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BANPU PLC

No. 175/2017 26 December 2017

Company Rating: A+

Issue Ratings:
Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
26/12/14	A+	Stable
29/11/13	AA-	Negative
15/12/10	AA-	Stable
06/07/10	AA-	Alert Developing
26/06/08	AA-	Stable
07/11/05	A+	Stable
28/07/05	A	Positive
12/07/04	A	Stable
14/01/03	A	-
22/03/01	A-	-

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of the senior unsecured debentures of Banpu PLC (BANPU) at "A+". The ratings reflect the company's leading position in the coal industry within the Asia-Pacific region, diverse customer base and geographic diversification of coal reserves, and the reliable stream of income from the power segment. However, the ratings are partially offset by the cyclicality of the coal prices, slowdown in demand for coal driven in part by efforts to reduce emissions worldwide, as well as the uncertainties concerning coal-related policies implemented by the Chinese government.

BANPU is one of the major energy companies in Asia. It was established in 1983 by the Vongkusolkit family. Presently, BANPU has diversified coal mining operations in Asia Pacific region. BANPU's mining assets are located in Indonesia, Australia, China, and Mongolia. However, the Indonesian operation remains the major profit contributor. The Indonesian coal operation accounted for 44% of BANPU's earnings before interest, tax, depreciation, and amortization (EBITDA) for the first nine months of 2017. The Australian coal operation made up 23%, and the rest (33%) came from operations in China, Thailand, and the United States (US).

Coal production of BANPU has gradually fallen during the past few years. Reserves at the Indonesian mines are being depleted and production has halted at inefficient coal mines in Australia during low coal prices. In 2016, the amount of coal mined from Indonesia and Australia decreased to about 38 million tonnes in 2016, a 2% drop year-on-year (y-o-y). In 2017, BANPU plans to produce only 35 million tonnes, an 8% decline from the previous year. However, BANPU will ramp up production to about 40 million tonnes per year during the next few years if coal prices remain healthy.

At the end of September 2017, the coal reserves in Indonesia and Australia totaled 519 million tonnes. Reserves at BANPU's Indonesian mines indicate a reserve life of about 8.5 years and more than 20 years for the Australian mines. Coal reserves are likely to increase as long as coal prices are strong. BANPU also plans to acquire some small mines, close to its existing mining assets, to increase reserves, boost production, and utilize its existing infrastructure. In November 2017, BANPU announced it would buy a 70% stake in the PT Tepian Indah Sukses (TIS) mine in Indonesia at a total investment cost of US$9.5 million. This will add coal reserves modestly by 4.7 million tonnes. Production from this mine is set to commence in 2019.

BANPU's business profile is also underpinned by a reliable stream of income from the power segment. In addition to mining coal, BANPU has gradually enlarged its portfolio of power-generating assets in an effort to add assets with predictable stream of income. Currently, BANPU has invested in many power projects in Thailand, the Lao People's Democratic Republic (Lao PDR), China and Japan with equivalent power production capacity of 2.07 gigawatt (GW) in total. The power segment has generated EBITDA of about 19% of BANPU's total EBITDA in the first nine months of 2017. The active power projects yielded for US$73 million in dividends in the first nine months of 2017. BANPU continues to expand the power portfolio. The equity capacity is targeted to rise from 2.07 GW on stream currently to about 2.69 GW in 2020.

As part of its diversification efforts, BANPU expanded its footprint to other energy-related business, shale gas and energy solutions. During 2016 to the beginning of December 2017, BANPU invested in the gas business in the US, spending about US$522 million to acquire interest in six projects. The six projects are currently in operation, and are located in Pennsylvania, the largest source of shale gas in the US. Four out of the six projects are operated by a well-known shale gas producer. BANPU operates two projects receiving technical support and guidance from the former owners. The shale gas business is expected to contribute about US$100 million of EBITDA per year. BANPU aims to increase contribution from shale gas to about 10%-15% of total EBITDA. On top of the investments in shale gas, BANPU acquired 28.86% shareholding of Sunseap Group Pte. Ltd. (Sunseap) in Singapore for US$55.8 million. Sunseap engages in energy solution provider in Singapore ranging from rooftop installations to floating photovoltaic (PV) systems. The success of the new investments remains to be seen as BANPU has a limited track record in these areas.

BANPU's financial performances rebounded in the first nine months of 2017 on the back of rising coal prices. The efforts to reform the supply of coal in China have kept coal prices shored up since mid-2016. As a result, BANPU’s average selling price increased to US$72.1 per tonne for the first nine months of 2017, up by 47%, in line with the increase in the benchmark price. Higher prices for coal outweighed higher production cost at coal mines and power plants in China. Hence, BANPU's gross margin recovered from 32.5% in 2015 to 33.1% in 2016 and 38.3% for the first nine months of 2017. BANPU's operating margin before depreciation and amortization rebounded from 12% in 2015 to 22.4% in the first nine months of 2017. A better performance at the Hongsa power plant also enhanced the financial performance in the first nine months of 2017. After implementing a major overhaul at all units, the commercial equivalent availability factor (EAF) of the power project improved from 55% in the first nine months of 2016 to about 77% in the first nine months of 2017. EBITDA from the power segment has gradually increased to US$155 million in 2016 and US$133 million in the first nine months of 2017, from US$119 million in 2015. BANPU’s EBITDA increased from US$377 million in 2015 to US$647 million in the first nine months of 2017.

