SPCG PLC

No. 79/2021
27 September 2021

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 25/03/21

Company Rating History:

Date	Rating	Outlook/Alert
25/03/21	A-	Stable
17/08/17	A	Stable
04/06/15	A-	Stable
02/05/14	BBB+	Stable

Contacts:

Narongchai Ponsirichusopol

narongchai@trisrating.com

Jarturun Sukthong

jarturun@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on SPCG PLC (SPCG) and the ratings on its outstanding debentures at "A-", with a "stable" rating outlook. At the same time, TRIS Rating assigns a rating of "A-" to SPCG's proposed issue of up to THB1.5 billion in senior unsecured debentures. The new issue rating replaces the issue rating on SPCG's proposed issue of THB5 billion previously assigned on 25 March 2021, following SPCG's decision to reduce the issue size to THB1.5 billion. The proceeds from the proposed debentures are intended to fund a new solar farm project.

The ratings reflect SPCG's stable cash flow from solar power plants, backed by long-term power purchase agreements (PPA), and the low operational risks. Contrarily, the ratings take into consideration the increasingly challenging business environment of the solar power industry. In addition, the ratings are weighed down by the imminent contraction in earnings due to the gradual phase-out of additional tariff (adder), and the expected surge in leverage to support sizable investment in solar farm projects in the new city of Eastern Economic Corridor Special Development Zone (EEC).

For the first half of 2021, SPCG's revenues were THB2.4 billion, a 10% decline from THB2.6 billion for the same period of 2020. The decline in revenues was mainly attributed to a drop in power volume sold and the expired adders of three solar farms. In addition, revenue from solar rooftop installations business also declined to THB121 million from THB188 million for the same period in 2020. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB2 billion, a 6% increase from the same period in 2020. At the end of June 2021, SPCG's adjusted debt stood at THB2.7 billion with a debt to EBITDA ratio of 0.7 time.

According to our base-case forecast, we expect to see a material decline in earnings from 2021 onwards when a number of solar power assets will no longer benefit from the adder. Although SPCG expects to secure future earnings from the investment in sizable solar projects in EEC, we forecast earnings from the new solar projects will not be enough to offset the loss in revenue due to adder expirations. We project SPCG's EBITDA to total THB3.2 billion in 2021, or a 20% drop from THB4.0 billion in 2020, and to decline further to THB3.1 billion in 2023.

In our base case projection, we assume the investment cost of THB15 billion for the initial phase of EEC solar project, with a capacity of 315 megawatts. We forecast SPCG's debt to soar to nearly THB14 billion in 2022-2023, a sharp increase from THB2.1 billion in 2020. As a result, we forecast the ratio of debt to EBITDA to surge to 4.5 times in 2023, a hefty increase from 0.5 times in 2020, and the ratio of debt to capitalization to rise to 41% in 2023, compared with 11% in 2020. These suggest heightened financial risk.

As of June 2021, SPCG did not have any priority debt. However, we note that SET Energy, SPCG's 80%-owned project company for the EEC solar farms, is set to incur project debt over the course of project development. The expected sizable debt to be incurred by SET Energy will be treated as priority debt of SPCG, which could result in the ratings on the senior unsecured debentures issued by SPCG, to be one-notch below the company rating on SPCG in the future due to the potential structural subordination.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SPCG's existing portfolio will be capable of maintaining its plant performance ratio at a satisfactory level above 75% over the next three years, and that the new solar farms in EEC will be developed and generate cash flow as planned, with SPCG's operating performance and financial leverage to be in line with our forecast.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited, given the negative impact from the imminent phase-out of adders. In addition, SPCG's financial profile is set to weaken due to the debt-financed investment in the solar farm projects in EEC.

On the contrary, a downward revision to the ratings could emerge if SPCG's cash flow weakens considerably, which might occur if the plant performance significantly falls short of our forecast or SPCG's efforts to halt the weakening of cash flow do not yield the expected results. A negative rating pressure could also arise if SPCG's financial risk is further heightened due to excessive use of debt to fund new investments.

RELATED CRITERIA

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

SPCG PLC (SPCG)

Company Rating:	A-
Issue Ratings:	
SPCG21DA: THB1,700 million senior unsecured debentures due 2021	A-
SPCG22DA: THB1,250 million senior unsecured debentures due 2022	A-
SPCG23DA: THB650 million senior unsecured debentures due 2023	A-
Up to THB1,500 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000