

B. GRIMM BIP POWER 1 LTD.

No. 32/2019
19 March 2019

CORPORATES

Company Rating:	A-
Issue Rating:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 25/04/18

Company Rating History:

Date	Rating	Outlook/Alert
25/04/18	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating of “A-” on B. Grimm BIP Power 1 Ltd. (BIP1) with a “stable” outlook. At the same time, TRIS Rating affirms the rating of “A-” on BIP1’s senior unsecured amortizing debentures of Bt3,350 million.

The ratings reflect the company’s predictable cash flow from a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme and a proven record of operating gas-fired combined-cycle cogeneration power plant. However, the ratings are partially offset by the company’s single asset risk.

KEY RATING CONSIDERATIONS

Predictable cash flow from long-term PPA with EGAT

BIP1 has a 25-year PPA with EGAT, covering 90 megawatts (MW), under the SPP scheme. Under the terms of a standard PPA for an SPP cogeneration plant, EGAT agrees to dispatch at least 80% of the contracted capacity, based on operating hours. The PPA is on a take-or-pay basis, which stabilizes the cash flow BIP1 receives. In addition, the PPA contains a formula that includes adjustments for changes in the prices of fuel and changes in currency exchange rates. This largely mitigates the risk associated with changes in the price of fuel and currency fluctuations.

BIP1 also has long-term off-take agreements with an industrial customer in Bangkadi Industrial Park (BIP). The agreement covers 14 MW of electricity. The contract with this customer specifies the minimum amount of electricity this customer is obligated to purchase. The electricity tariff charged to this industrial customer is based on the electricity tariff that the Provincial Electricity Authority (PEA) charges to large general service customers. This tariff also carries a fuel adjustment charge, or Ft, to adjust for changes in the prices of fuel.

BIP1 has a 25-year gas supply contract with PTT PLC (PTT) in order to reduce the risk of fluctuations in the supply of natural gas.

BIP1 sells around 600-700 gigawatt hours (GWh) of electricity per year. In a typical year, the electricity sold to EGAT accounts for 90% of the total amount of electricity sold, while the industrial customer accounts for 7%. The rest is sold to B. Grimm BIP Power 2 Ltd. (BIP2) for load management purposes.

Proven technology mitigates operational risks

BIP1’s combined-cycle cogeneration plant employs proven technology. The GE-LM6000PD gas turbine made by GE Power (GE) has a proven track record. GE has made and sold more than 1,000 turbines, logging more than two million operating hours. BIP1’s plant is composed of two gas turbine units, two heat recovery steam generators (HRSGs), and one steam turbine. The steam turbine is made by Siemens.

Proven track record

BIP1 has proven track record of running cogeneration power plant. For day-to-day operations, BIP1 has its own operation and maintenance teams. The teams leverage the expertise of B. Grimm Power PLC (BGRIM), BIP1’s parent company. BGRIM has extensive expertise in the operation and maintenance of cogeneration power plants.

BIP1 also entered into an eight-year long-term service agreement (LTSA) with IHI Corporation (IHI). The LTSA helps mitigate operational risks and control maintenance costs. The agreement has an option for renewal, subject to mutual agreement between BIP1 and IHI.

The power plant BIP1 operates has met the targets specified in the PPA since the plant started up in 2015. Sales to EGAT usually constitute about 90% of the total electricity sales. In 2018, BIP1 sold about 643 GWh of electricity to EGAT, 49 GWh to industrial customers, and 22 GWh to related companies for load management purposes. The actual availability factor was 95.3% and the heat rate was 7,741 British thermal units/kilowatt-hour (BTU/kWh), better than the threshold of 8,000 BTU/kWh specified in the PPA. In terms of energy efficiency, BIP1's power plant achieved the primary energy saving (PES) threshold and received an additional tariff of 0.36 Bt/kWh from EGAT as a fuel saving (FS) payment.

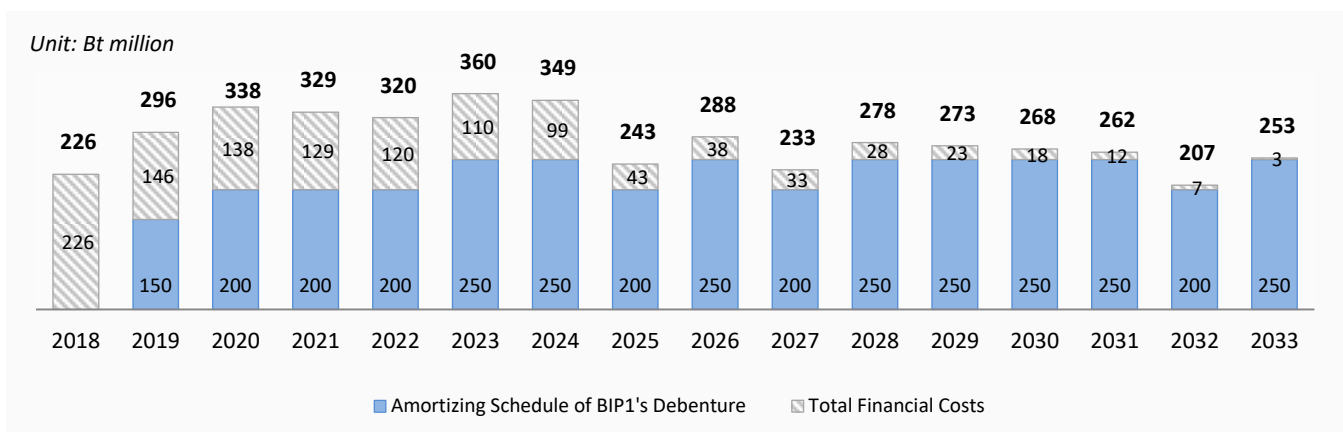
Financial performance in line with expectation

