

XAYABURI POWER CO., LTD.

No. 240/2022
27 December 2022

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 07/07/22

Company Rating History:

Date	Rating	Outlook/Alert
29/03/22	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Xayaburi Power Co., Ltd. (XPCL) at “A-” and the rating on its senior unsecured debentures at “BBB+”. The outlook remains “stable”. The issue rating’s one-notch below the company rating reflect XPCL’s high level of secured debt which suggests significant subordination risk for the company’s senior unsecured creditors.

The ratings are reflective of the reliable cash flow from XPCL’s long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable”). The ratings also consider the risk mitigated contractual framework of the PPA, and competitive cost of electricity generation. Contrarily, the ratings are tempered by the uncertainty of water flow, XPCL’s high financial leverage, and the substantial interest expense burden. The ratings also take into consideration the country risk of the Lao People’s Democratic Republic (Lao PDR).

KEY RATING CONSIDERATIONS

Large run-of-river hydroelectric power plant

XPCL owns and operates the Xayaburi Hydroelectric Power Plant (XHPP), a 1,285 megawatts (MW) run-of-river hydroelectric power plant. XHPP is located on the Mekong River’s mainstream in Xayaburi province, the Lao PDR.

XHPP commenced its operation in October 2019. The project could generate electricity all year round if the water flow is sufficient. This is because the run-of-river power plant is a diversion dam on the river, without a reservoir as in the case of most other conventional dams. The dam regulates the level of upstream water and release water through power generators along the river. The volume of water flowing in is equal to the volume of water flowing out of the power plant.

Although XHPP is operating in the Lao PDR, we view the country risk is considerably mitigated as the project is established under the collaboration between the government of Thailand and the government of the Laos (GOL) in relation to the power sale to Thailand. Moreover, XPCL sells the electricity almost entirely to EGAT, with the rights to receive the payment from EGAT through its bank account in Thailand.

Cash flow backed by long-term PPA

The ratings are predominantly built on the reliability of cash flow backed by a 29-year PPA with EGAT. The PPA is a take-or-pay basis, which significantly mitigates market risk.

The electricity sale consists of three components: Primary Energy (PE), Secondary Energy (SE), and Excess Energy (EE). PE and SE are separated by the period of power sold while EE is the excess electricity of PE and SE. The tariff for PE is paid in US dollars 50% and Thai Baht 50% while the tariff for SE and EE is paid in Thai Baht. EGAT is obliged to purchase up to 5,709 gigawatt-hour (GWh) each year, which is the Annual Supply Target or the Committed Energy. The Annual Supply Target comprises PE of 4,299 GWh and SE of 1,410 GWh.

Low cost of electricity generation

XPCL has a relatively low cost of electricity generation, compared to other types of power plants. Average tariff is about THB1.9-THB2 per kilowatt-hour

(kWh). Therefore, we expect EGAT to dispatch electricity from XPCL as base load.

In the first nine months of 2022, XPCL's revenue rose by 15% year-on-year (y-o-y) to THB12.6 billion. The increased revenue was due to higher water inflow. The average water inflow was 4,033 cubic meter per second (cms), up from 3,190 cms y-o-y. XPCL sold electricity to EGAT for 6,184 GWh, a 10.8% increase from 5,581 GWh y-o-y.

Vulnerability to fluctuation in water flow

The fluctuation of water flow in the Mekong River is the key risk to XPCL's operating performance. The level of water flow through the power plant essentially hinges on rainfalls, water volume in secondary rivers, and water flow from upstream dams in China. Generally, XPCL needs water inflow of approximately 400-600 Cubic Meters per Second (CMS) to operate one generator for EGAT while the lowest water flow in Mekong River during dry season is approximately 1,200 CMS. However, high variability in water flow or drawn-out period of drought could impact the electricity generation. In addition, we view the effect of climate change is an increasing risk factor. XPCL experienced a low level of water flow in 2020-2021, which resulted in electricity output falling short of forecast.

Contractual framework mitigates key risks

The PPA is structured to mitigate the impact from the fluctuating water flow. The mechanism of PPA allows XPCL to sell electricity in excess of the Annual Supply Target in wet years. The delivery of energy in excess of the target is accounted and compensated in dry years. Conversely, if XPCL delivers electricity less than the Annual Supply Target in a dry year, XPCL could account the shortfall and deliver more electricity in the following years.

In addition, XPCL has a mechanism to protect the receipt of cash flow from operation, whereby the payments from EGAT are paid to the company's account in Thailand. We expect revenue from sale of electricity to EGAT will represent 98% of total revenue. Such mechanism mitigates the cross-border risks of fund transferability and currency convertibility.

High financial leverage

The company's high financial leverage and substantial interest burden mainly resulted from the shareholder loans to support additional project cost for constructing fish passing facilities, sediment-flushing facilities, and earthquake resistant following GOL's request. In July 2022, XPCL issued debentures of THB8.4 billion to refinance its existing loans. The proceeds were equally split to refinance the project loans and the shareholder loans. From this refinancing, XPCL could reduce its cost of debt and partly mitigate interest rate risk.

As of September 2022, XPCL had total debt of THB103.4 billion, consisting of project loans of THB77.3 billion, debentures of THB8.4 billion and the sponsor loans, including accrued interest, of THB17.7 billion. The debt to capitalization ratio was at 75%, with a debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio of 6.5 times (annualized with trailing 12 months), and a funds from operations (FFO) to debt ratio of 10%.

Looking ahead, we expect XPCL's financial leverage to steadily decline. In our base-case forecast, we project XPCL to earn about THB13.6 billion in revenue per year in 2023-2026. EBITDA should be in the range of THB11.5-THB12.1 billion per year. FFO is projected to range between THB6.4-THB6.9 billion per year. We also assume XPCL to issue debentures of THB18 billion to partially replace project loans and shareholder loans during 2023-2026. We project the debt to capitalization ratio to drop below 65% and the debt to EBITDA ratio to be less than 6 times by 2026.

