TRIS RATING
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# ELECTRICITY GENERATING PLC

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## CORPORATES

| | |
|---|---|
| **Company Rating:** | AA+ |
| **Outlook:** | Stable |

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## RATIONALE

TRIS Rating assigns a company rating of "AA+" with a "stable" rating outlook to Electricity Generating PLC (EGCO). The rating reflects EGCO's position as one of the leading power producers in Thailand, with an excellent track record and well-diversified portfolio. The rating also mirrors the company's predictable cash flows, backed by long-term power purchase agreements (PPAs). However, these strengths are constrained by an increasingly challenging business environment in the power industry and a looming rise in EGCO's financial leverage in support of its long-term growth plans.

The rating takes into account our view that EGCO is a strategic affiliate of the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable" by TRIS Rating). The rating incorporates a one-notch uplift from EGCO's stand-alone credit profile of "aa" to reflect the strong support EGCO receives from EGAT.

## KEY RATING CONSIDERATIONS

### Leading power producer

EGCO is one of the leading power producers in Thailand, considering its sizable power portfolio. Currently, the company's aggregate equity capacity (or contracted capacity in proportion to its ownership in the power plants) is 6,016 megawatts (MW). Of this, 5,695 MW is from power plants in operation. EGCO's power portfolio ranges from conventional plants to various types of renewable generation.

EGCO is the country's first Independent Power Producer (IPP), with a long-established record of developing and operating several types of power plants. The company is highly capable in project management. Most of its power projects have been completed on time and within budget. EGCO's power plants have, in general, met the criteria set forth in the respective PPAs, such as plant availability factor and agreed heat rate.

EGCO has been able to leverage its expertise in power plant operations by establishing EGCO Engineering and Services Co., Ltd. (ESCO) to provide operation and maintenance services for power plants within its group and for others.

### Well-diversified portfolio

EGCO's power portfolio is well-diversified in terms of type of generation, primary fuel used, and geography. This has largely helped stabilize its revenue and earnings over the past several years. Currently, the company, through its subsidiaries and affiliates, owns and operates 29 operational power plants. No single plant accounts for more than 20% of the total equity capacity, suggesting low concentration risk.

EGCO's power plants cover a wide range of energy types. Conventional plants using natural gas and coal as primary fuels make up the majority (77% of the total equity capacity), while renewable power plants including hydropower, wind, solar, geothermal, biomass, and fuel cells make up the rest. Gas-fired power plants remain the centerpiece of EGCO's power portfolio, making up 55% of the total equity capacity. The company aims to enlarge the proportion of renewable power in response to global energy trends.

EGCO's power plants are located in eight countries. Domestic power plants account for a half of the total equity capacity while overseas power plants, most of which are operating in the Asia Pacific, account for the rest.

**Predictable cash flows underpinned by long-term PPAs**

EGCO's cash flows are highly predictable as most of its power projects (about 80% of the total equity capacity) operate under long-term PPAs, with typical terms of 15-30 years. EGCO's conventional power plants, which are the core operating assets, hold PPAs that are structured to ensure investment cost recovery and fuel price pass-through. Such PPAs help mitigate the market risk and fuel price risk. If specified metrics in the PPAs such as plant availability can be achieved, EGCO is entitled to receive fixed payments, regardless of the dispatch of electricity. At the same time, the power plants are entitled to fully pass on the fuel cost to off-takers if meeting the heat rates specified in the contracts.

EGCO's PPAs are contracted with credit-worthy off-takers, ensuring that the company will receive timely payments and have minimal payment risk. Under the current PPAs, EGAT is the main off-taker, holding approximately 57% of EGCO's equity capacity. EGAT is rated "AAA" by TRIS Rating. Manila Electric Company (Meralco), one of the largest electricity distributors in the Philippines, comes in second accounting for 11% of EGCO's equity capacity.

**Strategic affiliate of EGAT**

We consider EGCO to be a strategic affiliate of EGAT. EGCO was spun off from EGAT as a holding company engaging in generating and selling electricity to EGAT and other power buyers. EGAT has remained the major shareholder since the spin-off. EGAT has a significant influence on EGCO's business direction. EGCO's president is normally nominated from EGAT's top management. Five out of the 15 members of EGCO's board of directors are also appointed by EGAT. Moreover, their discernible relationship is tied to long-term contractual commitment in electricity supply and business synergy. Some investment opportunities are initiated by EGAT, especially government-to-government projects.

