TPI POLENE POWER PLC

No. 18/2024
29 February 2024

CORPORATES

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

Last Review Date: 08/09/23

Rating History:

Date	Rating	Outlook/Alert
24/02/23	A-	Stable
04/10/22	BBB+	Positive
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
17/09/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene Power PLC (TPIPP) and the ratings on its outstanding senior unsecured debentures at "A-", with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to TPIPP's proposed issue of up to THB4 billion senior unsecured debentures. Proceeds from the new debentures will be used to refinance debentures coming due in July 2024.

We continue to assess TPIPP's stand-alone credit profile (SACP) at "a". The rating on TPIPP is capped by the rating on TPI Polene PLC (TPIPL) (rated "A-/stable"). The rating cap reflects our assessment of TPIPP's status as a "core" subsidiary of TPIPL, the close parent-subsidiary linkage, and the high level of business integration between the two entities.

TPIPP's SACP mirrors the company's reliable cash flow, backed by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), its competitive fuel costs, and cost saving from a fuel-transformation program (coal replacement). Conversely, the ratings are constrained by the gradual phase-out of additional tariffs (adder), the pre-investment spending associated with the Special Economic Zone (SEZ) project development, as well as a rise in the company's debt load during its plant modifications and business expansion.

KEY RATING CONSIDERATIONS

Rating capped by rating on TPIPL

TPIPP's SACP reflects a stronger credit profile than that of TPIPL, or the group. TPIPP's reliable cash flow from its power generation business is a key underlying factor supporting the credit profile of TPIPL, of which businesses are largely exposed to business cyclicality.

We expect TPIPP to remain a core subsidiary of TPIPL, given the close parent-subsidiary linkage, the high level of business integration between the two entities, and the significant earnings contribution from TPIPP to the group.

TPIPL currently owns a 70.2% stake in TPIPP. The operational interdependence exposes TPIPP to TPIPL's business risk in the cyclical cement business. As TPIPL buys power from and supplies waste heat to TPIPP, any interruptions in TPIPL's cement plant operations will affect its power demand and supply of waste heat, and thus the operations of TPIPP's power plants.

TPIPP has largely contributed earnings, making up 30%-60% of TPIPL's consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) during the past three years. Also, TPIPP has played a strategically important role in strengthening the group's business profile, for example, the carbon emission reduction target.

Predictable cash flows

TPIPP's highly predictable cash generation is supported by its multi-year PPAs with EGAT (rated "AAA/stable") to sell a total capacity of 163 megawatts (MW). The long-term PPAs with the creditworthy off-taker largely mitigate demand risk and payment risk. The PPAs grant an adder of THB3.50 per kilowatt-hour (kWh) on top of the base tariff rate for seven years, strengthening the viability of the projects.

The cash flows are also backed by the reliable performance of TPIPP's power plants using municipal solid waste (MSW)-derived fuel. All MSW-fired power plants selling to EGAT have continued to perform well. The company maintains its focus on efficiency improvement to ensure satisfactory performance over the long term.

Competitive fuel costs

TPIPP's operational advantages are mainly derived from the low costs of MSW-derived fuel and waste heat. The cost of MSW-derived fuel is relatively low as it is sourced from landfill waste. Waste heat, a by-product of cement production, is another advantage exclusive to TPIPP thanks to the close location of its power plants to TPIPL's cement plants. However, the waste heat supply is unstable and varies with the utilization rate of TPIPL's cement plants.

On-going cost cutting efforts

TPIPP has implemented numerous cost saving programs. The company shut down its MSW-fired power plants, TG3 and TG5, to improve efficiency during 2022-2023. It has also executed a fuel-transformation program which will entirely substitute coal with MSW-derived fuel in its coal-fired power plants, TG7 and TG8. TG7 has been completely modified, selling electricity to TPIPL since the second half of 2023. TG8 is currently under modification and is expected to resume full operations in 2025.

We expect the coal replacement to significantly lower the costs of electricity production. Apart from being cheaper, MSW-derived fuel has a lower correlation to global commodity fuels than coal.

Power capacity expansion

TPIPP aims for growth, with continued project development. The company is developing solar power projects with an aggregate capacity of 79 MW, as the power generation units for TPIPL's cement production, scheduled for full completion by the first quarter of 2025. The solar power plants are forecast to deliver reliable cash flows with low operating costs, considering their nature.

