TRIS RATING
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SUPER ENERGY CORPORATION PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Positive

Last Review Date: 07/01/19

Company Rating History:

Date	Rating	Outlook/Alert
03/01/18	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Super Energy Corporation PLC (SUPER) at “BBB-”. At the same time, we revise the rating outlook of SUPER to “positive” from “stable” to reflect the completed development of large-scale solar power projects in Vietnam, the company’s first overseas investments. The rating outlook embeds our expectation on the satisfactory performance of SUPER’s overseas projects.

The rating reflects the predictable cash flows SUPER receives from its power projects. Each project has long-term power purchase agreements (PPAs) with state-owned utilities. However, the rating is tempered by SUPER’s large-scale expansion, a potential surge in debt load, and a greater exposure to country risk. Also, execution risks associated with overseas projects remain a concern.

KEY RATING CONSIDERATIONS

Predictable cash flows

The company rating is predicated on the predictable cash flows SUPER receives from its power plants. SUPER currently owns more than one hundred operating power plants. In all, SUPER has contracted capacity of nearly 760 megawatts (MW).

Solar power remains the centerpiece of SUPER’s power-generating assets (750 MW). The predictable cash flows are largely underpinned by long-term PPAs and the low operation risks of solar power.

All of SUPER’s power plants have multi-year PPAs with state-owned producers and distributors of electricity. The payment risk of the power buyers in Thailand is minimal, while that in Vietnam is higher.

Overseas projects to be key growth drivers

As growth opportunities in the domestic market have languished, SUPER has made overseas expansion, the main thrust of its business strategy. The company is committed to develop several large-scale renewable power projects in Vietnam.

Despite a tight timeline, SUPER recently completed the development of its first four solar power projects in Vietnam. All of the projects started commercial runs in June 2019, with a combined capacity of 186.72 MW. The company expects the remaining solar project (50 MW) to commence operation by the end of 2019. SUPER will further grow its footprint in Vietnam. It plans to add at least 422 MW of capacity from wind power projects, which are slated to commence operations in 2021.

In all, TRIS Rating expects the aggregate contracted capacity of the company’s operating power plants to reach 1,400 MW in the next three years. Total operating revenue is forecast to increase to Bt8.7 billion in 2022, from Bt6.2 billion in 2019. EBITDA (earnings before interest, taxes, depreciation, and amortization) should surpass Bt6.0 billion in 2022.

Solid operating performance

SUPER’s proven record in managing several operating solar power plants at high efficiency is a plus to the rating. The performance of SUPER’s solar power plants has been satisfactory. Since inception, the actual annual outputs of most of the company’s solar power plants have reached initial estimates, based on a 75% probability (P75 level) of energy production.

SUPER also maintains efficient cost control. As a result, the EBITDA margin (EBITDA as a percentage of revenues) has held at a high level of above 80% over the past three years.

Looking ahead, SUPER's power portfolio could begin to deliver a lower EBITDA margin as tariffs for new power projects tend to decline in the wake of market competition. SUPER also plans to expand its waste-to-energy (WTE) projects, which generally yield lower margins than solar power projects. Moreover, the power projects in Vietnam are exposed to a risk of curtailments. That said, TRIS Rating expects the EBITDA margin to remain high at above 75% over the next three years.

Execution risks associated with projects in Vietnam

On the negative side, SUPER's growth strategy will enlarge the company's exposure to country risk. When all the projects in Vietnam are fully on stream, they may represent half of SUPER's power portfolio in terms of contracted capacity. Despite fast-growing demand for electricity and the government's supportive measures, power projects in Vietnam carry several risks, including changes in regulations, contract enforcement, insufficient infrastructure, and construction delays. In addition, counterparty risk is higher. We view that the credit profile of the state-run Vietnam Electricity (EVN) is not as strong as the Thai state-owned power buyers.

