TPI POLENE POWER PLC

No. 50/2019
10 April 2019

CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Positive

Last Review Date: 17/09/18

Company Rating History:

Date	Rating	Outlook/Alert
17/09/18	BBB+	Stable

Contacts:

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Rapeepol Mahapant

rapeepol@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on TPI Polene Power PLC (TPIPP) and the issue rating on TPIPP's senior unsecured debentures at "BBB+". At the same time, TRIS Rating revises the outlook to "positive" from "stable", following a positive change in the outlook of its parent company, TPI Polene PLC (TPIPL). The positive outlook reflects our expectation that TPIPL's financial profile will improve after all of TPIPP's power plants achieve full operations.

The ratings reflect TPIPP's robust cash flows from power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT), its high profitability from adders, and a competitive fuel cost from the refuse-derived fuel (RDF) and waste heat. However, the ratings are partially offset by the relatively high operational risks of RDF-fired power plants.

KEY RATING CONSIDERATIONS

Rating is capped by that of the parent company

TPIPP is a subsidiary of TPIPL (rated "BBB+/Positive" by TRIS Rating). On a stand-alone basis, TPIPP's company rating is assigned at "A", suggesting a stronger credit profile than TPIPL. However, TPIPP's rating is capped by TPIPL's rating at "BBB+" under our group rating methodology.

The capped rating reflects a parent-subsidiary relationship. TPIPL is TPIPP's ultimate shareholder, holding a 70.24% stake in the company. TPIPL's top managements also involve in TPIPP's board of directors, executing significant influences over TPIPP's business strategies and financial policies.

TRIS Rating considers TPIPP a core subsidiary, as the company contributes about 70% of earnings before interest, tax, depreciation, and amortization (EBITDA) to the Group and plays a crucial role in supporting the Group's rating.

The rating also takes into account a significant degree of integration between TPIPP and its parent company. The interdependence causes operational constraints on TPIPP and exposes the company to TPIPL's credit risk and the cyclicality of the cement business. Although EGAT, rated "AAA" by TRIS Rating, is the principal off-taker, TPIPL is also another power buyer of TPIPP and the sole supplier of waste heat. Adverse changes in operations at TPIPL such as low production or shut downs at its cement plants will cause a negative impact on TPIPL's power demand and supply of waste heat, thus partially weakening the operations of TPIPP's power plants.

Robust cash flow from EGAT PPAs

TPIPP owns and operates seven power plants, with a total installed capacity of 440 megawatts (MW). Of the total, four plants, with total installed capacity of 180 MW, have contracts to sell power to EGAT. The remaining capacity is sold to TPIPL for cement production process.

TPIPP's credit strength is supported by solid cash flows, propelled by the long-term PPAs with EGAT. The conditions in the PPAs mitigate demand risk. This means TPIPP can receive recurring cash flow as long as its power plants can generate electricity and sell the power to the off-taker. The PPAs also provide a tariff adder rate of Bt3.5 per kilowatt-hour (kWh) for seven years, markedly lifting the company's profit margin to a high level.

The amount of power sold to EGAT grew markedly after the commissioning of a 70-MW RDF power plant in April 2018. The total output sold to EGAT jumped to 967 gigawatt hours (GWh) in 2018 from 575 GWh in 2017. In 2018, electricity sold to EGAT represented about 80% of TPIPP's total revenue. The gross profit earned from the sales to EGAT accounted for almost entirely of TPIPP's total gross profit, or 95%.

Competitive fuel cost

TPIPP's strengths are underpinned by competitive fuel costs of the RDF and waste heat. The cost of RDF is relatively low as it can be produced from landfill waste and municipal solid waste (MSW). TPIPP procures majority of the MSW for free. Waste heat, a by-product from the cement production, is another competitive advantage exclusive to TPIPP due to the proximity of its power plants to its parent's cement plants. Although the cost of waste heat is very low, the waste heat supply is unstable and subject to operations of TPIPL's cements plants.

Relatively high operational risks of RDF power plants

RDF-fired power plants are more complex than conventional fossil-fueled plants. The quality and heat rate of the feedstock is less reliable. The quality of waste used to produce RDF can vary considerably. As a result, the power plants using RDF as a fuel will face greater challenges in operations than power plants that consume other fuels with more stable quality. Thus, RDF-fired power plants have higher potential of operational outages.

The high operational risk is mitigated by TPIPP's proven track record of operating RDF power plants and several plant refinements. In efforts to optimize operations, TPIPP has incurred additional capital spending for maintenance and plant modifications. TPIPP improved plant stability by installing spare boilers in all RDF power plants selling power to EGAT. With the addition of spare boilers, the plants are expected to reduce maintenance downtime as well as enhancing utilization rate.

EBITDA is expected to reach Bt6.5 billion

TPIPP's EBITDA grew vigorously over the past few years as production capacity and output increased. In 2018, TPIPP's power output totaled 1,248 GWh, climbing from 327 GWh in 2015. EBITDA soared to Bt4.2 billion in 2018, from Bt1.3 billion in 2015. Operating margin (operating income before depreciation and amortization as a percentage of total operating revenues) was high, hovering around 50%-55% over the period.

