

# BANPU PLC

No. 212/2019  
25 December 2019

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

Last Review Date: 09/05/19

### 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-	-

### Contacts:

Sermwit Sriyotha  
sermwit@trisrating.com

Pravit Chaichamnapai, CFA  
pravit@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Wiyada Pratoomsuan, CFA  
wiyada@trisrating.com



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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+” with a “stable” rating outlook. The ratings reflect the company’s leading position in the coal industry in the Asia-Pacific region, reliable stream of income from the power business, and strategic move to be an integrated energy company and focus more on greener energy. The ratings take into consideration the slowdown in demand for coal, driven in part by efforts to reduce emissions worldwide.

## KEY RATING CONSIDERATIONS

### Leading position in coal mining in Asia-Pacific region

BANPU is one of the leading coal mining companies in the Asia-Pacific region. BANPU has coal mining operations in Indonesia, Australia, China, and Mongolia. BANPU’s aggregated coal reserves totaled 529 million tonnes as of September 2019. Reserves at BANPU’s Indonesian mines indicate a reserve life of about nine years and more than 25 years for the Australian mines.

BANPU also has a diversified customer base. Sales volume is targeted at 41 million tonnes in 2019, including sales volume from the Chinese mines. Of the total sales volume, 30% was sold to buyers in China, 16% in Australia, and 16% in Japan. The remaining volume was sold to customers in Korea, Taiwan, India, Thailand, and other Southeast Asian countries.

### Coal production to slightly increase

BANPU’s coal production from its Indonesian and Australian mines is expected to increase to about 37 million tonnes in 2020, from about 35 million tonnes in 2018. The increase is mainly from the Australian mines, after BANPU’s successful commencement of narrow panel extraction mining in the Airly mine in the third quarter of 2019 and production improvements in other mines. The current coal price is inducing BANPU to cut some costs and lower its stripping ratio for the Indonesian mines.

### Power business provides reliable cash flow to BANPU

TRIS Rating views that 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 fluctuations in coal price. BANPU has gradually enlarged its power portfolio through its subsidiary, Banpu Power PLC (BPP). 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 3.0 gigawatts (GW), of which 2.3 GW are in operation. The power segment has generated earnings before interest, tax, depreciation, and amortization (EBITDA) of about 20% of BANPU’s total EBITDA and contributed cash dividends of US\$345 million for the first nine months of 2019. BPP plans to increase equity capacity of the power segment to about 6.1 GW by 2025. This target will be achieved by developing solar power projects in Japan and Vietnam, commencing operation of a coal-fired power plant in China, investing in wind turbine power in Vietnam, and other investments such as gas-fired power projects in the United States (US) and energy technology.

### Greener and smarter policy

BANPU plans to restructure its energy portfolio to pursue greener and smarter strategies. BANPU will set up a new entity, “Banpu Next”, to focus investment in renewable energy and energy technologies such as energy storage, energy trading platforms, and other energy solutions. BPP will focus on fossil fuel power plants while the renewable power plants will transfer from BPP to Banpu Next. Other energy technology companies, such as “Sunseap” and “Durapower”, will be held by Banpu Next.

### Enlarging gas business in the US

BANPU announced the acquisition Barnett Shale’s assets in the US, worth US\$770 million, on 18 December 2019. The acquisition is in line with BANPU’s strategy to enlarge its greener energy portfolio. The transaction is subject to customary terms and conditions and is expected to be completed in the second quarter of 2020.

The Barnett Shale has operating sites in Texas, with natural gas production of about 500 million cubic feet per day (MMCFD) and proved reserves of 3.5 trillion cubic feet (TCF) as of September 2019. This acquisition will increase BANPU’s gas production volume by 500 MMCFD, on top of the 200 MMCFD produced from its Marcellus assets in 2018. It also increases BANPU’s gas reserves by 3.5 TCF, from 1.2 TCF at the end of 2018.

BANPU plans to fund this acquisition with debt of about US\$600-650 million. BANPU expects that this acquisition will add about US\$115-US\$125 million of EBITDA per year to the company after full year consolidation from 2021 onwards.