Furthermore, the national power grid in some provinces, especially Binh Thuan and Ninh Thuan, is facing overcapacity. As a result, SUPER's solar power plants, such as the Sinenergy project (50 MW), are susceptible to curtailments. The Vietnamese government plans to enhance grid capacity to absorb the growing power production. However, the upgrade could not be achieved earlier than 2022. Taking this into considerations, we arrive at a conservative base-case forecast that substantially cuts the annual outputs of SUPER's solar power plants in the two provinces (136.72 MW) over the next three years.

Large-scale expansion continues

The rating is constrained by the company's large-scale expansion. SUPER will continue to grow considerably over the next three years. In addition to solar and wind power, it aims to increase its WTE capacity by 23 MW with three new projects in the pipeline. WTE projects generally carry higher operational risks than solar power plants. In addition to the environmental impacts inherent in the generation process, the company has to grapple with inventory risk arising from fluctuations in supplies and prices of feedstock. SUPER has also recently moved into a new area of business, acquiring a 100% stake in Super Water Co., Ltd., which holds a concession to sell raw and tap water. However, we expect the water production and distribution business will remain small in the coming years.

SUPER's rapid growth could saddle the company with a heavy debt burden and impede free cash flow. Projects under development require a total investment of about Bt31 billion. Maintaining strong operating performance could be a challenge for the company with such as a large-scale expansion.

Infrastructure fund enhances financial capability

In August 2019, SUPER successfully established an infrastructure fund, which helps enhance its capacity for future investments. SUPER sold a pool of its solar power projects (118 MW) to Super Energy Power Plant Infrastructure Fund (SUPEREIF). The company reported gains on the sale of about Bt1.3 billion, receiving nearly Bt7 billion in net cash after its reinvestment in the fund. SUPER used the proceeds to repay loans worth about Bt4.2 billion, leaving the company with a cash pile of Bt3.6 billion as of September 2019. As a consequence, the debt to capitalization ratio fell to about 58% as of September 2019, from above 60% during the previous three years.

Potential surge in debt load

The massive investments should not raise SUPER's leverage significantly until 2022. The projects in Vietnam come with Engineering Procurement and Construction (EPC) contractor financing. SUPER will pay most of the construction costs after the projects are operational. This mechanism should help keep the debt to capitalization ratio at around 60% during 2019-2021, before reaching 70% in 2022.

Based on our conservative forecast, the ratio of funds from operations (FFO) to debt could drop to 9%-10% during 2020-2022, from 12.3% in the first nine months of 2019. The ratio excludes the gains on the sale of assets to SUPEREIF, for comparative purposes. However, the FFO to debt ratio could be higher if the performance of the solar power projects in Vietnam beats our expectations.

As the company is likely to grow further, we believe that SUPER will be able to maintain its leverage at the expected level. Given the company's wealth of power plants, SUPER has financial flexibility, with divestiture through the infrastructure fund being an option.

Liquidity stays manageable

TRIS Rating believes SUPER 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 assumed to range around Bt3-Bt4 billion per annum, whereas the annual long-term debt repayment is in the Bt2-Bt3 billion range. As of September 2019, SUPER also had undrawn credit facilities, plus cash and marketable securities, of about Bt4.1 billion, as additional sources of liquidity.

SUPER and its subsidiaries have financial covenants on their bank loans and debentures. SUPER is required to maintain a debt service coverage ratio above 1.2 times and keep the interest-bearing debt to equity ratio below 3 times. Its subsidiaries are required to maintain a debt service coverage ratio above 1.1 or 1.2 times and keep the interest-bearing debt to equity ratio below 2.5 or 3.0 times. SUPER and its subsidiaries comply with the respective financial covenants.

BASE-CASE ASSUMPTIONS

- Aggregate capacity of operating power plants to reach 1,400 MW in the next three years.
- Total operating revenues to range around Bt6.7-Bt8.7 billion during 2020-2022.
- EBITDA margin to be at least 75%.
- Projects in the pipeline require total capital spending of Bt31 billion.
- SUPER obtains long credit terms from its EPC contractors for construction of new projects in Vietnam.
- Annual outputs of some solar power plants in Vietnam are substantially cut.

