

BANPU POWER PLC

No. 226/2022
9 December 2022

CORPORATES

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

Last Review Date: 02/06/22

Company Rating History:

Date	Rating	Outlook/Alert
09/11/21	A+	Stable

Contacts:

Narongchai Ponsirichusopol
narongchai@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sermwit Sriyotha
sermwit@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Banpu Power PLC (BPP) and the ratings on its senior unsecured debentures at “A+”, with a “stable” outlook. The ratings incorporate a two-notch uplift from BPP’s stand-alone credit profile (SACP) of “a-”, which reflects the company’s status as a core subsidiary of Banpu PLC (BANPU, rated “A+/stable”).

BPP’s SACP reflects the predictable cash flow the company receives from its diversified power portfolio, the quality of its power portfolio, and the proven record of the operating performance of its power plants. In contrast, the rating is partly constrained by increasing financial leverage due to the company’s expansion. The rating also factors in the rise in fuel prices that is likely to pressure BPP’s earnings.

KEY RATING CONSIDERATIONS

Core subsidiary of BANPU

We hold the view that BPP is a core subsidiary of BANPU. BANPU has three core of business groups: energy resources, energy generation, and energy technology. BPP is BANPU’s flagship subsidiary responsible for the power generation business.

We view BPP as integral to BANPU’s greener and smarter strategy. BPP also has a high degree of integration with BANPU in terms of operations, business, and financial strategies. BPP is an important link in completing BANPU’s energy resources supply chain. With its stable cash flow, the company helps partly offset the high volatility of BANPU’s energy resources business.

In terms of support, we believe BANPU will provide the necessary support to ensure BPP’s financial strength, as well as, its operation is on track with BANPU’s strategy.

Diversified power portfolio

BPP has a well-diversified power portfolio with more than 40 power projects across the Pacific-Rim. As of September 2022, the net installed power-generation capacity was 3,153 megawatts (MW), when measured in proportion to BPP’s equity stakes in the operating assets. Conventional coal-fired power plants accounted for 64% of net capacity, including three combined heat and power (CHP) plants in China, BLCP Power Ltd. (BLCP) in Rayong, and Hongsa Power Co., Ltd. (HPC) in the Lao People’s Democratic Republic (Laos). High Efficiency, Low Emission (HELE) power plants accounted for 27% of net capacity with the remaining 9% from renewable power plants.

Power plants in China accounted for 33% of net capacity and those located in Thailand and Laos, 48%. The gas-fired power plant in the USA, Temple I, accounted for 12%. The remaining 7% was spread across Asia and Australia.

Highly predictable cash flow from investments

BPP’s investment in two coal-fired power plants contributes stable cash flow. BPP holds 50% and 40% stakes in BLCP and HPC, respectively. BLCP and HPC operates under 25-year power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) under the Independent Power Producer (IPP) scheme. Typical PPAs under this scheme are based on pay-if-available agreements that protect the power plant from fluctuations in the supply and demand for power. The agreement provides that the power plant

will receive a stable cash flow as long as the plant is maintained in accordance with the PPA and ready for EGAT's dispatch instructions.

BPP also has a 30% share in Shanxi Lu Guang Power Co., Ltd. (SLG), a 1,320-MW high efficiency coal-fired IPP power plant in China. SLG commenced operation in 2021. BPP also holds a renewable power portfolio through its 50% stake in Banpu Next Co., Ltd. (BANPUNEXT). More than 90% of BPP's renewable portfolio comprises solar projects. The cash flow from solar power generation is highly predictable, supported by committed tariffs and low operational risks.

Sizable cash flow from gas-fired power plant

Temple I, a 768-MW gas-fired power plant in USA, started to contribute considerable cash flow to BPP following its acquisition in late 2021. Temple I sells electricity to the merchant market in Texas, The Electric Reliability Council of Texas (ERCOT). Temple I has to place competitive price offering to the ERCOT market in order to gain dispatch instructions. However, there are several advance derivatives instruments in the power trading market in USA that partly help to mitigate market risk. As gas-fired power plants contribute about 40%-50% of total installed capacity in the ERCOT market, gas-fired power plants dominate the electricity tariff. The plant's efficiency is key to competitive pricing. Temple I's performance is satisfactory thanks to its competitive heat rate, which enable the plant to be fully utilized during the summer high season with a capacity factor of about 70%-80%. However, utilization rates during low seasons may stay at an intermediate level with a capacity factor of around 40%-50%. For the first nine months of 2022, Temple I contributed earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB1.7 billion accounting for about 42% of BPP's total EBITDA. We expect Temple I to continue to be competitive in the ERCOT market with satisfactory plant heat rates. We forecast Temple I's capacity factor to average between 50%-60% each year over the next three years.

