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PRIME ROAD POWER PLC

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CORPORATES

Company Rating: BBB-

Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of "BBB-" with a "stable" outlook to Prime Road Power PLC (PRIME). The rating reflects PRIME's experience in developing and operating solar power projects in Thailand and the predictable cash flows backed by its long-term power purchase agreements (PPAs) with state-owned utilities. However, the rating is constrained by PRIME's small business scale and the execution risk associated with new power projects abroad. The rating also takes into consideration a looming rise in PRIME's financial leverage, following its expansion plan.

KEY RATING CONSIDERATIONS

Acceptable record in developing and operating solar power projects

PRIME's strength is built on its acceptable record of developing and operating solar power projects. As one of the first movers in the renewable power business, the company started developing solar power projects in Thailand in 2011, with an aggregate contracted capacity of 72 megawatts (MW). Since then, it has expanded into other countries including Japan, Taiwan, and Cambodia.

At the end of June 2021, PRIME's aggregate contracted capacity, across all the solar power assets, was about 273 MW. Of this, about 159 MW was operational. In terms of equity capacity (or contracted capacity proportionate to its ownership in the power plants), PRIME had an aggregate capacity of about 178 MWe. This includes solar power projects in Thailand (64 MWe), Cambodia (60 MWe), Taiwan (40 MWe), and Japan (14 MWe).

Predictable cash flows from power business

The rating takes into consideration the low-risk nature of the power business. Although PRIME recently expanded into new ventures including solar rooftop construction, electrical equipment, and innovations, the power business will continue to be the core driver of PRIME's operating performance over the next three years. The low-risk nature of the power business is attributed to low operational risk, minimal payment risk, and long-term PPAs.

Solar power generation has proven to yield predictable power outputs and reliable cash flows. The company's more than 30 power generating facilities in diverse locations is viewed positively in terms of geographical diversification. During the last five years, the annual output of the solar power plants, in all, has reached the initial estimates based on P75 (the energy production for a probability of 75%). The earnings before interest, taxes, depreciation, and amortization (EBITDA) margin of these plants held at acceptable levels of about 80%.

The power business carries minimal payment risk as almost all of PRIME's power plants have long-term PPAs with state-owned power utilities. These PPAs contain commercial terms of electricity sale for up to 25 years. The company has recently moved towards selling electricity to the private sector which entails higher payment risk. However, the capacity under private PPAs will continue to account for less than 5% of its total capacity.

Small business scale, but on a growth path

PRIME is on a growth path but remains small. In TRIS Rating's base-case forecast, the company's total operating revenue should reach THB1.6 billion in 2023, rising from THB495 million in 2020. We assume the company will add 30 MW of power capacity annually, on top of power capacity under existing projects, over the next three years, following its growth strategy. As a result, revenue from the power business is projected to increase to THB920 million in 2023, from THB347 million in 2020. Revenue from the three new businesses, solar rooftop construction, electrical equipment, and innovations, will help boost total revenue. Revenues from these new ventures are forecast to fall in the range of THB700-THB800 million per annum over the next three years. The performances of these new ventures remain to be seen as they are still at a nascent stage.

We expect PRIME's EBITDA to double in the next three years, rising to THB929 million in 2023 from THB487 million in 2020. More than three fourths of the company's EBITDA should continue to come from the high margin power business, although the three new businesses are expected to bring in significant revenues in the coming years. We forecast PRIME's EBITDA margin to be 50%-60% over the next three years, compared with 66% in the first quarter of 2021. A decline in the EBITDA margin reflects the greater contribution of the three new businesses which carry lower margins than the power business.

Execution risk associated with new power projects abroad

Given the dearth of new opportunities in Thailand, due to the country's high reserve of power generation capacity, we expect the company to shift focus to overseas expansion, particularly in Taiwan and Cambodia, where the government has policies to promote renewable energy.

PRIME successfully developed its first 6-MW solar power project in Taiwan in 2019, with satisfactory operating results. Other 45-MW solar power projects in Taiwan are currently under development. The company's largest overseas project is the "National Solar Park" in Cambodia. This project is divided into two phases. PRIME won the first phase contract for a capacity of 60 MW, scheduled to operate in late 2022. The bidding results for the second phase of this project (40 MW) have not been announced yet.

In our view, investments in Cambodia carry higher risks than those in Thailand. One of the key risk factors is the counterparty risk of the state-run Electricity of Cambodia (EDC), the purchaser of electricity, whose credit profile is not as strong as Thai state-owned power buyers. The track record for solar power generation in Cambodia is also limited as it is in the early stages of development. The involvement of the Asian Development Bank (ADB), as the project advisor and main financier, helps alleviate concerns over the development risk to some extent. However, we expect cost control will be challenging as the first phase of this solar power project offers a low feed-in-tariff (FiT) of 3.877 US cents per kilowatt-hour (kWh). As this project represented 34% of the company's aggregate equity capacity as of June 2021, the performance of this project should have material implication on PRIME's operating performance over the next few years.

Leverage on the rise

The rating is weighed down by a potential rise in debt loads during the expansion of the company's power business. Cash flows in relation to debt obligations tend to drop during investment periods. In our base-case forecast, PRIME's capital expenditures are expected to be THB1.5-THB3 billion per annum over the next three years. Funds from operations (FFO), expected at THB400-THB700 million per annum, would not be sufficient to cover the planned capital spending. Significant external funding will be required to fund new investments. Without a capital increase, we project the FFO to debt ratio to fall to 8%-10% during 2021-2023, from above 15% in previous years and the debt to EBITDA ratio to shoot up to 7-9 times over the same periods, from 3.6 times as of March 2021. PRIME plans to raise equity to reduce leverage pressure.

