

TPC POWER HOLDING PLC

No. 208/2023
25 October 2023

CORPORATES

Company Rating: BBB-
Outlook: Negative

Last Review Date: 28/10/22

Company Rating History:

Date	Rating	Outlook/Alert
29/10/21	BBB-	Stable
09/10/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPC Power Holding PLC (TPCH) at “BBB-”. At the same time, we revise the rating outlook to “negative” from “stable”. This follows a similar rating action on Thai Polycons PLC (TPOLY, rated “BBB-/negative”), TPCH’s parent company.

We view that TPCH as a core a subsidiary of TPOLY. Hence, the company rating on TPCH is equal to and move in tandem with that on TPOLY. TPCH’s stand-alone credit profile (SACP) remains at “bbb”, suggesting its stronger credit profile relative to that of TPOLY.

TPCH’s SACP continues to reflect its reliable cash flows, aided by long-term power purchase agreements (PPAs) with state-owned utilities. However, the SACP recognizes the company’s susceptibility to a feedstock supply risk and volatile prices. The SACP also factors in the increasingly competitive renewable power industry, and the risks associated with the company’s first overseas investment.

KEY RATING CONSIDERATIONS

Core subsidiary of TPOLY

We expect TPCH to remain the core subsidiary of TPOLY, given the close linkage between the two companies. Owning the majority interest in TPCH (43.3%), TPOLY has direct control over TPCH’s business and financial policies. More importantly, TPOLY’s earnings almost entirely come from the power business of TPCH. TPCH’s reliable cash generation has meaningfully helped alleviate the eroding performance of TPOLY’s construction business over recent years.

Reliable cash flows backed by long-term PPAs

TPCH currently owns 14 power projects including biomass, waste-to-energy (WTE), and a recently acquired solar farm. The biomass power and WTE projects have an aggregate contracted capacity of 112.2 megawatts (MW), all of which have been commercially operational. The 100-MW solar farm is under development.

TPCH’s SACP is underpinned by the reliable cash flows generated by its operating power plants, which have performed satisfactorily. Also, all the operating power plants have multi-year PPAs with the state-owned producers and distributors of electricity in Thailand including the Electricity Generating Authority of Thailand (EGAT), the Provincial Electricity Authority (PEA), and the Metropolitan Electricity Authority (MEA). These power buyers are rated “AAA/stable”, suggesting minimal counterparty risk.

Susceptibility to feedstock risks

TPCH’s biomass power projects remain highly susceptible to feedstock supply risk. Woodchip, rice husk, coconut shells, and other fast-growing plants have been used as raw materials in biomass power plant production. The availability of agricultural waste depends on several factors including seasonality, use of biomass in other industries, and number of biomass power plants. To ensure availability of feedstock, TPCH has secured long-term supply agreements with local suppliers. However, contract enforcement remains challenging.

Apart from the availability, TPCH’s biomass power plant performance is vulnerable to the volatile feedstock prices. Biomass fuel prices can swing wildly, while feedstock varies in terms of humidity and calorific value. As for

WTE, different types of waste provide different calorific values, while contaminants can affect operational stability. The company's first WTE project under Siam Power Co., Ltd. (SP) has delivered weaker-than-expected performance due to contaminants. We expect TPCH to successfully finetune and improve plant efficiency in coming years.

Intensified competition in power market

We view the increasingly intensified competition as putting significant downward pressure on earnings, despite growth opportunities for the renewable power industry in Thailand. The prospect of high-profit projects looks limited. TPCH's most recent biomass power plants (TPCH1, TPCH2, and TPCH5) receive significant lower tariff rates, due to highly competitive bidding. The lower incentives cut the rates of returns on new projects, forcing TPCH to shift towards investing in other types of renewable power such as WTE and solar power. Also, TPCH is looking for growth outside Thailand with an eye on neighboring countries.

TPCH plans to divest a pool of five biomass power projects (TPCH1, TPCH2, TPCH5, PBM, and PBB), with a combined contracted capacity of 30.4 MW. In our base case, we assume the divestment to be completed in the last quarter of 2023, and TPCH to earn about THB1.2 billion in proceeds.

Overseas investment risks

TPCH has recently expanded outside Thailand, with its first overseas power project in the Lao People's Democratic Republic (Lao PDR). The company has spent about THB430 million acquiring a 40% stake in Maekhong Power Co, Ltd (MKP), a company incorporated in the Lao PDR. MKP is developing a 100-MW solar farm project, which carries a 25-year PPA with Electricite du Laos (EDL). The project is slated to start commercial run in 2024, receiving a fixed tariff rate over the PPA life.

The project is a part of the PPA between EDL and Electricity of Cambodia (EDC). EDL will procure electricity from several sources, including the solar farm, and sell to EDC. This implies that EDC will be an indirect off-taker of the project. Hence, the market risk is somewhat mitigated. Nevertheless, the counterparty of MKP is still EDL.

