, wind, and waste-to-energy (WTE).

In Japan, SSP is developing a 22-MW solar power project, "LEO2 Project", which is anticipated to commence operations in the fourth quarter of 2025. In Thailand, SSP is pursuing two WTE power projects with a combined capacity of 19.8 MW. These projects are anticipated to start operations in late 2026. Additionally, the company is developing three solar power projects, totaling 134.5 MW, which are scheduled to begin operations in 2027-2028. SSP is also developing two renewable power projects in Taiwan with a combined installed capacity of 56.5 MW. These projects are expected to come online in 2026 and 2028, respectively.

Assuming all the projects under development commence operations as scheduled, SSP's total capacity should reach 500 MW in 2027. In our base case, we forecast SSP's revenue to reach around THB3.6-THB3.7 billion per year in 2024-2025 and surpass THB4 billion in 2026. Correspondingly, we project SSP's EBITDA to range from THB2.7-THB2.8 billion per year in 2024-2025, increasing to THB3 billion in 2026 as the new projects come onstream. We also forecast funds from operations (FFO) of around THB1.6-THB1.8 billion per year during 2024-2026, before rising to about THB2.2 billion in 2027.

Rising debt level amid growth strategy

We expect SSP to bear a heavier debt burden over the next few years due to its ambitious expansion plans. In our base case, we project SPP to spend approximately THB16.1 billion on net capital expenditures and investments during the period 2024-2027, with the majority of these outlays occurring in 2024 and 2025. As a result, SSP's net debt is projected to increase substantially, rising to THB12.5 billion in 2024 from THB8 billion as of 2023. We anticipate SSP's net debt to peak at around THB17 billion in 2027.

With that said, we project SSP's debt to EBITDA ratio to increase to 4.5 times in 2024, from 3.2 times in 2023. The debt to EBITDA ratio is forecast to hover around 5.5-6 times in 2025-2026 before declining to below 5 times in 2027. Additionally, we project the debt to capitalization ratio to stay at about 60% during the build-up phase. Given the potential increase in financial leverage, we expect SSP to maintain financial discipline and ensure that its investments remain balanced with its operating cash flow and debt level.

Adequate liquidity

We assess SSP's liquidity as adequate. Most of the company's power projects are primarily supported by long-term project loans. As of June 2024, the company had THB3.5 billion in short-term and long-term debt obligations maturing within the next 12 months. At the same time, it had cash of THB3.8 billion. Furthermore, we expect FFO of about THB1.7 billion over the next 12 months.

Debt structure

As of June 2024, SSP had consolidated debt of about THB15.6 billion, excluding lease liabilities. Of this total, THB12.1 billion was priority debt, consisting of secured debt owed by SSP and all borrowings incurred by its operating subsidiaries. The company's priority debt to total debt ratio was 78%, far above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that SSP's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

The key assumptions underpinning our base case for 2024-2027 include:

- Installed capacity to reach 509 MW in 2027
- Average capacity factor
    - Solar ~ 15%-16%
    - Wind ~ 33%-34%
    - Biomass ~ 75%-76%
    - WTE ~ 69%-70%
- EBITDA margin to range between 72% and 75%.
- Net capital expenditure and investments to total THB16.1 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectations that SSP's power plants will continue to demonstrate solid performance and generate strong cash flows. It also reflects our view that the company will develop and commission new capacity without significant delays or cost overruns. As such, SSP's level of cash generation against debt obligations should remain in line with our base forecast.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, we could consider a positive rating action if SSP is able to generate substantial cash flow that materially reduces its financial leverage. Conversely, downward rating pressure would build if SSP's credit metrics significantly deteriorate. This could occur if the company pursues a more aggressive financial policy, including higher-than-forecast debt-funded investments, or additional share repurchases that considerably worsen credit metrics. An indication of this would be the ratio of debt to EBITDA rising above 5 times, without any prospects of a decline. Although unlikely, we could also take a negative rating action if the performance of its power plants falls considerably short of our estimates.

COMPANY OVERVIEW

SSP was founded in 2015 as a holding company. SSP invests in companies that generate and sell electricity produced from renewable resources. The company was listed on the Market for Alternative Investment (MAI) in September 2017. SSP's shares were moved to the Stock Exchange of Thailand (SET) in March 2019. In 2021, the company issued 50 million new shares under a private placement for UOB Kay Hian Private Ltd. and Mr. Pongsak Thammatucharee. As of March 2024, its major shareholder was the Kraipisitkul family, which owned 57% of the company's shares. Public shareholders owned the rest.

SSP's first power plant was a solar power plant in Lopburi with an installed capacity of 52 MW. The plant was owned and run by SSP's subsidiary, Sermsang Palang Ngan Co., Ltd. (SPN). SPN has a long-term PPA with EGAT for 40 MW of power. SPN receives an adder of THB6.5 per kWh for the first 10 years. SSP later expanded into solar rooftop projects and solar farms overseas, including Japan, Vietnam, Mongolia, and Indonesia.

In Thailand, SSP owns a 5-MW solar farm, which it co-developed with the War Veterans Organization of Thailand (WVO). The project receives a fixed feed-in-tariff (FiT) of THB4.12 per kWh. The term of the PPA is 25 years. Apart from solar farms, SSP has developed solar rooftop projects with industrial users under private PPAs. The electricity tariffs charged to industrial users are based on a time of use (TOU) tariff minus a discount, as specified in the PPAs.