Also, TPIPP is developing three MSW-fired power projects, selling electricity to the Provincial Electricity Authority (PEA). These projects have an aggregate contracted capacity of 26 MW, scheduled to commence operations in 2026. Nevertheless, two of these, the 10-MW project in Nakorn Ratchasrima Province and the 8-MW project in Mukdahan Province are facing a legal issue concerning the selection process of bidding. This is currently pending consideration by the Administrative Court. The legal outcome remains uncertain and could take time to reach, exposing TPIPP to project delays.

Operating performance to stay satisfactory despite adder expirations

TPIPP recently reported a rise in its earnings, boosted by efficiency improvement in its power plants, a rise in fuel adjustment charge (Ft), as well as a fall in coal costs. The company's EBITDA improved to THB4.8 billion in 2023, a 23.4% year-on-year (y-o-y-) increase.

Looking forward, we expect TPIPP's operating performance to remain satisfactory. An increase in revenue and earnings from its existing and new power plants should offset the performance contractions of TG4 and TG6 after the adder expiry in 2025. Given the relatively low costs of MSW-derived fuel, TPIPL should buy more electricity from TPIPP's TG7 and TG8 when the plant modifications are completed, while cutting purchases from the PEA from 2023 onwards. We estimate the increasing power generation from TG7 and TG8, together with output from TPIPP's new power plants, will add THB3-THB4 billion in annual revenue once fully utilized.

In our base-case projection, TPIPP's annual power output is forecast to rise gradually to 2,700 GWh by 2026, from currently about 2,000 GWh. Total operating revenue should continue to hover around THB10-THB11 billion per annum during 2024-2026. Its EBITDA will likely range between THB4-THB5 billion per annum, with an EBITDA margin of 40%-50% over the forecast period.

SEZ project put on hold

TPIPP has been preparing for substantial investment in the development of the SEZ project, Thailand's Southern Seaboard project. The project will include sizable gas-fired and renewable power plants, a deep-sea port, and industrial estates. The SEZ project, if materialized, could bolster and secure the company's earnings over the long term.

However, the SEZ project is currently put on hold following a cabinet resolution to conduct a Strategic Environmental Assessment (SEA) after facing strong opposition from the residents of Chana District, the designated area for the project. The company has already spent about THB12 billion on land procurement in Chana District.

Leverage expected to rise during investment periods

TPIPP's gearing is increasing, due mainly to significant spending on its coal replacement program and new power projects under development. Capital spending is estimated to reach about THB5 billion in 2024, before dropping to THB2-THB3 billion per annum during 2025-2026. We forecast the company's debt to EBITDA ratio to range between 4-6 times during 2024-2026. The ratio is expected to stay below 5 times over the long-term. The funds from operations (FFO) to debt ratio will likely decline, ranging between 12%-19%, during its massive investment in the next three years. The debt to capitalization ratio is projected to stay about 40% throughout the forecast period.

Heavy reliance on debenture financing

We expect TPIPP to continue to rely on debenture issuance as its main source of financing. As of December 2023, the company's consolidated debt, excluding financial lease, was THB21.9 billion, all of which was unsecured debentures. Hence, TPIPP's refinancing ability will remain subject to debenture market conditions.

TPIPP should be able to adequately manage its liquidity. Given its reliable performance and track record in raising funds in the bond market, the company should be able to refinance its maturing debentures worth THB4 billion in July 2024, with new issuance. As of December 2023, sources of funds included cash and short-term investments totaling THB4.4 billion and undrawn bank facilities of about THB1.8 billion.

TPIPP's interest-bearing debt to equity ratio stood at 0.7 times as of December 2023, well below the financial covenant limit of 1.75 times on its debenture obligations. We expect the company to stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast (consolidated basis) during 2024-2026 are as follows:

- Total power output to increase, reaching 2,700 GWh in 2026.
- Total operating revenues to range between THB10-THB11 billion per annum.
- EBITDA margin to stay in the 40%-50% range.
- Capital spending to be THB5 billion in 2024, falling to THB2-THB3 billion per annum during 2025-2026.

RATING OUTLOOK

The "stable" outlook reflects the rating outlook on TPIPL. We expect TPIPP's status as a core subsidiary of TPIPL to remain unchanged. Also, TPIPP's power plants should continue to perform satisfactorily, in line with our expectation.

RATING SENSITIVITIES

Rating revisions on TPIPP are primarily tied to changes in the ratings on TPIPL.

An upward revision of TPIPP's SACP is unlikely in the near term. Conversely, a downward revision of its SACP could occur if its operating performance is worse than our forecast and/or the company engages in sizable debt-financed investments, which result in a material deterioration in the group's financial profile.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest waste-to-energy (WTE) power producer in Thailand. The company commenced operation of its first waste heat recovery power plant in 2009 to support TPIPL's cement production. TPIPP later opened two MSW-fired power plants, selling the electricity to EGAT in 2015. TPIPP was listed on the Stock Exchange of Thailand (SET) in April 2017. The company's business includes the generation and sale of electricity as well as sales from petrol and gas service stations.