China's reforming power market

Over the past ten years, the Chinese government has gradually reformed the electricity market to become market oriented. Coal-fired power plants sell electricity to provincial grid companies according to the annually determined electricity supply with benchmark tariff for each province within the floating range of -15% to +10% set in 2019. In late 2021, the Chinese government encouraged coal-fired power generators to participate in the power trading market by allowing the floating range to widen to -20% to +20%, giving more flexibility to generators to pass through costs. In late 2021, two of BPP's combined heat and power (CHP) plants, namely Zhengding (ZD) and Luannan (LN), started to sell electricity in the power trading market. They are encouraged to offer power volume at competitive prices in the power trading market to gain dispatch. The CHP power plants also have the option to offer power volume at the benchmark price to state grid companies. The widening band for electricity tariff in the power trading market has enabled BPP's CHP power plants to increase the electricity tariff to about RMB0.41 per kilowatts-hour (kWh) in the first nine months of 2022, from RMB0.33-RMB0.34 per kWh compared to the same period last year, relieving the pressure of high cost of coal.

Another CHP plant in China, Zouping (ZP), has a 28-year PPA and steam purchase agreement (SPA) with an industrial user. The power and steam prices can be adjusted to reflect changes in the coal price and operating expenses.

CHP plants expected to gradually recover

We expect the profitability of BPP's CHP plants to recover over the next three years. The high coal price throughout 2021 and the first nine months of 2022 brought down the company's overall gross margin to about 8%-12% from about 24%-28% during 2018-2020. We forecast the company's gross margin to gradually improve to 21%-26% during 2023-2025. This forecast is based on the Chinese government's implementation of many policies to support power producers to ensure the country's energy security. The policies include boosting domestic coal production in key regions, coal prices controlled for IPP power plants, increasing the ceiling electricity tariff, and subsidies for coal-fired power plants that sell steam and hot water to residential customers. In addition, BPP has applied centralized coal procurement to its three CHP power plants, which should strengthen its bargaining power with coal suppliers. We expect BPP's CHP power plants to procure coal at the price range of RMB700-RMB1,000 per ton in 2022-2023, and coal prices to fall to normal levels afterwards.

Increasing leverage during growth phase

The company's leverage increased following the acquisition of Temple I in late 2021. The company's adjusted debt was THB18.1 billion with the debt to capitalization ratio of 24.3% as of September 2022, compared with THB3.5 billion and 7.7% at the end of 2020. The company plans to invest in 167-MW solar rooftop projects in China. These solar rooftop projects will be developed by the ZD power plants as selected by the Zhengding government under the "Whole County Solar Rooftop" policy. We forecast BPP to spend about THB8.1 billion in capital expenditures and investments in 2022-2025, mostly on solar rooftop projects.

In our base-case projection, BPP's adjusted debt is forecast to stay around THB17-THB21 billion in 2022-2025. BPP's revenue is forecast to remain around THB13.1-THB15.1 billion per year in 2022-2025, up from THB7.4 billion in 2021, mainly owing to the contribution from Temple I. The lowering cost of coal for CHP power plants should help improve the company's EBITDA

and offset the lower dividend received from the associated companies. We forecast BPP's EBITDA to fall to the range of THB4.1-THB4.6 billion per year and bring in funds from operation (FFO) of THB3.1-THB3.9 billion per year in 2022-2025. The debt to EBITDA ratio, as a result, is forecast to hover around 4-5 times in 2023-2025, and the FFO to debt ratio 15%-17%.

Our base-case scenario has not incorporated any uncommitted investments for company's aspired target. In response to the BANPU's greener and smarter strategy, BPP has an aspiration to increase its net power capacity to 5,300 MW by 2025, up from 3,330 MW in September 2022. The incoming capacity of about 2,000 MW would mainly come from the HELE power plants with capacity of 1,600-1,700 MW, while most of the capacity in renewables power would be developed under BANPUNEXT. If the company continues to pursue the target growth, we believe the company will invest in the familiar markets with projects that can generate immediate returns for the company.