We view the company's first overseas project as carrying higher country and regulatory risks relative to Thailand-based power generation assets. The credit profile of the state-run EDL, the purchaser of electricity, is not as strong as the state-owned power buyers in Thailand. The weakened credit profile of EDL increases the counterparty risk to TPCH. Also, TPCH will be exposed to the cross-border risks of fund transferability and currency convertibility with respect to the dividend income TPCH will receive from MKP. Additionally, the solar power project offers a challenging tariff rate of US\$6.2 cents per kilowatt-hour (kWh). MKP has entered into an operating and maintenance agreement on agreed prices to control operating costs.

Earnings to decline slightly after project divestment

TPCH, as a project sponsor, has provided guarantees on the debts of the incorporated joint ventures (JVs) in proportion to its stakes in the JVs. In assessing TPCH's financial profile and performance, we include the assets, liabilities, and respective financial performances of the JVs in TPCH's consolidated accounts, in proportion to the ownership of TPCH in each venture.

We expect a slight drop in TPCH's earnings base in the years ahead, following the divestment plan. In our base case, we expect TPCH's remaining biomass power plants will continue to deliver satisfactory performance and the performance of its first WTE project will gradually improve. We forecast the company's total operating revenue to fall to THB2.5-THB2.7 billion per annum during 2024-2025, from about THB3 billion in 2023. Earnings before interest, taxes, depreciation, and amortization (EBITDA) will likely fall to around THB0.9 billion per annum during 2024-2025, from about THB1 billion in 2023. The solar power project in the Lao PDR should not contribute significant earnings, in the form of dividend incomes, in the next three years.

However, we expect the divestiture will help TPCH maintain an EBITDA margin of about 35%. This is because the five biomass power projects to be sold carry low tariff rates and have low efficiency, relative to the other existing projects.

With TPCH increasingly seeking more opportunities in neighboring countries, investments with high country risks could weigh on the company's business risk profile. As a result, we expect TPCH's new investments to arrive at returns commensurate with their respective risks.

Financial leverage under control

TPCH should continue to manage gearing properly. During 2023-2025, our projection predicts SP, the JV in which TPCH owns a 50% stake, will secure a new 10-MW WTE project. The plan to sell off five biomass power projects is expected to bring in about THB1.2 billion in cash. With that, we assume TPCH will invest in a green-field project worth below THB 1 billion. As a result, capital spending will total about THB2 billion over the next three years. We also assume MKP will be able to seek project loans, without the requirements of sponsor guarantees or additional financial supports by TPCH over the course of

the solar project development. TPCH's funds from operations (FFO) estimated at THB0.6-THB0.8 billion annually over the next three years, plus the proceeds from the asset sales, should cover the expenditures.

Looking forward, TPCH's financial leverage will likely remain at the current level. Our forecast projects its debt to EBITDA ratio to stay in the 4-6 times range during 2023-2025, compared with 5.6 times (annualized with trailing 12 months) in the first half of 2023. The FFO to debt ratio should remain above 13% while the debt to capitalization ratio will likely hover around 55%.

Debt structure

In assessing the level of priority debt in TPCH's borrowings, we exclude the debt incurred by the JVs which are guaranteed by TPCH. As of June 2023, TPCH's consolidated debt, excluding lease liabilities, was THB5.3 billion. Of this amount, THB3.8 billion was considered priority debt, comprising TPCH's secured debt and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 72%, suggesting the company's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Exposed to refinancing risk

TPCH is exposed to refinancing risk from its maturing debentures. Excluding the JV's debt, the company had THB2.5 billion of debt coming due in the next 12 months from June 2023. Short-term loans of THB226 million for working capital should be rolled over as usual, while long-term project loans of THB754 million should be covered by cash flows from the respective operating power projects. TPCH plans to repay the debentures of THB1.5 billion maturing in June 2024 with the proceeds from project refinancing. Other sources of cash are estimated to total THB950 million, which includes the expected FFO of about THB700 million and the undrawn credit facilities, plus cash and marketable securities, of THB250 million. The proceeds from project divestment will also help support liquidity. Given its growth plan, we view TPCH as needing to refinance its maturing debentures with new debenture issuance.

We expect TPCH and each of its subsidiaries and JVs to meet the financial covenants set forth under their respective loan obligations over the next 12-18 months. There are no financial covenants imposed on TPCH's bank loans. However, its debentures require a maintenance of an interest-bearing debt to equity ratio below 2.5 times. The ratio was 1.3 times as of June 2023.

BASE-CASE ASSUMPTIONS

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

- Aggregate contracted capacity of operating power plants to be 192 MW after the project divestment.
- Average capacity factor of operating power plants to range between 80%-90%.
- Aggregate power output to be 560-700 gigawatt-hours (GWh) per annum.
- EBITDA margin to stay about 35%.
- Capital spending to total THB2 billion.