BANPU's capital structure and financial flexibility improved after a successful listing of BANPU Power PLC on the Stock Exchange of Thailand (SET) in November 2016. However, the investments in the shale gas business kept BANPU’s leverage at moderate level. The net debt to capitalization ratio was 48.8% as of September 2017, from 58.3% at the end of 2015 and 49.8% at the end of 2016. Cash flow protection recovered as coal prices rose. The EBITDA interest coverage ratio was 6.3 times in the first nine months of 2017, compared with 2.9-4.6 times during the past three years. The ratio of funds from operations (FFO) to total debt was 12.1% (annualized, from the trailing 12 months) in the first nine months of 2017, compared with 4.7%-11.2% in 2014-2016.

The high prices for coal help reduce the pressure on BANPU’s earnings for the coming year. However, coal production worldwide is expected to rise since coal prices are high and the uncertainty surrounding the policies implemented by the Chinese government amidst the fragile demand growth also puts coal prices more volatile. Under TRIS Rating's base case scenario, EBITDA is expected to rise to hover at approximately US$700-US$800 million per year in 2018-2020. BANPU budgets capital expenditures and investment of US$300-US$400 million per year during 2018-2020, excluding acquisitions. Given the planned investments and estimated EBITDA, leverage is anticipated to stay moderate. The EBITDA interest coverage ratio is expected to hover around 4-5 times and FFO to total debt ratio will range from 10%-15% in 2018-2020.

Rating Outlook

The “stable” outlook reflects the expectation that BANPU will maintain its leading position in the coal industry. Dividends from the steady and stable power segment will provide some cushion for the company. Good liquidity, underpinned by BANPU’s financial discipline, prudent cash management plus financial flexibility, will help BANPU weather volatile market conditions.

An upside for BANPU's ratings may occur if the company could improve its financial profile significantly or exhibits more earnings stability. A rating downgrade will emerge if coal prices tumble and cash flow substantially weakens below expectation. Any debt-funded investments, which could worsen the capital structure and deteriorate cash flow protection for an extended period, would be another factor supporting a downgrade.

Banpu PLC (BANPU)

Company Rating:	A+
Issue Ratings:	
BANPU184A: Bt5,500 million senior unsecured debentures due 2018	A+
BANPU195A: Bt2,850 million senior unsecured debentures due 2019	A+
BANPU207A: Bt2,300 million senior unsecured debentures due 2020	A+
BANPU207B: Bt3,000 million senior unsecured debentures due 2020	A+
BANPU214A: Bt4,000 million senior unsecured debentures due 2021	A+
BANPU225A: Bt3,000 million senior unsecured debentures due 2022	A+
BANPU234A: Bt3,500 million senior unsecured debentures due 2023	A+
BANPU247A: Bt5,000 million senior unsecured debentures due 2024	A+
BANPU257A: Bt2,100 million senior unsecured debentures due 2025	A+
BANPU264A: Bt2,000 million senior unsecured debentures due 2026	A+
BANPU274A: Bt10,000 million senior unsecured debentures due 2027	A+
BANPU234B: US$150 million senior unsecured debentures due 2023	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: US$ million

	Jan-Sep 2017	------------------------ Year Ended 31 December -------------------- 2016	2015	2014	2013	2012
Sales	1,985	2,259	2,477	3,145	3,351	3,775
Gross interest expense	102	130	130	132	127	122
Funds from operations (FFO)	367	267	155	362	277	606
Earnings before interest, tax, depreciation and amortization	647	493	377	602	631	993
Capital expenditures & Investments	324	545	352	221	209	338
Cash and short-term investments	600	469	449	423	458	768
Total assets	7,741	6,973	6,553	6,903	7,129	7,712
Total debt	3,554	3,184	3,341	3,235	3,229	3,168
Net debt	2,953	2,715	2,892	2,812	2,771	2,400
Shareholders' equity	3,099	2,738	2,065	2,386	2,509	3,046
Depreciation & amortization	155	185	189	223	233	253
Dividends	125	86	141	166	218	362
Operating income before depreciation and amortization as % of sales	22.4	15.1	12.0	15.0	14.6	22.3
Pretax return on permanent capital (%)	10.1 **	5.4	3.4	6.7	6.7	11.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.3	3.8	2.9	4.6	5.0	8.1
FFO/total debt (%)	12.1 **	8.4	4.7	11.2	8.6	19.1
Total debt/capitalization (%)	53.4	53.8	61.8	57.6	56.3	51.0
Net debt/capitalization (%)	48.8	49.8	58.3	54.1	52.5	44.1

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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