TRIS RATING
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ASIA GREEN ENERGY PLC

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CORPORATES

Company Rating: BB+
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on Asia Green Energy PLC (AGE) at "BB+" with a "stable" outlook. The rating reflects AGE's established position in the coal trading business in Thailand as well as its competitive advantages from coal trading facilities and capable logistics management. The credit strengths are offset by its thin and volatile earnings, small scale of business, and its limited diversification.

KEY RATING CONSIDERATIONS

Established position in coal trading business

AGE is a medium-sized coal trader in Thailand. The company primarily imports coal from Indonesia, Russia, and Australia for distribution in the Thai market. The company has been in the coal trading business for over 17 years and has successfully established customer bases in various industries.

TRIS Rating considers AGE's market position to have strengthened over the past several years. In Thailand, the company's sales volume rose to 3.76 million tonnes in 2020, from 1.87 million tonnes in 2016. AGE's market share, measured by its Thai sales volume as a percentage of total coal imported to Thailand, was about 15.8% in 2020, up from 8.6% in 2016. The company's rising market share is a result of expanding customer bases and a decreasing number of large coal traders in the local market.

AGE's revenue in 2020 was about THB7.9 billion with a total volume of 4.4 million tonnes, comprising 3.76 million tonnes for the Thai market and 0.65 million tonnes for nearby countries such as Vietnam, Cambodia, Myanmar, China, and Taiwan.

Competitiveness from various facilities on riverfront and proximity to customers

AGE's coal trading facilities in Ayutthaya province play an essential role in supporting its advantages. The company's core facilities include a sizable stockpile area with a storage capacity of one million tonnes, three owned loading ports, and a fleet of trucks and lighters. We view that these assets enable the company to undertake large-volume orders with the reliability of supply and prompt delivery. Also, the company has coal-screening plants which help the company capture a broad range of coal demand in the retail market. The retail customers tend to require different size of coal according to the specifications of their machines.

We view that the location of these core facilities reinforces its coal trading activities. The company's stockpile, coal-screening plants, and ports are situated on the Pasak river in Ayutthaya province. The location enables the company to import and export coal with the lowest delivery cost through river transportation. Additionally, Ayutthaya province is also near Saraburi province, which is the hub of cement production, one of the main coal-consuming industries.

Capable logistics management

TRIS Rating considers AGE's extensive experience in managing logistics as a positive factor to enhance its cost advantage over local coal traders. Logistics costs are relatively high, accounting for 15%-20% of AGE's total costs. The company has experienced chartering and logistic teams to oversee the company's supply chains, including dry-bulk vessel transportation from international coal mines to Sichang island, barge transportation from Sichang island to ports in Ayutthaya province, and in-land transportation to customers' factories.

AGE is developing its logistics capacity to reduce dependence on outsourcing and control logistics costs at the same time. The company began to build its owned fleet of trucks and lighters in 2017. At the end of June 2021, the company had 68 units of owned trucks and 36 units of lighter. We view that there is still a lot of room for improvement as this number is still far from the daily need of 400-500 truck units.

Thin and volatile earnings due to coal price fluctuations

AGE's credit profile is weighed down by its thin and volatile earnings, primarily due to exposure to coal price fluctuations. The company's profitability tends to move in tandem with the global coal price. Over the last ten years, the company's gross profit margin swung in a range of 4.8%-13%. The vulnerability to changes in the coal price leads to the possibility of inventory losses and a plunge in earnings when the coal price drops. Nevertheless, we consider the impact of the price risks to be partly mitigated by back-to-back orders that the company arranges for large-scale customers. Revenues from this type of order have made up around 40%-50% of AGE's total revenue over the last five years.

Small business scale and limited diversification

AGE's business scale remains relatively small compared with peers in the coal or other commodity trading industries. Over the last five years, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) have been in the range of THB270-THB480 million per annum. Its business profile is also constrained by its exposure to customer concentration risk and limited geographical diversification. About 40%-50% of AGE's total revenue originates from the Thai cement industry, while its largest customer makes up 25%-30% of the total revenue.

