

B. GRIMM POWER PLC

No. 38/2018
9 April 2018

CORPORATES

Company Rating: A
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating of B. Grimm Power PLC (BGRIM) at “A” with “stable” outlook. The rating reflects the company’s position as one of the leading private power producers in Thailand, its well-diversified portfolio of cogeneration power units under the Small Power Producer (SPP) scheme, and reliable cash flows from long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and reputable clients. The rating also reflects BGRIM’s proven record of operating gas-fired combined cycle cogeneration units and its growth opportunities. These strengths are partially offset by a high-leveraged balance sheet during pursuing its growth strategy.

KEY RATING CONSIDERATIONS

Well-diversified portfolio

BGRIM owns and operates thirty-one power plants, in Thailand and abroad, with an installed capacity totaling 1,779 megawatts (MW). When measured in proportion to BGRIM’s ownership of the plants, or equity capacity, the total comes to 1,008 megawatts equity (MWe). No single power plant accounts for more than 10% of the total equity capacity.

Conventional power plants account for 92% of BGRIM’s total equity capacity. These 13 plants are gas-fired combined cycle cogeneration power plants located in four industrial estates and one industrial park namely Amata Nakorn (Chonburi), Amata City (Rayong), Laem Chabang, Bangkadi, and Hemaraj, plus one diesel-fired power plant in Amata City (Bien Hoa) Industrial Estate (ABIE) in Vietnam. The remaining equity capacity of 8% spreads across 15 solar power plants in Thailand and two hydro power plants in the Lao People’s Democratic Republic (Lao PDR).

EGAT is BGRIM’s largest customer. Sales to EGAT made up 52%-61% of total revenue during 2015-2017. Electricity and steam sold to industrial users accounted for 32% of revenue annually. The remainder is electricity sold to industrial users in Vietnam, the Provincial Electricity Authority (PEA), and the Electricite du Laos (EDL).

Revenue was around Bt31.5 billion in 2017, up from Bt27.7 billion in 2016. The 13% increase reflects the full-year operation of B. Grimm Power (WHA) 1 Ltd. (BPWHA1) and Amata B. Grimm Power 5 Ltd. (ABP5). Earnings before interest, tax, depreciation, and amortization (EBITDA) was around Bt8.7 billion, up from Bt7.5 billion in 2016.

Reliable cash flows from long-term PPAs

BGRIM has predictable and sustainable cash flows. Most of BGRIM’s power plants have long-term PPAs under the SPP scheme with EGAT. The term of a typical PPA with EGAT is 21-25 years. The PPAs with EGAT help mitigate the market risk since EGAT agreed to dispatch not less than 80% of the contracted capacity based on operating hours. The PPA also contains a gas price pass-through mechanism.

BGRIM also has PPAs and Steam Purchase Agreements (SPAs) with users in various industries, such as automobile, packaging, and consumer products. The PPAs and SPAs cover 5-15 years. The contracts with industrial users also specify

the minimum off-take amounts. The electricity tariffs charged to the industrial users are based on the electricity tariff that the PEA charges to large general service customers. The tariff generally carries a fuel adjustment charge, or Ft charge, to reflect changes in fuel prices. BGRIM's SPP power plants hold gas supply contracts (GSA) with PTT PLC (PTT) for 21-25 years. The terms of the GSAs usually match the terms of the PPAs with EGAT.

BGRIM's solar power plants have a total equity capacity of 59 MWe. These plants have a 25-year PPA with the PEA under the Very Small Power Plant (VSPP) scheme. The PPAs carry a Feed-in Tariff (FiT) of Bt5.66 per kilowatt-hour (kWh). The two hydro power plants, located in Lao PDR, with 14 MWe of capacity, supply electricity to EDL under a 25-year PPA. The PPA for each of the hydro power plant has a flat tariff of US\$0.065 per kWh.

Proven track record of power plant operation

BGRIM's cogeneration plants have high availability factors (AF) and low numbers of unplanned outages. Most of BGRIM's power plants employ proven technology from reputable suppliers, such as Siemens and GE. The plant heat rates met the criteria specified in the PPAs. During the past three years, the actual AF of the cogeneration power plants ranged from 90%-99%, better than the PPA targets. The heat rate (HR) of each plant was also better than the heat rate specified in the PPAs. These achievements demonstrate BGRIM's competence in developing and operating gas-fired combined cycle cogeneration power plants.

Potential growth as BGRIM expands

At the end of February 2018, BGRIM's total generating portfolio was 1,779 MW. Total installed capacity will rise to 2,163 MW or 1,314 MWe by 2020. EBITDA is forecast to reach Bt12 billion within the next three years once the new plants reach their commercial operations dates (COD) as planned.

