SAHACOGEN (CHONBURI) PLC

No. 94/2023
26 May 2023

CORPORATES

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

Last Review Date: 11/08/22

Company Rating History:

Date	Rating	Outlook/Alert
17/06/22	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sahacogen (Chonburi) PLC (SCG) and the ratings on SCG's senior unsecured debentures at "A" with a "stable" outlook. The ratings continue to reflect SCG's stable cash generation from long-term power purchase agreements (PPAs) with creditworthy off-takers -- the Electricity Generating Authority of Thailand (EGAT, rated "AAA/stable") and Saha Pathana Inter-Holding PCL (SPI, rated "AA/stable"). The ratings also take into consideration the company's diversified industrial customer base and proven record of operating performance. However, the ratings are weighed down by the mismatch between the fuel-cost and electricity tariff for industrial customers as well as a modest rise in financial leverage during a period of investment.

The company rating on SCG also reflects our view of SCG as a strategic subsidiary of RATCH Group PCL (RATCH, rated "AA+/stable"), incorporating a one-notch enhancement from SCG's stand-alone credit profile (SACP) of "a-".

KEY RATING CONSIDERATIONS

Earnings backed by PPAs with creditworthy off-takers

SCG's cash generation is backed by its PPAs with creditworthy off-takers. The company owns and operates a gas-fired cogeneration power plant with 214-megawatt installed capacity, located in Saha Group Industrial Park–Sriracha (Sriracha Industrial Park). SCG holds a 25-year PPA with EGAT for 90 MW under the Small Power Producer (SPP) scheme. This PPA will expire in April 2024, but it will be replaced by a new 25-year PPA with EGAT for 30 MW under the SPP Replacement scheme.

The company also distributes about 80 MW of electricity and 60 tonnes per hour of steam to industrial customers in Sriracha Industrial Park, through SPI as a direct counterparty. In addition, SCG owns and operates two biomass power plants under the Very Small Power Producer (VSPP) scheme, holding PPAs with the Provincial Electricity Authority (PEA, rated "AAA/stable") for 15 MW in total.

Over the past three years, EGAT and PEA contributed about 60% of SCG's total revenues. The balance was made up by revenues from industrial customers, mostly in Sriracha.

PPA limits market and fuel price risks

The PPA with EGAT helps mitigate market risk. The embedded take-or-pay scheme requires EGAT to dispatch at least 80% of the contracted capacity, based on plant operating hours. The built-in pass-through mechanism of fuel costs and exchange rates specified in the PPA also stabilizes the earnings rendered under this PPA.

Reserve capacity stabilizes plant availability

The installed capacity of SCG's cogeneration plant of 214 MW implies a reserve capacity of at least 30 MW in excess of the contracted capacity under the PPA with EGAT and industrial customers. Its multiple-unit operation helps ensure operational stability. During 2018 to March 2023, the SPP plant recorded satisfactory operating performance. The availability factors were between 93% and 97% and unplanned outage factors averaged less than 0.5%, despite an incident with one of the turbine units in mid-2022. The incident had only minor impacts on plant operations, with the volume of electricity supplied to EGAT decreasing by just 2.4% year-on-year (y-o-y) in 2022 to 608 gigawatt-hours (GWh).

Growing renewable portfolio

SCG owns and operates two biomass power plants under the VSPP scheme, through two subsidiaries. These two power plants hold PPAs with PEA totaling 15 MW under a Feed-in-Tariff (FiT) price structure. During 2018-2022, the two plants contributed about 13% of SCG's total revenue. Biomass feedstock for the two plants is considered secure, due to abundant agricultural activities and limited competition from other biomass power plants in the surrounding areas. For 2022, the plant availability factor for both plants were at satisfactory levels of about 95%. They contributed about THB70 million of earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2022.

As RATCH's investment arm in the renewable energy business, SCG is focusing on expanding its solar power generation. Its subsidiary, Solarist Thungfai, has been awarded a 27-MW solar PPA with EGAT. Its scheduled commercial operation date (SCOD) is in 2030. In addition, SCG and Principal Capital PLC (PRINC) have signed a memorandum of understanding (MOU) to develop solar rooftops for hospitals in the PRINC Group. SCG is currently developing nine solar projects, totaling 7.0 MW in installed capacity, with SCODs in the second half of 2023.

Satisfactory progress in SPP Replacement project

The overall progress of the SPP Replacement project is still on schedule, having reached 79% in March 2023. Of the total project cost of THB2.7 billion, SCG has committed capital expenditures for the project from 2023 until April 2024 totaling THB1.6 billion. The SPP Replacement project will have an installed electricity capacity of 76 MW and steam generation capacity of 75 tonnes per hour. It holds a 25-year PPA with EGAT for 30 MW under the SPP Replacement scheme. We expect the SPP Replacement project to commence commercial operation in April 2024 as scheduled, upon the expiration of the existing PPA.