RATING OUTLOOK

We expect TPCH's power projects to perform well. As such, the company's earnings and financial leverage should align with our forecast. With that, we expect TPCH to remain a core subsidiary of TPOLY, contributing the bulk of earnings to the group. The "negative" outlook follows our rating action on the company rating on TPOLY. We could downgrade TPCH in case of a similar rating action on TPOLY.

RATING SENSITIVITIES

Based on its status as a core subsidiary of TPOLY, any change in TPOLY's rating will have the same effect on TPCH's rating.

We could lower TPCH's SACP if the performances of its power plants fall significantly below our expectations, or if its financial profile weakens materially due to aggressive debt-funded investments. We are unlikely to raise the SACP in the near term. An upward revision to the SACP would require a significant increase in earnings that materially reduces TPCH's financial leverage.

COMPANY OVERVIEW

TPCH was founded in 2012 specifically to receive the power projects owned by TPOLY. TPCH was listed on the Market for Alternative Investment (MAI) in 2015. As of March 2023, TPOLY remained the major shareholder of TPCH, holding a 43.3% stake.

In 2016, the company won contracts for three biomass power projects in Yala and Narathiwat Provinces. The contracts cover a combined contracted capacity of 24.7 MW. Since then, TPCH has expanded its power portfolio, focusing on biomass power.

In 2021, the company successfully developed its first 8-MW waste-to-energy project in Nonthaburi Province. It recently expanded overseas with an acquisition of a 40% stake in a 100-MW solar power project in the Lao PDR.

As of September 2023, TPCH's aggregate contracted capacity was 212.2 MW, across 12 biomass power projects (104.2 MW), one WTE project (8 MW), and one solar power project (100 MW). Thirteen of its power plants are currently operating (112.2 MW).

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (as of Sep 2023)

Company/Country	Held by TPCH (%)	Status	Installed Capacity (MW)	Contracted Capacity (MW)	Tariff
Biomass Projects					
CRB	73	Operating	9.5	9.2	FiT
MWE	85	Operating	9.0	8.0	FiT
MGP	46	Operating	9.5	8.0	FiT
TSG	65	Operating	9.5	9.2	FiT
PGP	60	Operating	9.9	9.2	FiT
SGP	51	Operating	9.9	9.2	FiT
PTG	95	Operating	23.0	21.0	Adder
TPCH1	99	Operating	9.9	9.2	FiT
TPCH2	99	Operating	9.9	9.2	FiT
TPCH5	99	Operating	6.3	6.3	FiT
PBM	59	Operating	3.0	2.9	FiT
PBB	59	Operating	3.0	2.9	FiT
Sub total - Biomass			112.4	104.2	
Waste Projects					
SP	50	Operating	9.5	8.0	FiT
Sub total - Waste			9.5	8.0	
Solar Projects					
MKP	40	Developing	130.0	100.0	Fixed Rate
Sub total - Solar			130.0	100.0	
Grand total			251.9	212.2	

Source: TPCH

CRB	=	Chang Raek Bio Power	MWE	=	Maewong Energy
MGP	=	Mahachai Green Power	TSG	=	Thungsung Green
PGP	=	Phathalung Green Power	SGP	=	Satun Green Power
PTG	=	Pattani Green	TPCH1	=	TPCH Power 1
TPCH2	=	TPCH Power 2	TPCH5	=	TPCH Power 5
PBM	=	Pracharat Biomass Mae Lan	PBB	=	Pracharat Biomass Bannang Sata
SP	=	Siam Power	MKP	=	Maekhong Power

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	1,574	2,830	2,611	1,910	1,783
Earnings before interest and taxes (EBIT)	362	449	468	522	666
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	564	833	841	764	846
Funds from operations (FFO)	420	589	661	667	756
Adjusted interest expense	139	231	171	96	90
Capital expenditures	144	376	366	1,261	1,823
Total assets	10,382	9,967	10,243	9,308	8,166
Adjusted debt	5,808	5,311	5,175	4,315	3,576
Adjusted equity	3,912	3,917	3,749	4,051	3,707
Adjusted Ratios					
EBITDA margin (%)	35.86	29.44	32.22	39.99	47.47
Pretax return on permanent capital (%)	6.55 **	4.66	5.16	6.55	10.14
EBITDA interest coverage (times)	4.07	3.61	4.93	7.96	9.36
Debt to EBITDA (times)	5.62 **	6.37	6.15	5.65	4.22
FFO to debt (%)	13.18 **	11.09	12.76	15.46	21.14
Debt to capitalization (%)	59.75	57.56	57.99	51.58	49.10

Note: The figures include assets, liabilities, and the respective financial performances of Mahachai Green Power Co., Ltd. (MGP) and SP, in proportion to the ownership stake in these JVs.

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

TPC Power Holding PLC (TPCH)

Company Rating:

BBB-

Rating Outlook:Negative

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