We believe that the growth potential for AGE's coal trading business will be limited over the long term. We view that the stricter environmental trend and a shift of the energy industry to cleaner fuel will be a critical risk for AGE's business.

An effort to grow the logistics service business

We expect AGE's logistics service business has potential to grow further over the next few years, considering the company's rapid expansion of its warehouse and fleet capacity. Besides coal trading, the company utilizes its existing facilities to provide logistic services for non-coal products. To bolster this logistics service business, the company established a joint venture with Suvarn Gleaw Thong Co., Ltd. to enter into lease agreements for three ports and five warehouses in Ayutthaya province. Moreover, the company aims to increase the number of its owned trucks to about 100 units within 2021.

In our view, the company may take some time to build up the logistics business to the point that its earnings contribution will prove significant to the group. Success in this new business will be a plus to the company's credit profile, given the higher and more stable margin of logistics services compared with coal trading.

Expected sound financial profile

AGE's operating performance over the next few years will continue to depend predominantly on coal trading activities. AGE's sales volume will grow further, assuming that the company can gain market share from smaller coal traders, meanwhile, the cement industry remains intact despite the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. We expect the company to benefit from recent coal price uptrends, but this should be counterbalanced by the heightening risk of a sharp price drop.

We expect AGE's cash flow to debt ratio to weaken in 2021 before improving moderately. AGE expects its capital spending, mainly comprising procurements of new trucks and acquisitions of leasehold rights for ports and warehouses to total approximately THB550 million during 2021-2023. The company is likely to require more borrowings to support working capital needs, given the recent increase in the coal price. As a result, we project AGE's outstanding debt to increase further, but growth of cash flow and earnings should help buffer its financial profile from further deterioration.

We expect AGE's EBITDA to rise to about THB600 million per annum over the next three years from THB500 million currently. The company's net debt to EBITDA ratio is forecast to stay below 6 times and the ratio of funds from operations (FFO) to net debt should remain above 12% during 2021-2023.

Adequate liquidity

We assess AGE's liquidity to be adequate over the next 12 months as the company's sources of funds are still sufficient to cover its uses of funds. The sources of funds include estimated FFO of THB550 million and cash on hand of THB176 million at the end of June 2021. The company also undrawn credit lines of about THB1.5 billion at the end of June 2021. Uses of funds consist of loan repayments totalling about THB135 million, planned capital spending of about THB320 million, and estimated dividend payments of THB125 million.

Capital structure

At the end of June 2021, AGE's outstanding debt, excluding financial lease, amounted to THB3.88 billion. All debts are secured loans. This means the ratio of priority debt to total loans was about 100%. As its priority debt ratio is more than the threshold of 50%, we view that AGE's unsecured creditors are significantly disadvantaged with respect to the priority of claims against AGE's assets.

BASE-CASE ASSUMPTIONS

Our assumptions for AGE's operation during 2021-2023 are as follows:

- Total sales volume to grow by 30% in 2021 and 3%-5% per annum thereafter.
- Revenue in the range of THB9.5-THB10 billion per annum.
- EBITDA margin in the 6%-7% range.
- Total capital spending of THB350 million in 2021 and about THB100 million per year during 2022-2023.
- Dividend payout of 50%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AGE's market position and cost competitiveness will be maintained. The company's cash flow and financial metrics should be in line with our forecasts.

RATING SENSITIVITIES

AGE's credit upside will happen if the company's business scale and cash flow enlarge substantially from the current levels. This may occur from a continuing increase in sales volume and/or success in the new logistics business.

In contrast, a rating downgrade scenario could stem from a material deterioration in its financial profile, which could happen as a result of heavy debt-funded investments, pushing its net debt to EBITDA ratio above 7-8 times and/or an FFO to net debt ratio lower than 10% for a long period.

