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TPI POLENE POWER PLC

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CORPORATES

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

Last Review Date: 12/10/21

Company Rating History:

Date	Rating	Outlook/Alert
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 “BBB+” with a “stable” outlook.

The ratings mirror TPIPP’s stable cash flows, backed by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), and its competitive fuel costs. Also, the ratings factor impacts from the gradual phase-out of additional tariffs (adder). The ratings also take into account of higher financial leverage to support new project investments and investment risks associated with the Special Economic Zone (SEZ) project development.

KEY RATING CONSIDERATIONS

A core subsidiary of TPIPL

We expect TPIPP will remain a core subsidiary of TPI Polene PLC (TPIPL), given its significant earnings contribution and strategically important role in strengthening the group’s business profile as an eco-friendly conglomerate. TPIPP made up 40%-70% of TPIPL’s consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) during 2019-2021. Moreover, TPIPP will play a key role in the group’s commitments in reducing carbon emissions. TPIPP is also the group’s investment arm for the development of the SEZ project.

Rating capped by TPIPL’s rating

TPIPP’s company and issue ratings are capped by the rating on TPIPL. We rate the company rating on TPIPL at “BBB+/Stable”. Meanwhile, we assess TPIPP’s stand-alone credit profile (SACP) at the level of “a”, reflecting a stronger credit profile than that of TPIPL. TPIPP’s reliable cash flow is a key underlying factor supporting the rating on the group.

The ratings cap is built from a strong parent-subsidiary relationship and a high level of business integration between the two entities. TPIPL continues to be TPIPP’s ultimate shareholder, holding a stake of 70.24% in the company. The operational interdependence exposes TPIPP to TPIPL’s business risk in the highly cyclical cement business. As TPIPL buys power and supplies waste heat to TPIPP, 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.

Reliable cash flows

TPIPP’s highly predictable cash generation is supported by multi-year PPAs with EGAT (rated “AAA/Stable” by TRIS Rating). TPIPP holds three PPAs, totaling 163 megawatts (MW). The PPAs largely mitigate demand risk and grant adder of THB3.50 per kilowatt-hour (kWh) on top of the base tariff rate of approximately THB3 per kWh for seven years.

The stable cash flows are also backed by a streak of improving performance of its power plants using refuse-derived fuel (RDF). All RDF-fired power plants selling to EGAT continued to perform well and rendered solid cash flows in 2021. Thanks to full benefits from the installation of additional boilers, the power plants have delivered higher output.

Competitive fuel costs

TPIPP's operational advantages are mainly derived from the low costs of RDF and waste heat. The cost of RDF is relatively low as it can be sourced from landfill waste and municipal solid waste (MSW). Waste heat, a by-product of cement production, is another advantage exclusive to TPIPP due to its power plants being near TPIPL's cement plants. However, the waste heat supply is unstable and moves in tandem with the utilization rate of TPIPL's cement plants.

Slight contraction in earnings

In all, TPIPP's EBITDA fell slightly to THB5.43 billion in 2021, from THB5.69 billion in 2020. The earnings drop was due to the rising losses of the 150-MW coal-fired power plant (TG8) from coal price and additional administrative expenses during the Coronavirus Disease 2019 (COVID-19) pandemic. In efforts to lessen impacts of the currently high coal price, TPIPP is bent on replacing coal with RDF.

Potential benefits from coal-replacement programs and carbon credit trade

In response to the global decarbonization trend, TPIPP's management has a strong commitment to transform into a coal-free power company by 2025. TPIPP has implemented fuel-transformation programs, which will entirely substitute coal with RDF in its 70-MW coal/RDF power plant (TG7) and in TG8. TPIPP aims to reduce coal use by 15%-20% of total consumption within this year and by 100% by 2025. In our view, the change to RDF will reduce exposure to coal-price risk and alleviate cost pressure from recently sharp rises in coal prices. Despite lower heat quality, RDF has steadier costs and a lower correlation to global commodity fuels than coal.

TPIPP will spend about THB3.97 billion for the coal-replacement program during 2022-2024. The company expects the program will bring cost-saving benefits of approximately THB800 million in 2022. TPIPL's management expects its net debt to EBITDA ratio to stay in a range 3-3.5 times. In addition, TPIPP expects its fuel-shift effort will enhance profits in the form of carbon credit income in the future. The company has participated in Thailand Voluntary Emission Reduction Programs (T-Ver), operated under the Thailand Greenhouse Gas Management Organization (TGO), a local carbon credit verifier. The company is now seeking an international verifier to support a plan to trade carbon credits in the international market.

