

# ABSOLUTE CLEAN ENERGY PLC

No. 166/2021  
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## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

### Contacts:

Narongchai Ponsirichusopol  
narongchai@trisrating.com

Rapeepol Mahapant  
rapeepol@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Wiyada Pratoomsuwan, CFA  
wiyada@trisrating.com



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## RATIONALE

TRIS Rating assigns the company rating to Absolute Clean Energy PLC (ACE) at “BBB+” with a “stable” rating outlook. The rating reflects the company’s stable cash flow from long-term power purchase agreements (PPAs) with state-owned utilities under the Small and Very Small Power Producer (SPP and VSPP) schemes and satisfactory operating performance of its power plants. The rating also reflects the company’s expansion plan to double capacity within five years and development risks associated with new power projects in the pipeline.

### KEY RATING CONSIDERATIONS

#### Predictable cash flow from long-term PPAs

Almost all of ACE’s power portfolio have long-term PPAs with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA).

As of June 2021, ACE owned and operated 21 power plants across Thailand with total capacity of 247.7 megawatts (MW). Twelve biomass power plants account for 47% of ACE’s power portfolio while one gas-fired combined cycle cogeneration power plant account for 46%. The remaining 7% is spread across two waste-to-energy (WTE) power plants, five solar rooftop projects, and one solar floating project.

The PPAs of ACE’s biomass power plants carry a fixed feed-in-tariff (FiT) of THB2.39 per kilowatt-hour (kWh) and variable FiT of THB1.85 per kWh, which is linked to the inflation rate. PPAs also carry a premium feed-in-tariff (FiT) of THB0.3 per kWh for the first eight years.

The cogeneration power plant is secured by a 25-year PPA with EGAT under the SPP scheme. The contract covers a capacity of 90 MW. Under the terms of a standard PPA for an SPP cogeneration power plant, EGAT agrees to dispatch at least 80% of the contracted capacity, based on plant operating hours. The PPA is on a take-or-pay basis, which stabilizes the cash flow. In addition, the PPA contains a formula that includes adjustments for changes in fuel prices and currency exchange rates. This largely mitigates the risks associated with changes in fuel price and currency fluctuations.

#### Mitigations of feedstock supply risk

Most of ACE’s power plants use biomass fuel to generate power, which is prone to fluctuations in the supply and prices of biomass feedstock. ACE mitigated these risks by leveraging its major shareholders’ expertise in eucalyptus plantation and wood chip businesses.

ACE’s power plants are located near sources of biomass feedstock and its power plants were designed to accept a wide range of feedstock types, such as woodchips, wood bark, and a variety of residual from agricultural products. During the past three years, ACE has been able to manage fuel cost for its power plant efficiently. The company’s average fuel cost for biomass power plants continuously improved to THB1.26 per produced kwh in 2020 from THB1.54 per produced kwh in 2018.

ACE’s biomass power plants have secured long-term supply agreements with related companies to ensure the availability of woodchips and eucalyptus wood bark.

### Consistent operating performance

ACE's biomass power plants have recorded consistent operating performance over the past three years. The biomass power plants' average availability factor ranged from 92%-95%. Actual capacity factor of the power plants during 2018-2020 surpassed 90% of full capacity while its average forced outage factor maintained between 1.2%-4.4% in the same period.

ACE's cogeneration power plant has met the targets specified in the PPA since the plant started up in 2017. The availability factor has ranged from 90%-99% with a low rate of unplanned outages. The heat rate ranged from 7,441-7,693 British thermal units per kilowatt-hour (BTU/kWh), better than the threshold of 7,950 BTU/kWh specified in the PPA.

In the first six months of 2021, ACE's earnings before interest, taxes, depreciation, and amortization (EBITDA) stood at THB1.2 billion, a 12% increase from the same period in the previous year due to higher generation capacity from three newly acquired power plants.