Highly-leveraged balance sheet

BGRIM has high leverage. At the end of 2017, total debt was worth Bt57.9 billion, including financial obligation relating to Amata B. Grimm Power Plant Infrastructure Fund (ABPIF). The total debt to capitalization ratio was 69%. Given capital expenditure of Bt8.8-Bt11.2 billion per year during 2018 to 2020, the debt to capitalization ratio will remain high at 65%-67% during the next three years. However, total debt to EBITDA in 2019-2020 will likely to improve to 5 times, from 6.7 times in 2017. BGRIM's liquidity is strong. Cash on hand was Bt18.2 billion as of December 2017. Debt repayments will run at Bt4.3-Bt5.7 billion per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectations that the power plant operations will stay smooth as planned, the new projects will boost EBITDA, and the capital structure is forecast to stay steady.

RATING SENSITIVITIES

A rating upgrade could occur if BGRIM's financial profile is better than expectation. The rating downside case may occur if there is a significant drop in performance at the power plants or if the capital structure weakens significantly due to large-scale debt-funded investments.

COMPANY OVERVIEW

BGRIM was established in 1993 as a holding company for the power business under the conglomerate B. Grimm Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. BGRIM has been listed on the Stock Exchange of Thailand (SET) since 19 July 2017. As of December 2017, BGRIM's major shareholder was Mr. Harald Link and the B. Grimm Group, with a combined 68% stake. The public owned the rest of the company's shares.

BGRIM was awarded its first SPP contract through a subsidiary, Amata B. Grimm Power 1 Ltd. (ABP1), in 1998. Currently, BGRIM owns and operates 31 power plants with a total installed capacity of 1,779 MW or equity capacity of 1,008 MW. As of February 2018, BGRIM could produce 1,631 MW of electricity and 380 tonnes per hour of steam at its cogeneration plants. Of this total, 1,050 MW of electricity has been contracted to EGAT under long-term PPAs. BGRIM also has contracts to supply 543 MW of electricity and 141 tonnes per hour of steam to industrial users.

According to BGRIM's five-year expansion plan, total installed capacity will increase to 2,518 MW or 1,703 MWe by 2022.

KEY OPERATING PERFORMANCE
Table 1: Power Operating Portfolio

Project	No. of project	Electricity Capacity		Steam Capacity	
		Installed MW	Equity MW	Installed t/h	Equity t/h
Gas-fired combined cycle cogeneration					
- Amata Nakorn (Chonburi)	5	732	278	150	61
- Amata City (Rayong)	3	381	227	90	54
- Laem Chabang	2	159	159	70	70
- Bangkadi	2	229	170	40	30
- Hemaraj	1	130	98	30	23
Diesel-fired power plant					
- Amata City (Bien Hoa)	1	13	4	-	-
Solar power plant					
- Thailand	15	114	59	0	0
Hydro power plant					
- Lao PDR	2	20	14	-	-
Total power plants	31	1,779	1,008	380	237

Source: BGRIM (as of Feb 2018)

Table 2: Cogeneration Power Plants' Key Operating Performance

Plant Performance	Unit	2017	2016	2015	2014	2013
Net output energy ¹	GWhe	9,852.6	8,611.5	6,327.1	5,288.6	3,717.2
Plant heat rate ²	BTU/kWh	7,818.7	7,844.4	7,949.6	7,949.4	7,925.7
Availability factor ²	%	96.6	95.4	93.7	94.3	94.2
Unplanned outage ²	%	2.8	2.7	3.9	4.7	4.0
Planned outage ²	%	0.6	1.9	2.4	1.0	1.7

Source: BGRIM

¹ Net output of electricity and steam

² Values are weighted average by plant's capacity.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	31,482	27,747	23,943	19,854	13,804
Gross interest expense	2,053	2,563	2,789	1,684	1,325
Net income from operations	3,867	2,456	320	734	117
Funds from operations (FFO)	4,433	3,932	1,143	2,800	1,381
Earnings before interest, tax, depreciation, and amortization (EBITDA)	8,677	7,494	4,985	3,819	2,449
Total assets	89,241	76,047	62,793	47,953	35,722
Total debts**	57,941	59,752	49,682	37,883	25,739
Shareholders' equity	18,653	5,900	2,744	3,303	3,073
Operating income before depreciation and amortization as % of sales	26.2	25.5	19.5	18.3	16.8
Pretax return on permanent capital (%)	7.6	7.8	6.1	6.3	8.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.2	2.9	1.8	2.3	1.9
FFO/total debt (%)	7.7	6.6	2.3	7.4	5.4
Total debt/capitalization (%)	69.2	83.8	87.5	84.2	79.7

Notes: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Including liabilities from ABPIF

B. Grimm Power PLC (BGRIM)

Company Rating:	A
Rating Outlook:	Stable

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