Satisfactory liquidity

We assess BPP as having a satisfactory level of liquidity. As of September 2022, the company had cash on hand of about THB6.3 billion and unused uncommitted credit facilities of THB6.5 billion, sufficient to meet BPP's short-term and long-term debts coming due in the next 12 months, totaling THB2.8 billion.

Debt Structure

At the end of September 2022, BPP's consolidated debt was THB20.2 billion. BPP's priority debt was THB2 billion, consisting of secured debt and senior unsecured debt owed by BPP's subsidiaries, translating to a priority debt to total debt ratio of about 10%.

BASE-CASE ASSUMPTIONS

- New 167-MW solar rooftop projects in China to commence operation during 2023-2024.
- During 2022-2025, revenue to range between THB13-THB15 billion per annum. Dividend received from affiliates to hover around 0.9-THB1.7 billion per annum.
- EBITDA margin to range between 27%-33%.
- Total capital spending and investment of THB8.1 billion during 2022-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectations that BPP's power plants will continue smooth operations with highly predictable cash flows. We also expect BPP's financial leverage and cash flow against debt obligations will be at levels in line with our forecasts over the course of its expansion.

RATING SENSITIVITIES

An upward revision on the SACP could occur if BPP is able to generate larger cash flows while improving its cash generation against debt level on a sustained basis. Conversely, a downward revision on the SACP could occur if BPP's operating performance falls significantly short of our expectation, or the financial profile deteriorates considerably due to excessive debt-funded investments.

Based on TRIS Rating's "Group Rating Methodology", the credit rating on BPP will move in tandem with the rating on BANPU. Any change in the credit rating and/or outlook on BANPU will affect the rating/outlook on BPP accordingly. In addition, any change in the group status of BPP will also affect the rating on BPP.

COMPANY OVERVIEW

BPP was established in December 1996 as a holding company for companies that generate and sell electricity and related businesses. BPP was listed on the Stock Exchange of Thailand (SET) in October 2016. As of September 2022, BANPU held around 79% of the company's total shares while the rest were held by the public.

As of September 2022, BPP owned a power portfolio of 3,330 MW through its operating subsidiaries and affiliates. Its subsidiaries owned three CHP plants in China, with a total capacity of 548 MW. BPP also owned 50% share in a 768-MW gas-fired power plant in Texas, USA.

BPP holds equity interests of 50% and 40% in BLCP and HPC, respectively, as well as a 30% share in SLG, a 1,320-MW coal-fired power plant in China, and a 13% share in Nakoso power plant. BPP also holds a renewable portfolio through its investment in a 50% stake in BANPUNEXT.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	13,474	7,437	6,152	6,243	6,694
Earnings before interest and taxes (EBIT)	6,788	3,240	4,900	3,512	5,288
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,080	1,783	2,712	11,408	4,270
Funds from operations (FFO)	3,248	1,515	2,196	10,890	3,818
Adjusted interest expense	617	249	243	305	242
Capital expenditures	246	258	588	1,049	1,298
Total assets	84,101	74,867	49,563	48,808	51,566
Adjusted debt	18,190	18,983	3,505	1,520	6,391
Adjusted equity	56,531	49,579	41,978	39,816	41,181
Adjusted Ratios					
EBITDA margin (%)	30.28	23.98	44.08	182.74	63.79
Pretax return on permanent capital (%)	10.35 **	5.42	10.31	7.29	11.21
EBITDA interest coverage (times)	6.61	7.15	11.16	37.44	17.64
Debt to EBITDA (times)	4.55 **	10.64	1.29	0.13	1.50
FFO to debt (%)	16.94 **	7.98	62.66	716.38	59.74
Debt to capitalization (%)	24.34	27.69	7.71	3.68	13.43

* Consolidated financial statements

** Annualized with trailing 12 months

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

Banpu Power PLC (BPP)

Company Rating:	A+
Issue Ratings:	
BPP266A: THB1,500 million senior unsecured debentures due 2026	A+
BPP296A: THB700 million senior unsecured debentures due 2029	A+
BPP326A: THB1,900 million senior unsecured debentures due 2032	A+
BPP346A: THB1,400 million senior unsecured debentures due 2034	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria