

EASTERN POWER GROUP PLC

No. 142/2024
14 August 2024

CORPORATES

Company Rating: BB
Outlook: Negative

Last Review Date: 09/08/23

Company Rating History:

Date	Rating	Outlook/Alert
09/08/23	BB+	Negative
07/12/22	BBB-	Negative
07/12/18	BBB-	Stable
01/12/15	BBB	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Eastern Power Group PLC (EP) to “BB” from “BB+”. The downgrade reflects the lengthy delays in achieving commercial operation of EP’s wind power projects in Vietnam, which have led to sustained weakness in cash generation and tightening liquidity.

At the same time, we maintain a “negative” outlook as a host of uncertainties surrounding the projects persist, particularly the tendency of further delay in starting commercial operation, as well as the unsettled tariff. The outlook also reflects the heightened refinancing risk of EP’s maturing debentures.

The rating reflects the expectation of reliable earnings to be generated from EP’s wind power projects when they become operational, coupled with EP’s established market presence in the printing industry. However, the rating is constrained by its weak financial profile, significant regulatory risks associated with the wind power projects, and the grim outlook of the printing industry.

KEY RATING CONSIDERATIONS

Lengthy delay in commercial operation of wind power projects

We downgrade the rating on EP as its wind power projects in Vietnam have endured severe delay in commercial operation date (COD). EP owns four wind power projects in Vietnam with a combined net capacity of 130 megawatts (MW) when measured in proportion to EP’s equity stakes in the projects. The four projects represent around 95% of EP’s total power capacity. Therefore, EP’s cash generation is highly reliant on these projects. We previously anticipated commercial operation of all projects by the end of 2023. However, only the Huong Linh 3 (HL3) project, with an installed capacity of 28.8 MW, achieved formal COD on 30 December 2023, and started selling electricity from February 2024 onwards.

The remaining wind power projects, Huong Linh 4 (HL4, 32 MW), Che Bien Tay Nguyen (TN, 49.5 MW), and Phat Trien Mien Nui (MN, 49.5 MW), are still facing lengthy procedural delays. EP has not sent the dossier of recognition of COD to Vietnam Electricity (EVN), the state power buyer. The remaining projects have not obtained all licensing and permitting requirements, particularly the electricity operation license.

Continued weak cash generation

EP has significant exposure in Vietnam. The company utilized proceeds from the divestiture of several power projects to invest in the four wind power projects, which had been initially planned to start operation by October 2021. Due mainly to the pandemic, project construction failed to complete by the deadline to receive the offered feed-in tariff (FiT).

As the wind power projects represent almost the entirety of EP’s power portfolio, the lengthy delays in COD have severely impacted EP’s financial profile. EP has arrived at very low EBITDA and successively incurred negative funds from operations (FFO) over the past several years. The company’s earnings base is currently limited to the relatively small HL3 wind power project, a small group of solar rooftop projects, solar rooftop installation service, and its printing and packaging businesses.

Awaiting resolution on final tariff

We view EP as remaining highly susceptible to regulatory risks with respect to the pending final tariff resolution. The Ministry of Industry and Trade (MOIT) of Vietnam announced the tariff bracket in January 2023, which is lower than expected. The ceiling price for onshore wind power projects of VND1,587 per kilowatt-hour (kWh), or about US\$6 cents per kWh, is substantially lower than the initial offer of US\$8.5 cents per kWh. EVN and the project developers need to negotiate and agree on the tariffs and ensure that they do not exceed the promulgated bracket. During the tariff negotiation, projects that are ready for commencement operation can apply for MOIT's temporary mobilization scheme, whereby they will receive a temporary tariff equivalent to 50% of the ceiling price (VND793 per kWh) until a definitive tariff agreement is reached. All wind power projects of EP have applied for this scheme.

The absence of a clear tariff negotiation framework exacerbates the uncertainty of future cash flows and weakens the prospect of overall financial performance. Until a definitive tariff is determined, the company's earnings outlook will remain murky.

Financial turnaround hinges on wind power projects

The outlook of EP's earnings heavily relies on the financial performances of the wind power projects. Given the uncertain final tariff, EP will recognize electricity sales revenue to EVN at 90% of the ceiling price (or VND1,428 per kWh) until the tariff negotiation concludes. This is based on EP's applied accounting policies and the auditor's recommendation, which mean a 10% discount is conservatively applied. However, EP will receive payment from EVN only at VND793 per kWh for the time being, or 50% of the ceiling price. The remaining portion will be accumulated in the form of accrued revenue.

In our base case, we assume all necessary permits to be obtained by November 2024, enabling all projects to start operations by December 2024. We also assume the tariff negotiation will conclude in January 2026 and the final tariff be equal to the ceiling price, or VND1,587 per kWh. Thereafter, EP will change to recognize the electricity sales revenue at 100%. Notwithstanding EVN's unclear policy, we further assume that EP will receive compensation based on the official tariff from the commencement of power supply to the grid, meaning that EP will receive payment from EVN to settle all accrued revenue in 2026.

