

XAYABURI POWER CO., LTD.

No. 243/2024
27 December 2024

CORPORATES

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

Last Review Date: 13/12/23

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 affirms the ratings on XPCL’s senior unsecured debentures at “BBB+”. The rating outlook remains “stable”. The issue ratings are one notch below the company rating due to the significant subordination risk for the company’s senior unsecured creditors posed by the company’s high level of secured debt.

The ratings reflect XPCL’s reliable cash generation, anchored by a long-term power purchase agreement (PPA) with Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable”). Furthermore, the ratings benefit from a well-defined contractual framework and the project’s competitive cost of electricity generation with negligible fuel costs. However, the ratings are constrained by the uncertainty associated with water flow, a significant debt burden and associated interest expenses, as well as the inherent country risks associated with the operation in Laos.

KEY RATING CONSIDERATIONS

Base load dispatching

XPCL owns and operates the Xayaburi Hydroelectric Power Plant (XHPP), a 1,285-megawatt (MW) run-of-river hydroelectric power plant. Established under a memorandum of understanding (MOU) between the governments of Thailand and Laos, XHPP was developed to supply power to Thailand.

XHPP is capable of generating electricity throughout the year, providing a stable baseload power source for Thailand, subject to sufficient water flow. XHPP’s negligible fuel costs result in a significantly lower cost of electricity production, leading to competitive electricity tariffs. This combination of consistent availability and competitive tariffs makes XHPP a preferred source of electricity supply in EGAT’s electricity dispatch order, further enhancing its strategic importance to the Thai power system.

In our view, the country risk of Laos is meaningfully mitigated through XPCL’s concession agreement with the government of Laos (GOL) and the PPA with EGAT. Despite the plant operating in Laos, XPCL sells the generated electricity almost entirely to EGAT. The cross-border risks of fund transferability and currency convertibility are well mitigated by XPCL’s rights to receive payments of electricity sales from EGAT via its bank account in Thailand.

Reliable cash flow backed by long-term PPA

XPCL’s reliable cash flow is underpinned by a robust 29-year PPA with EGAT. This take-or-pay PPA obligates EGAT to purchase a minimum of 5,709 gigawatt-hours (GWh) of electricity annually, which is the Annual Supply Target or the Committed Energy, substantially mitigating market risks for XPCL.

The agreement also incorporates mechanisms to mitigate the impact of potential water flow fluctuations. In wet years, when generation exceeds the Annual Supply Target, the excess energy can be accounted for and utilized to offset potential shortfalls in drier years. Conversely, in dry years, any shortfall in energy delivery can be carried forward and fulfilled in subsequent years with excess generation.

This flexible framework under the PPA provides a strong foundation for stable and predictable cash flows for XPCL. The long-term nature of the agreement with EGAT as a low-risk counterparty, coupled with the mechanisms for

adjusting energy delivery based on water availability, support the stability and predictability of XPCL's revenue streams.

Lower-than-expected electricity sales from plant shutdown

Despite the contractual mitigation, we view the uncertainty of water flow remains significant. We view climate change could divert the rainfall pattern and heighten irregularity of water flow. XHPP has recently experienced peaked water flows that led to unplanned plant shutdown. In the third quarter of 2024, the water inflow reached 12,000 cubic meter per second (CMS) in early August 2024 and reached 18,000 CMS in late August 2024. The water inflow hit a record high at about 23,900 CMS in September 2024, the highest level since the project commencement in 2019.

Under the concession agreement, XHPP is accommodated to implement Emergency Action Plan (EAP) if the water inflow reaches certain levels to prevent Luang Prabang City from flood. In case of excessive water inflow, XHPP may shutdown and open all spillways. In the third quarter of 2024, XHPP shut down for nine days in August 2024 and five days in September 2024. As a result, XPCL sold electricity of about 4,437 GWh in the first nine months of 2024, an 11% drop from 4,997 GWh in the same period of the previous year. This translated to EBITDA of THB7.8 billion for the first nine months of 2024. Funds from operations were THB3.0 billion, a level below our expectation.

Leverage to gradually improve

XPCL remains highly leveraged, characterized by a significant debt burden and substantial interest cost. This is primarily attributable to the sponsor loans incurred to finance additional project costs related to the construction of added facilities. As of September 2024, total debt amounted to THB90.1 billion, comprising project loans of THB61.7 billion, debentures of THB12 billion, and sponsor loans and accrued interest of THB16.4 billion. This resulted in a debt to capitalization ratio of 69.1%. Furthermore, the company had high debt to EBITDA ratio of 7.0 times (annualized with trailing 12 months) while FFO to debt ratio was 6.1%.

In our base-case projection for 2024-2027, we forecast XPCL's revenue to reach THB12.9 billion in 2024 and increasing to THB13.8 billion annually thereafter. We project XPCL to report EBITDA of THB11.4-THB12.5 billion per annum. We assume XPCL will issue debentures amounting to THB9.7 billion to refinance the existing debentures maturing during 2025 and 2027. Despite the refinancing, we anticipate that XPCL will continue to face pressure from a substantial interest expense burden, projected to range between THB5-THB6 billion annually during the forecast period.

We expect XPCL to generate FFO of about THB5.1-THB7.4 billion per year over 2024-2027, with a projected debt to EBITDA ratio of 6.8 times in 2024. The ratio is projected to gradually reduce to range 5-6 times in 2025-2027. Over the same period, we forecast the FFO to debt ratio to consistently improve and exceed 10% from 2026 onwards. We assume XPCL's capital expenditures to cover only for planned maintenances. Hence, total debt is forecast to gradually decline to THB68.7 billion and the debt to capitalization ratio should steadily reduce to below 60% by 2027.

