TRIS RATING
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NATIONAL POWER SUPPLY PLC

No. 149/2024
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CORPORATES

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

Last Review Date: 31/08/23

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 outstanding senior unsecured debentures at "BBB+" with a "stable" outlook.

The ratings reflect NPS's predictable cash flow, backed by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable") and Double A (1991) PLC (DA, rated "BBB/Positive"). The ratings also embed our expectation that NPS will restore its earnings and realize its plan to enlarge its industrial customer base to offset the impact from expiring EGAT PPAs. However, the ratings remain constrained by the company's substantial investment plans and ongoing intra-group restructuring activities.

KEY RATING CONSIDERATIONS

Earnings missed forecast due to unplanned shutdowns

In 2023, NPS's EBITDA rose by 38.7% to THB3.9 billion but was still short of our expectation. The company's operating performance was affected by the unplanned shutdown of its major power plants, which led to a material contraction in electricity sales to EGAT.

NPS's Power Plant 8 (PP8) underwent annual major overhaul in the third quarter of 2023, which extended into the fourth quarter. Meanwhile a connected substation experienced an operational incident. These factors led to a reduction in NPS's electricity output in 2023. Power plant 7 (PP7) also encountered forced outages and underwent a major overhaul in the first half of 2024. The maintenance was completed, and PP7 resumed normal operations in May 2024. These unexpected interruptions markedly reduced the overall availability factor of NPS's power plants in Thailand to 71% in the first half of 2024, from the typical 80%-85% range.

For the first half of 2024, electricity sales to EGAT plummeted to 469 gigawatt-hours (GWh), compared to 793 GWh in the same period of the previous year. Nonetheless, NPS was able to maintain electricity sales volume to industrial customers, achieving 992 GWh, a slight 3.2% year-on-year (y-o-y) increase. The incidents, together with reduced electricity tariff sales to EGAT and a lower fuel adjustment charge (Ft), caused EBITDA to plunge to THB1.8 billion in the first half of 2024, marking a substantial 34% drop y-o-y.

Turnaround expected in the second half of 2024

The ratings affirmation embeds our expectation that NPS's earnings will rebound from the second half of 2024 onwards. We expect improved operational stability after the major overhauls at the two power plants. We anticipate NPS's overall availability factor will recover to 79% in 2024, and further improve to approximately 85% in 2025-2026. This forecast does not incorporate plans to revamp two coal-fired power plants after the expiration of their PPAs in 2024.

We also anticipate an improving profit margin on electricity sales, as measured by the average spark spread (the difference between the electricity tariff and fuel cost per kilowatt-hour or kWh), which would support a turnaround in earnings.

NPS's overall spark spread rose to about THB1.78 per kWh in 2023 from around THB1.14 per kWh in 2022, mainly due to an increase in electricity tariff charges to industrial customers—which generally account for about 50% of the company's total energy output—and also due to improved fuel procurement management. NPS's electricity tariff structure for industrial customers is based on the Provincial Electricity Authority (PEA) tariff, which includes Ft. The average Ft in 2023 increased by THB0.49 per kWh to about THB0.89 per kWh.

We anticipate NPS's average spark spread will improve further as the company benefits from its floating solar facility, which should help reduce consumption of biomass and coal, resulting in lower costs. Generally, sales to industrial users render a relatively higher margin. Therefore, we also expect NPS to gain a wider spread on its coal-fired plant after replacing electricity sales to EGAT with sales to industrial customers.

Expanding industrial customer base to offset expiring EGAT PPAs

NPS's long-term PPAs have largely supported the predictability of earnings. Under the EGAT PPAs, EGAT is obliged to dispatch at least 80% of the contracted capacity based on operating hours. Some of the PPAs with industrial users also specify minimum off-take obligations. In 2023, about 28% of NPS's total operating revenue was generated through EGAT PPAs.

However, NPS's earnings visibility will be restrained by the expiration of EGAT PPAs. The company's total contracted capacity with EGAT will fall by 221 megawatts (MW), to 75 MW towards the end of 2024. The remaining contracted capacity with EGAT will expire in 2027. In efforts to offset declining sales to EGAT, NPS has been leveraging its strategic locations in the 304 Industrial Park in Prachin Buri and Chachoengsao Provinces to attract prospective industrial users, particularly in the printed circuit board, chemical, and packaging industries. These users have high growth potential for electricity and industrial water consumption. We assume that new electricity demand from NPS's industrial customers will increase by about 70-75 MW in total over 2024-2025. Additionally, NPS expects to sell more electricity to DA as the DA Group plans to reduce procurement of electricity from the PEA.

