

B.GRIMM BIP POWER 2 LTD.

No. 76/2023
28 April 2023

CORPORATES

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

Last Review Date: 29/04/22

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 2 Ltd. (BIP2) and the rating on its senior unsecured amortizing debentures at “A-” with a “stable” outlook.

The ratings reflect the predictable cash flow of BIP2’s, backed by a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT), and a solid record of operational efficiency. However, the ratings are tempered by the risk of reliance on single operating asset.

The company rating on BIP2 incorporates the company’s stand-alone credit profile (SACP) of “a-” and its status as a “strategic” subsidiary of B.Grimm Power PLC (BGRIM, rated “A/stable”).

KEY RATING CONSIDERATIONS

Reliability of earnings backed by PPA with EGAT

BIP2 owns and operates a gas-fired cogeneration power plant, which started commercial run in 2016. The company holds a 25-year PPA with EGAT, covering 90 megawatts (MW), under the Small Power Producer (SPP) scheme.

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. In addition, the PPA contains a formula for tariff adjustments corresponding to changes in fuel prices and exchange rates.

BIP2’s sales to EGAT constitutes about 82%-87% of total sales per annum. The credit quality of EGAT (rated “AAA/stable”) means minimal counterparty risk to BIP2.

Electricity sales to industrial customers

BIP2 also sells electricity to eight industrial customers in Bangkadi Industrial Park (BIP). The company holds multi-year off-take agreements, covering 24 MW of electricity with eight industrial customers. Each industrial customer is obliged to purchase a minimum amount of electricity under the agreement.

In selling electricity to industrial users, BIP2 is exposed to fuel price risk in the event of surging gas prices. The company sells electricity to the industrial customers 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. Therefore, an upsurge in fuel prices could adversely impact the company’s earnings. Moreover, the sale volume hinges on electricity demand, which is driven by industrial activity levels.

Solid record of operational efficiency

BIP2’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. BIP2 has its own operation and maintenance teams for day-to-day operations. BIP2 leverages the expertise of BGRIM. The parent company has extensive expertise in the operation and maintenance of cogeneration power plants. BIP2’s operation has met the targets specified in the PPA since the onset. In 2022, the plant availability factor was 95.9% while the heat rate

was 7,686 British thermal units per kilowatt-hour (BTU/kWh), below the borderline of 7,950 BTU/kWh as required in the PPA.

In terms of energy efficiency, BIP2'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 of surging gas prices

BIP2's earnings were affected by the surge in fuel cost during 2022. Gas prices soared to a record of above THB550 per metric million British thermal unit (MMBTU) in the third quarter of 2022. Meanwhile, the adjustment of Ft did not keep pace with the inflated fuel cost. As a result, BIP2's earnings before interest, taxes, depreciation, and amortization (EBITDA) fell to THB592 million in 2022, a 6.9% decrease from THB636 million in 2021. The debt to EBITDA ratio was at 3.5 times.

Expectation of reviving earnings

We project BIP2's earnings to recover, given our expectation of further Ft adjustments and normalized gas prices. In our base-case projection, we assume gas prices to remain high in 2023 and Ft to be adjusted to make up for the hefty subsidy of electricity charges incurred by EGAT. In anticipation of easing demand-supply imbalance, we expect gas prices to steadily normalize from 2024 onwards and Ft will be adjusted accordingly.

As a result, we forecast BIP2's EBITDA to recover to THB613-THB635 million per year during 2023-2025. The debt to EBITDA ratio should steadily decline to below 2.5 times over the forecast period. The ratio of debt to capitalization will further drop and stay below 45% in 2025.