Adequate liquidity

We assess XPCL as having adequate liquidity. The project loans incorporate a cash waterfall mechanism to reserve cash for planned maintenance expenses and debt repayment. The conditions of project loans ensures that XPCL will have sufficient liquidity to meet principal repayment and interest expenses for the next six months. Beyond these requirements, XPCL also intends to maintain a minimum cash balance of about THB1.5 billion for operational needs.

As of September 2024, XPCL had cash and restricted bank deposits of about THB12.4 billion, providing sufficient coverage for scheduled debt repayments over the next 12 months, totaling THB9.3 billion.

Debt structure

As of September 2024, the company had debt (exclude lease liabilities) of THB90 billion, of which THB61.7 billion was secured debt. The secured debt to total debt ratio was 69%, 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 2024-2027:

- Annual electricity generation to be in the range of 6,409-6,900 GWh.
- Operating costs and expenses to increase by about 3%-5% per annum.
- EBITDA margin to stay around 89%-91%.
- Capital spending to add up to THB100 million per year for the planned maintenances.

RATING OUTLOOK

The “stable” outlook reflects our view that XPCL will continue to operate steadily under the PPA with EGAT and generate stable cash flow to meet its debt obligations. Hence, we expect consistent reduction of financial leverage over time.

RATING SENSITIVITIES

We view a rating upgrade is unlikely in the near term. However, we could consider raising our ratings if XPCL successively displays stronger performance that exceeds our baseline forecast and significantly elevates its cash generation against debt obligations. Conversely, a negative rating action could be taken if XPCL’s operating performance persistently falls below our expectations, resulting in a material deterioration in cash generation.

COMPANY OVERVIEW

XPCL is a limited company incorporated in June 2010 under the laws of Laos. 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 PLC (EGCO, 12.5%), and EDL-Generation Public Company (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 for 1,220 MW of capacity and a 31-year PPA with EDL for 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.

Electricity sales are categorized into three components: Primary Energy (PE), Secondary Energy (SE), and Excess Energy (EE). PE and SE are differentiated based on the period of power sold, while EE represents electricity generated in excess of the committed volumes. The tariff for PE is denominated in a combination of US dollars and Thai baht, while SE and EE tariffs are denominated in Thai baht. The Annual Supply Target comprises 4,299 GWh of PE and 1,410 GWh of SE.

XHPP is located on the Mekong River’s mainstream in Xayaburi Province, Laos. The project is a diversion dam on the river, without a reservoir. The dam regulates the level of upstream water and release water through power generators along the river. The amount of water flowing in is equal to the amount of water flowing out of the power plant. 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 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 | 9M24 | 2023 | 2022 | 2021 | 2020 |
|------------------------------------|-------|-------|-------|-------|-------|
| Electricity generation (GWh) | 4,437 | 6,887 | 8,123 | 7,305 | 6,301 |
| Average plant availability (%) | 97.4 | 85.7 | 90.4 | 92.9 | 96.0 |
| Average monthly water inflow (cms) | 4,372 | 3,151 | 3,773 | 3,039 | 2,534 |

Notes: Electricity generation = PE + SE + EE + Test Energy
GWh = gigawatt-hours
cms = cubic meters per second

Source: XPCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | Jan-Sep 2024 | -----Year Ended 31 December ----- | | | |
|--|-----------------|-----------------------------------|---------|---------|---------|
| | | 2023 | 2022 | 2021 | 2020 |
| Total operating revenues | 8,879 | 13,741 | 16,090 | 13,949 | 12,074 |
| Earnings before interest and taxes (EBIT) | 4,627 | 8,325 | 10,339 | 8,808 | 6,924 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 7,838 | 12,608 | 14,615 | 13,002 | 11,095 |
| Funds from operations (FFO) | 3,016 | 6,432 | 9,352 | 7,977 | 5,140 |
| Adjusted interest expense | 4,822 | 6,176 | 5,264 | 5,025 | 5,955 |
| Capital expenditures | 73 | 52 | 80 | 1,227 | 45 |
| Total assets | 127,834 | 130,953 | 134,578 | 134,480 | 131,465 |
| Adjusted debt | 77,793 | 82,325 | 88,561 | 96,926 | 97,034 |
| Adjusted equity | 34,815 | 34,816 | 33,305 | 28,878 | 27,915 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 88.3 | 91.8 | 90.8 | 93.2 | 91.9 |
| Pretax return on permanent capital (%) | 5.4 * | 6.3 | 7.8 | 6.7 | 5.3 |
| EBITDA interest coverage (times) | 1.6 | 2.0 | 2.8 | 2.6 | 1.9 |
| Debt to EBITDA (times) | 7.0 * | 6.5 | 6.1 | 7.5 | 8.7 |
| FFO to debt (%) | 6.1 * | 7.8 | 10.6 | 8.2 | 5.3 |
| Debt to capitalization (%) | 69.1 | 70.3 | 72.7 | 77.0 | 77.7 |

* Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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+ |
| XPCL260A: THB1,500 million senior unsecured debentures due 2026 | BBB+ |
| XPCL277A: THB3,106 million senior unsecured debentures due 2027 | BBB+ |
| XPCL270A: THB384 million senior unsecured debentures due 2027 | BBB+ |
| XPCL280A: THB1,616 million senior unsecured debentures due 2028 | BBB+ |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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