### BANPU’s EBITDA slightly declined in 2019

Despite a drop in coal price, BANPU’s EBITDA was maintained at about US\$700 million for the first nine months of 2019. This was because BANPU received cash dividends totaling US\$387 million during the first nine months of 2019, compared with US\$129 million in the same period last year. The higher dividend was mainly due to special dividends paid by BCLP Power Ltd. (BCLP) totaling US\$237 million. However, BANPU’s EBITDA for 2019 is expected to decrease to about US\$750-US\$800 million, from US\$982 million in 2018, reflecting the current low coal price environment. The Newcastle coal price index declined by 26% year-on-year (y-o-y), to US\$81 per tonne for the first nine months of 2019. It currently hovers at around US\$65-US\$70 per tonne.

### Gas business will contribute more EBITDA from 2021 onwards

The ramp up of Chinese coal production, as well as improving coal logistics in inland China, puts pressure on the coal price. TRIS Rating views that the coal price will decrease in 2020 from the 2019 level. TRIS Rating expects BANPU’s EBITDA to be about US\$600-US\$800 million per year during 2020-2022. Dividends received from power investments are expected to be back to normal levels of about US\$50-US\$70 million per year. Contribution from the Barnett Shale will fully realize in 2021, after consolidation in 2020.

The natural gas business is expected to generate an EBITDA margin of about 50%-60%, compared with the coal segment’s margin of about 20%-30%. TRIS Rating views that the Barnett Shale acquisition strengthens BANPU’s business profile because the gas business will likely help offsetting a slowing pace of demand for coal in the long term. It also captures the rising trend of demand for gas in the US, as coal-fired power plants in the US are scheduled to close due to aging and will convert to gas-fired power plants.

### Leverage expected to increase in 2020

TRIS Rating foresees BANPU’s leverage to increase in 2020 due to the Barnett Shale acquisition. Based on the capital expenditures and investment assumptions, the company’s debt to capitalization should stay at about 55%-60% during 2020-2022. The debt to EBITDA ratio is expected to increase to 6-8 times in 2020 and revert to 4-6 times in 2021 and 2022.

### BASE-CASE ASSUMPTIONS

- Newcastle coal price index to be in the range of US\$70-US\$80 per tonne in 2020-2022.
- Sales volume from Indonesian and Australian mines to be at about 35-40 million tonnes per year.
- Capital expenditures and investment, excluding investment in Barnett Shale, to be about US\$900 million over 2020-2022.
- Barnett Shale acquisition payments to be about US\$77 million in 2019 and about US\$700 million in 2020.
- Barnett Shale’s EBITDA to be around US\$40 million in 2020 and about US\$80-US\$100 million during 2021-2022.