We believe EGCO will remain a strategic affiliate of EGAT over the long term. We also believe EGAT has a strong commitment and financial capability to support EGCO if needed. Based on the assessed linkages and likelihood of support from EGAT in times of need, the assigned rating incorporates a one-notch uplift from EGCO's stand-alone credit profile.

**Increasingly challenging business environment**

In our view, the domestic power market has become increasingly challenging. Competition has intensified in recent years in the wake of the government's liberalization policy to ensure competitive electricity costs for end-users. Private companies, ranging from very small entrepreneurs to large conglomerates, have branched into the power generation businesses. Small power producers are permitted to sell electricity directly to end-users. Looking further ahead, the new model of electricity generation and distribution will eventually allow power trade among households or between power plants and homes.

While we expect the demand for power to grow modestly due to the Coronavirus Disease 2019 (COVID-19) pandemic-induced slowdown, Thailand is currently saddled with high excess reserve of capacity. There is a high probability that there will be no new developments of large power plants over the coming years. Disruptive technology, such as economical energy storage and digital transformation in energy management, will encourage small businesses and households to generate power for their own consumption or trading. On the other hand, it poses a threat to larger power producers due to a potential decline in demand for electricity supplied by large-scale power plants. We have seen Thai power companies leaning towards investments outside Thailand, due to the cut-off of incentive tariffs, intense bidding competition for new projects, repeated delays in public projects, and declining investment returns.

**Risks associated with overseas projects**

With limited opportunities for large-scale conventional power plants in the domestic market, EGCO has shifted its focus to overseas expansion. In addition, the company aims to increase the mix of renewable power. As the PPAs for new power plants will likely not provide mechanisms for investment cost recovery and fuel price pass-through, future investments will likely be subject to higher levels of market risk.

Despite an increasing revenue base, the overseas expansion entails higher exposure to country risk stemming from less transparency and consistency of regulations in some domiciled countries, credit risk of off-takers, and environmental challenges. Overseas projects in more developed markets are subject to other types of challenges, despite their lower country and regulatory risks. For example, EGCO's power plants in South Korea and the United States (US) sell electricity to the wholesale markets without PPAs. Fluctuations in power demand and electricity prices could result in volatile revenue and earnings. Given the price bidding scheme, these projects need to keep operating and fuel costs low to be dispatched. However, capacity payments that cover a significant portion of plant fixed costs help reduce the degree of earnings fluctuations. EGCO's power plants that supply to electricity pools currently make up nearly 20% of its total equity capacity.

EGCO is at risk of project delays and cost overruns in some new project developments, due in part to the drawn-out COVID-19 pandemic. We expect EGCO's prudent investment procedures and its strong business partners to help identify and manage the risks associated with its investments to some extent.

**Head-on into new business ventures**

As part of its strategy to diversify into other businesses, EGCO has recently started new ventures in oil pipeline transport, smart industrial estate, and liquefied natural gas (LNG) importation. EGCO also plans to invest in other energy-related businesses. In our view, these new businesses are still at an early stage of development. They represent a small slice of EGCO's assets and are not expected to have a material effect on EGCO's operating results over the coming years.

**Financial leverage expected to rise**

We expect EGCO's financial leverage to rise over the next few years, as the company continues to seek investment opportunities with an aim to expand its portfolio and replace a portion of its existing capacity that will cease to operate in the next few years. Our base-case projection assumes EGCO will spend THB14-THB16 billion annually to complete projects in the pipeline and acquire new projects over the next three years.

We forecast EGCO's total operating revenue to be THB35-THB38 billion per annum during 2021-2023 and its earnings before interest taxes, depreciation, and amortization (EBITDA) to be THB16-THB18 billion a year. We expect its EBITDA as a percentage of total operating revenue (EBITDA margin) to remain at 40%-50%.

Without a capital increase, EGCO's debt to EBITDA ratio should range from 4-5 times during 2021-2023, rising from a low of 2.7 times in 2019. The debt to capitalization ratio should stay around 42%.