The electricity sold to EGAT is likely to drop from April 2024 onward, when the contracted capacity declines to 30 MW from 90 MW. We expect that SCG will operate the new plant as a base-load unit to supply electricity and steam to both EGAT and industrial customers. The new plant will be more energy-efficient than the existing one, consuming less natural gas to generate the same amount of electricity. The new plant is designed to operate with a heat rate of about 7,400-7,500 BTU/kWh, while the existing power plant has been operating with a heat rate of about 8,500 BTU/kWh.

Delay in Ft adjustments pressured 2022 earnings

The steep rise in gas prices and delays in adjustments of the Fuel Adjustment Charge (Ft) negatively impacted SCG's earnings from electricity sales to industrial customers. The electricity pricing structures for industrial customers are based on the tariff structure of PEA, which includes 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. As a result, SCG's earnings from electricity sales to industrial customers—which constitute about 34% of SCG's total energy output—are affected during periods of surging gas prices and delays in Ft adjustments.

The gas prices charged by PTT PLC (PTT) in 2022 have been inflated by the Russia-Ukraine conflict. The average gas cost charged by PTT in 2022 hit a record high of around THB473 per metric million British thermal unit (MMBTU), increasing by about 78% y-o-y. Meanwhile, the average electricity tariff increased by only 46% to THB4.88 per kWh. In 2022, the Ft average increased by THB0.5518 per kWh to THB0.3986 per kWh, lifting the average electricity tariff for industrial customers by only 16%.

In addition, electricity consumption in Sriracha Industrial Park in 2022 was affected by sluggish manufacturing activities as a result of global economic slowdown. Electricity sold to industrial customers in 2022 dropped by 8.8% to 391 GWh. The lag in Ft adjustments coupled with the reduced sales volume resulted in SCG's overall EBITDA dropping to THB383 million in 2022, from THB690-THB845 million during 2018-2021.

Recovering financial profile

Weakening earnings from electricity sold to industrial customers resulted in a significant deterioration in the company's financial performance. For 2022, the company's debt to EBITDA ratio surged to 7.9 times, from 2.9 times in 2021. The EBITDA margin dropped to 6.7% in 2022, from about 15%-20% during 2019-2021. In our base-case scenario, we forecast a widened spread between electricity tariff and fuel cost. We anticipated a gradual decline in fuel cost, while the Ft adjustment will likely continue to compensate the hefty subsidy of fuel charges during 2021 to 2022. As a result, we expect SCG's EBITDA to recover to the range of THB750- THB850 million per year during 2023-2025. The debt to EBITDA ratio is likely to recede to a range of 5.0-6.0 times in 2023-2025.

The company's capital structure remains satisfactory. The company's debt to capitalization ratio at the end of 2022 was 45.0%. We expect the company's capital expenditures of about THB2.5 billion, spreading over 2023-2025. The expenditures cover annual maintenance, the investments in SPP Replacement and solar rooftop projects. The capital spending will likely raise the company's debt to capitalization ratio to 50%-55% in 2023-2025.

At the end of March 2023, SCG's priority debts totaled THB243 million, representing about 5.8% of total debt. The priority debts consisted of THB198 million in secured debts and THB45 million in senior unsecured debts owed by its operating subsidiaries.

Adequate liquidity

SCG has an adequate liquidity profile. At the end of March 2023, the company's sources of liquidity comprised cash on hand of THB1.0 billion and total undrawn bank credit facilities of THB1.8 billion. In addition, we forecast SCG to generate funds from operations (FFO) over the following 12 months of THB650-THB680 million. The company's cash on hand plus FFO should be sufficient to cover maintenance capital expenditures and debt repayments. Over the following 12 months, SCG has debt repayment obligations of about THB333 million, and maintenance capital expenditures of about THB191 million.

A strategic subsidiary of RATCH

We view SCG as a strategic subsidiary of RATCH. SCG became a subsidiary of RATCH in December 2021. RATCH currently holds a 52% interest in SCG. In 2022, SCG received support from financial institutions in RATCH's network and business matching with the PRINC Group. In addition, SCG has adopted a financial policy which is aligned with RATCH's policy. RATCH has also expressed its intention to provide continual financial support to SCG, if needed.

RATCH has positioned SCG as a flagship company to invest in small- and medium-sized power projects, especially in renewable energy. RATCH also has its top executives—the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Chief Business Development Officer— as members of SCG's board of directors. The managing director of SCG is appointed by RATCH. RATCH places emphasis on the growth prospects of SCG and has established a new business development department with secondment of RATCH's business development team to SCG. The growth objective is to double SCG's attributable capacity to 400 MW by 2027.

BASE-CASE ASSUMPTIONS

- PPA with EGAT at the Sriracha plant to decline to 30 MW from currently 90 MW, starting in April 2024.
- For the SPP power plant, a dispatch factor of about 80% for EGAT and 60% for industrial customers.
- Demand from industrial customers to gradually increase to 84 MW by 2025.
- Availability factors between 90% and 95% for the two biomass power plants.
- Capital expenditures for 2023-2025 totaling THB2.5 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SCG will maintain its satisfactory operating performance, and that the transition to the new EGAT PPA with lower contracted capacity will have limited impact on its cash generation. We also expect the impact from the rising fuel cost to gradually recede during 2023-2025 following Ft adjustments during that period.