**RATING OUTLOOK**

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

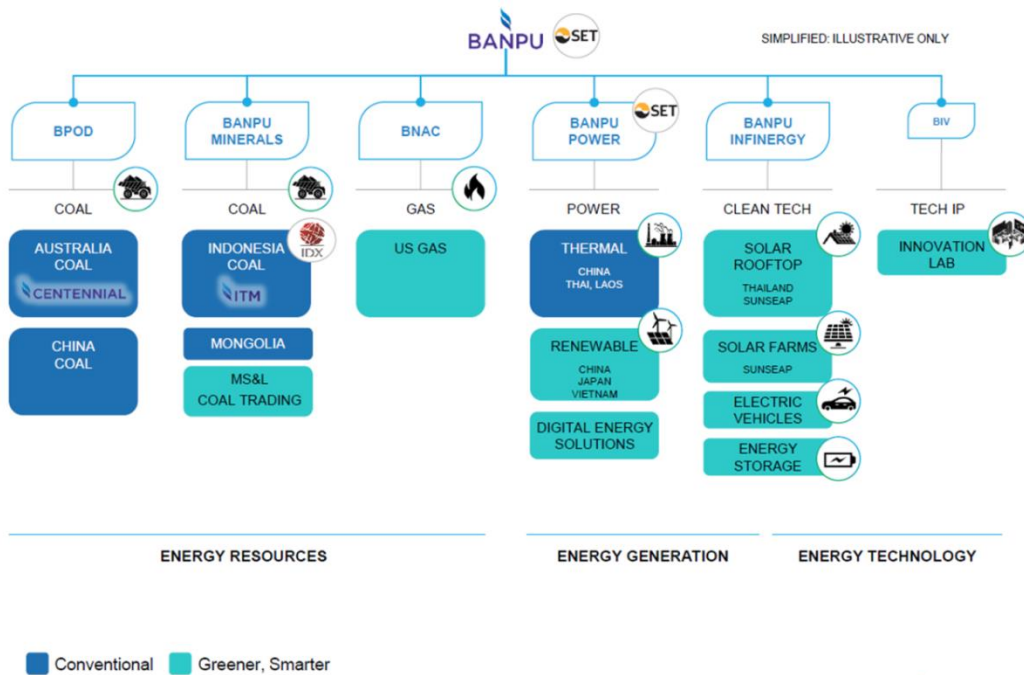
**RATING SENSITIVITIES**

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 would emerge if coal prices tumble and cash flow substantially weakens below expectations. 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. BANPU has expanded its business to power generation. It also entered into the gas business in the US in 2016. For the first nine months of 2019, the coal operation accounted for 66% of BANPU’s EBITDA. The rest came from power businesses in China, Thailand, and Japan (24%), and its gas business in the US (10%).

**Chart 1: BANPU’s Group Structure**



Source: BANPU

**Table 1: BANPU's Assets Breakdown (As of Dec 2018)**
*Unit: US\$ million*

Unit: US\$.mil.	Thailand	Indonesia	Australia	China	Lao PDR	Japan	U.S.	Total
Coal	50	1,197	3,102	587	-	-	-	4,936
Power	170	-	-	460	484	2	-	1,116
Gas	-	-	-	-	-	-	647	647
<b>Total</b>	<b>220</b>	<b>1,197</b>	<b>3,102</b>	<b>1,047</b>	<b>484</b>	<b>2</b>	<b>647</b>	<b>6,699</b>

Unit: %	Thailand	Indonesia	Australia	China	Lao PDR	Japan	U.S.	Total
Coal	0.7	17.9	46.3	8.8	-	-	-	73.7
Power	2.5	-	-	6.9	7.2	0.0	-	16.7
Gas	-	-	-	-	-	-	9.7	9.7
<b>Total</b>	<b>3.3</b>	<b>17.9</b>	<b>46.3</b>	<b>15.6</b>	<b>7.2</b>	<b>0.0</b>	<b>9.7</b>	<b>100.0</b>

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

	Jan-Sep 2019	-----Year Ended 31 December-----			
		2018	2017	2016	2015
Total operating revenues	2,146	3,537	2,916	2,286	2,496
Earnings before interest and taxes (EBIT)	283	767	618	297	212
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	704	982	713	431	394
Funds from operations (FFO)	503	616	438	231	165
Adjusted interest expense	143	177	141	131	130
Capital expenditures	222	273	241	176	197
Total assets	8,402	8,454	8,223	6,973	6,553
Adjusted debt	3,816	3,572	3,340	2,872	3,045
Adjusted equity	3,025	3,175	3,211	2,738	2,065
<b>Adjusted Ratios</b>					
EBITDA margin (%)	32.79	27.76	24.46	18.85	15.79
Pretax return on permanent capital (%)	6.07 **	10.50	9.28	5.11	3.75
EBITDA interest coverage (times)	4.92	5.56	5.05	3.29	3.02
Debt to EBITDA (times)	3.86 **	3.64	4.68	6.67	7.73
FFO to debt (%)	18.03 **	17.24	13.12	8.04	5.43
Debt to capitalization (%)	55.78	52.95	50.99	51.19	59.59

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

**Banpu PLC (BANPU)**

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
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+
BANPU295A: Bt10,000 million senior unsecured debentures due 2029	A+
BANPU234B: US\$150 million senior unsecured debentures due 2023	A+
BANPU288A: US\$50 million senior unsecured debentures due 2028	A+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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

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