### Power portfolio to be double by 2025

ACE's power portfolio is forecast to rise to 528.4 MW by 2025, doubling from 247.7 MW at the end of June 2021. The company has 35 projects under development, consisting of 15 biomass power plants, two WTE power plants, and 18 biogas power plants under the Community Power Plants for Local Economy Project (Pilot Project) program.

During 2018-2020, ACE's EBITDA was THB1.6-THB2 billion per year. We estimate the company's EBITDA will hover in the range of THB2.3-THB3.9 billion per year during 2021-2024 once the new power plants commence commercial operations.

### Leverage on the rise during expansion

ACE's debt level will increase during the next several years. We estimate ACE will spend up to THB21 billion to develop new projects during 2021-2024. These expenditures are expected to be largely funded by debt. The company's total debt is expected to peak at THB15-THB16 billion in 2024, a substantial increase from THB3.7 billion at the end of June 2021. We project the debt to capitalization ratio to increase to 45%-50% in 2022-2024 from 21% at the end of 2020.

The leverage level in relation to cash flow will also rise during the period of expansion. The debt to EBITDA ratio is forecast to peak at 6.1 times in 2022 before gradually improving to below 5 times in 2023-2024 when the new power plants commence operation in 2022-2024.

### Adequate liquidity

Most of ACE's power projects have already secured long-term project loans. ACE and its subsidiaries have complied with the respective financial covenants on their bank loans. We consider ACE's liquidity as adequate. As of June 2021, the company had THB620 million of debt coming due in the next 12 months. At the same time, it had cash on hand of THB619 million and expected funds from operations (FFO) of about THB2.3 billion in 2021.

### Capital structure

At the end of June 2021, ACE had debt of THB4.8 billion, excluding financial lease. All of debt was at the subsidiary level, which is considered as priority debt. This means the ratio of priority debt to total debt was about 100%. As its priority debt ratio is more than the threshold of 50%, we view that ACE's unsecured creditors are significantly disadvantaged with respect to the priority of claim against ACE's assets.

### BASE-CASE ASSUMPTIONS

- Installed capacity to reach 247.7 MW in 2021 and 509 MW in 2024.
- Capital expenditure of about THB21 billion during 2021-2024.
- During 2021-2024, revenue to be in the range of THB5.7-THB11.6 billion per year. EBITDA is projected at THB2.3-THB3.9 billion per year.

### RATING OUTLOOK

The "stable" outlook reflects our expectations that ACE's power plants will continue to run smoothly and generate stable cash flow. We also expect the company's projects under development to commence operation as planned.

**RATING SENSITIVITIES**

A rating upgrade could occur if the company is able to materially enlarge its cash flow from operation while improving its cash flow to leverage level on a sustain basis. Conversely, a rating downgrade could occur if ACE’s financial position weakens substantially, possibly from material delays or cost overruns from projects under development and weakening capital structure from high debt-funded investments.