As of March 2021, total debt was reported at THB1.8 billion, all of which was considered as priority debt. The priority debt included THB1.6 billion of secured debt and THB0.2 billion of unsecured debt at the subsidiary level. This means the ratio of priority debt to total debt was 100%. Since PRIME's priority debt ratio exceeded our trigger of 50%, we expect unsecured creditors to be significantly disadvantageous to the priority debt holders. As a result, the rating on the senior unsecured debt issue of PRIME will be one notch lower than the company rating.

Liquidity to stay manageable

We believe PRIME will be able to manage its liquidity adequately. Nearly all of its debts are project loans, of which scheduled repayments tend to match the underlying project cash flows. Over the next three years, the scheduled debt repayments will be THB150-THB350 million per year, versus annual FFO of THB400-THB700 million. The outstanding short-term debt of about THB40 million as of March 2021, could be covered by cash on hand of about THB52 million.

PRIME itself is not bound by any financial covenant, but its operating subsidiaries are. The project loans at the operating subsidiary level require maintenance of a debt service coverage ratio above 1.1-1.2 times and an interest-bearing debt to equity ratio below 3-4 times. The operating subsidiaries have complied with the respective financial covenants.

BASE-CASE ASSUMPTIONS

- PRIME to add 30 MW in power capacity annually during 2021-2023.
- Total operating revenues to reach THB1.6 billion in 2023.
- EBITDA margin to range between 50%-60%.
- Annual capital spending to range between THB1.5-THB3 billion per year.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the power business will remain the core contribution of PRIME's operating performance and that the company's power plants will continue to perform satisfactorily and generate reliable cash flows. The company is also expected to successfully execute the projects under development and earn satisfactory returns.

RATING SENSITIVITIES

A rating upside is limited during a period of large expansion. However, it could occur if PRIME can significantly enlarge its cashflow base and improve operating performance, while maintaining healthy capital structure. In contrast, the rating could be revised downward if the performances of its power assets fall significantly short of the initial estimates or respective guidance. Downward pressure on the rating could also occur if the company's financial position deteriorates significantly, possibly due to excessive debt-funded investments and/or material delays in projects under development.

COMPANY OVERVIEW

PRIME is a renewable power producer in Thailand. Formerly named Food Capital PLC, the company started transforming from its legacy property and restaurant businesses to renewable power generation business as it was taken over by the Prime Road Group. As a result, the company was renamed Prime Road Power PLC in July 2019 and became a listed company on the Stock Exchange of Thailand (SET) in October 2019. Mr. Somprasong Panjalak, the founder of the Prime Road Group, held a majority 74.3% stake in PRIME as of March 2021.

The Prime Road Group started to develop 72-MW solar power projects in Thailand in 2011. After the entire business transfer (EBT) was completed in July 2019, power generation has been the core business of PRIME, contributing more than two thirds of revenue and three fourths of EBITDA. As of June 2021, PRIME's aggregate capacity was 273 MW, across 39 solar power projects. About 159 MW of this was operational.

KEY OPERATING STATISTICS

Table 1: Revenue Breakdown

Unit: %

	2018	2019	2020	Jan-Mar 2021
Power	100%	100%	70%	83%
Solar rooftop construction	-	-	25%	16%
Electrical equipment	-	-	4%	1%
Innovation	-	-	-	-
Total	**100**	**100**	**100**	**100**
Total revenue (million THB)	**216**	**334**	**495**	**118**

Source: PRIME

Table 2: Solar Power Project Portfolio (as of Jun 2021)

Country	No. Of Project	Gross Contracted Capacity (MW)	Equity Contracted Capacity (MWe)	Tariff
Solar Projects				
Thailand	10	72.0	21.6	Adder: THB8
Thailand	9	41.8	37.8	FiT: THB4.12-THB5.66
Thailand	6	4.3	4.3	Electricity: Bill
Taiwan	8	40.2	40.2	FiT: NTD4.2567-NTD4.552
Cambodia	1	60.0	60.0	FiT: 3.877 US cents
Japan	5	54.8	13.7	FiT: JPY18-JPY40
Grand total	**39**	**273.1**	**177.6**	

Source: PRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021		---------- Year Ended 31 December ---------- 2020	2019	2018
Total operating revenues	120		495	336	216
Earnings before interest and taxes (EBIT)	123		403	370	268
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	79		487	399	373
Funds from operations (FFO)	55		387	301	290
Adjusted interest expense	24		99	100	81
Capital expenditures	49		108	355	532
Total assets	6,058		5,838	5,277	3,666
Adjusted debt	1,639		1,505	1,874	1,431
Adjusted equity	2,953		2,817	2,337	1,811
Adjusted Ratios					
EBITDA Margin (%)	65.95		98.27	118.90	172.98
Pretax return on permanent capital (%)	8.53	**	8.71	9.28	10.84
EBITDA interest coverage (times)	3.33		4.92	4.00	4.59
Debt to EBITDA (times)	3.57	**	3.09	4.69	3.83
FFO to debt (%)	22.01	**	25.70	16.07	20.23
Debt to capitalization (%)	35.70		34.83	44.49	44.14

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

RELATED CRITERIA

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

Prime Road Power PLC (PRIME)

Company Rating:	BBB-
Rating Outlook:	Stable

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