Adequate liquidity

We assess XPCL as having an adequate level of liquidity. The project loans have cash waterfall mechanism to reserve cash for operating expenses, maintenance expenses, and debt repayment. The conditions of project loans require cash reserve for debt repayment and interest expenses for the next six months. As of September 2022, the company had cash and restricted bank deposits of about THB10.5 billion, which is sufficient to meet XPCL's debts coming due in the next 12 months, totaling THB5.5 billion.

Debt Structure

At the end of September 2022, XPCL had debt of about THB103.4 billion. Of this amount, THB77.3 billion was secured debt under project loans. The secured debt to total debt ratio was 75%, far above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that XPCL's unsecured creditors are significantly disadvantaged to its secured debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for XPCL's operations during 2023-2026:

- Annual electricity generation to be in the range of 6,600-6,700 GWh.
- Repair and maintenance expenses of THB150-THB295 million per year.
- Operating costs and expenses to increase by about 3% per annum.
- EBITDA margin to stay around 85%-88%.
- Capital spending of THB100 million per year in addition to the planned maintenances.

RATING OUTLOOK

The "stable" outlook reflects our expectation that XHPP will perform smoothly and deliver stable cash flow over the long term, leading to a steady decline in financial leverage.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term, considering the current level of financial leverage. However, over a longer horizon, credit upside could develop if XPCL continues to generate strong cash flow while the cash flow against leverage level significantly improves on a sustain basis. A downward rating pressure could develop if XPCL's operating performance is consistently below expectation, resulting in material weakening in cash generation against debt obligations.

COMPANY OVERVIEW

XPCL is a limited company incorporated in June 2010 under the laws of the Lao PDR. XPCL's shareholders are CK Power PLC (CKP -- 42.5%), Natee Synergy Co., Ltd. (NSC -- 25%); a wholly owned subsidiary of Global Power Synergy PLC, The Electricity Generating Public Company Limited (EGCO -- 12.5%), and EDL-Generation PLC (EDL-GEN -- 20%), a subsidiary of Electricite du Laos (EDL).

XPCL engages in the generation and sale of electricity from the XHPP. The company holds a 29-year PPA with EGAT (1,220 MW) and a 31-year PPA with EDL (60 MW). XPCL holds concession agreement with the GOL on Build-Own-Operate and Transfer basis. Under the concession agreement, XPCL is obliged to pay royalties and corporate income tax. Besides, the company has a commitment to implement a community development program to support the economic and social development of the nearby communities.

XHPP consists of eight generators, seven of 175-MW and one of 60-MW generators. The power generated from seven generators is sold to EGAT via the 500 kilovolt (kV) transmission line from Xayaburi Substation to Tha Li Substation in Loei province, Thailand. At the same time, the power generated from 60-MW generator is sold to Electricite du Laos (EDL).

Apart from power generators, the project contains navigation lock which is designed to allow boat passing from down-to upstream and vice versa, with free of charge to all users. The fish passing facilities was constructed to let fish safely pass from upstream to downstream and downstream to upstream.

XPCL applied community development program to ensure villagers around the project are proper recovering from relocation in terms of economic and others. Water quality, sediment and fish are periodically monitored to ensure the environment surrounding the project is well-managed. For day-to-day operations, XPCL has its own operation and maintenance teams. XPCL could leverage the strengths of major shareholder, CKP. CKP has proven experience and expertise in running hydroelectric power plant.

KEY OPERATING PERFORMANCE
Table 1: Performance Statistics of Xayaburi Hydroelectric Power Plant

Plant Performance	9M-2022	2021	2020	2019*
Electricity generation (GWh)	6,291	7,305	6,301	798
Average plant availability (%)	91.5	92.9	96.0	99.8
Average Monthly Water inflow (cms)	4,033	3,039	2,534	1,707
Average upstream water level (masl)	275	275	275	275
Average downstream water level (masl)	242	241	240	239

* Based on performance statistic in November and December 2019

Notes: Electricity generation = PE + SE + EE + Test Energy

GWh = gigawatt-hours

cms = cubic meters per second

masl = meter above sea level

Source: XPCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----		
		2021	2020	2019
Total operating revenues	12,605	13,949	12,074	1,567
Earnings before interest and taxes (EBIT)	8,684	8,808	6,924	2,144
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,881	12,985	11,095	2,878
Funds from operations (FFO)	8,001	7,960	5,140	(2,447)
Adjusted interest expense	3,880	5,025	5,955	5,325
Capital expenditures	57	1,227	45	9,767
Total assets	136,204	134,480	131,465	129,943
Adjusted debt	93,019	96,926	97,034	101,697
Adjusted equity	30,965	28,878	27,915	26,772
Adjusted Ratios				
EBITDA margin (%)	94.25	93.09	91.89	183.72
Pretax return on permanent capital (%)	7.57	6.66	5.31	1.70
EBITDA interest coverage (times)	3.06	2.58	1.86	0.54
Debt to EBITDA (times)	6.48	7.46	8.75	35.33
FFO to debt (%)	9.89	8.21	5.30	(2.41)
Debt to capitalization (%)	75.02	77.05	77.66	79.16

* Annualized with trailing 12 months

RELATED CRITERIA

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

Xayaburi Power Co., Ltd. (XPCL)

Company Rating:	A-
Issue Ratings:	
XPCL257A: THB4,031 million senior unsecured debentures due 2025	BBB+
XPCL267A: THB1,258 million senior unsecured debentures due 2026	BBB+
XPCL277A: THB3,106 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Stable

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