

B. GRIMM BIP POWER 1 LTD.

No. 68/2022
29 April 2022

CORPORATES

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

Last Review Date: 12/04/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on B. Grimm BIP Power 1 Ltd. (BIP1) and the rating on its senior unsecured amortizing debentures at “A-” with a “stable” rating outlook. The ratings reflect the highly predictable earnings of BIP1, backed by a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT), the commercially proven technology of its cogeneration power plant, and a track record of solid operational performance. On the contrary, the ratings are constrained by the risk of reliance on single operating asset.

The company rating on BIP1 also takes into consideration its stand-alone credit profile (SACP) of “a-” and its status as a “strategic” subsidiary of B. Grimm Power PLC (BGRIM, rated “A/Stable” by TRIS Rating).

KEY RATING CONSIDERATIONS

Reliability of earnings backed by PPA with EGAT

BIP1 owns and operates a gas-fired cogeneration power plant, which started operation in 2015. The company holds a 25-year PPA with EGAT under the small power producer (SPP) scheme, with a contracted capacity of 90 megawatts (MW).

The PPA, which is on take-or-pay basis, largely mitigates market risk. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. BIP1’s sales to EGAT constitutes about 86%-90% of total sales per annum. The credit quality of EGAT (rated “AAA/Stable” by TRIS Rating) means minimal counterparty risk to BIP1.

The highly predictable earnings are also supported by the capacity payments. In addition, the adverse impact from wild swings of fuel prices and exchange rates is mitigated through the index-based tariff adjustment.

Electricity sales to industrial customer

BIP1 also holds a PPA with an industrial customer in Bangkadi Industrial Park (BIP), with contracted capacity of 14 MW. The customer is obliged to purchase minimum amount of electricity as agreed in its agreement. BIP1 sells electricity at discounts on tariff rates charged by the Provincial Electricity Authority (PEA) to large general service customers. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in the fuel price. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion on the timing and magnitude of the adjustments. As such, a spike in fuel prices could adversely impact the company’s earnings. Moreover, the sale volume hinges on electricity demand of the customer.

Proven technology of cogeneration power plant

BIP1’s combined-cycle cogeneration plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by GE Power (GE), a leading manufacturer and supplier for power generation in global market. The GE-LM6000PD gas turbine made by 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.

Record of solid performance

BIP1 has its own operation and maintenance teams for day-to-day operations. BIP1 leverages the expertise of BGRIM. The parent company has extensive expertise in the operation and maintenance of cogeneration power plants. BIP1’s operation has met the targets specified in the PPA since the onset. In 2021, the plant availability factor was 96.8% while the heat rate was 7,783 British thermal units per kilowatt-hour (BTU/kWh), well below the borderline of 8,000 BTU/kWh as required in the PPA.

In terms of energy efficiency, BIP1’s power plant achieved the primary energy saving (PES) expectation and received an additional tariff of THB0.36 per kilowatt-hour (kWh) from EGAT as a fuel-saving (FS) payment. We consider the risk of performance penalties and PPA termination is very low.

Impact from soaring gas prices

BIP1 has delivered stable revenue and earnings over the past several years. However, we view the steep rise in gas prices will impact BIP1’s earnings in 2022 to some extent. Gas prices continued to rise from the last quarter of 2021 to hit record high of above THB400 per metric million British thermal unit (MMBTU) in the first quarter of 2022. In our base-case projection, we assume gas prices to remain high in 2022 and gradually decline to ordinary levels from 2023 onwards. Although we expect an escalation of Ft in our forecast, the adjustment is unlikely to match the surge in gas prices.

In effect, we project BIP1’s earnings before interest, taxes, depreciation, and amortization (EBITDA) to slide to THB470 million in 2022, from THB527 million in 2021. We expect the company’s debt to EBITDA ratio to stay at 5.5 times in 2022. However, based on our assumption of a gradual normalization of gas prices, we forecast BIP1’s EBITDA will range at THB480-THB540 million per year during 2023-2025. The debt to EBITDA ratio could fall below 4 times from 2023 onwards.

