BETTER WORLD GREEN PLC

No. 211/2023
26 October 2023

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 18/04/23

Company Rating History:

Date	Rating	Outlook/Alert
18/04/23	BBB-	Alert Negative
31/10/22	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Better World Green PLC (BWG) to "BB+" with a "stable" outlook, from "BBB-". At the same time, we remove the CreditAlert with a "negative" implication that was placed on BWG.

The rating downgrade comes after our expectation of a material deterioration in BWG's financial risk profile arising from a large sum of committed investments in new waste-to-energy (WTE) and Solid Recovered Fuel (SRF) production projects. The downward revision also takes into account the considerable execution risks associated with the projects.

The rating continues to reflect BWG's established presence in the waste management industry, as well as stable revenues from its power business, backed by long-term power purchase agreements (PPAs) with the Provincial Electricity Authority of Thailand (PEA, rated "AAA/stable"). However, the rating is weighed down by a potential surge in BWG's financial leverage, vulnerability to intense competition, and weakening operating performance during 2022 and 2023.

KEY RATING CONSIDERATIONS

Hefty investment outlays

The downgrade of the rating is chiefly the result of a potential surge in BWG's financial leverage, given the high probability of the company taking on more debt in the near future. In April 2023, its subsidiary -- Earth Tech Environment PLC (ETC, rated "BB+/stable")—was awarded 10 new industrial WTE projects through the bidding process administered by the Energy Regulatory Commission (ERC).

BWG Group's upcoming investments will comprise both WTE plants and three SRF manufacturing facilities with a total production capacity of up to 3,000 tonnes per day. The estimated project cost for these new WTE and SRF facility projects is expected to total THB18.0-THB20.0 billion, which is higher than our initial estimation.

We have assessed that BWG Group's financial capacity alone is inadequate to undertake all 10 WTE projects plus the new SRF production facilities. In our view, to make the projects financially executable, BWG would need to seek investment partners or reduce the number of projects to develop. In our base-case forecast, we assume the formation of a partnership would be the most likely scenario. We assume BWG's investment exposure will be equivalent to five new WTE projects or 40 megawatts (MW) of contracted capacity plus SRF facilities with an overall production capacity equivalent to 1,500 tonnes per day. As a result, we expect BWG to incur capital expenditures totaling THB9.0-THB10.0 billion over 2024-2026.

All the new WTE projects are required to commence commercial runs by the second half of 2026. SRF production facilities therefore should be fully onstream at about the same time. With this schedule, the rating downgrade takes into account the associated execution risks of the projects at hand, including potential delays in construction, cost overruns, insufficient SRF raw material procurement, and operation risks of the WTE plants.

Debt-heavy capital structure expected

In addition to the fresh equity raised in 2020-2021, BWG Group issued a total of THB2.0 billion in debentures during 2022-2023 in preparation for the new investments. For both the WTE and SRF projects, we expect the project companies to secure long-term project loans, with repayment schedules matching the project cash flows. The funding options are still under negotiation. However, for now, we conservatively assume that the lender will require a parental guarantee, a condition similar to the loans extended to BWG's existing WTE plants. In assessing BWG's financial risk profile, we therefore consolidate the assets, loans, and earnings of the new WTE and SRF projects into BWG's accounts, in proportion to its guarantee exposure. In total, we anticipate project financing loans of about THB6.3-THB7.0 billion.

With its debt-fueled growth plan, we expect a significant deterioration in BWG's financial risk profile. We assume project construction will start around mid-2024. We forecast net debt to peak at nearly THB10 billion by the end of 2026, with the ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) potentially soaring to about 10 times in 2025. The debt to capitalization ratio will likely peak at about 68% in 2026. However, the leverage ratio is likely to decrease gradually following the commencement of commercial operations of each new power plant in the second half of 2026. This decline in leverage would depend on the successful completion of a 2-year development phase, starting mid-2024, which carries considerable construction risks. We however note that BWG's financial leverage level is eventually subject to the final financing structure and the company's net exposure to the projects. From a long-term business risk perspective, we expect the investments to have a positive impact due to the increased scale of operations and earnings, as well as enhanced diversification.