In 2017, BIP1's revenue was Bt2,026 million, up from Bt1,823 million in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) for 2017 were Bt599 million, up from Bt456 million in 2016. The growths of revenue and EBITDA were mainly from the power plant being fully operational in 2017.

Adequate debt service capability

TRIS Rating holds the opinion that BIP1 will be able to generate enough cash flow to service its debts. In May 2018, BIP1 issued Bt3,350 million worth of senior unsecured amortizing debentures. The proceeds were used to refinance all its outstanding project loans from banks. The debenture amortization schedule is designed to match the cash flows of the PPA. During 2018-2021, BIP1's debt service obligations will be around Bt220-Bt340 million per year. EBITDA of Bt480-Bt540 million, as forecast, is enough to service the debt obligations.

Chart 1: Debt Service Schedule of BIP1



Source: TRIS Rating's estimate

Acceptable capital structure

We expect BIP1's capital structure will gradually improve as it repays the amortizing debentures. BIP1's reported total debt is expected to decline to Bt2,800 million in 2021, from Bt3,300 million in 2017. The adjusted debt to capitalization ratio will improve to 60% in 2021, from 66% in 2017. Adjusted net debt to EBITDA is expected to be lower than 4 times in 2022.

BASE-CASE ASSUMPTIONS

- During 2018-2021, the plant availability factor of BIP1 will range between 91%-96%.
- The electricity sold will be around 640-715 GWh per year.
- During 2018-2021, BIP1's revenue will range between Bt2,000-Bt2,100 million per year. EBITDA is forecast at Bt480-Bt540 million per year, and cash on hand will range between Bt600-Bt800 million.
- The financing cost will range around Bt130-Bt230 million per year over the forecast period.
- Maintenance capital expenditures will be Bt20 million per year.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that BIP1 will maintain smooth operations, yielding EBITDA of around Bt480-Bt540 million per year.

RATING SENSITIVITIES

The upside for the ratings is limited over the next 12-18 months. The rating downside case may arise if BIP1’s operating performance or financial results deteriorate significantly, hurting its cash generation ability.

COMPANY OVERVIEW

BIP1 was established in 2008 to own and operate a gas-fired combined-cycle cogeneration power plant under the SPP scheme. The plant is located in Bangkadi Industrial Park (BIP), Pathum Thani province. The power plant has an installed capacity of 114.6 MW plus 20 tonnes of steam per hour. BIP1 started commercial operation in April 2015. As of December 2018, BIP1’s shareholders were BGRIM (74%), BIP (12%), and Nikornkij& Son (BIP Group -- 14%).

KEY OPERATING PERFORMANCE

Plant Performance Statistics of BIP1					
Plant Performance	Unit	2018	2017	2016	2015
Net output energy *	GWhe	693.4	696.3	607.6	442.9
Plant heat rate	BTU/kWh	7,741	7,740	7,770	7,810
Primary energy saving factor	%	12.0	12.0	11.9	11.3
Availability	%	95.3	97.2	85.2	97.3
Unplanned outage	%	0.9	2.0	13.6	1.3
Planned outage	%	3.8	0.8	1.2	1.5

* Net output of electricity and steam

Source: BIP1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----			
	2017	2016	2015	2014
Total operating revenues	2,029	1,826	1,480	0
Operating income	545	460	336	(15)
Earnings before interest and taxes (EBIT)	370	284	219	(16)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	543	463	346	(15)
Funds from operations (FFO)	346	262	233	(82)
Adjusted interest expense	193	201	114	66
Capital expenditures	2	10	2,498	0
Total assets	5,182	5,051	5,101	2,385
Reported debt	3,312	3,510	3,626	1,862
Adjusted debt	2,707	3,259	3,580	1,618
Adjusted equity	1,423	1,337	1,248	478
Adjusted Ratios				
Operating income as % of total operating revenues (%)	26.84	25.17	22.66	(6,137.75)
Pretax return on permanent capital (%)	7.62	5.78	6.02	(0.94)
EBITDA interest coverage (times)	2.81	2.30	3.05	(0.23)
Debt to EBITDA (times)	4.99	7.04	10.34	(104.79)
FFO to debt (%)	12.79	8.03	6.50	(5.05)
Debt to capitalization (%)	65.55	70.90	74.16	77.19
DSCR (times) ⁽¹⁾	1.75	1.50	n.a.	n.a.

Note: ⁽¹⁾ Debt service coverage ratio (DSCR) was calculated by EBITDA/total debt service obligation.

n.a. = Not available

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

B. Grimm BIP Power 1 Ltd. (BIP1)

Company Rating:	A-
Issue Rating:	
BIPA335A: Bt3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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