Impact from adder expirations

The expiration of adders will take effect during 2022-2025. As a result, TPIPP's revenue and profitability are expected to start declining from 2022 onward upon expiration of the adders of two PPAs totaling 73 MW. However, the earning drops from expired adders in 2022 are expected to be partly offset from cost saving from coal-replacement program and higher fuel adjustment charge (Ft). Earnings are likely to fall further in 2025 when the adder of the largest 90-MW PPA ends.

We view that TPIPP's earnings sustainability will largely hinge on the number of new PPAs TPIPP can secure. The company could acquire two small PPAs, including an 8-MW waste-to-energy (WTE) power plant in Songkhla and another 9.9-MW plant in Nakorn Ratchasima province. These power plants will likely commence operations in 2024.

Seeking new PPAs to sustain earnings

TPIPP is preparing to participate in biddings for new WTE PPAs nationwide and is proposing to sell 70 MW of power generating capacity of TG7 to the government off-taker. In our base-case forecast, we assume TPIPP will be able to secure more WTE PPAs, with most of the power plants starting operations in 2024-2025. We have not incorporated the anticipated 70-MW PPA of TG7.

We expect TPIPP's cash-flow base to contract during 2022-2023 before recovering in 2024. We forecast TPIPP's revenue will diminish to THB10.5 billion in 2022 and THB9.5 billion in 2023 before increasing to THB11.3 billion in 2024. We forecast EBITDA will contract to THB5.3 billion in 2022 and THB4.4 billion in 2023, then rebound to THB5.5 billion in 2024. The EBITDA margin (EBITDA as a percentage of revenue) is projected to drop to 45%-48% over the forecast period. We expect funds from operations (FFO) will drop to THB4.5 billion in 2022 and THB3.4 billion in 2023, then rise to THB4.2 billion in 2024.

Heightening leverage to support investments

During 2022-2024, the company's heavy capital expenditures and investments are likely to continue. The main investments will include THB3.05 billion for the construction of two WTE power plants in Songkhla and Nakorn Ratchasima, an RDF capacity expansion of THB1.2 billion, coal-replacement programs of THB3.97 billion, and potential investments for new PPAs.

We expect TPIPP's financial profile will weaken gradually. The net debt to EBITDA ratio is anticipated to increase towards 4-5 times during 2023-2024, noticeably higher than the 2.3 times recorded in 2021. The debt to capitalization ratio is projected to touch 40%, from 29.2% at the end of 2021. The ratio of FFO to net debt will decline to the 15%-20% range during 2023 and 2024, from 37.4% in 2021.

SEZ project on hold

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

However, the SEZ project is currently on hold after the cabinet resolved to conduct a Strategic Environmental Assessment (SEA) after facing strong opposition from the residents of Chana district. This leaves TPIPP with considerable risk as the company has already spent about THB11 billion on land procurement in Chana district. We see heightening uncertainty of the SEZ project materializing. The project has been postponed temporarily and is subject to the government's final decision. The company's management believes the project must be continued as it is national security project and it has already been approved by the cabinet.

Manageable liquidity

Underpinned by reliable performance and a good track record in accessing the debt market, we believe that TPIPP will be able to issue new debentures to address its liquidity risks over the next 12 months. TPIPP will need new debenture issuances to refinance debentures maturing in 2022 and to fund its investments. The major uses of funds over the next 12 months will consist of a debenture repayment of THB4 billion, estimated capital spending of THB6.7 billion, and expected dividend payments of approximately THB2 billion. Sources of funds include cash and short-term investments totaling THB4.9 billion at the end of 2021 and estimated FFO of THB4.5 billion over the next 12 months.

TPIPP still has plenty of headroom for new debt, as the interest-bearing debt to equity ratio stood at 0.52 times at the end of 2021, well below the financial covenant limit of 1.75 times. At the end of 2021, TPIPP's consolidated debt, excluding financial lease, was THB15.5 billion, all of which was unsecured debentures.

BASE-CASE ASSUMPTIONS

- Total power output to stay at about 2,100 million kWh during 2022-2023, increasing to 2,400 million kWh in 2024.
- Total operating revenues to decrease to THB10.5 billion in 2022 and THB9.5 billion in 2023 before increasing to THB11.3 billion in 2024.
- EBITDA margin to decrease to 44%-48% during 2022-2024.
- Total capital spending of about THB4-THB8 billion per annum over the forecast period in 2022-2024.
- Dividend payout ratio of 50% each year.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TPIPP's power plant operations will continue to generate solid cash flows over the long term. We also expect the company will successfully secure new power projects to partially counterbalance the earnings contractions after adder expirations, and that TPIPP's operating performance and financial leverage will be in line with our forecast. We expect TPIPP's status as a core subsidiary of TPIPL will remain unchanged.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term since we expect the company's financial profile will weaken from earnings contraction and heightening financial leverage during the construction of new WTE power plants.