SSP also has several operating solar farms overseas. The company has three operating solar farms in Japan, with total gross capacity of 68 MW. These three projects receive a FiT of JPY36 per kWh under 20-year PPAs with reputable off-takers in Japan, such as Kyushu Electric Power Co., Inc. SSP also owns the "Khunsight Kundi Solar Farm Project", a 16-MW solar farm in Mongolia. This project has a 12-year PPA with National Dispatch Center LLC, based on a FiT of 16.2 US cent per kWh. SSP also owns a 50-MW solar farm in Vietnam. EVN is the off-taker for this project under a 20-year PPA. The project is based on a fixed FiT of 9.35 US cent per kWh.

In July 2021, SSP acquired a 100% share of Uni Power Tech Co., Ltd. (UPT). UPT owns and operates a 9.9-MW biomass power plant in Nakorn Ratchasima, Thailand. UPT commenced operations in May 2019 and sells power to the Provincial Electricity Authority (PEA) under a 20-year PPA. The PPA carries a fixed FiT of THB2.39 per kWh and a variable FiT, which is linked to the core inflation rate. The PPA also carries a premium FiT of THB0.3 per kWh for the first eight years. In October 2021, SSP's 48-MW nearshore wind farm in Vietnam commenced operations. In March 2022, SSP invested in a 25% share of "Winchai Wind Farm" through Qian Xing Long Co., Ltd. (QXL), adding net capacity of 11 MW to SSP's power portfolio.

In July 2023, SSP invested in a 75% share of Samart Plaspack Co., Ltd. with an investment cost of THB140.8 million. Samart Plaspack is a manufacturer of plastic packaging used for various products, including food & beverage and cosmetics.

In 2023, SSP delivered approximately 544 GWh of electricity to its customers.

In March 2024, SSP completed the acquisition of the remaining 75% share in Winchai with an investment cost of THB2.1 billion, making Winchai a wholly owned subsidiary of SSP.

KEY OPERATING PERFORMANCE

Table 1: SSP's operating projects (As of Jun 2024)

	Project Name	Type	Off-taker	Location	SCOD/ COD	Ownership %	------ Capacity (MW) ------ Installed	Contracted
Operating								
1	SPN	Solar farm	EGAT	Lopburi	Feb-15	100	52.0	40.0
2	WVO	Solar farm	PEA	Ratchaburi	Nov-18	100	5.0	5.0
3	Zouen	Solar farm	KYUDEN (a)	Kumamoto, Japan	Aug-18	100	8.0	6.0
4	Yamaga	Solar farm	KYUDEN (a)	Kumamoto, Japan	May-20	90	34.5	30.0
5	Leo1	Solar farm	TEPCO (b)	Shizuoka, Japan	Jul-21	100	26.0	20.0
6	Binh Nguyen	Solar farm	EVN (d)	Quang Nai, Vietnam	May-19	100	49.6	40.0
7	Khunsight Kundi	Solar farm	NDC LLC (c)	Ulaanbaatar, Mongolia	Jul-19	75	16.4	15.0
8	Solar Rooftop	Solar rooftop	Private users	Thailand	Q1'18-Q3'23	100	8.3	8.3
9	SSE	Solar rooftop	Private users	Indonesia	Q4'19-Q2'23	95	35.0	35.0
10	UPT	Biomass	PEA	Nakorn Ratchasima	May-19	100	9.9	8.0
11	TTTV	Wind farm	EVN (d)	Tra Vinh, Vietnam	Oct-21	80	48.0	48.0
12	Winchai	Wind farm	PEA	Mukdaharn	Apr-19	100	45.0	45.0
Total							**337.7**	**300.3**

Source: SSP
Remark: (a) Kyushu Electric Power Co., Inc.
(b) Tokyo Electric Power Company
(c) National Dispatching Center LLC
(d) Vietnam Electricity

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-------------Year Ended 31 December 2023	2022	2021	2020 ---------
Total operating revenues	1,693	3,104	3,155	2,695	2,192
Earnings before interest and taxes (EBIT)	751	1,581	1,577	1,351	1,160
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,226	2,483	2,661	2,102	1,693
Funds from operations (FFO)	805	1,719	2,046	1,676	1,303
Adjusted interest expense	382	660	561	356	367
Capital expenditures	977	291	189	4,891	1,013
Total assets	25,238	21,067	21,292	24,063	16,925
Adjusted debt	12,792	7,991	8,897	9,427	9,407
Adjusted equity	7,953	8,467	8,277	6,374	4,804
Adjusted Ratios					
EBITDA margin (%)	72.4	80.0	84.4	78.0	77.3
Pretax return on permanent capital (%)	6.5 **	7.6	7.6	7.3	7.9
EBITDA interest coverage (times)	3.2	3.8	4.7	5.9	4.6
Debt to EBITDA (times)	5.3 **	3.2	3.3	4.5	5.6
FFO to debt (%)	12.5 **	21.5	23.0	17.8	13.9
Debt to capitalization (%)	61.7	48.6	51.8	59.7	66.2

* *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

Sermsang Power Corporation PLC (SSP)

Company Rating:	BBB+
Rating Outlook:	Stable

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