Single operating asset

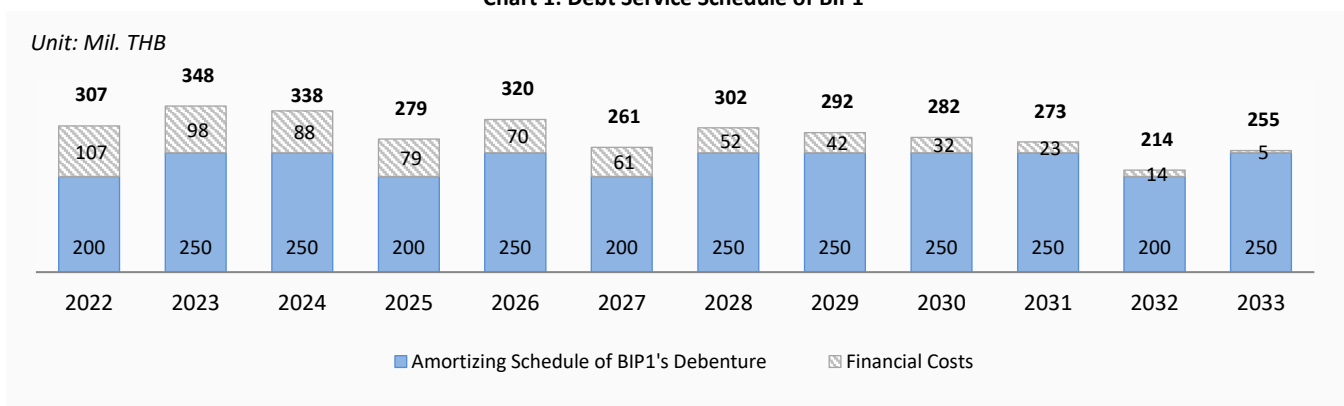
The ratings are constrained by BIP1's single operating asset. BIP1’s business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Due to the lack of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. That said, we view the likelihood of such scenario is remote, given its solid record of operation.

Adequate debt service capability

We project BIP1 to generate sufficient cash flow to service its debt obligations. In May 2018, BIP1 issued THB3.35 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 expected cash flows according to the PPA.

As of December 2021, BIP1 had cash on hand and cash equivalents of THB677 million. The available cash and cash equivalents combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB279-THB348 million per year during 2022-2025.

Chart 1: Debt Service Schedule of BIP1



Source: TRIS Rating’s estimate

A strategic subsidiary under BGRIM Group

BIP1 is among 21 cogeneration power plants under BGRIM Group. As of December 2021, BIP1’s installed capacity accounted for 5% of total capacity of BGRIM’s gas-fired cogeneration power plants. In terms of cash flow contribution, BIP1’s EBITDA represents approximately 4% of the group’s total EBITDA. Despite its small revenue contribution, we view BIP1 as a strategic

subsidiary of BGRIM. In our view, the cogeneration power plants are the key assets of BGRIM’s power portfolio, representing nearly 70% of BGRIM’s total power generation capacity.

BGRIM has two cogeneration power plants in the BIP, including BIP1. We view BIP1 is important to BGRIM in managing overall operating efficiency of the group’s power plants in the BIP. Hence, we expect BIP1 will receive strong parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS

- During 2022-2025, the plant availability factor to be in the range of 91%-96%.
- PPA with EGAT to be 90 MW and PPA with industrial customer to be 14 MW.
- Annual electricity sales to be 645-677 gigawatts-hour (GWh).
- Capital expenditure to be THB5-THB15 million per year.
- The repayment of amortized debentures to be made according to repayment schedule.

RATING OUTLOOK

The “stable” rating outlook embeds our expectation that BIP1 will sustain its strong operational efficiency, while the company’s earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The credit upside for BIP1 is limited over the next 12-18 months. Contrarily, downward revision to the ratings could emerge if BIP1’s operating performances significantly fall short of our forecast. Negative rating pressure may also develop in the event of significant deterioration of debt service capability.

According to TRIS Rating’s “Group Rating Methodology”, any material changes in BGRIM’s credit profile or any material change in the linkage between BIP1 and BGRIM could also impact the ratings on BIP1.

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 2021, 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	2018	2019	2020	2021
Net output energy*	GWhe*	693.4	700.6	714.5	718.8
Plant heat rate	BTU/kWh	7,741	7,771	7,816	7,783
Primary energy saving factor	%	12.0	11.7	11.4	11.9
Availability	%	94.6	97.7	98.7	96.8
Unplanned outage	%	1.7	0.0	0.31	0.0
Planned outage	%	3.8	2.3	1.0	3.1

* Net output of electricity and steam (GWh equivalent – GWhe)

Source: BIP1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2021	2020	2019	2018	2017
Total operating revenues	2,267	2,128	2,241	2,129	2,029
Earnings before interest and taxes (EBIT)	342	347	355	324	370
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	527	531	537	505	543
Funds from operations (FFO)	404	388	377	278	346
Adjusted interest expense	121	142	158	226	193
Capital expenditures	15	8	6	1	2
Total assets	4,596	4,685	4,905	4,976	5,182
Adjusted debt	2,187	2,332	2,566	2,828	2,707
Adjusted equity	1,510	1,470	1,471	1,333	1,423
Adjusted Ratios					
EBITDA margin (%)	23.23	24.94	23.95	23.70	26.75
Pretax return on permanent capital (%)	7.68	7.50	7.49	6.81	7.62
EBITDA interest coverage (times)	4.34	3.75	3.39	2.24	2.81
Debt to EBITDA (times)	4.15	4.39	4.78	5.60	4.99
FFO to debt (%)	18.48	16.65	14.69	9.84	12.79
Debt to capitalization (%)	59.16	61.33	63.57	67.97	65.55

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

B. Grimm BIP Power 1 Ltd. (BIP1)

Company Rating:	A-
Issue Rating:	
BIPA335A: THB3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

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