Strong presence in the waste management industry

BWG is a leader in the waste management industry, which is subject to high entry barriers due to numerous regulatory requirements and standards. The company provides complete waste management solutions ranging from landfill waste disposal, wastewater treatment, incineration of hazardous waste, as well as consultation and waste transportation.

BWG has placed its waste disposal operating assets at the forefront of its business strategy. In its landfill operation, BWG is capable of processing up to 500 tonnes of hazardous and 1,000 tonnes of non-hazardous waste a day. The wastewater treatment facilities can treat up to 950 cubic meters per day. BWG's waste-collection fleet comprises around 250 trucks, allowing the company to serve its customers right at their locations.

Waste management earnings constrained by economic slowdown and high operating costs

BWG has faced various challenges in its waste management operations. Alongside macroeconomic factors, the Saraburi site experienced a significant operational incident in 2021, causing a prolonged disruption to its wastewater treatment operations. The company's EBITDA from the waste management business has continued to decline over the past five years. We estimate that BWG's EBITDA from waste management services in 2022 was THB208 million, down from THB645 million in 2018.

Despite its leading position, BWG still faces competition from smaller entities that can provide cheaper services with less demanding service standards. Furthermore, the economic slowdown could persist, prolonged by China's sluggish growth and ongoing global geopolitical risks. These factors could assert pressure on BWG's competitiveness and growth prospects in the waste management business from 2023 to 2025.

We forecast a 2.4% reduction in the company's waste management volume in 2023, compared with 2022, stemming from stagnant domestic manufacturing activities during the year. However, the medium- to long-term outlook for domestic waste volume is more promising. As Thailand's Department of Industrial Works tightens waste disposal regulations on industrial manufacturers, we anticipate that the volume of domestic industrial waste will grow during 2024-2025.

The costs related to the repair and maintenance of water treatment facilities, which have been ongoing since 2021 through June 2023, put substantial pressure on BWG's profit margins. However, the earnings from waste management were supported by an increase in intragroup selling prices of SRF to ETC throughout 2022 and the first half of 2023.

Looking ahead to 2023, we forecast the company's EBITDA margin in the waste management business to remain steady at 13%, with waste management EBITDA marginally softening to THB205 million in 2023. In the near term, we expect growth in both volume and prices to be stagnant, while cost pressures from repair and maintenance are likely to diminish. As a result, we forecast that EBITDA from the waste management business will recover to THB344 million in 2024, and THB463 million in 2025.

Growing power business helps stabilize earnings

BWG operates its power business through ETC, its core subsidiary, which owns and operates three WTE power plants under the very small power producer (VSPP) scheme. These plants have PPAs with the PEA for a contracted power-generation capacity of 16.5 MW.

The earnings from the power business have been a major contributor to the group over the past four years, after the commercial launch of the first 8-MW plant in 2017, followed by the addition of 8.5 MW in contracted capacity for the latter two plants in late 2019. However, the operating performance of the power business has weakened during the period 2021 to June 2023, primarily due to rising maintenance costs and unplanned outages, as well as grid curtailment, which led to a 10.8% decrease in electricity sales in the first half of 2023. EBITDA from the power business dropped to THB318 million in 2022, from THB370 million in 2021. Despite the decline, EBITDA from the power business still represented about two-thirds of BWG's total EBITDA.

The three power plants secure their fuel supplies through intra-group arrangements, thanks to BWG's SRF manufacturing facilities. This downstream integration along the WTE value chain helps stabilize the group's overall earnings. The downstream power generation business provides a significant cushion against earnings volatility in the highly competitive waste management business with limited growth prospects.

