TRIS RATING
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NATIONAL POWER SUPPLY PLC

No. 164/2023
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CORPORATES

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

Last Review Date: 04/01/23

Company Rating History:

Date	Rating	Outlook/Alert
20/08/21	BBB+	Stable
28/08/20	BBB	Stable
16/11/17	BBB-	Stable
28/11/16	BBB	Negative
08/01/10	BBB	Stable
21/07/05	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on National Power Supply PLC (NPS) and the ratings on NPS's senior unsecured debentures at "BBB+" with a "stable" outlook. The ratings continue to reflect NPS's reliable cash flows from long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT, rated "AAA/stable") under the Small Power Producer (SPP) scheme, and from long-term contracts with Double A (1991) PLC (DA, rated "BBB/stable"). The ratings also take into consideration the company's plan to expand its electricity and steam supply to industrial customers in the "304 Industrial Park" to compensate for a decline in demand from EGAT due to expiration of PPAs. The ratings are also weighed down by the company's substantial investment plans and ongoing intra-group restructuring activities.

KEY RATING CONSIDERATIONS

Long-term PPAs secure revenues

About 75%-85% of NPS's revenue comes from sales of power and steam. This revenue is secured under long-term PPAs with EGAT and industrial customers. NPS has 25-year PPAs with EGAT covering 296 megawatts (MW) of electricity, or 38% of its total capacity. Under the PPAs, EGAT is obliged to dispatch at least 80% of the contracted capacity based on operating hours, while other off-takers also have minimum off-take obligations.

NPS also sells power and steam, from the remaining capacity, for about 400 MW to the other customers in industrial estates in Prachin Buri Province and Chachoengsao Province, including DA.

In addition, NPS has a power plant in in France—namely, Biomasse Energie d'Alizay (BEA)—which holds a PPA with Electricite de France (EDF) with an expiration in 2037. BEA currently sells 35 MW of electricity to EDF, attributing 5% of the company's total capacity

Expansion plan for industrial customer base

The company's two PPAs with EGAT, with total contracted capacity of 180 MW, will expire in March and July 2024. The two PPAs accounted for about 22% of the company's total electricity sales volume in 2022.

Demand for electricity from the 304 Industrial Park in 2022 is about 400 MW., NPS's electricity generating capacity is not sufficient to supply all the industrial customers in the park. As an exclusive electricity provider of the 304 Industrial Park, NPS currently partly purchases electricity from the Provincial Electricity Authority (PEA) to support the needs of those industrial users. However, with the expiration of the PPAs, NPS can offset the lower demand from EGAT by reducing its power purchases from PEA.

NPS plans to leverage its strategic location in the 304 Industrial Park to capitalize on new demand for electricity and industrial water from industrial customers. The company will engage in active marketing to increase the number of industrial customers. NPS is targeting new customers in industries with high power and industrial water consumption, specifically in the electronic component, chemical, and packaging industries. In our base-case scenario, we forecast a compound annual growth rate of 9%-10% in electricity sales to industrial customers in 2023-2025.

Besides, NPS acquired BEA worth THB1.9 billion in 2022. BEA is a 35-MW biomass power plant located in France. BEA holds a PPA with Electricite de France (EDF) for up to 50 MW and currently sells 35 MW of electricity to EDF. The French power plant contributed 5.5% of the company's total revenues, equivalent to THB1.14 billion, in 2022.

Delayed Ft adjustments pressured 2022 earnings

In 2022, NPS's performance was pressured by high fuel prices. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) dropped by 47.6% to THB2.1 billion, mainly due to higher fuel costs coupled with lags in the adjustments of electricity tariffs for both EGAT and industrial customers.

In 2022, the Newcastle Coal Price Index increased by about 151% year-on-year to USD355 per tonne, while the average electricity tariff charge to industrial customers increased by only 33.6%, to about THB3.86 per kilowatt-hour (kWh). The electricity pricing structures for industrial customers are based on the tariff structure of PEA, which also includes a fuel adjustment charge (Ft). Although the Ft is intended to reflect changes in fuel prices, Ft adjustments usually carry a time lag, while the timing and magnitude of adjustments are subject to the authority's discretion. Industrial customers accounted for about 60% of NPS's electricity sales volume in 2022-2023.

Although NPS's electricity tariff structure contains a fuel price adjustment mechanism, there is a time lag for the adjustment and some mismatch between the type of fuel used for power generation and the type of fuel used in the tariff structure. The electricity tariff applicable to NPS is indexed to the coal price for about 27% of its salable capacity, linked with the Ft announced by the Energy Regulatory Commission (ERC) for about 47%, while 18% is indexed to inflation embedded in the feed-in-tariff (FiT) of THB3.70 per kWh. Unreflective of the tariff structure, NPS consumes coal for about 40% of total heating value, biomass for about 43%, and black liquor for about 17%.

