

BANPU PLC

No. 201/2018
25 December 2018

CORPORATES

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

Last Review Date: 01/08/18

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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RATIONALE

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

KEY RATING CONSIDERATIONS

Leading position in coal mining in Asia-Pacific

BANPU is one of the leading coal mining in Asia-Pacific region. BANPU has coal mining operations in Indonesia, Australia, China, and Mongolia. For 2018 operation, BANPU coal sales is expected to reach 45 million tonnes, while its aggregated coal reserves was 563 million tonnes as of September 2018.

BANPU's coal reserves increased, mainly due to higher coal price assumption. BANPU's coal reserves in Indonesia and Australia increased to 563 million tonnes as of September 2018, from 519 million tonnes for the same period last year. Reserves at BANPU's Indonesian mines indicate a reserve life of about 11 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 has a diversified customer base. Sales volume is targeted at 45 million tonnes in 2018, including sales volume from the Chinese mines. Of the total sales volume, 22% was sold to buyers in China, 20% in Australia, and 14% in Japan. The remaining volume was sold to customers in a number of other countries including Korea, Taiwan, India, Indonesia, the Philippines, and other Southeast Asia countries.

Coal production is expected to increase

BANPU's coal production from Indonesian and Australian mines is targeted to increase to about 40 million tonnes in 2020, from about 37 million tonnes in 2017. The higher coal price will enable BANPU to increase its stripping ratio, resulting in higher production. In addition, the new coal mine (PT Tepian Indah Sukses -- TIS) with coal reserves of 4.7 million tonnes, acquired in 2017, will start up in late 2019 with production volume of about 1 million tonnes per year. In August 2018, BANPU announced its acquisition of 100% shareholding in PT Nusa Perdana Resources (NPR) with a total investment cost of about US\$30 million. This acquisition will add about 77.4 million tonnes of coal reserves. BANPU also plans to commence operation of a new coal mine (NPR) in late 2022 with production volume of about 4 million tonnes per year.

Power segment provides reliable cash flow to BANPU

TRIS Rating views that the investment in the power business has strengthened BANPU's business profile. This is because the reliable stream of cash flow should help cushion BANPU's overall performance from the fluctuation in coal price. BANPU has gradually enlarged its power portfolio through Banpu Power PLC (BPP), its subsidiary. Currently, BPP has invested in many power projects in Thailand, the Lao People's Democratic Republic (Lao

PDR), China, and Japan with equity capacity of 2.14 Gigawatts (GW). The power segment has generated earnings before interest, tax, depreciation, and amortization (EBITDA) of about 19% of BANPU's total EBITDA and dividend of US\$64 million for the first nine months of 2018. BPP plans to double its equity capacity to about 4.3 GW in 2025. This target will be achieved by developing solar power projects in Japan and Vietnam, commencing operation of coal-fired power plant in China, investing in wind turbine power in Vietnam, and other investments.

Targeted to be an integrated energy solution company

BANPU's target to be an integrated energy solutions company will help the company capture new opportunities and offset the slowing pace of demand for coal in the long-term. As part of an integrated energy solution, BANPU acquired 28.86% shareholding in Sunseap Group Pte. Ltd. (Sunseap) in 2017. Sunseap is an energy solutions provider in Singapore, with solutions ranging from rooftop installations to floating photovoltaic (PV) systems. In March 2018, BANPU acquired 44.84% stake in New Resources Technology Pte. Ltd. (NRT) for US\$33.2 million. NRT specializes in designing, manufacturing, and integrating of Lithium-Ion batteries for the automotive industry and energy storage systems.

Improving financial profile

The increase in coal price has improved BANPU's financial profile. BANPU's average selling price from its Indonesian mines increased by 20% year-on-year (y-o-y) to US\$85 per tonne for the first nine months of 2018, in line with the benchmark price. The operating margin (operating incomes as percentage of operating revenues) increased from 16.1% in 2016 to 23.1% for the first nine months of 2018. The higher average selling price plus higher contribution from the gas business helped increase the company's EBITDA to US\$696 million for the first nine months of 2018, from US\$507 million for the first nine months of 2017.

The capital structure remained at a satisfactory level. As of September 2018, the company's adjusted debt was US\$3,625 million with a debt to capitalization ratio of 53.38%.

TRIS Rating forecasts BANPU's EBITDA to increase to approximately US\$800-US\$900 million per year during 2019-2021. This forecast is based on a sales volume of coal at about 35-40 million tonnes per year from the Indonesian and Australian mines, while the Newcastle Index price is expected to be in the range of US\$90-US\$100 per tonne in 2019-2021.

BANPU budgets capital expenditures and investment of US\$200-US\$300 million per year in 2019-2021. Given the planned capital expenditures and investment and estimated EBITDA, debt to capitalization ratio is expected to stay below 55%. The EBITDA interest coverage ratio is expected to hover around 6-7 times and the FFO to debt ratio will range from 15%-20% in 2019- 2021.

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 the volatility in the market conditions.

RATING SENSITIVITIES

An upside for BANPU's ratings may occur if the company could improve its financial profile significantly or exhibit 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.

COMPANY OVERVIEW

BANPU is one of the major energy companies in Asia. It was established in 1983 to mine coal in Thailand. Currently, BANPU has coal operations in Indonesia, Australia, China, and Mongolia. The Indonesian operation remains the major profit contributor. For the first nine months of 2018, the Indonesian coal operation accounted for 42% of BANPU's EBITDA. The Australian and Chinese coal operations accounted for 19% and 11%, respectively. The rest came from power businesses in China, Thailand and Japan (19%), and its gas business in the United States (9%).

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: US\$ million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	2,521	2,916	2,286	2,496	3,180
Operating income	583	691	368	317	505
Earnings before interest and taxes (EBIT)	597	618	297	212	382
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	696	713	431	394	609
Funds from operations (FFO)	431	438	231	165	408
Adjusted interest expense	132	141	131	130	132
Capital expenditures	197	241	176	197	215
Total assets	8,492	8,223	6,973	6,553	6,903
Adjusted debt	3,625	3,340	2,872	3,045	2,972
Adjusted equity	3,166	3,211	2,738	2,065	2,386
Adjusted Ratios					
Operating income as % of total operating revenues (%)	23.10	23.70	16.10	12.71	15.87
Pretax return on permanent capital (%)	10.89 **	9.28	5.11	3.75	6.57
EBITDA interest coverage (times)	5.28	5.05	3.29	3.02	4.63
Debt to EBITDA (times)	4.02 **	4.68	6.67	7.73	4.88
FFO to debt (%)	15.29 **	13.12	8.04	5.43	13.73
Debt to capitalization (%)	53.38	50.99	51.19	59.59	55.47

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Banpu PLC (BANPU)

Company Rating:	A+
Issue Ratings:	
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+
BANPU288A: US\$50 million senior unsecured debentures due 2028	A+
Rating Outlook:	Stable

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