

ASIA GREEN ENERGY PLC

No. 8/2024
13 September 2024

CORPORATES

Company Rating: BB+
CreditAlert: Negative

Last Review Date: 19/06/24

Company Rating History:

Date	Rating	Outlook/Alert
19/06/24	BBB-	Negative
01/06/23	BBB-	Stable
01/10/21	BB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Asia Green Energy PLC (AGE) to “BB+” from “BBB-”. The downgrade reflects the continued deterioration in AGE’s profitability and our assessment of slower earnings recovery prospects, which will prolong the company’s weak credit metrics.

At the same time, we place CreditAlert with a “negative” implication on the rating, following the AGE’s announcement on 9 September 2024 to acquire majority shares in Asia Biomass PLC (ABM). The CreditAlert placement indicates uncertainties regarding the potential impact of the acquisition on AGE’s creditworthiness. The negative implication reflects our view that the consolidation of ABM’s financial statement will likely weaken AGE’s financial profile.

We downgrade our rating on AGE due to its weakened performance in the first half of 2024, driven by intense price competition, which resulted in a steeper decline in profitability than our previous assessment. The company reported negative EBITDA for two consecutive quarters, coupled with a rapid increase in financial leverage. Despite a 19.6% year-on-year increase in coal sales volume, the gross profit margin in the coal trading segment fell to 2.0% over the first half of 2024, substantially below its historical range of 11%-14%. The company’s negative cash flow also led to additional debt needed to cover the cash flow shortfall. As a result, AGE’s debt to EBITDA ratio exceeded 10 times (annualized with trailing 12 months), inconsistent with the previous rating. The debt to capitalization ratio rose to 59% as of June 2024, up from 48% in December 2023.

We expect gradual operational improvement, considering the management’s intention to pursue more prudent customer selection and active cost-control measures. However, we anticipate a slower earnings recovery, given the sustained pressures on profitability from persistent competition, elevated transportation costs, and weak domestic demand. Consequently, we have revised down our earnings forecast for AGE, expecting a lower gross margin in coal trading. We anticipate AGE to post negative EBITDA in 2024. While we expect EBITDA to improve in 2025-2026, it will likely remain below THB700 million per annum. We project the debt to EBITDA ratio to range between 4-8 times during 2025-2026, exceeding the threshold necessary to sustain the prior rating.

We assess AGE’s liquidity should be manageable. Given AGE’s weakened cash generation, we view the refinancing risk with respect to THB1.2 billion bond due in June 2025 as heightened. As of June 2024, AGE’s sources of fund included THB2.7 billion undrawn credit facilities and THB50 million funds from operation over the next 12 months. As of June 2024, AGE had total debt of THB4.1 billion, excluding lease liability. The priority debt to total debt ratio stood at 69.5%.

Our negative CreditAlert placement comes after AGE’s announced strategic business restructuring plan that aims to clearly separate coal trading segment from the sustainable energy business. AGE will divest its 24% stake in QTC Energy PLC and 100% stake in Green RDF Co., Ltd. to ABM in exchange for newly issued shares from ABM. The share swap transaction will result in AGE

holding significant ownership in ABM, and then triggering a mandatory tender offer (MTO) for ABM’s remaining shares. AGE will also purchase a 4.5% share in ABM from the founding shareholders. Upon completing the transaction, ABM will become AGE’s subsidiary, necessitating AGE to consolidate ABM’s financial statement.

From a strategic standpoint, the acquisition could potentially enhance AGE’s earnings diversification and counterbalance its nongreen coal business. However, we view the acquisition as likely elevating AGE’s financial risk profile, given ABM’s thin cash generation and high leverage. While we do not anticipate material debt escalation from the MTO, the consolidation of ABM’s financial statements will tend to significantly increase AGE’s consolidated debt to EBITDA ratio for an extended period. The transaction is expected to be completed in January 2025, subject to the approval of shareholders of AGE and ABM, and the fulfillment of relevant conditions precedent. The “negative” CreditAlert reflects our expectation that we will likely affirm or lower our rating on AGE following this transaction.

We aim to resolve the CreditAlert once the transaction closes and we have sufficient information to assess the financial and business impact on AGE’s credit profile post-acquisition.

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Asia Green Energy PLC (AGE)

Company Rating:	BB+
CreditAlert:	Negative

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