Based on these assumptions, we expect the credit metrics will remain weak in 2024 as we forecast revenue at THB879 million and EBITDA at THB236 million. We estimate FFO to remain very low with the debt to EBITDA ratio high at 17 times. Assuming the full-year operation of all wind power projects, the credit metrics could improve in 2025-2026, with forecast annual revenue of THB1.5-THB1.6 billion and estimated EBITDA of THB750-THB880 million per year. We project the debt to EBITDA ratio to improve to 4-6 times and the FFO to debt ratio to range between 11%-17%.

However, we emphasize that EP's net cash flow from operations will stay negative in 2024, before turning positive in 2025-2026. Furthermore, our assessment also considers the fact that the estimated EBITDA and FFO are higher than actual cash received during the tariff negotiation.

Uncertain earnings prospects

We maintain a "negative" outlook to reflect the ongoing uncertainties surrounding the projected earnings from the wind power projects. Delays in tariff resolution or project commencement remain potential risks that could significantly impede EP's earnings recovery. Furthermore, cash flow generation from the projects is susceptible to downside risks. For instance, the projects could eventually receive a tariff lower than the ceiling price after negotiation. Also, the scenario of EVN not paying the compensation or delaying such payment could be possible.

Additionally, the inherent operational challenges associated with wind power generation, such as equipment failures and fluctuating wind conditions, underscore the execution risks inherent in the project. The wind power projects in Vietnam could also encounter capacity reduction in case of the slow adding of substations and transmission lines. The long-term viability and profitability of EP's wind farms remain to be proven.

Limited contribution from printing and packaging businesses

EP's printing business benefits from a strong market position built on a diverse product range, a proven track record, and established customer relationships. Although the printing business appears to be downshifting, it remains profitable. To capitalize on growth opportunities, the company expanded into paper packaging to serve the increasing demand from e-commerce and food delivery sectors. While higher material costs compressed gross margins to 7% in 2023, a rebound to 14% was recorded in the first quarter of 2024 as material costs normalized.

However, the combined printing and packaging segments represent a relatively small and lower-growth component of EP's overall revenue and profitability. Despite strategic efforts to expand the packaging business, we anticipate the printing and packaging operations to be a minor contributor to EP's earnings over the long term.

High liquidity risk

As of March 2024, the company had cash and cash equivalent of merely THB159 million, while we forecast the company to have minimal cash flow from operations. On the other hand, EP had short-term and long-term debts coming due in the next 12 months, totaling THB3.1 billion. These include senior unsecured debentures totaling THB1.9 billion. Given this liquidity constraint, EP would likely need to refinance all its maturing debts.

EP has sought project loans for the wind power projects. The company was able to secure a project loan facility for HL3, whereby the loan amount is subject to the final tariff earned by the project. The lending bank agrees to finance up to 50% of project cost, or VND597,297 (approximately THB849 million). The loan drawdown is for now pending some conditions precedent. Currently, the project loan facility is available for partial drawdown up to VND358,756 million (or THB510 million). We expect the debentures due in September 2024 for THB570 million to be covered by the first drawdown of this loan facility. High refinancing risk persists if the remaining wind power projects do not commence operations as we expect.

Debt structure

EP has a concentrated debt structure, with debentures issuance contributing the major funding source. We view EP's tight liquidity situation could be alleviated by EP seeking long-term project loans for the wind farms, with repayment schedules matching the project cash flows.

At the end of March 2024, EP had consolidated debt of THB4.6 billion (excluding lease liabilities), most of which comprised unsecured debentures at the company level, with an outstanding amount of THB3.4 billion. The ratio of priority debt to total debt was 12.4%. However, the ratio could surge to over 50% if the wind farm project loans are secured.

BASE-CASE ASSUMPTIONS

The key assumptions underpinning our base case for 2024-2026 include:

- Revenue from printing and paper packaging businesses of about THB650 million per year, with a gross profit margin of around 13%.
- Solar rooftop projects to produce power yield with an average capacity factor of about 13%.
- Energy yield of Vietnam wind farms to reach P90 (the 90% probability level of energy production).
- Revenue from the power business to be around THB200 million in 2024, THB800 million in 2025, and THB1 billion in 2026.
- Total capital expenditure to add up to THB470 million.
- EP to obtain project finance loans for all its wind power projects in Vietnam.

RATING OUTLOOK

The "negative" outlook reflects continuing uncertainties surrounding the wind power projects, which constrain EP's earnings prospect. These include further delay in commercial operation, possible lower-than-expected tariff, and EVN's unclear policy for the payment of accrued electricity charges. We view EP's financial risk profile would worsen if the wind power projects endure further delays in achieving commercial operations or if cash generation falls significantly short of our base-case projection.