RATING SENSITIVITIES

The credit upside for SCG is limited over the next 12-18 months. Downward pressure on the ratings could arise if SCG's financial performance significantly deteriorates from our expectations. Any major debt-funded investments, which considerably weaken the company's capital structure, could also lead to a rating downgrade.

Any material changes in the credit profile of RATCH or a change in the relationship between SCG and RATCH could also impact the company rating on SCG.

COMPANY OVERVIEW

SCG was established in 1999 to own and operate a cogeneration power plant under the SPP scheme. The company was listed on the Stock Exchange of Thailand (SET) in 2004. SCG's main objective is to produce and supply electricity to EGAT under a 25-year, 90-MW PPA as well as to supply electricity and steam to industrial customers in Saha Group Industrial Park–Sriracha. As of May 2023, RATCH held 51.7% interest in SCG—followed by SPI (12.2%), S&J International Enterprises PLC (9.6%), and Saha Pathanapibul PLC (5.7%).

At the commencement of operations in 1999, SCG's total installed capacity was initially 122 MW of electricity plus 41 tonnes of steam per hour, using natural gas as the primary fuel under a long-term gas supply contract with PTT PLC. The company subsequently underwent three expansions to serve growing demand from industrial users in Saha Group Industrial Park–

Sriracha. As of December 2022, the total installed capacity of the Sriracha power plant was 214 MW of electricity plus 96 tonnes of steam per hour. The existing 90-MW PPA with EGAT will expire in April 2024 and will be replaced by a new 30-MW PPA under the SPP Replacement program.

As for the renewable business, SCG operates two VSPP biomass power plants in Lamphun and Kamphaeng Phet with total installed capacity of 17.1 MW and total contracted capacity of 15 MW with PEA under the FiT structure. In addition, SCG has moved into the solar rooftop business in which the company will sell electricity to business users. SCG is currently developing nine solar projects, totaling 7.0 MW in installed capacity. The solar business will expand through its clientele in Saha Group's industrial parks, and the MOU signed with the PRINC Group.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics

	Unit	Jan-Mar 2023	------------- Year Ended 31 December ------------- 2022	2021	2020	2019
Gas-fired SPP plant						
Net output energy [1]	GWhe	248	1,050	1,107	1,071	1,112
Proportion of energy supplied to industrial customers	%	40.6	42.1	43.7	42.7	42.9
Plant heat rate [2]	BTU/kWh	8,313	8,311	8,500	8,517	8,454
Availability factor	%	96.5	94.2	96.5	96.4	93.3
Planned outage	%	3.4	3.9	3.4	3.5	6.5
Unplanned outage	%	0.1	1.8	0.1	0.1	0.3
Biomass VSPP plants						
SGN – Net output energy [1]	GWhe	21	82	67	80	77
SGN – Availability factor	%	98.4	94.6	74.9	97.0	95.2
SGF – Net output energy [1]	GWh	13	58	57	57	55
SGF – Availability factor	%	85.5	95.0	97.1	95.0	94.2

Remarks: [1] *Net output of electricity and steam in the unit of gigawatt-hour equivalent (GWhe)*
[2] *as compared to the EGAT contract heat rate of 8,600 Btu/kWh*
Source: *SCG*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: million THB

	Jan-Mar 2023	-------------Year Ended 31 December 2022	2021	2020	2019 ---------
Total operating revenues	1,431	5,763	4,233	3,978	4,326
Earnings before interest and taxes (EBIT)	16	(190)	81	246	316
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	137	383	690	821	845
Funds from operations (FFO)	104	271	575	692	669
Adjusted interest expense	33	110	109	129	155
Capital expenditures	319	1,350	279	306	241
Total assets	8,754	8,521	7,592	6,626	6,745
Adjusted debt	3,405	3,028	2,008	3,523	3,765
Adjusted equity	3,678	3,693	3,980	2,739	2,723
Adjusted Ratios					
EBITDA margin (%)	9.58	6.65	16.30	20.64	19.53
Pretax return on permanent capital (%)	(1.74) **	(2.57)	1.22	3.79	4.77
EBITDA interest coverage (times)	4.11	3.50	6.32	6.34	5.45
Debt to EBITDA (times)	8.20 **	7.90	2.91	4.29	4.46
FFO to debt (%)	8.27 **	8.96	28.61	19.63	17.76
Debt to capitalization (%)	48.07	45.05	33.54	56.27	58.04

* *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

Sahacogen (Chonburi) PLC (SCG)

Company Rating:	A
Issue Ratings:	
SCG259A: THB700 million senior unsecured debentures due 2025	A
SCG299A: THB550 million senior unsecured debentures due 2029	A
SCG329A: THB1,400 million senior unsecured debentures due 2032	A
Rating Outlook:	Stable

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