In our base-case forecast for 2024-2026, we assume the average capacity charge from industrial customers, including DA, will increase to the 320-420 MW range, up from about 274 MW in 2023.

Commitment to maintaining a healthy capital structure

Our assessment incorporates NPS's commitment to maintaining an appropriate capital structure. In 2023, the company made a THB1.8 billion in dividend payout, which is higher than TRIS Rating's previous expectation. Meanwhile, in 2023, NPS earned THB1.5 billion in proceeds from divestments of its coal mine in Indonesia and its ethanol business. The company also acquired marine businesses from its related companies under the group for THB1.1 billion, given its plan to operate a transportation business using electric vehicles for both land and marine transport.

To deleverage its capital structure, the company raised THB900 million of new capital in July 2024 and plans to raise another THB1.7 billion in 2025. However, in our base-case scenario, we conservatively estimate additional capital inflows of only THB1.2 billion, which aligns with our projected investment expenditures for NPS. As a result, we forecast NPS's debt to capitalization ratio to fall to about 60% by 2026, after having risen to 71% the end of 2023. This assessment incorporates our assumption that NPS will refrain from any ongoing group restructuring activities that could significantly affect its financial performance.

Expected investment discipline

We anticipate that NPS will allocate THB6.0-THB7.0 billion for investments in new projects over the next three years, in addition to about THB2.1 billion in maintenance capital expenditures. The budget includes an investment in a 97-MW expansion in floating solar capacity, expansion of the industrial water supply network to capture growing demand from industrial customers, plant revamps to convert two coal-fired power plants to biomass-fired plants, and injections for the 560-MW Burapa Power Project.

NPS plans to raise funds through an initial public offering (IPO). TRIS Rating anticipates that the proceeds from this IPO are to support NPS's investment in a 130-MW black liquor power plant along with the other projects, helping to maintain an appropriate level of leverage. However, neither the IPO nor the investment scenarios have been incorporated into our base-case forecast.

Financial profile to gradually improve

We expect NPS's earnings growth from 2024 to 2026 to be supported by increasing demand from industrial customers and the Ft which we forecast to average around THB0.40 per kWh in 2024, before declining to THB0.24 per kWh in 2026. In addition, the electricity tariff for the growing proportion of industrial customers is relatively higher than the tariffs for the two EGAT PPAs, which expired in March and July 2024.

We forecast that total energy output will decrease by 6% y-o-y to about 3,600-3,700 GWhe (gigawatt-hour equivalents) in 2024, mainly due to a lower volume of EGAT sales. However, we project NPS's total energy output to rise to about 4,200-4,300 GWhe annually in 2026, primarily driven by increased industrial customer demand. The company's EBITDA is expected to remain around THB4.0 billion in 2024 and increase to approximately THB4.2-THB4.6 billion per year in 2025-2026.

As a result, we anticipate that the debt to EBITDA ratio will gradually improve, declining to around 4.0 times in 2025-2026, from the forecast 4.7 times in 2024. This improvement reflects NPS's ongoing efforts to manage its financial leverage while expanding its industrial customer base.

Manageable liquidity

We assess NPS's liquidity to be adequate for the following 12 months. As of June 2024, NPS's liquidity sources included cash and cash equivalents of approximately THB630 million, with expected funds from operations (FFO) of about THB3.2 billion over the next 12 months. Additionally, the company received THB900 million of new capital in July 2024.

NPS's sources of funds will be sufficient to cover long-term debts to maturing within 12 months as of June 2024 totaling THB1.5 billion. This includes a debenture issue worth THB1.25 billion, which the company made an early redemption for by exercising the call option in August 2024. The funds should also cover committed investments for maintenance and expansion totaling about THB3.0 billion. Meanwhile, NPS's management have expressed their commitment to raising up to THB 1.7 billion in fresh capital from existing shareholders in 2025 to maintain an appropriate capital structure and address liquidity needs for investments.

We view that NPS has managed its liquidity prudently, as evidenced by the early redemption of the debenture. Consequently, NPS does not have any long-term debentures maturing until August 2025.

