TRIS RATING
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CreditUpdate เครดิตอัพเดต
New Issue Report

TPI POLENE PLC

No. 32/2020
14 May 2020

CORPORATES

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

Last Review Date: 25/03/20

Company Rating History:

Date	Rating	Outlook/Alert
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
02/10/12	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the ratings on TPIPL's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "BBB+" to TPIPL's newly proposed issue of up to Bt5 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance the debentures totaling Bt4.205 billion which will mature in July and August 2020. The balance will be used for partial payments of debentures which will be due in April 2021.

The ratings continue to mirror TPIPL's strong market position in the domestic cement industry, the diversification benefit from the power business, and solid cash flow from power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT). However, these strengths are offset by cyclicality of the cement and plastic industries and the operational risks inherent in refuse-derived fuel (RDF) power plants. The ratings are also constrained by TPIPL's concentrated sources of borrowings and concerns on refinancing risk.

TRIS Rating views that TPIPL's stable cash flow from the power business will continue to support its credit profile and will help the company weather a difficult period amid the fallout from the COVID-19 pandemic. The COVID-19 outbreak will have a negative impact on TPIPL's cement business as well as operations of the power plants that generate electricity for TPIPL's cement production. Nonetheless, we believe the steady earning from selling electricity to EGAT will be adequate to compensate for the weakening cement business.

TPIPL's earnings before interest tax, depreciation, and amortization (EBITDA) is predicted to grow from Bt7.7 billion in 2019 to Bt8.0-Bt8.3 billion during 2020-2021 before declining to Bt7.5 billion in 2022. The rise in earnings is mainly due to our expectation of increasing power outputs sold to EGAT after ongoing efficiency improvements of the RDF-fired power plants. Meanwhile, the earnings drop in the latter part of the projection is due to the expiration of adders. The adders of the first two PPAs, with total contracted capacity of 73 megawatts (MW), will expire in January and August 2022. The earnings downside risk could stem from a weaker-than-expected cement market.

TPIPL's financial leverage will rise further as seen from the large capital spending plans of TPI Polene Power PLC (TPIPP), such as potential investments in new waste-to-energy power projects and sizable land procurement in Songkhla province in preparation for the proposal of Special Economic Zone (SEZ) project. Since the project commencement is still uncertain, we view the early land procurement will weaken financial profile as TPIPP will expose to the risk of carrying the lands without any return for an extended period. We forecast that TPIPL's financial leverage will remain high. TPIPL's net debt to EBITDA ratio is projected to be 7.0-7.5 times. The ratio of FFO to net debt will likely fall below 10%.

In terms of liquidity, we believe the company will be able to manage the refinancing of the coming due debentures of Bt4.205 billion, given its track record in accessing the capital market. As a back-up refinancing plan, the company is working on a bank loan facility as an alternate funding source for the debentures repayments. However, we highlight that the company still has significant refinancing risk as there will be another large amount of debentures repayment totaling Bt9.6 billion due in April 2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPIPL's competitive positions in the cement and plastic businesses will be maintained, whilst its power business will continue to exhibit satisfactory performance and remain the largest cash flow contributor. We also expect the company's financial leverage to be in the range of our forecast level.

RATING SENSITIVITIES

The possibility of a rating upgrade is limited in the near term but it could emerge if the debt to EBITDA ratio falls below 6 times for a sustained period and TPIPL diversifies its sources of borrowings. Positive rating factors could develop from financial deleveraging or forecast-beating performance.

The ratings and/or outlook could be revised downward if TPIPL's net debt to EBITDA ratio stays above 8 times for a sustained period. A rating downside would stem from deterioration of the cement business, weaker-than-expected performance of the power plants, as well as a deluge of debt-fueled investments. A large equity loss from pending legal claims could also trigger a negative rating action.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TPI Polene PLC (TPIPL)

Company Rating:	BBB+
Issue Ratings:	
TPIPL207A: Bt2,000 million senior unsecured debentures due 2020	BBB+
TPIPL208A: Bt2,205 million senior unsecured debentures due 2020	BBB+
TPIPL214A: Bt1,600 million senior unsecured debentures due 2021	BBB+
TPIPL214B: Bt8,000 million senior unsecured debentures due 2021	BBB+
TPIPL218A: Bt3,600 million senior unsecured debentures due 2021	BBB+
TPIPL221A: Bt3,530 million senior unsecured debentures due 2022	BBB+
TPIPL224A: Bt1,200 million senior unsecured debentures due 2022	BBB+
TPIPL228A: Bt4,000 million senior unsecured debentures due 2022	BBB+
TPIPL231A: Bt3,000 million senior unsecured debentures due 2023	BBB+
TPIPL231B: Bt4,400 million senior unsecured debentures due 2023	BBB+
TPIPL234A: Bt2,645 million senior unsecured debentures due 2023	BBB+
TPIPL251A: Bt3,000 million senior unsecured debentures due 2025	BBB+
Up to Bt5,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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