Financial profile set to recover in 2023

The availability factor of NPS's power plants in Thailand reached a satisfactory level of 85.2% for the first six months of 2023. We expect an overall availability factor of about 85% in 2023-2025, not including a plan for the potential revamps of two coal-fired power plants following expiration of the PPAs in 2024 in the calculation.

NPS's EBITDA in the first half of 2023 increased to THB2.43 billion, compared with THB509 million in the first half of 2022, mainly due to the increase in Ft and widening spread between the average electricity tariff and fuel cost. At the end of June 2023, the company's adjusted debt stood at THB18.5 billion with a debt to capitalization ratio of 61.8%. The debt to EBITDA ratio improved to 4.6 times (based on 12-month trailing EBITDA), from 8.9 times in 2022.

We expect NPS's earnings for 2023 will benefit from higher Ft rates, averaging THB1.04 per unit, compared with an average of THB0.40 per unit for 2022. The increase in Ft reflects a lag in compensation for the surged fuel costs incurred in 2021-2022. The Ft compensation is expected to continue until mid-2024. On the other hand, fuel costs, especially coal, have decreased dramatically. The Newcastle Coal Price Index declined to USD135 per tonne in July 2023 from USD362 per tonne in January 2023. As a result, we expect NPS's EBITDA to recover to the range of THB4.0-THB5.0 billion per year during 2023-2025. The debt to EBITDA ratio is likely to decline to about 3.0-4.0 times in 2023-2025.

Planned divestments of non-core businesses

NPS's businesses currently focus on power generation from renewable energy and utility services. Therefore, NPS plans to divest non-core businesses comprising tapioca starch manufacturing, ethanol manufacturing, and its coal business in Indonesia in 2023. We believe the divestments will help NPS focus on its industrial utility businesses and minimize losses from the non-performing ethanol business. Under our base-case forecast, we expect NSP to receive THB2.0-THB2.4 billion from these divestments.

Investments ahead

NPS has increased its budget for investments in new projects to about THB5.0-THB6.0 billion for the 2023-2025 period. The budget includes THB2.1 billion for a 150-MW floating solar project, THB2.1 billion for expansion of the industrial water supply networks to capitalize growing demand from industrial customers, about THB1.0 billion for plant revamps to convert the two coal-fired power plants to biomass-fueled plants, an equity injection of THB287 million for the 560-MW "Burapa Power Project". The company will also incur maintenance expenditures of about THB3.1 billion over 2023-2025.

In addition, NPS plans to list on the Stock Exchange of Thailand (SET). The proceeds from the planned initial public offering (IPO) are expected to be used to finance two new power projects, a 43-MW solar farm and a 130-MW black liquor power plant. The IPO proceeds and the two projects are not included in our base-case scenario.

Over the forecast period, we expect NPS's earnings to be enhanced from the 150-MW floating solar project which will gradually come on stream during 2023-2024. The company will benefit from lower costs of electricity sold to industrial customers, compared with the electricity from its existing power plants and electricity purchased from PEA.

Manageable liquidity

We assess NPS to have adequate liquidity over the next 12 months. NPS's sources of liquidity as of June 2023 included cash and cash equivalents of about THB2.3 billion, funds from operations (FFO) of about THB3.3-THB3.8 billion over the next 12 months, and an undrawn working capital facility of THB550 million. In addition, the company expects to obtain additional long-term credit facilities totaling THB3.2 billion from financial institutions.

NPS's sources of liquidity should be sufficient to cover maturing long-term debts totaling THB1.5 billion and committed investments for maintenance and expansion totaling about THB4.3 billion.

NPS has managed its liquidity prudently, in our view. In August 2023, the company made an early redemption of a debenture issue due in February 2024 worth THB1.38 billion by exercising the call option. As a result, NPS does not have any long-term debentures due over the next twelve months.

Debt structure

As of June 2023, NPS reported total debt of THB20.6 billion, made up mainly of senior unsecured debentures worth THB19.1 billion. Its priority debt totaled THB234 million, representing about 1.1% of total debt. The priority debt consisted of THB150 million in secured debt and THB84 million in lease liability owed by its operating subsidiaries.