TPIPP's total capacity recently increased to 440 MW after a 150-MW coal-fired power plant commenced operation in January 2019. TPIPP will take time to fine-tune new power plants. TRIS Rating expects that the new power plants will gradually stabilize and reach optimal performance in 2020. In TRIS Rating's base case, EBITDA will reach Bt6.5 billion per annum in 2020. The operating margin will stay around 50% over the next three years.

Leverage on the rise

TRIS Rating expects TPIPP's leverage will rise. The planned capital expenditures will be Bt6.7 billion over the next three years. The expenditures will cover (1) remaining payment obligations for a 150-MW coal-fired power plant, (2) installation of three new boilers to support its power plants, and (3) a procurement of land for industrial estate development project.

Additionally, TPIPP is seeking new power projects so as to maintain revenue growth. The company is bidding for two waste-to-energy (WTE) power plants commissioned by the Bangkok Metropolitan Administration. The two power plants, with a capacity of 20 MW each, will be built at the On Nut and Nong Khaem landfills. Each project will cost around Bt3.5-Bt4.0 billon.

If TPIPP could secure the two bidding WTE power projects, TPIPP's capital expenditure will increased by Bt8.0 billion to about Bt14.7 billion totally over the next three years. The ratio of net debt to capitalization will rise to 33%, which is acceptable. Cash flow protection will remain strong over the next three years. The net debt to EBITDA ratio is forecast to stay below 2 times.

BASE CASE ASSUMPTIONS

- Total operating revenues will increase to Bt12-Bt13 billion per year during 2019-2021.
- Operating margin will hold at around 50%.
- Total capital spending, including investments in two new bidding WTE projects, will be around Bt10 billion in 2019 and Bt5.0 billion in 2020. Capital spending will be minimal in 2021.
- Dividend payout ratio will be around 90%.

RATING OUTLOOK

The "positive" outlook follows the revision of TPIPL's outlook to "positive" from "stable". The revised outlook of the parent company is built on TRIS Rating's expectation that TPIPL's financial profile will further improve in the next few years. The improvement is due to the larger and predictable cash flows from the power business of TPIPP. TRIS Rating expects that operations at the power plants of TPIPP will continue to improve, contributing solid cash flows over the long term.

TPIPP's status as a core subsidiary of TPIPL is likely to maintain. Given the parent-subsidiary relationship, any change in TPIPL's credit ratings will affect TPIPP's ratings.

RATING SENSITIVITIES

The upgrade of ratings could develop if TPIPP's performance materially improves, and thus helps strengthen the financial profile of the Group. Conversely, a downgrade of ratings could occur if the plants' performance is weaker-than-expected or if the company makes excessive debt-financed investments. The ratings or outlook could also be revised downward if TRIS Rating downgrades TPIPL's ratings.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest WTE power producer in Thailand. The company started its first waste heat recovery power plant in 2009 to support TPIPL's cement production. TPIPP later opened two RDF-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 from the RDF and waste heat recovery power plants as well as the petrol and gas service stations.

The company currently owns and operates seven power plants, mainly using RDF, waste heat, and coal as fuel. 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 carries three PPAs with EGAT, permitting the company to sell a capacity of 163 MW with an adder of Bt3.5 per kWh on top of the base tariff of approximately Bt3.0 per kWh.

In 2018, total sales of TPIPP came in at Bt7.6 billion. The power business accounted for 91% of total sales. The petrol and gas service station segments contributed the rest. Revenues received from EGAT and TPIPL accounted for 87% and 13% of its total revenue of the power business segment, respectively. TPIPP reported gross profit of Bt4.0 billion in 2018. The profit made from electricity sales to EGAT contributed almost entirely of the total gross profit, or Bt3.8 billion.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	---------------- Year Ended 31 December -----------			
	2018	**2017**	**2016**	**2015**
Total operating revenues	7,704	4,894	4,407	2,692
Operating income	4,166	2,795	2,331	1,288
Earnings before interest and taxes (EBIT)	3,733	2,500	1,985	937
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,215	2,867	2,356	1,264
Funds from operations (FFO)	4,019	2,681	2,154	1,150
Adjusted interest expense	35	110	209	220
Capital expenditures	4,940	4,982	3,893	1,658
Total assets	31,541	27,567	18,169	12,674
Adjusted debt	1,118	0	7,145	1,558
Adjusted equity	25,048	24,214	8,321	9,045
Adjusted Ratios				
Operating income as % of total operating revenues (%)	54.1	57.1	52.9	47.9
Pretax return on permanent capital (%)	13.8	12.4	15.0	8.7
EBITDA interest coverage (times)	119.3	26.0	11.3	5.7
Debt to EBITDA (times)	0.3	0.0	3.0	1.2
FFO to debt (%)	359.5	4,894	30.2	73.8
Debt to capitalization (%)	4.3	0.0	46.2	14.7

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

TPI Polene Power PLC (TPIPP)

Company Rating:	BBB+
Issue Rating:	
TPIPP21NA : Bt4,000 million senior unsecured debentures due 2021	BBB+
Rating Outlook:	Positive

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000