TRIS RATING
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TPC POWER HOLDING PLC

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CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 09/10/18

Company Rating History:

Date	Rating	Outlook/Alert
09/10/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPC Power Holding PLC (TPCH) at "BBB" with a "stable" outlook. The rating reflects the predictable and robust cash flows the company receives through long-term power purchase agreements (PPAs) with state-owned utilities. The rating also mirrors the solid operating performance of TPCH's power plants. However, the rating is constrained by fluctuations in the supply and prices of biomass feedstock, the execution risks associated with new power projects, and an impending rise in leverage. The rating also takes into consideration the credit profile of Thai Polycons PLC (TPOLY), TPCH's parent company.

KEY RATING CONSIDERATIONS

Rating determined by the group profile

With respect to our Group Rating Methodology, the rating on TPCH is capped at "BBB", the company rating we assign to TPOLY, the Group. TPOLY owns about 41% of TPCH and has direct control over TPCH's business and financial policies. These reflect a strong linkage between the two companies.

TPOLY's earnings are almost entirely made up by the solid cash flows of TPCH. TPCH's power business considerably helps countervail the cyclicality and susceptibility of TPOLY's construction business. In recognition of this, we consider TPCH to be the core subsidiary of TPOLY.

Reliable cash flow stream

The rating mirrors our expectation that TPCH will continue to reap predictable cash flows from its power plants. Currently, TPC has six operating biomass power plants, five of which are majority-owned by the company. The contracted capacity of the power plants which are operating, in aggregate, is 52.8 megawatts (MW). All power plants have multi-year PPAs with the state-owned producers and distributors of electricity, namely Electricity Generating Authority of Thailand (EGAT), and the Provincial Electricity Authority (PEA). Both utilities are rated "AAA" by TRIS Rating. The payment risk of the power buyers is minimal.

Under PPAs, TPCH earns feed-in-tariff (FiT) with a premium for the first eight years. This tariff scheme strengthens the viability of the projects.

Exposed to fluctuations in supply and prices of feedstock

TPCH is highly susceptible to fluctuations in the supply and prices of biomass feedstock. In an effort to mitigate such risks, TPCH locates its power plants near sources of biomass feedstock. Secondly, the company hires operation and maintenance (O&M) contractors to run most of the operating power plants. The O&M contractors are responsible for managing the supply of biomass feedstock. Thus, the O&M contractors carry the price risk for biomass feedstock. However, as a practical matter, TPCH cannot entirely pass the price risk to the O&M contractors. The company has agreed to raise management fees paid to the O&M contractors when the prices of biomass feedstock go up.

TPCH plans to hire O&M contractors to operate its new power plants, but manage the supply of biomass feedstock itself. This could heighten exposure to the supply risk. The company has secured long-term supply agreements with local suppliers to ensure the availability of fuel. That said, contract enforcement remains a challenge. TPCH fends off this risk by taking in suppliers as partners in the company's projects. In addition, TPCH has developed its own bio-fuel plantation. Given these efforts, TRIS Rating believes TPCH could manage the supply risk prudently.

Execution risks associated with new power projects

TPCH is currently developing five sizable power projects, with a combined capacity of 53.7 MW. These include 45.7 MW from four biomass power plants and 8 MW from a waste-to-energy power plant. Once all of these new projects start commercial operations, the aggregate contracted capacity of TPCH's power plants will double to 106.5 MW. The new projects are scheduled to commence operations during 2020-2021.

The execution risks stem from the project location choices, construction delays, environmental issues and local resistance, and feedstock procurement. The new biomass power projects are located in Pattani, Yala, and Narathiwat provinces. The ongoing conflict centered in southern Thailand has caused construction delays to these new biomass power projects. However, the investment budgets remain under control.

The new biomass power projects also bring challenges as they are under a competitive bidding system, yielding much lower tariffs. The tariffs for most of the new biomass power plants range between Bt2.8 and Bt3.4 per kilowatt hour (kWh), versus above Bt4 per kWh for the current plants. Therefore, the company will need to double-down on production cost control.

Operating performance on solid course

TPCH's power plants have consistently rendered solid performance over the past three years. The actual output of most power plants has surpassed 80% of the full capacity, a high level. In all, EBITDA margin (earnings before interest, taxes, depreciation, and amortization as percentage of revenues) of the power plants has held at a high level of about 50%.

Some of TPCH's power plants are built through joint ventures (JVs). TPCH guarantees the debts of the incorporated JVs in proportion to its stakes in the JVs. In assessing the financial profile and performance of TPCH, we include the assets, liabilities and respective financial performances of the JVs in TPCH's consolidated accounts, in proportion to the ownership stake in each venture.

TRIS Rating expects TPCH's operating performance will stay solid over the next three years. As TPCH expands, we forecast the company's total operating revenues will grow steadily to Bt3.9 billion in 2022, from Bt1.8 billion in 2019. In addition to the 53.7 MW power projects under way, we assume the company will add 40 MW in new capacity during the next three years. The aggregate contracted capacity of TPCH's power plants which are operating will increase to 146.5 MW in 2022.

Our base-case forecast assumes the gross margin will slide from the current level as the new biomass plants carry lower tariff rates. However, the new projects will drive revenue, boosting economies of scale and reducing selling and administrative expenses as a percentage of revenue. We expect the operating margin (operating income before depreciation and amortization as a percentage of total operating revenues) to range between 40%-50% during 2020-2022, compared with an average of about 46% for the past three years. The level of the operating margin is considered high for a biomass power producer. We forecast EBITDA to grow steadily to Bt1.7 billion in 2022, from about Bt800 million in 2019. FFO (funds from operations) should rise to Bt1.4 billion in 2022, from about Bt700 million in 2019.