Single operating asset

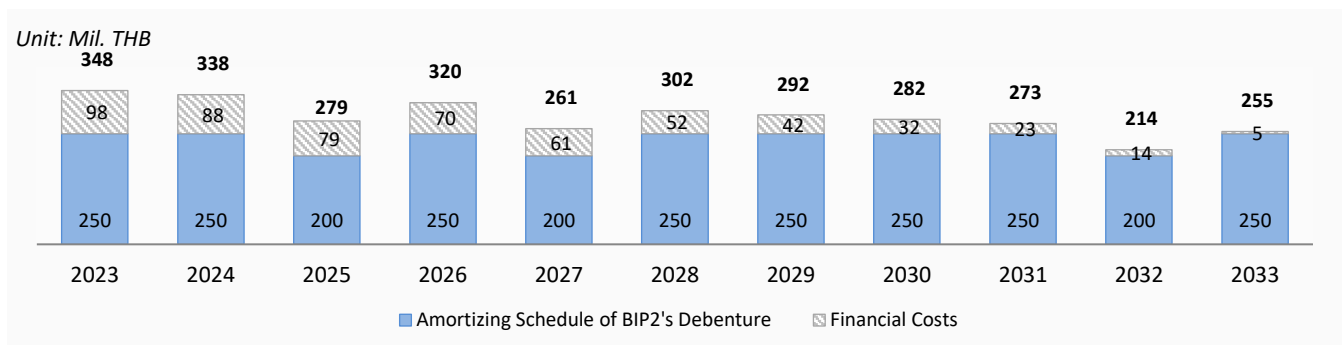
The ratings are tempered by BIP2's single operating asset. BIP2's business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Given the absence of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damages 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 BIP2 to generate sufficient cash flow to service its debt obligations. In May 2018, BIP2 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 2022, BIP2 had cash on hand and cash equivalents of THB586 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 in 2023-2025.

Chart 1: Debt Service Schedule of BIP2



Source: TRIS Rating's estimate

A strategic subsidiary under BGRIM Group

BIP2 is among 20 cogeneration power plants under BGRIM Group. As of December 2022, BIP2's installed capacity accounted for 5% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, BIP2's EBITDA represents approximately 6% of the group's total EBITDA. Despite its slight revenue contribution, we view BIP2 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM's power portfolio, representing nearly 75% of BGRIM's total power generation capacity.

BGRIM has two cogeneration power plants in BIP, including BIP2. We view BIP2 is important to BGRIM in managing overall operating efficiency of the group's power plants in BIP. Hence, we expect BIP2 will receive strong parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for BIP2's operations during 2023-2025:

- The plant availability factor to be in the range of 97%-99%.
- PPA with EGAT to be 90 MW and PPAs with industrial customers to be 24 MW.
- Annual electricity sales to be 753-771 gigawatts-hour (GWh).
- Capital expenditure to be THB4-THB11 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 BIP2 will sustain its strong operational efficiency, while the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The prospect of credit upside for BIP2 is limited. Conversely, a negative rating revision could develop if BIP2's operating performance substantially falls short of our forecast. Negative rating pressure may also happen 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 BIP2 and BGRIM could also impact the ratings on BIP2.

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 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 2022, BIP2's shareholders were BGRIM (74%) and Nikornkij & Son (BIP Group) (26%).

BIP2'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. 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.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of BIP2

Plant Performance	Unit	2018	2019	2020	2021	2022
Net output energy *	GWhe *	711.7	742.7	717.7	722.1	733.9
Plant heat rate	BTU/kWh	7,697	7,731	7,769	7,785	7,686
Primary energy saving factor	%	12.3	11.4	11.0	11.1	11.9
Availability	%	96.6	99.2	99.0	98.3	95.9
Unplanned outage	%	0.4	0.0	0.1	0.2	1.2
Planned outage	%	2.9	0.8	0.9	1.5	2.9

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

Source: BIP2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Total operating revenues	3,545	2,437	2,252	2,466	2,307
Earnings before interest and taxes (EBIT)	397	442	428	426	432
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	592	636	623	622	627
Funds from operations (FFO)	469	500	452	454	366
Adjusted interest expense	124	134	171	168	261
Capital expenditures	9	14	8	7	13
Total assets	4,600	4,725	4,827	5,141	5,247
Adjusted debt	2,074	2,222	2,384	2,546	2,782
Adjusted equity	1,672	1,638	1,611	1,710	1,549
Adjusted Ratios					
EBITDA margin (%)	16.71	26.12	27.66	25.21	27.18
Pretax return on permanent capital (%)	8.98	9.64	8.88	8.59	8.59
EBITDA interest coverage (times)	4.79	4.74	3.65	3.71	2.40
Debt to EBITDA (times)	3.50	3.49	3.83	4.09	4.44
FFO to debt (%)	22.59	22.49	18.94	17.84	13.15
Debt to capitalization (%)	55.37	57.56	59.67	59.82	64.24

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

B.Grimm BIP Power 2 Ltd. (BIP2)

Company Rating:	A-
Issue Rating:	
BIPB335A: THB3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

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