

B.GRIMM BIP POWER 2 LTD.

No. 33/2019
19 March 2019

CORPORATES

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

Last Review Date: 25/04/18

Company Rating History:

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

Contacts:

Narongchai Ponsirichusopol

narongchai@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating of “A-” on B. Grimm BIP Power 2 Ltd. (BIP2) with a “stable” outlook. At the same time, TRIS Rating affirms the rating of “A-” on BIP2’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

BIP2 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 BIP2 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.

BIP2 also has long-term off-take agreements with industrial customers in Bangkadi Industrial Park (BIP). The agreements cover 18.5 MW of electricity. The contracts with these customers specify the minimum amount of electricity they are obligated to purchase. The electricity tariff charged to these industrial customers 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.

BIP2 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.

BIP2 sells around 700-750 gigawatt hours (GWh) of electricity per year. In a typical year, the electricity sold to EGAT accounts for 89% of the total amount of electricity sold, while the industrial customers account for 11%.

Proven technology mitigates operational risks

BIP2’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. BIP2’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

BIP2 has proven track record of running cogeneration power plant. For day-to-day operations, BIP2 has its own operation and maintenance teams. The teams leverage the expertise of B. Grimm Power PLC (BGRIM), BIP2’s parent company. BGRIM has extensive expertise in the operation and maintenance of cogeneration power plants.

BIP2 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 BIP2 and IHI.

The power plant BIP2 operates has met the targets specified in the PPA since the plant started up in 2016. Sales to EGAT usually constitute about 86% of the total electricity sales. In 2018, BIP2 sold about 639 GWh of electricity to EGAT, 94 GWh to industrial customers, and 0.9 GWh to related companies for load management purposes. The actual availability factor was 96.6% and the heat rate was 7,697 British thermal units/kilowatt-hour (BTU/kWh), better than the threshold of 7,950 BTU/kWh specified in the PPA. In terms of energy efficiency, BIP2'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.

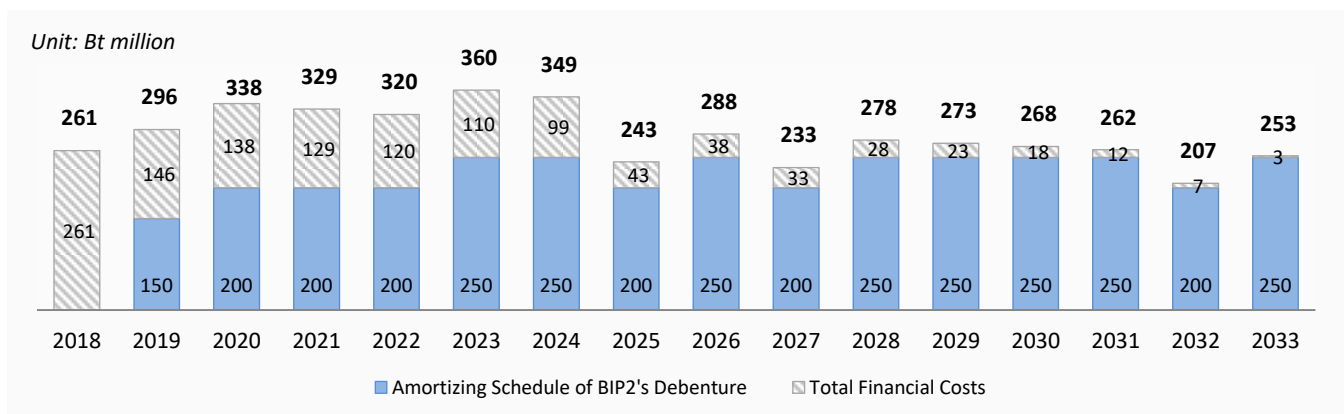
Financial performance in line with expectation

In 2017, BIP2's revenue was Bt2,218 million, up from Bt2,199 million in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) for 2017 were Bt660 million, a slight increase from Bt641 million in 2016.

Adequate debt service capability

TRIS Rating holds the opinion that BIP2 will be able to generate enough cash flow to service its debts. In May 2018, BIP2 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, BIP2's debt service obligations will be around Bt260-Bt340 million per year. EBITDA of Bt540-630 million, as forecast, is enough to service the debt obligations.

Chart 1: Debt Service Schedule of BIP2



Source: TRIS Rating's estimate

Acceptable capital structure

We expect BIP2's capital structure will gradually improve as it repays the amortizing debentures. BIP2's reported total debt is expected to decline to Bt2,800 million in 2021, from Bt3,500 million in 2017. The adjusted debt to capitalization ratio will improve to 59% in 2021, from 62% in 2017. Adjusted net debt to EBITDA is expected to maintain at around 3-4 times in the next few years.

BASE-CASE ASSUMPTIONS

- During 2018-2021, the plant availability factor of BIP2 will range between 92%-97%.
- The electricity sold will be around 670-730 GWh per year.
- During 2018-2021, BIP2's revenue will range between Bt2,100-Bt2,300 million per year. EBITDA is forecast at Bt540-Bt630 million per year, and cash on hand will range between Bt600-Bt800 million.
- The financing cost will range around Bt130-Bt260 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 BIP2 will maintain smooth operations, yielding EBITDA of around Bt540-Bt630 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 BIP2's operating performance or financial results deteriorate significantly, hurting its cash generation ability.

COMPANY OVERVIEW

BIP2 was established in 2010 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. BIP2 started commercial operation in January 2016. As of December 2018, BIP2's shareholders were BGRIM (74%), BIP (12%), and Nikornkij& Son (BIP Group -- 14%).

KEY OPERATING PERFORMANCE

Plant Performance Statistics of BIP2				
Plant Performance	Unit	2018	2017	2016
Net output energy *	GWhe	711.7	738.4	728.4
Plant heat rate	BTU/kWh	7,697	7,657	7,644
Primary energy saving factor	%	12.3	11.9	11.9
Availability	%	96.6	96.6	96.8
Unplanned outage	%	0.4	1.3	0.5
Planned outage	%	2.9	1.1	2.6

* Net output of electricity and steam

Source: BIP2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Year Ended 31 December	
	2017	2016
Total operating revenues	2,231	2,210
Operating income	664	645
Earnings before interest and taxes (EBIT)	472	626
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	664	806
Funds from operations (FFO)	456	651
Adjusted interest expense	208	156
Capital expenditures	12	1,996
Total assets	5,606	5,565
Reported debt	3,457	3,679
Adjusted debt	2,660	3,167
Adjusted equity	1,597	1,670
Adjusted Ratios		
Operating income as % of total operating revenues (%)	29.75	29.18
Pretax return on permanent capital (%)	8.97	14.95
EBITDA interest coverage (times)	3.19	5.18
Debt to EBITDA (times)	4.00	3.93
FFO to debt (%)	17.14	20.55
Debt to capitalization (%)	62.49	65.47
DSCR (times) ⁽¹⁾	2.08	3.46

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

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 2 Ltd. (BIP2)

Company Rating:	A-
Issue Rating:	
BIPB335A: Bt3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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