RATING OUTLOOK

The "positive" rating outlook reflects the company's success in developing large-scale solar power projects in Vietnam, SUPER's first overseas investments, which commenced operations within tight deadlines. The outlook embeds our expectation on the satisfactory performance of SUPER's overseas power projects in the years ahead.

RATING SENSITIVITIES

A rating upgrade could occur if the solar power plants in Vietnam perform satisfactorily, as expected. In contrast, the rating could be lowered if the performances of the power projects undershoot initial estimates or respective guidance. A downward rating pressure could also emerge if the capital structure deteriorates significantly, possibly due to a failure to generate sufficient cash flow, excessive debt-funded investments, or project cost overruns.

COMPANY OVERVIEW

SUPER was founded as a producer of Autoclaved Aerated Concrete in 1994 and listed on the Stock Exchange of Thailand (SET) in 2005. The company discontinued the original business and sold it to Siam City Cement PLC (SCCC) in 2013. SUPER then began two new businesses: information and communication technology (ICT) and renewable energy. SUPER entered the water production and distribution business in 2019. Currently, the power segment is the centerpiece of the company, accounting for nearly all revenues. As of September 2019, the Lochaya Group remained the major shareholder, holding a 37.5% interest in SUPER.

Currently, SUPER's aggregate contracted capacity, spread across all the operating power projects, is 759 MW. This includes solar power projects (750 MW) and WTE projects (9 MW). SUPER holds the largest capacity among the solar power producers rated by TRIS Rating.

All power plants have multi-year PPAs with state-owned producers and distributors of electricity, namely the Electricity Generating Authority of Thailand (EGAT), rated "AAA" by TRIS Rating, the Metropolitan Electricity Authority (MEA), the Provincial Electricity Authority (PEA), rated "AAA" by TRIS Rating, and Vietnam Electricity (EVN).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

	2015	2016	2017	2018	9M19
Power	75%	97%	98%	98%	98%
ICT	25%	2%	2%	2%	1%
Water	-	-	-	-	0%
Others	-	0%	-	-	-
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total revenue (Bt million)	**398**	**3,612**	**5,510**	**5,729**	**4,690**

Source: SUPER

Table 2: Operating Power Project Portfolio

Scheme	Tariff (Bt/kWh)	Gross Contracted Capacity (MW)
Solar		
Adder	6.50	5.95
Adder	8.00	7.00
FiT	5.66	491.70
FiT	5.377	30.95
FiT	4.120	28.00
FiT	9.35 US cents	186.72
Subtotal - Solar		**750.32**
Waste		
Adder	3.50	9.00
Subtotal - Waste		**9.00**
Grand total		**759.32**

Note: *excluding SUPER's equity investment*
Source: *SUPER*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2019	------------- Year Ended 31 December ------------ 2018	2017	2016	2015
Total operating revenues	4,737	5,778	5,584	3,626	409
Earnings before interest and taxes (EBIT)	3,507	2,762	3,027	1,739	(571)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,152	5,090	5,101	3,133	(429)
Funds from operations (FFO)	3,660	3,602	3,586	1,917	(677)
Adjusted interest expense	1,170	1,481	1,492	1,233	246
Capital expenditures	1,503	2,152	4,658	16,526	16,609
Total assets	55,524	49,650	46,871	48,025	39,179
Adjusted debt	25,971	28,195	27,948	28,171	15,416
Adjusted equity	18,844	17,555	16,223	14,696	11,987
Adjusted Ratios					
EBITDA Margin (%)	108.77	88.09	91.34	86.40	(104.98)
Pretax return on permanent capital (%)	8.62 **	5.86	6.79	4.83	(3.42)
EBITDA interest coverage (times)	4.40	3.44	3.42	2.54	(1.75)
Debt to EBITDA (times)	4.09 **	5.54	5.48	8.99	(35.89)
FFO to debt (%)	17.28 **	12.78	12.83	6.80	(4.39)
Debt to capitalization (%)	57.95	61.63	63.27	65.72	56.26

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

RELATED CRITERIA

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

Super Energy Corporation PLC (SUPER)

Company Rating:	BBB-
Rating Outlook:	Positive

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