COMPANY OVERVIEW

AGE was established in 2004 to engage in the coal distribution business in Thailand and nearby countries. It sources the bulk of its coal from Indonesia, Russia, and Australia, focusing on high-quality coal. The company owns and operates three loading terminals, four coal screening factories, and a large coal storage area in Ayutthaya province. The company primarily outsources trucks and barges to support transportation by land and river. AGE's major shareholder is the Kuansataporn family, holding about 59% of the total shares as of September 2021.

In 2020, AGE's total revenue was about THB7.9 billion. The coal business accounted for 96% of the total, with the balance coming from oil sales and logistics services. About 90% of coal sales are derived from the Thai market. AGE's domestic end-customers cover a broad spectrum of industries, including cement, power, food and beverage, paper, and textiles. The company also distributes coal overseas to countries such as Vietnam, Cambodia, China, Myanmar, and Taiwan. In 2020, the company's total sales volume was 4.4 million tonnes, comprising a domestic sales volume of about 3.76 million tonnes and about 0.65 million tonnes overseas.

KEY OPERATING PERFORMANCE

Chart 1: AGE's Revenue Breakdown (Mil. THB)

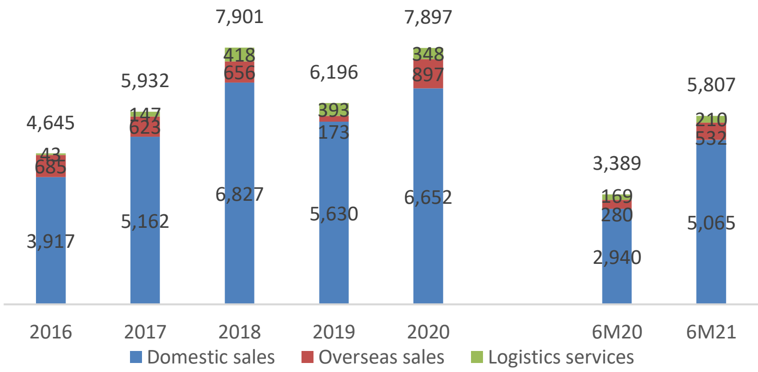
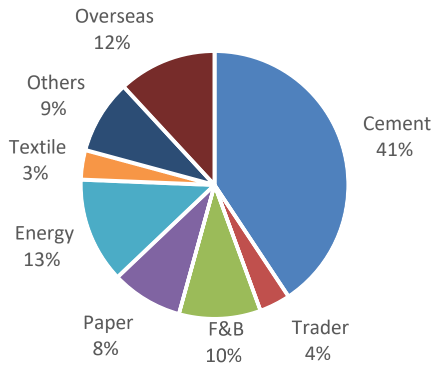


Chart 2: AGE's Coal Revenue Breakdown by Industry in 2020



Source: AGE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	2020	2019	2018	2017
		--------------Year Ended 31 December -------------			
Total operating revenues	5,820	7,931	6,210	7,911	5,949
Earnings before interest and taxes (EBIT)	175	307	360	226	203
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	259	451	476	314	271
Funds from operations (FFO)	206	373	392	219	190
Adjusted interest expense	27	47	57	65	63
Capital expenditures	124	216	190	332	248
Total assets	6,757	5,411	4,732	4,935	4,181
Adjusted debt	3,947	2,302	2,158	2,647	1,798
Adjusted equity	1,907	1,865	1,816	1,544	1,418
Adjusted Ratios					
EBITDA margin (%)	4.4	5.7	7.7	4.0	4.6
Pretax return on permanent capital (%)	7.6 **	6.9	8.2	5.5	5.6
EBITDA interest coverage (times)	9.4	9.7	8.3	4.8	4.3
Debt to EBITDA (times)	7.1 **	5.1	4.5	8.4	6.6
FFO to debt (%)	11.3 **	16.2	18.2	8.3	10.5
Debt to capitalization (%)	67.4	55.2	54.3	63.2	55.9

* *Consolidated financial statements*
** *Adjusted 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

Asia Green Energy PLC (AGE)

Company Rating:	BB+
Rating Outlook:	Stable

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