Debt structure

As of June 2024, NPS reported total debt of THB20.2 billion, made up mainly of senior unsecured debentures worth THB17.4 billion. Its priority debt totalled THB1.3 billion, representing about 6.4% of total debt. The priority debt is made up solely of secured debt at its operating subsidiaries.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for 2024-2026 are as follows:

- Plant availability factor of about 79% in 2024 and about 85% in 2025-2026, not incorporating plans for the potential revamps of two retired coal-fired power plants.
- Electricity sales to industrial customers, including DA, to increase at a compound annual growth rate of approximately 18%.
- Investments for committed new projects to total THB6.0-THB7.0 billion, plus maintenance expenditure of about THB2.1 billion.
- Capital injections from existing shareholders totaling about THB2.1 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NPS's plant performance will recover, and the company will increase sales to industrial customers as expected. We also expect NPS to pursue their disciplined financial policy. As such, we expect NPS's earnings and credit metrics to align with our base forecast.

RATING SENSITIVITIES

An upgrade of the ratings unlikely over the next 12-18 months. In contrast, rating downgrade pressure could develop if NPS shows a slower-than-expected recovery in earnings or we see a material deterioration in operating performance. We could also take a negative action on the ratings if NPS pursues more aggressive debt-funded investments, contrary to our expectations.

COMPANY OVERVIEW

NPS was established in July 1995 and is a leading operator of biomass power plants in Thailand, supplying electricity to EGAT and meeting the power demand of customers within the 304 Industrial Park in Prachin Buri and Chachoengsao Provinces. The company's ultimate shareholder, Mr. Yothin Dumnernchanvanit, indirectly holds 99% of NPS's shares.

As of June 2024, NPS owned and operated a total of nine biomass and coal-fired power plants under the small power producer (SPP) scheme in Thailand, with a combined capacity of 736 MW and 2,469 tonnes per hour of steam. Additionally, the company is expanding its portfolio with floating solar power generation, expected to achieve a total capacity of 60 MW by its commercial operation date in October 2024. Since 2022, NPS has also invested in a biomass power plant in France, which has a capacity of 35 MW of electricity and 175 tonnes per hour of steam.

NPS has diversified into energy-related and supporting businesses. During 2020-2023, approximately 80% of the company's EBITDA, on average, was generated from the power and steam segment, with the remainder coming from the industrial water and other businesses.

KEY OPERATING PERFORMANCE

Table 1: NPS's EBITDA Breakdown

Segment	2020	2021	2022	2023	Jan-Jun 2024
Power and steam	86.3%	90.4%	63.0%	82.0%	82.9%
Industrial water	8.0%	10.4%	17.7%	11.7%	9.2%
Ethanol	5.4%	0.6%	0.0%	0.0%	0.0%
Others	0.2%	-1.4%	19.3%	6.3%	7.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total EBITDA (mil. THB)	**4,668**	**4,021**	**2,827**	**3,920**	**1,823**

Source: NPS

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2020	2021	2022	2023	Jan-Jun 2024
Net output*	GWhe	3,857	3,954	3,824	3624	1,619
Plant heat rate	BTU/kWhe	12,450	13,230	13,262	13606	12,971
Availability	%	85.46	85.04	83.67	80.17	71.02
Forced outage	%	5.16	6.69	7.68	8.94	16.58
Schedule & maintenance outage	%	9.39	8.27	8.65	10.89	12.40

* *Net output of power and steam*

Source: NPS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024		-----------Year Ended 31 December ---------- 2023	2022	2021	2020
Total operating revenues	8,324		19,839	19,328	16,953	15,719
Earnings before interest and taxes (EBIT)	897		2,008	947	2,359	3,118
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,823		3,920	2,827	4,021	4,668
Funds from operations (FFO)	1,282		2,887	1,827	3,109	3,740
Adjusted interest expense	532		1,023	993	865	917
Capital expenditures	1,496		3,584	2,692	860	871
Total assets	31,864		32,246	34,437	32,279	27,835
Adjusted debt	20,122		19,542	19,504	14,172	14,036
Adjusted equity	8,487		8,055	10,934	11,322	11,324
Adjusted Ratios						
EBITDA margin (%)	21.91		19.76	14.63	23.72	29.70
Pretax return on permanent capital (%)	3.42	**	6.63	3.11	8.45	11.69
EBITDA interest coverage (times)	3.42		3.83	2.85	4.65	5.09
Debt to EBITDA (times)	6.79	**	4.99	6.90	3.52	3.01
FFO to debt (%)	9.50	**	14.77	9.37	21.94	26.65
Debt to capitalization (%)	70.34		70.81	64.08	55.59	55.35

* *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:	
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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