We expect ETC's importance to the group to grow with the group's substantial expansion plan in several power projects. ETC is seeking to raise new capital through the private placement of new shares, which could result in a further dilution of BWG's interest in ETC. However, we expect BWG will maintain a controlling interest over ETC.

Excess liquidity to be depleted

The proceeds from fresh equity raised by BWG and ETC in 2020-2021, along with the debenture issuances in 2022-2023 for the expansion of investments, have inflated BWG Group's liquidity. We evaluate the current liquidity position as being more than sufficient to cover the company's financial obligations coming due over the next 12 months.

The company's sources of liquidity at the end of June 2023 comprised cash on hand, including restricted cash deposits of THB2.95 billion and total undrawn bank credit facilities of THB504 million. In addition, we forecast funds from operations (FFO) over the following 12 months of THB330-THB380 million. These should be sufficient to cover maintenance capital expenditures and debts coming due over the same period, totaling THB1.0 billion. Looking ahead, we expect BWG's ample cash reserves will be used up for the development of the new projects.

Debt structure

At the end of June 2023, BWG's total debt, excluding lease liabilities, stood at THB3.5 billion. Priority debt totaling THB2.7 billion comprised secured debts owed by BWG and all debts incurred by its subsidiaries. The priority debt to total debt ratio was 77%, suggesting that the company's unsecured creditors could be significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

BWG Group may encounter significant refinancing risk as its three debenture issues, totaling THB2.0 billion, will mature in 2025-2026—during the development phase but prior to the expected commencement of operations of the new WTE projects.

BASE-CASE ASSUMPTIONS

- Operating revenues in waste management segment to be around THB1.6 billion per year over 2023-2025.
- EBITDA margin of waste management segment to gradually recover to about 30% in 2025, from about 13% in 2023.
- Overall availability factors of the three existing WTE power plants in the range of 86%-88% during 2023-2025.
- Investments equivalent to five new 9.9-MW WTE power plants, with a project cost of about THB1.6-THB1.8 billion each plus new SRF facilities with production capacity equivalent to 1,500 tonnes per day.
- Recognition of power sales revenues from the new projects to start in the second half of 2026.
- Capital expenditures for the new WTE plants and SRF facilities totaling THB9.3-THB10.0 billion over 2024-2026, plus a budget for uncommitted investment of THB300-THB400 million.
- Project financing structure with a debt-to-equity ratio of about 2.33 times.
- Capital structure has yet to incorporate a potential fresh capital injection from a private placement of new shares.

RATING OUTLOOK

The "stable" outlook reflects our expectation that any rise in BWG's financial leverage and level of new investments will remain in line with our projections. We also expect the operating performance of the waste management business and the existing power plants to recover starting from the second half of 2023. Besides, we expect BWG to maintain its controlling interest over ETC despite the possibility of a dilution in its ownership due to ETC's private placement of new shares.

RATING SENSITIVITIES

We are unlikely to upgrade the rating on BWG in the near term, considering the scale of the imminent investment outlays. However, a rating upgrade could develop if the company's financial leverage remains well below our base forecast, which could occur if BWG is able to deleverage through a more conservative expansion plan and/or strengthen its equity base with fresh capital. An upward rating revision would also require a consistent improvement in BWG's existing operations.

Conversely, a further downgrade of the rating could emerge from weakening operating performance or if BWG elects to pursue more aggressive debt-financed investments beyond our expectations. Also, a negative rating action could result from any issues that jeopardize the viability of the projects, such as significant cost overruns or serious delays in the commencement of the power plants' operations.

COMPANY OVERVIEW

BWG began its waste management business in 1997 with waste sorting and landfill services for industrial customers. After over 20 years in business, BWG has become a leader in the industrial waste management industry. The company provides a broad range of waste management services, including landfill disposal, wastewater treatment, incineration of hazardous waste, consultation, and waste transportation. Its major locations for waste disposal are in Saraburi Province and Ayutthaya Province, allowing the company to serve clientele in the prime industrial areas of Central and Eastern Thailand.