BASE-CASE ASSUMPTIONS

- Plant availability factor of about 85% in 2023-2025, not including a plan for the potential revamps of two coal-fired power plants following expiration of the PPAs in 2024 in the calculation.
- EBITDA to be in the range of THB4.0-THB5.0 billion per year in 2023-2025.
- Electricity sales to industrial customers to grow at a compound annual growth rate of 9%-10% in 2023-2025.
- Investments for committed new projects to total THB5.0-THB6.0 billion, and maintenance expenditure of about THB 3.1 billion during 2023-2025.
- Proceeds from the divestment of non-core businesses to total THB2.0-THB2.4 billion.
- Debt to EBITDA ratio to ease to about 3.0-4.0 times in 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NPS's power plants will maintain their performances and generate reliable cash flows as planned. We also expect NPS will be able to replace expiring EGAT PPAs with PPAs signed with industrial customers.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited over the next 12-18 months. In contrast, rating downgrade pressure could develop if there is a material deterioration in the company's financial and operating performance, as well as any large debt-funded investment that brings about a weaker-than-expected financial profile. In addition, a rating downgrade could occur if the demand growth from the company's industrial customers materially deviates from our expectations.

COMPANY OVERVIEW

NPS was established in July 1995. The company is the leading operator of biomass power plants in Thailand. NPS's ultimate shareholder is Mr. Yothin Dumnernchanvanit, who indirectly holds 99% of NPS's shares.

As of June 2023, NPS owned and operated a total of nine biomass and coal-fired power plants under the SPP scheme in Thailand. The nine plants, located in industrial parks in Prachin Buri Province and Chachoengsao Province, have a total capacity of 736 MW of electricity and 2,469 tonnes per hour of steam. In addition, since 2022, the company has invested in a biomass power plant in France with a capacity of 35 MW of electricity and 175 tonnes per hour of steam.

NPS has also diversified into energy-related businesses and supporting businesses. During 2020-2022, approximately 65%-85% of NPS's EBITDA came from the power segment; the balance came from the industrial water and other businesses.

KEY OPERATING PERFORMANCE

Table 1: NPS's EBITDA Breakdown

Segment	2019	2020	2021	2022	Jan-Jun 2023
Power and steam	85.7%	86.3%	91.2%	63.5%	123.0%
Industrial water	8.0%	8.0%	10.5%	23.2%	10.3%
Ethanol	4.1%	5.4%	0.7%	1.7%	(33.8%)
Others	2.2%	0.3%	(2.4%)	11.6%	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total EBITDA (mil. THB)	**4,472**	**4,668**	**4,021**	**2,107**	**2,426**

Source: NPS

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2019	2020	2021	2022	Jan-Jun 2023
Net output*	GWhe	3,946	3,857	3,954	3,824	1,943
Plant heat rate	BTU/kWhe	12,425	12,450	13,230	13,262	13,396
Availability	%	84.97	85.46	85.04	83.67	85.21
Forced outage	%	5.08	5.16	6.69	7.68	6.61
Schedule & maintenance outage	%	9.95	9.39	8.27	8.65	8.18

* *Net output of power and steam*

Source: NPS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023		------------Year Ended 31 December ----------			
			2022	2021	2020	2019
Total operating revenues	10,903		20,742	16,953	15,719	15,231
Earnings before interest and taxes (EBIT)	1,548		385	2,359	3,118	2,863
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,426		2,107	4,021	4,668	4,472
Funds from operations (FFO)	1,916		1,139	3,109	3,740	3,425
Adjusted interest expense	481		960	865	917	1,042
Capital expenditures	1,351		2,502	860	871	883
Total assets	35,175		33,412	32,279	27,835	28,826
Adjusted debt	18,484		18,777	14,172	14,036	16,911
Adjusted equity	11,425		10,769	11,322	11,324	9,707
Adjusted Ratios						
EBITDA margin (%)	22.25		10.16	23.72	29.70	29.36
Pretax return on permanent capital (%)	7.29	**	1.28	8.45	11.69	10.33
EBITDA interest coverage (times)	5.04		2.19	4.65	5.09	4.29
Debt to EBITDA (times)	4.59	**	8.91	3.52	3.01	3.78
FFO to debt (%)	16.46	**	6.07	21.94	26.65	20.25
Debt to capitalization (%)	61.80		63.55	55.59	55.35	63.53

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

RELATED CRITERIA

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

National Power Supply PLC (NPS)

Company Rating:	BBB+
Issue Ratings:	
NPS24NA: THB1,250 million senior unsecured debentures due 2024	BBB+
NPS258A: THB2,298.2 million senior unsecured debentures due 2025	BBB+
NPS265A: THB2,000 million senior unsecured debentures due 2026	BBB+
NPS265B: THB1,000 million senior unsecured debentures due 2026	BBB+
NPS273A: THB2,250 million senior unsecured debentures due 2027	BBB+
NPS27NA: THB1,500 million senior unsecured debentures due 2027	BBB+
NPS286A: THB761.9 million senior unsecured debentures due 2028	BBB+
NPS28NA: THB2,800 million senior unsecured debentures due 2028	BBB+
NPS295A: THB2,500 million senior unsecured debentures due 2029	BBB+
NPS306A: THB1,391.4 million senior unsecured debentures due 2030	BBB+
Rating Outlook:	Stable

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