**COMPANY OVERVIEW**

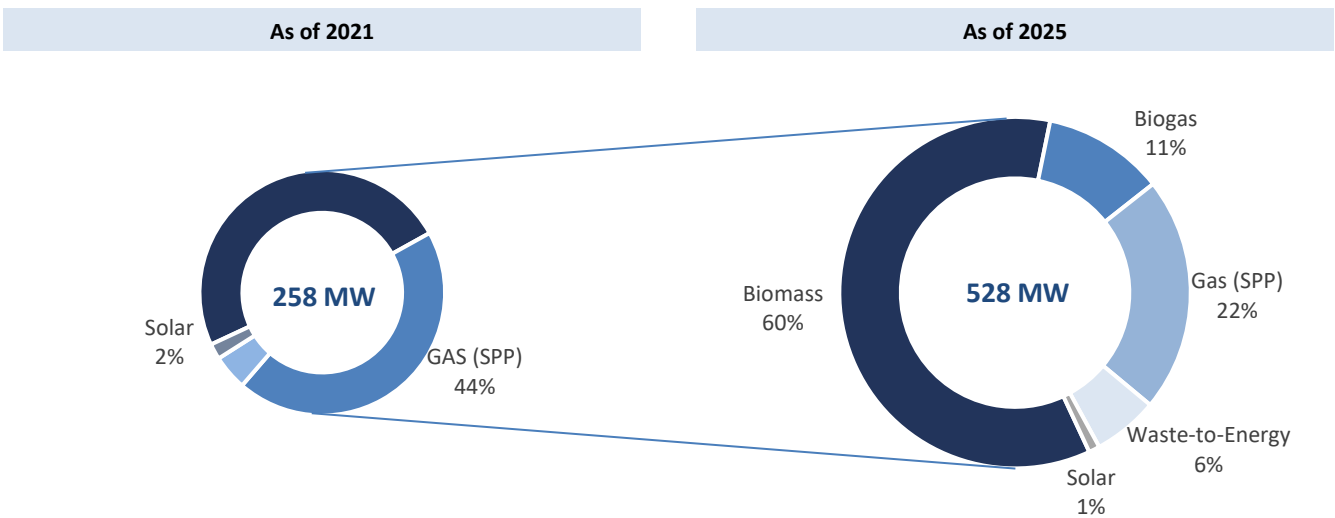
ACE was founded in December 2015 as a holding company to invest in companies that own and operate power plants. The company was listed on the Stock Exchange of Thailand (SET) in November 2019. As of March 2021, ACE’s major shareholder was the “Songmetta” family, owning 77% of the company’s shares.

ACE’s first power plant started operation in April 2012, a 9.9-MW biomass power plant in Chonburi province. During 2012-2019, ACE expanded its biomass power plant portfolio to include nine power plants, with total capacity of 89 MW. In 2020, ACE acquired three biomass power plants from Ua Withya PLC (UWC) bringing biomass capacity to 116 MW. The PPA term of biomass power plants is 20 years. Most PPAs carry a fixed FiT of THB2.39 per kWh, inflation-linked variable FiT of THB1.85 per kWh, and a FiT premium for the first eight years. The company owns and operates a 114.4-MW gas-fired cogeneration power plant in Chachoengsao province. ACE also owns two WTE power plants in Khonkaen and Krabi provinces, with total capacity of 12 MW. Besides, ACE has five solar rooftop projects and one solar floating project. These solar projects have private PPAs with industrial users. The solar power projects tariffs are based on the PEA tariff with some percentage discount from PEA tariff.

Currently, ACE has 17 projects under development in Thailand, consisting of 15 biomass power plants and two waste-to-energy power plants. The company also participates in the Community Power Plants for Local Economy Project (Pilot Project) in total of 18 projects.

**KEY OPERATING STATISTICS**

**Chart 1: ACE’s Operating Power Portfolio (Installed Capacity)**



Source: ACE

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,707	5,863	5,057	4,837	4,245
Earnings before interest and taxes (EBIT)	831	1,482	1,202	1,038	713
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,159	2,024	1,730	1,575	1,234
Funds from operations (FFO)	1,039	1,868	1,319	1,076	721
Adjusted interest expense	70	113	415	484	534
Capital expenditures	1,011	1,552	654	334	1,088
Total assets	17,873	16,430	14,145	13,887	13,959
Adjusted debt	3,703	3,196	2,466	7,407	8,269
Adjusted equity	12,564	11,993	10,793	5,572	5,022
<b>Adjusted Ratios</b>					
EBITDA margin (%)	42.81	34.51	34.22	32.56	29.06
Pretax return on permanent capital (%)	9.74 **	9.95	8.83	7.69	5.35
EBITDA interest coverage (times)	16.58	17.86	4.17	3.25	2.31
Debt to EBITDA (times)	1.72 **	1.58	1.43	4.70	6.70
FFO to debt (%)	53.03 **	58.44	53.46	14.52	8.72
Debt to capitalization (%)	22.76	21.04	18.60	57.07	62.22

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

### RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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**Absolute Clean Energy PLC (ACE)**

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<b>Company Rating:</b>	<b>BBB+</b>
<b>Rating Outlook:</b>	<b>Stable</b>

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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