BWG also leverages its strength in waste management to create value along the WTE chain. Through ETC, a 48% directly and indirectly owned subsidiary, BWG Group owns and operates three industrial WTE power plants with total contracted capacity of 16.5 MW, backed by the VSPP scheme with PEA. Fuel for the group's power plants is secured internally through BWG's own SRF manufacturing facilities and abundant supplies of industrial waste feedstock.

In April 2023, ETC was awarded 10 new industrial WTE projects with a total capacity of 80 MW under the VSPP scheme. Accordingly, BWG plans to expand its SRF production capacity to supply the new WTE projects. These projects are currently in the early stages of development and are undergoing funding negotiations.

Table 1: BWG's Power Portfolio as of 30 Jun 2023

Projects in Operation	Plant Type	Installed Capacity (MW)	Contracted Capacity (MW)	ETC Holding (%)	PPA Term (Year)	Expiry Year
1. ETC PP	Industrial WTE	9.4	8.0	100.0	20	2037
2. RH PP	Industrial WTE	7.0	5.5	94.9	20	2039
3. AVA PP	Industrial WTE	4.0	3.0	97.0	20	2039
Total		***20.4***	***16.5***			

Sources: ETC & BWG

KEY OPERATING PERFORMANCE

Table 2: BWG's Consolidated EBITDA Breakdown by Segments (2018 to 6M/2023)

BWG's consolidated EBITDA		2018	2019	2020	2021	2022	6M/2023
Waste management	**EBITDA (Mil. THB)**	**645**	**313**	**323**	**216**	**208**	**102**
	%- contribution	*78%*	*62%*	*61%*	*37%*	*39%*	*46%*
	EBITDA margin	34%	22%	26%	15%	13%	22%
Electricity	**EBITDA (Mil. THB)**	**177**	**190**	**388**	**370**	**318**	**120**
	%- contribution	*21%*	*38%*	*73%*	*63%*	*59%*	*54%*
	EBITDA margin	54%	51%	58%	49%	41%	37%
Construction	**EBITDA (Mil. THB)**	**9**	**3**	**(180)**	**0**	**9**	**0**
	%- contribution	*1%*	*1%*	*(34%)*	*0%*	*2%*	*0%*
	EBITDA margin	4%	3%	(793%)	0%	5%	-
BWG's Total	**EBITDA (Mil. THB)**	**831**	**506**	**531**	**586**	**534**	**223**
	Overall EBITDA margin	34%	27%	28%	26%	21%	20%

Sources: BWG and TRIS Rating's estimation

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	Jan-Jun 2023	------------Year Ended 31 December 2022	2021	2020	----------- 2019
Total operating revenues	1,160	2,545	2,213	1,928	1,905
Earnings before interest and taxes (EBIT)	(6)	87	116	105	134
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	223	534	586	531	506
Funds from operations (FFO)	122	401	439	357	339
Adjusted interest expense	97	125	135	164	144
Capital expenditures	842	169	119	400	1,532
Total assets	10,020	8,582	8,322	8,847	7,352
Adjusted debt	885	543	329	1,043	2,615
Adjusted equity	5,636	5,380	5,436	5,176	3,597
Adjusted Ratios					
EBITDA margin (%)	19.20	21.00	26.50	27.51	26.56
Pretax return on permanent capital (%)	(0.38) **	1.09	1.45	1.39	2.04
EBITDA interest coverage (times)	2.29	4.29	4.34	3.23	3.51
Debt to EBITDA (times)	2.10 **	1.02	0.56	1.97	5.17
FFO to debt (%)	28.09 **	73.74	133.69	34.23	12.97
Debt to capitalization (%)	13.57	9.17	5.70	16.77	42.09

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Better World Green PLC (BWG)

Company Rating:	BB+
Rating Outlook:	Stable

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