

B. GRIMM BIP POWER 1 LTD.

No. 25/2020
12 March 2020

CORPORATES

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

Last Review Date: 19/03/19

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. TRIS Rating also affirms the rating of “A-” on BIP1’s senior unsecured amortizing debentures of Bt3.35 billion.

The ratings reflect the company’s predictable cash flows from a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) under the small power producer (SPP) scheme as well as the company’s proven record in the operation of its gas-fired combined-cycle cogeneration power plant. However, the ratings are weighed down by the company’s single asset risk.

KEY RATING CONSIDERATIONS

Predictable cash flows from long-term PPA

BIP1’s predictable cash flows are secured by a 25-year PPA with EGAT under the SPP scheme. The contract covers a capacity of 90 megawatts (MW). Under the terms of a standard PPA for an SPP cogeneration power plant, EGAT agrees to dispatch at least 80% of the contracted capacity, based on plant 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 fuel prices and currency exchange rates. This largely mitigates the risks associated with changes in the price of fuel and currency fluctuations.

BIP1 also has a long-term PPA with an industrial customer in Bangkadi Industrial Park (BIP). The agreement covers 14 MW of electricity. The contract specifies the minimum amount of electricity the customer is obligated to purchase. The electricity tariff charged to this industrial customer is based on the 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 price of fuel. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion regarding the timing and size of the adjustments. BIP1 also has a 25-year gas supply contract with PTT PLC (PTT).

BIP1 sells around 700 gigawatt hours (GWh) of electricity per year. In a typical year, the electricity sold to EGAT accounts for 90% of the total 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 a proven track record in the operation of its 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. In 2019, BIP1 sold about 631 GWh of electricity to EGAT, 50 GWh to an industrial customer, and 20 GWh to a related company for load management purposes. The actual availability factor was 97.7% while the heat rate was 7,741 British thermal units per 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 Bt0.36 per kWh from EGAT as a fuel-saving (FS) payment.

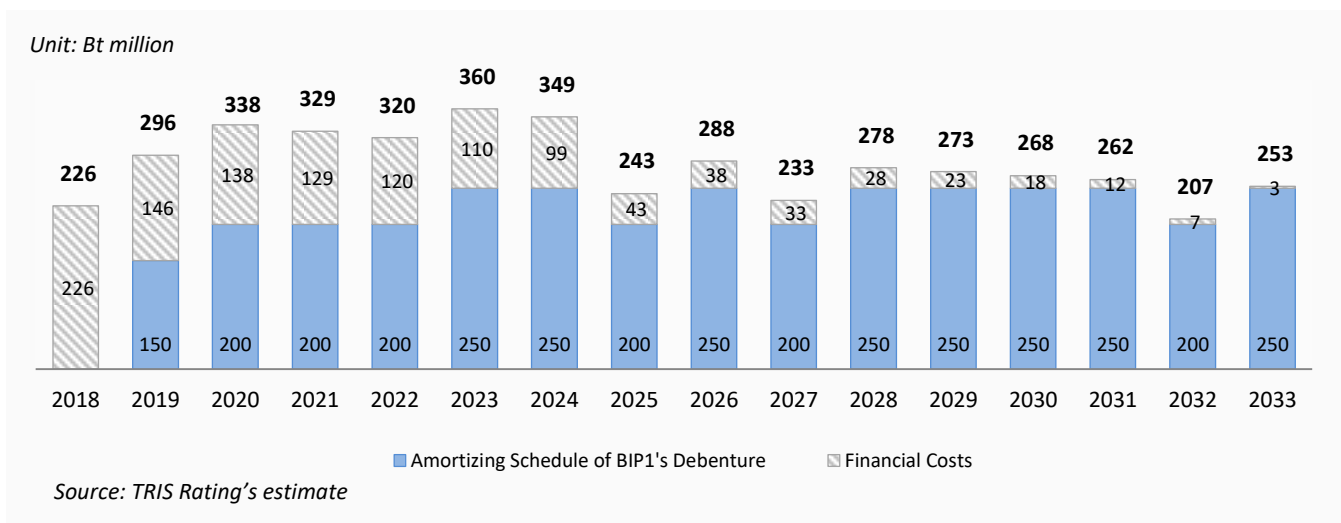
Financial performance in line with expectation