The company currently owns and operates eight power plants, mainly using MSW, waste heat, and coal as fuels. The total installed capacity is 440 MW. All power plants are located in Saraburi Province, proximate to TPIPL's cement plants. The company distributes electricity to two utility off-takers, EGAT and TPIPL. TPIPP holds three PPAs with EGAT, permitting the company to sell capacity of 163 MW with an adder of THB3.5 per kWh.

Currently, electricity sales account for more than 90% of total revenue. Revenue received from EGAT and TPIPL makes up about 70% and 20% of the company's total revenue, respectively.

KEY OPERATING STATISTICS

Table 1: Power Project Portfolio as of Dec 2023

Project/Country	Location	Fuel Type	Status	Installed Capacity (MW)	Contracted Capacity with EGAT/PEA (MW)	Off-taker	Tariff Scheme	Commercial Operating date
Thailand								
TG1 & TG2	Saraburi	Waste Heat	Operating	40		TPIPL		Jun 2009
TG3	Saraburi	MSW	Operating	20	18	EGAT	Adder THB3.5 (expire in 2022)	Jan 2015
TG5	Saraburi	MSW	Operating	60	55	EGAT	Adder THB3.5 (expire in 2022)	Aug 2015
TG4	Saraburi	Waste Heat	Operating	30	90*	EGAT	Adder THB3.5 (expire in 2025)	Jan 2016
TG6	Saraburi	MSW	Operating	70	90*	EGAT	Adder THB3.5 (expire in 2025)	Apr 2018
TG7	Saraburi	Coal/MSW	Operating	70**		TPIPL		Aug 2018
TG8	Saraburi	Coal	Operating	150		TPIPL		Jan 2019
Songkla-MSW	Songkhla	MSW	Developing	12	8	PEA		2026
Nakorn Ratchasrima-MSW	Nakorn Ratchasrima	MSW	Developing	12	10	PEA		2026
Mukdahan-MSW	Mukdahan	MSW	Developing	10	8	PEA		2026
Saraburi-Solar	Saraburi	Solar	Developing	79		TPIPL		2024-2025
				<u>**553**</u>	<u>**189**</u>			

Source: TPIPP

* *TG4 and TG6 started selling power output to EGAT in Apr 2018 under the same PPA of 90 MW.*

** *Approved capacity of 40 MW*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	--------------------Year Ended 31 December				----------------
	2023	2022	2021	2020	2019
Total operating revenues	11,167	10,566	11,314	11,302	10,692
Earnings before interest and taxes (EBIT)	3,818	2,917	4,509	4,814	4,851
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,832	3,914	5,426	5,690	5,658
Funds from operations (FFO)	3,942	3,285	4,763	5,177	5,316
Adjusted interest expense	879	626	542	399	246
Capital expenditures	6,766	4,860	2,823	6,068	6,877
Total assets	59,767	50,579	48,485	43,775	37,853
Adjusted debt	20,027	14,145	13,111	10,458	6,123
Adjusted equity	33,202	31,564	30,852	28,928	27,110
Adjusted Ratios					
EBITDA margin (%)	43.3	37.0	48.0	50.3	52.9
Pretax return on permanent capital (%)	7.2	6.1	10.0	12.3	14.8
EBITDA interest coverage (times)	5.5	6.2	10.0	14.3	23.0
Debt to EBITDA (times)	4.1	3.6	2.4	1.8	1.1
FFO to debt (%)	19.7	3.2	36.3	49.5	86.8
Debt to capitalization (%)	37.6	30.9	29.8	26.6	18.4

* *Consolidated financial statements*

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

TPI Polene Power PLC (TPIPP)

Company Rating:	A-
Issue Ratings:	
TPIPP247A: THB4,000 million senior unsecured debentures due 2024	A-
TPIPP262A: THB4,523.6 million senior unsecured debentures due 2026	A-
TPIPP267A: THB3,000 million senior unsecured debentures due 2026	A-
TPIPP278A: THB4,695 million senior unsecured debentures due 2027	A-
TPIPP281A: THB3,000 million senior unsecured debentures due 2028	A-
TPIPP288A: THB3,000 million senior unsecured debentures due 2028	A-
Up to THB4,000 million senior unsecured debentures due within 7 years	A-
Rating Outlook:	Stable

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