**Debt structure**

As of June 2021, EGCO's consolidated debt was about THB100 billion, out of which THB60.7 billion is basically considered priority debt, comprising secured debt owed by EGCO and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio is 61%, suggesting that the unsecured creditors could be disadvantaged to the priority debt holders with respect to claims against the company's assets.

**Strong liquidity**

EGCO has strong liquidity. As of June 2021, the company had cash and undrawn credit facilities of approximately THB24.7 billion in total. Its funds from operations (FFO) over the next 12 months are forecast to be THB11.1 billion. Sources of cash add up to THB35.8 billion, adequately covering all the debt coming due over the next 12 months that sum up to THB20.9 billion.

## BASE-CASE ASSUMPTIONS

- Total operating revenues to range from THB35-THB38 billion per annum during 2021-2023.
- EBITDA margin to range from 40%-50%.
- Dividend income received from affiliates to range from THB5-THB7 billion per annum.
- Capital spending of THB14-THB16 billion per year.
- Annual dividend payment of THB6.5-THB6.75 per share.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that EGCO's power plants will continue to deliver strong and stable cash flows. We expect that EGCO will grow in a measured way, without overly stretch on its debt incurring capacity. We also expect EGCO to earn satisfactory returns from new investments, with its levels of cash flows against debt obligations and leverage remaining in line with our forecast. Moreover, we expect EGCO will remain a strategic affiliate of EGAT.

## RATING SENSITIVITIES

A rating upside could emerge if EGCO can significantly enlarge its cashflow base while its financial leverage reduces significantly from the current level. In contrast, the rating could be revised downward if the performances of its power assets fall considerably short of our forecast. Downward pressure on the rating could also occur if the company's financial profile deteriorates significantly, possibly due to a deluge of debt-fueled investments and/or material delays in projects under development. A downward revision to the rating on EGAT could also affect the rating on EGCO.

## COMPANY OVERVIEW

EGCO, the country's first IPP, was founded by EGAT in 1992 under the government's privatization scheme. Initially, EGAT held a 100% ownership in EGCO, which was subsequently diluted to about 48% when EGCO was listed on the Stock Exchange of Thailand (SET) in 1995.

As of June 2021, EGAT remained a major shareholder, with a 25.4% stake in EGCO, followed by TEPDIA Generating B.V. (TEPDIA), which held 23.9%. TEPDIA is owned by three major shareholders including 1) a joint venture (JV) between Tokyo Electric Power Group and Chubu Electric Power Group, 2) Mitsubishi Corporation, and 3) Kyushu Electric Power.

EGCO is a holding company engaging in the power business through its operating subsidiaries and affiliates. Currently, the total equity capacity of its power projects is 6,016 MW, of which 5,695 MW is in operation. Offshore power projects are located in South Korea (15% of the total equity capacity), the Lao People's Democratic Republic (Lao PDR) (12%), the Philippines (11%), the US (5%), Indonesia (3%), Taiwan (3%), and Australia (2%).

EGCO has recently diversified into oil pipeline transport, jointly investing with Thai Pipeline Network Co., Ltd. (TPN) to expand the oil pipeline system from the central to the northeastern parts of Thailand. EGCO is also developing its first industrial estate located at the site of its retired power plant in Rayong province. The company was recently granted permits by the Energy Regulatory Commission (ERC) to engage in the LNG shipping business.

