

B.GRIMM POWER PLC

No. 66/2019
30 September 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Hybrid	BBB+
Outlook:	Stable

Last Review Date: 28/03/19

Company Rating History:

Date	Rating	Outlook/Alert
09/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on B.Grimm Power PLC (BGRIM) at “A” and its existing senior unsecured debentures at “A-”. At the same time, TRIS Rating assigns a rating of “BBB+” to BGRIM’s proposed issue of up to Bt6 billion in subordinated perpetual debentures (Hybrid debentures) and the additional greenshoe portion of up to Bt2 billion. The rating on BGRIM’s hybrid debentures is two notches below the company rating. The rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupon on a cumulative basis.

The characteristics of the proposed hybrid debentures include the subordination, the interest expense deferral at the discretion of the company, the five-year non-call period, and the sufficient permanence. These characteristics are qualified to receive “Intermediate” equity content according to TRIS Rating’s criteria. TRIS Rating will treat 50% of the outstanding amount of the hybrid debentures as equity and the other 50% as debt when calculating financial ratios. The “intermediate” equity content will fall to “minimal” (or 0% of equity treatment for this issue) at the end of fifth year from the issuance date. This is because, five years after issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating’s criteria, the effective maturity date of the issue will be defined as the date when there is a material step up of the coupon rate (equal to or more than 100 basis points or bps). In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year after issuing date.

Except for certain events as specified in the terms and conditions (e.g. changes in the tax and accounting treatments of hybrid securities or a change in the rating agency’s criteria used to assess the equity content of the issue), BGRIM intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating could lower the equity content of the proposed hybrid debentures, to “minimal” from “intermediate” if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

The ratings continue to reflect the company’s reliable cash flow from long-term power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT) under the small power producer (SPP) scheme. The ratings also reflect the well-diversified power portfolio of the company and the proven track record of operating cogeneration power plants of the company. However, the ratings are partially weighed down by a high debt level in BGRIM’s capital structure during the expansion phase.

For the first half of 2019, BGRIM’s performance was in line with TRIS Rating’s forecast. Revenue was at Bt21.1 billion, a 24.5% growth from the same period in 2018. Earnings before interest, taxes, depreciation, and amortization (EBITDA) stood at Bt5.2 billion, up from Bt4.6 billion from the same period in 2018. The increased revenue and EBITDA was due to the commencement of the 12 new projects, the acquisition of a 51% stake in B.Grimm Yanhee Solar Power Co., Ltd. (BGYSP), and the acquisition of a 100% stake in GLOW SPP1 Co., Ltd. (SPP1). The adjusted net debt was at Bt48.5 billion, up from Bt47.8 billion at the end of 2018. The adjusted net debt to EBITDA was at 5 times, improved from 5.2 times at the end of 2018.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

RATING OUTLOOK

The “stable” outlook reflects our expectations that the power plants in BGRIM’s operation will run smoothly and generate cash flow as planned. The outlook also reflects the expectation that BGRIM will be able to manage its capital structure in accordance with the company’s policy of having net interest bearing debt to equity ratio of less than 2 times.

RATING SENSITIVITIES

A rating upgrade could occur if BGRIM can enlarge its portfolio while maintaining healthy capital structure. A rating downgrade case may occur if the capital structure weakens significantly, resulting from dramatic growth of debt-funded investment.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

B.Grimm Power PLC (BGRIM)

Company Rating:	A
Issue Ratings:	
BGRIM200A: Bt500 million senior unsecured debentures due in 2020	A-
BGRIM210A: Bt2,700 million senior unsecured debentures due in 2021	A-
BGRIM230A: Bt1,500 million senior unsecured debentures due in 2023	A-
BGRIM280A: Bt5,000 million senior unsecured debentures due in 2028	A-
Up to Bt6,000 million subordinated capital debentures and additional greenshoe portion of up to Bt2,000 million	BBB+
Rating Outlook:	Stable

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