Impending rise in leverage

TPCH's leverage is prone to increase in the wake of expansion. We forecast the company will spend Bt1.5-Bt1.7 billion a year on the new projects during the next three years. As a result, the debt to capitalization ratio should rise to about 50%. The cash flows from the operating power plants should help keep leverage at an acceptable level. The forecast includes the debts of JVs on a proportional basis.

Cash flow protection will deteriorate during the build-up phase but it should improve each year thereafter. We forecast the ratio of FFO to debt to fall below 20% in 2020, before improving gradually to 24.5% in 2022. The ratio averaged 27% during the past three years. Likewise, the debt to EBITDA ratio should peak at 4.2 times in 2020, and decline to 3.3 times in 2022. TPCH's cash flow protection is strong because the operating power plants run at high efficiency. Moreover, we do not expect the company will expand aggressively.

Liquidity stays manageable

TRIS Rating believes TPCH will manage its liquidity prudently. The company has a fairly low debt level and has no funding mismatch. Debts of about Bt180 million will come due during the second half of 2019. All the debts are long-term project loans. We forecast FFO for the same period at Bt281 million, which is sufficient for debt servicing. As of June 2019, TPCH also had undrawn credit facilities, plus cash and marketable securities, of about Bt500 million, as other sources of liquidity. Over the next three years, we expect TPCH's power plants will bring in FFO between Bt0.8-1.4 billion per year. In the meantime, the company has long-term debts scheduled to repay of Bt500-Bt800 million a year.

There are no financial covenants imposed on TPCH's bank loans. However, its subsidiaries and JVs are required to maintain a debt service coverage ratio above 1.1 times or 1.2 times, and keep the debt to equity ratio below 2.5 times. All the subsidiaries and JVs have complied with their respective financial covenants. We believe they will stay in compliance for the next 12-18 months.

BASE-CASE ASSUMPTIONS

- Aggregate contracted capacity of TPCH's operating power plants to increase to 146.5 MW in the next three years, from 52.8 MW at present.
- Four new biomass power plants to start commercial operation in the second half of 2020.
- New waste-to-energy power plant to commence operation in the second half of 2021.
- Operating margin to range from 40%-50%.
- Total capital spending to range between Bt1.5-Bt1.7 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TPCH's power plants will continue to perform well and bring in sizable cash flows as planned. TPCH will remain the core subsidiary of TPOLY. Given the parent-subsidiary relationship, any changes in the company rating of TPOLY will have a direct impact on the company rating of TPCH.

RATING SENSITIVITIES

A rating upgrade could occur if TPCH's performance and capital structure improve significantly, and thus help strengthen the financial profile of the Group. On the contrary, downward rating pressure would emerge if the performances of the power projects fall significantly short of our estimates, or if the capital structure deteriorates on account of aggressive debt-funded investments. The rating could be also revised downward if the company rating of TPOLY is downgraded.

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 June 2019, TPOLY remained the major shareholder of TPCH, holding a 41.3% 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. TPCH also secured a PPA under the Small Power Producer (SPP) scheme to operate a 21-MW biomass power plant in Pattani province. This plant will be the company's largest power project. TPCH is also developing a waste-to-energy project in Nonthaburi, with a contracted capacity of 8 MW.

As of June 2019, TPCH's aggregate contracted capacity was 106.5 MW, across 10 biomass power projects (98.5 MW), and one waste-to-energy project (8 MW). Six biomass power plants are currently operating (52.8 MW).

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio

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	65%	Developing	23.0	21.0	Adder
TPCH1	84%	Developing	9.9	9.2	Fit
TPCH2	84%	Developing	9.9	9.2	Fit
TPCH5	89%	Developing	6.3	6.3	Fit
Sub total - Biomass			**106.4**	**98.5**	
Waste Projects					
SP	50%	Developing	9.5	8.0	-
Sub total - Waste			**9.5**	**8.0**	
Grand total			**115.9**	**106.5**	

Source: TPCH

CRB = Chang Raek Bio Power
MGP = Mahachai Green Power
PGP = Phathalung Green Power
PTG = Pattani Green
TPCH2 = TPCH Power 2
SP = Siam Power
MWE = Maewong Energy
TSG = Thungsung Green
SGP = Satun Green Power
TPCH1 = TPCH Power 1
TPCH5 = TPCH Power 5

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2019		2018	2017	2016	2015
			------------ Year Ended 31 December ------------			
Total operating revenues	880		1,701	1,232	759	312
Operating income	417		837	518	358	115
Earnings before interest and taxes (EBIT)	328		652	400	293	91
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	426		818	522	367	126
Funds from operations (FFO)	384		727	448	311	103
Adjusted interest expense	43		90	74	53	28
Capital expenditures	813		662	772	860	582
Total assets	7,093		6,132	5,346	4,711	3,494
Adjusted debt	2,550		2,115	1,851	1,410	602
Adjusted equity	3,502		3,268	2,754	2,437	2,137
Adjusted Ratios						
Operating income as % of total operating revenues (%)	47.40		49.21	42.01	47.20	36.96
Pretax return on permanent capital (%)	11.42	**	12.34	8.60	7.61	2.90
EBITDA interest coverage (times)	9.99		9.04	7.09	6.91	4.58
Debt to EBITDA (times)	3.02	**	2.59	3.54	3.85	4.78
FFO to debt (%)	29.63	**	34.37	24.22	22.08	17.07
Debt to capitalization (%)	42.14		39.29	40.19	36.64	21.98

Note: The figures include assets, liabilities, and the respective financial performances of MGP, in proportion to the ownership stake in this JV. The debts of SP, the other JV, did not reflect in TPCH's consolidated accounts as SP had no bank debts.

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

RELATED CRITERIA

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

TPC Power Holding PLC (TPCH)

Company Rating:	BBB
Rating Outlook:	Stable

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