In 2018, BIP1's revenue stood at Bt2.1 billion, up from Bt2 billion in 2017. Earnings before interest, taxes, depreciation, and amortization (EBITDA) for 2018 were Bt505 million, 7% lower from Bt543 million in 2017. The decreasing EBITDA was due to the higher gas price while the Ft adjustment remained fixed.

Adequate debt service capability

TRIS Rating holds the view that BIP1 will be able to generate cash flow to service its debt obligations. In May 2018, BIP1 issued Bt3.35 billion 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 2020-2022, BIP1's debt service obligations will amount to Bt320-Bt340 million per year. The forecast EBITDA of Bt430-Bt480 million per year is enough to service the company's debt obligations.

Chart 1: Debt Service Schedule of BIP1



Improving capital structure

BIP1's capital structure is forecast to slightly improve as it repays the amortizing debentures. BIP1's reported total debt is projected to decrease to Bt2.6 billion in 2022, from Bt3.3 billion in 2018. The adjusted debt to capitalization ratio will improve to lower than 60% in 2022, from 68% in 2018. The adjusted net debt to EBITDA ratio is forecast to be 4 times in 2023.

BASE-CASE ASSUMPTIONS

- During 2019-2022, the plant availability factor of BIP1 will be in the 92%-98% range.
- Electricity sales to be around 642-700 GWh per year during 2019-2022. Revenue will be in the range of Bt2.1-Bt2.2 billion per year. EBITDA is projected at Bt430-Bt520 million per year.
- Cash on hand will be in the range of Bt590-Bt740 million per year.
- Maintenance capital expenditure of Bt25 million per year.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BIP1 will maintain its smooth operation, yielding EBITDA of Bt430-Bt520 million per year during 2019-2022.

RATING SENSITIVITIES

A rating upgrade is limited over the next 12-18 months. Conversely, a rating downgrade may occur if the operating performance or financial result deteriorates significantly, hurting the company’s cash flows.

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 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 2019, BIP1’s shareholders were BGRIM (74%), BIP (12%), and Nikornkij & Son (BIP Group) (14%).

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of BIP1

Plant Performance	Unit	2019	2018	2017	2016
Net output energy *	GWhe	700.9	693.4	696.3	607.6
Plant heat rate	BTU/kWh	7,771	7,741	7,740	7,770
Primary energy saving factor	%	11.7	12.0	12.0	11.9
Availability	%	97.7	94.6	94.8	85.2
Unplanned outage	%	0.0	1.7	4.8	13.6
Planned outage	%	2.3	3.8	0.4	1.2

* Net output of electricity and steam

Source: BIP1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----			
	2018	2017	2016	2015
Total operating revenues	2,129	2,029	1,826	1,480
Earnings before interest and taxes (EBIT)	324	370	284	219
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	505	543	463	346
Funds from operations (FFO)	278	346	262	233
Adjusted interest expense	226	193	201	114
Capital expenditures	1	2	10	2,498
Total assets	4,976	5,182	5,051	5,101
Adjusted debt	2,828	2,707	3,259	3,580
Adjusted equity	1,333	1,423	1,337	1,248
Adjusted Ratios				
EBITDA margin (%)	23.70	26.75	25.34	23.38
Pretax return on permanent capital (%)	6.81	7.62	5.78	6.02
EBITDA interest coverage (times)	2.24	2.81	2.30	3.05
Debt to EBITDA (times)	5.60	4.99	7.04	10.34
FFO to debt (%)	9.84	12.79	8.03	6.50
Debt to capitalization (%)	67.97	65.55	70.90	74.16

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

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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