

Press Release

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TRIS Rating Assigns "A+ /Stable" Rating to Senior Unsecured Debt Worth Up to Bt10,000 Million of "BANPU", Replacing Recent Debt of Up to Bt6,000 Million

TRIS Rating has assigned the rating of "A+" to the proposed issue of up to Bt10,000 million in senior unsecured debentures of Banpu PLC (BANPU). At the same time, TRIS Rating has affirmed the company rating and the ratings of the existing senior unsecured debentures of BANPU at "A+". The outlook remains "stable". The assigned issue rating replaces the rating of the proposed issue of up to Bt6,000 million announced on 31 March 2017 as the company decided to increase the bond size. The proceeds from the new debentures will be used to repay existing debt and to fund BANPU's expansion plans. The "A+" ratings reflect the company's leading position in the coal industry within the Asia-Pacific region, diverse customer base and geographic diversification of coal reserves, financial flexibility, as well as a steady stream of income from the power segment. However, the ratings are partially offset by the cyclical nature of coal prices. The uncertainty surrounding changes in coal-related policy, which may be implemented by China, the world's largest coal consuming nation, and the stringent measures and policies that many nations will implement to reduce greenhouse gas emissions are rating concerns.

The "stable" outlook reflects the expectation that BANPU will maintain its leading position in the coal industry. Predictable dividends from the power segment will partly cushion against the volatility of coal prices. Good liquidity, underpinned by BANPU's financial discipline, prudent cash management, plus financial flexibility will help BANPU weather the volatile market condition.

Any rating upside is unlikely given the current financial profile. A rating downgrade will emerge if coal prices tumble and result in weaker-than-expected operating cash flow. Any debt-funded investments, which worsen the capital structure and deteriorate cash flow protection for an extended period, would be other factors supporting a downgrade.

BANPU is one of the major energy companies in Asia. It was established in 1983 to mine coal in Thailand. Currently, BANPU has coal operations in Indonesia, Australia, China, and Mongolia. The Indonesian operation remains the major profit contributor. The Indonesian operation accounted for 46% of BANPU's earnings before interest, tax, depreciation, and amortization (EBITDA) for 2016 while the Australian operation made up 21%. The operation in China, Thailand, the Lao People's Democratic Republic (Lao PDR) and the US comprised 14%, 10%, 8%, and 1% of EBITDA, respectively. The coal segment accounts for the majority of EBITDA. The contribution of coal segment ranged from 70%-84% of EBITDA annually from 2014 through 2016. The remainder mostly came from the power segment.

In 2016, the combined amount of coal mined from Indonesia and Australia decreased to 36.3 million tonnes, an 11.5% drop over the same period last year (year-on-year -- y-o-y). At the end of December 2016, coal reserves in Indonesia and Australia were 545 million tonnes in total. The current reserves at BANPU's Australian and Indonesian mines indicate a reserve life of 13 years.

After BANPU was hit by the slump in coal prices in 2014-2015, earnings had gradually recovered as coal prices rebounded. Coal prices surged after China implemented some coal supply reforms in mid of 2016. The Chinese government reduced the working days of coal mines in China from 330 days per annum to 276 days. The tightened coal supply in China, which produces and consumes about half of coal volume worldwide, shot up coal prices in the second half of 2016. The Newcastle Export Index (NEX), a key benchmark, jumped to an average price of US\$95 per tonne in the fourth quarter of 2016, from an average of US\$67 in the third quarter of 2016 and US\$51 per tonne in the first half of 2016. As a result, in the fourth quarter of 2016, the average selling price of BANPU increased to US\$60.74 per tonne from US\$50.92 per tonne in the third quarter of 2016 and a low of US\$46.25 per tonne in the second quarter of 2016. BANPU also benefited from the low price of diesel fuel and ongoing cost cutting activities, including a drop in the stripping ratio at its Indonesian mines. The operating margin before depreciation and amortization of BANPU rose to 19.4% in the fourth quarter of 2016 from 13.8% in the third quarter of 2016. Operating margin for the year 2016 subsequently improved to 15.0%, up from 11.0% in 2015. BANPU's equity income also rose significantly in the fourth quarter of 2016. Smoother operations at the Hongsa and BCLP power plants as well as higher coal prices in China were responsible for the higher equity income. EBITDA in 2016 rose to US\$491 million, a 40.2% increase from 2015. The net debt to capitalization ratio declined as planned to 49.8% as of December 2016, from 58.3% at the end of 2015. In the second half of 2016, BANPU received a cash injection totally US\$716 million from a capital increase and the exercise of warrants, plus the successful initial public offering (IPO) of BANPU Power PLC, its

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subsidiary. The successful listing of BANPU Power enhanced BANPU's financial flexibility on top of fund raising. The market capitalization of BANPU Power, based on the 78.7% stake held by BANPU, was US\$1,731 million as of 27 March 2017. BANPU's cash flow protection has gradually improved as earnings picked up. The EBITDA interest coverage ratio was 3.9 times in 2016, compared with 2.9 times in 2015 and a range of 5-6 times in 2013-2014. The ratio of funds from operations (FFO) to total debt recovered to 9.8% in 2016, compared with 4.7% in 2015 and 8.6%-11.2% in 2013-2014.

Coal prices skyrocketed to more than US\$100 per tonne in November 2016 before weakening to around US\$80-US\$85, currently. The coal prices softened after the Chinese government relaxed the supply restriction measures during high heating demand in winter season. It is unclear whether the Chinese government will reinstate the coal production restriction after the winter season. Given current coal price levels, BANPU's cash flow will continue to improve in 2017 even though BANPU plans to employ higher stripping ratio for the Indonesian mines. EBITDA, under TRIS Rating's base case scenario, is expected to recover from US\$350 million in 2015 and US\$491 million in 2016 to approximately US\$600-US\$700 million per year in 2017-2019, close to EBITDA level achieved in 2013-2014. BANPU budgets capital expenditures of around US\$200 million per year. If the investments in new power projects undertaken by BANPU Power and the investments in shale gas are included, total capital spending would rise to US\$200-US\$350 million per year during 2017-2019. Given the planned investments and estimated EBITDA, leverage is anticipated to stay moderate. The EBITDA interest coverage ratio is expected to hover at around 4-5 times and the FFO to total debt ratio will range from 15%-20% in 2017-2019.

Banpu PLC (BANPU)

Company Rating:

A+

Issue Ratings:

BANPU184A: Bt5,500 million senior unsecured debentures due 2018	A+
BANPU195A: Bt2,850 million senior unsecured debentures due 2019	A+
BANPU207A: Bt2,300 million senior unsecured debentures due 2020	A+
BANPU207B: Bt3,000 million senior unsecured debentures due 2020	A+
BANPU214A: Bt4,000 million senior unsecured debentures due 2021	A+
BANPU225A: Bt3,000 million senior unsecured debentures due 2022	A+
BANPU234A: Bt3,500 million senior unsecured debentures due 2023	A+
BANPU247A: Bt5,000 million senior unsecured debentures due 2024	A+
BANPU257A: Bt2,100 million senior unsecured debentures due 2025	A+
BANPU264A: Bt2,000 million senior unsecured debentures due 2026	A+
BANPU234B: US\$150 million senior unsecured debentures due 2023	A+
Up to Bt10,000 million senior unsecured debentures due within 10 years	A+
Rating Outlook:	Stable

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