Conversely, a rating downgrade could occur if TPIPP's operating performance is significantly worse than our forecast and/or if the company engages in sizable debt-financed investments, which result in a significant deterioration in the group's financial profile. The ratings or outlook could also be revised downward if we downgrade TPIPL's ratings.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest 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 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 sales from petrol and gas service stations.

The company currently owns and operates eight power plants, mainly using RDF, 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 a capacity of 163 MW with an adder of THB3.5 per kWh on top of the base tariff of approximately THB3 per kWh.

TPIPP plans to invest in the SEZ project in Songkhla province. The SEZ is a mega industrial project initiated by the government to develop the economy in the Southern part of Thailand. The project, which covers approximately 17,000 rai of land in Chana district, Songkhla province, will comprise deep-sea ports, industrial estates, and large power plants. TPIPP aims to tender for the development of the SEZ project with an eye on sizable gas-fired power plants. In preparation for the tender, TPIPP has acquired a total of 17,500 rai of land in the target areas. However, the project is currently suspended and is awaiting the results of an SEA.

In 2021, total sales of TPIPP came in at THB11.1 billion. The power business accounted for over 95% of total sales. Revenue received from EGAT and TPIPL accounted for 75%-80% and 15%-20% of its total revenue from the power business, respectively.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio as of Dec 2021

Project/Country	Hold (%)	Status	Installed Capacity (MW)	Contracted Capacity with EGAT (MW)	Off-taker	Tariff Scheme	Commercial Operating date
Thailand							
WH-40 MW	100	Operating	40		TPIPL		Jun 2009
RDF-20 MW	100	Operating	20	18	EGAT	Adder THB3.5	Jan 2015
RDF-60 MW	100	Operating	60	55	EGAT	Adder THB3.5	Aug 2015
WH-30 MW	100	Operating	30	90*	EGAT	Adder THB3.5	Jan 2016
RDF-70 MW	100	Operating	70	90*	EGAT	Adder THB3.5	Apr 2018
Coal/RDF-70 MW	100	Operating	70**		TPIPL		Aug 2018
Coal-150 MW	100	Operating	150		TPIPL		Jan 2019
Songkhla	100	Developing	12	8	PEA		2024
Nakorn Ratchasrima	100	Developing	12	9.9	PEA		2024
			<u>460</u>	<u>108.9</u>			

Source: TPIPP

* *WH-30 MW and RDF-70 MW 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 -------------------				
	2021	**2020**	**2019**	**2018**	**2017**
Total operating revenues	11,314	11,302	10,692	7,704	4,894
Earnings before interest and taxes (EBIT)	4,509	4,814	4,851	3,783	2,702
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,426	5,690	5,658	4,264	3,068
Funds from operations (FFO)	4,763	5,177	5,316	4,090	2,958
Adjusted interest expense	542	399	246	39	110
Capital expenditures	2,823	6,068	6,877	4,940	4,982
Total assets	48,485	43,775	37,853	31,541	27,567
Adjusted debt	12,747	10,458	6,123	1,225	0
Adjusted equity	30,852	28,928	27,110	25,048	24,214
Adjusted Ratios					
EBITDA margin (%)	48.0	50.3	52.9	55.3	62.7
Pretax return on permanent capital (%)	10.0	12.3	14.8	13.9	13.4
EBITDA interest coverage (times)	10.0	14.3	23.0	109.2	27.8
Debt to EBITDA (times)	2.3	1.8	1.1	0.3	0.0
FFO to debt (%)	37.4	49.5	86.8	333.9	N.M.
Debt to capitalization (%)	29.2	26.6	18.4	4.7	0.0

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

TPI Polene Power PLC (TPIPP)

Company Rating:	BBB+
Issue Ratings:	
TPIPP22NA: THB4,000 million senior unsecured debentures due 2022	BBB+
TPIPP23DA: THB3,000 million senior unsecured debentures due 2023	BBB+
TPIPP247A: THB4,000 million senior unsecured debentures due 2024	BBB+
TPIPP262A: THB4,523.6 million senior unsecured debentures due 2026	BBB+
Rating Outlook:	Stable

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