## KEY OPERATING STATISTICS

**Table 1: Power Project Portfolio (as of Jun 2021)**

| Project | Location | Plant Type | Holding (%) | 100% Contracted Capacity (MW) | EGCO Contracted Capacity (MWe) |
|---|---|---|---|---|---|
| **Projects in Operation** | | | | | |
| **IPP (Domestic)** | | | | | |
| 1. KN4 | Nakorn Si Thammarat | CCGT | 100 | 930 | 930 |
| 2. GPG (KK2) | Saraburi | CCGT | 50 | 1,468 | 734 |
| 3. BLCP | Rayong | Coal-fired | 50 | 1,347 | 673 |
| **SPP (Domestic)** | | | | | |
| 4. EGCO Cogen | Rayong | Cogen | 80 | 116 | 93 |
| 5. NKCC | Saraburi | Cogen | 50 | 113 | 57 |
| 6. KLU | Pathum Thani | Cogen | 100 | 102 | 102 |
| 7. BPU | Ratchaburi | Cogen | 100 | 215 | 215 |
| **Renewable (Domestic)** | | | | | |
| 8. NED | Lopburi | Solar | 67 | 63 | 42 |
| 9. SPP 2-5 (4 projects) | Saraburi, Si Saket, Ubon Ratchathani | Solar | 100 | 30 | 30 |
| 10. GYG | Yala | Bio-mass | 50 | 20 | 10 |
| 11. GPS | Chai Nat, Nakhon Sawan, Phetchabun | Solar | 60 | 26 | 16 |
| 12. TWF | Chaiyaphum | Wind | 90 | 7 | 6 |
| 13. CWF | Chaiyaphum | Wind | 90 | 80 | 72 |
| 14. RG | Roi Et | Bio-mass | 70 | 9 | 6 |
| 15. Solarco | Nakhon Pathom, Suphan Buri | Solar | 49 | 57 | 28 |
| **Renewable (Overseas)** | | | | | |
| 16. NTPC | Lao PDR | Hydro | 35 | 1,070 | 375 |
| 17. SEG | Indonesia | Geothermal | 20 | 227 | 45 |
| 18. Salak | Indonesia | Geothermal | 20 | 377 | 76 |
| 19. Darajat | Indonesia | Geothermal | 20 | 270 | 54 |
| 20. BRWF | Australia | Wind | 100 | 113 | 113 |
| 21. XPCL | Lao PDR | Hydro | 13 | 1,280 | 160 |
| 22. Gangdong | South Korea | Fuel cells | 49 | 20 | 10 |
| **Overseas** | | | | | |
| 23. QPL | Philippines | Coal-fired | 100 | 460 | 460 |
| 24. SBPL | Philippines | Coal-fired | 49 | 455 | 223 |
| 25. Paju | South Korea | CCGT | 49 | 1,823 | 893 |
| 26. Linden Cogen | US | CCGT | 28 | 972 | 272 |
| **Subtotal - Projects in Operation** | | | | **11,650** | **5,695** |
| **Projects under Construction** | | | | | |
| 1. Yunlin | Taiwan | Wind | 25 | 640 | 160 |
| 2. NT1PC | Lao PDR | Hydro | 25 | 644 | 161 |
| **Subtotal - Projects under Construction** | | | | **1,284** | **321** |
| **Grand Total** | | | | **12,934** | **6,016** |

*Source: EGCO*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | Jan-Jun 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| | | ---------------- Year Ended 31 December | | | ---------------- |
| Total operating revenues | 16,841 | 35,730 | 39,822 | 37,475 | 31,972 |
| Earnings before interest and taxes (EBIT) | 7,289 | 13,819 | 15,201 | 14,455 | 12,237 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 9,069 | 19,717 | 24,684 | 17,098 | 15,204 |
| Funds from operations (FFO) | 7,214 | 14,826 | 19,573 | 11,808 | 10,190 |
| Adjusted interest expense | 1,809 | 3,869 | 4,252 | 4,351 | 4,439 |
| Capital expenditures | 75 | 251 | 329 | 1,177 | 4,059 |
| Total assets | 226,583 | 214,438 | 208,523 | 206,428 | 200,333 |
| Adjusted debt | 80,254 | 73,639 | 67,702 | 54,893 | 89,681 |
| Adjusted equity | 109,125 | 102,834 | 105,106 | 100,850 | 86,856 |
| **Adjusted Ratios** | | | | | |
| EBITDA Margin (%) | 52.96 | 54.03 | 60.74 | 44.92 | 46.56 |
| Pretax return on permanent capital (%) | 6.50 ** | 6.95 | 7.74 | 7.54 | 6.54 |
| EBITDA interest coverage (times) | 5.01 | 5.10 | 5.81 | 3.93 | 3.42 |
| Debt to EBITDA (times) | 4.41 ** | 3.73 | 2.74 | 3.21 | 5.90 |
| FFO to debt (%) | 17.45 ** | 20.13 | 28.91 | 21.51 | 11.36 |
| Debt to capitalization (%) | 42.38 | 41.73 | 39.18 | 35.25 | 50.80 |

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

## RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## Electricity Generating PLC (EGCO)

| | |
|---|---|
| **Company Rating:** | AA+ |
| **Rating Outlook:** | Stable |

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