RATING SENSITIVITIES

The outlook could be revised to "stable" if EP's financial performance is in line with our expectation. That means wind power projects commence commercial operations as expected and the overall plant performance meets our forecast. Also, the tariff has to be finalized as anticipated, and accrued revenue collected accordingly. Given a negative outlook to the rating, we consider an upgrade unlikely in the near term.

We may consider a further downgrade if we see an increased likelihood of the continued weakening of cash generation. This could most likely occur from further delays in project commencement, underperformance of the wind power projects, a lower-than-expected tariff, or unsettlement of accrued revenue. In addition, EP's failure to manage refinancing of the maturing debentures could lead to a negative rating action.

COMPANY OVERVIEW

Formerly named Eastern Printing PLC (EPCO), EP was established in 1990 as a printing service provider. The company was listed on the Stock Exchange of Thailand (SET) in 1993. As of March 2024, Aqua Corporation PLC (AQUA) held around 41% of EP while the Chinsupakul Family, the company's founder, owned 23%. EP provides a full range of printing services for both domestic and foreign customers. EP prints newspapers, magazines, product manuals, educational books, calendars, and advertising materials. The company has transitioned to focus heavily on the power business to make up for the drop-off in

the printing business. In April 2020, the company changed its name from EPCO to EP. EP's shares were moved from the media and publishing sectors to the energy and utility sector on the SET.

EP's power business is carried out by its main subsidiary, Eternity Power PLC (ETP; rated "BB/Negative"). EP currently owns 81% of ETP. EP launched its two pilot solar farms, with a total capacity of 11 MW, in 2012. The company later expanded with solar power projects in Thailand, Japan, and Vietnam.

The company also invested in two cogeneration power companies, generating and selling electricity under the small power producer (SPP) scheme, through 25-year power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT) and long-term contracts with industrial users.

In 2018, EP spent a total of THB490 million to acquire a 100% share of WPS (Thailand) Ltd. (WPS), which helped expand the company's printing facilities. For the power business, EP invested in two solar farms in Vietnam, namely Xuan Tho 1 and Xuan Tho 2.

In late 2019, EP sold off the two solar farms in Vietnam after they commenced operation. In 2020, EP sold all operating solar farms from its portfolio. EP then invested in four wind farms in Vietnam, namely HL3, HL4, TN, and MN. The four wind farms were initially planned to commence operations by the end of October 2021. EP sold its investments in the cogeneration power plants and small solar farms in Japan in 2021. Currently, EP's power portfolio has an installed capacity of 167.7 MW.

KEY OPERATING PERFORMANCE

Table 1: Total Operating Revenue Breakdown

	2020	2021	2022	2023	Jan-Mar 2023	Jan-Mar 2024
Printing business	34%	54%	45%	37%	42%	35%
Packaging business	7%	34%	32%	34%	39%	30%
Power business	59%	12%	22%	29%	19%	35%
Total	100%	100%	100%	100%	100%	100%
Total revenue (mil. THB)	1,145	700	878	828	205	252

Source: EP

Table 2: Power Project Portfolio (End of Mar 2024)

Project	Plant Type	Held by EP (%)	Installed (MW)	Equity (MWe)	SCOD/COD
Operating			7.9	6.4	
Solar rooftop	Solar rooftop	81.4	1.5	1.2	2014-2015
Commercial rooftop	Solar rooftop	81.4	6.4	5.2	2019-2020
Constructing & developing			159.8	129.8	
HL3	Wind farm	81.2	28.8	23.4	Dec-23
HL4	Wind farm	81.2	32.0	26.0	Dec-24 *
TN	Wind farm	81.2	49.5	40.2	Dec-24 *
MN	Wind farm	81.3	49.5	40.2	Dec-24 *
Total portfolio			167.7	136.2	

SCOD = Scheduled commercial operation date

COD = Commercial operation date

* TRIS Rating's estimate

Source: EP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	254	833	895	713	1,168
Earnings before interest and taxes (EBIT)	1	(4)	12	139	320
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	40	63	91	(3)	333
Funds from operations (FFO)	(53)	(224)	(175)	(953)	(35)
Adjusted interest expense	73	279	262	355	282
Capital expenditures	11	118	1,289	4,873	483
Total assets	9,667	9,705	9,765	11,530	8,382
Adjusted debt	4,540	4,370	4,521	2,520	2,162
Adjusted equity	4,223	4,332	4,616	5,270	4,862
Adjusted Ratios					
EBITDA margin (%)	15.8	7.5	10.2	(0.4)	28.5
Pretax return on permanent capital (%)	0.1 **	0.0	0.1	1.5	3.3
EBITDA interest coverage (times)	0.6	0.2	0.3	(0.0)	1.2
Debt to EBITDA (times)	49.9 **	69.5	49.4	(982.0)	6.5
FFO to debt (%)	(4.7) **	(5.1)	(3.9)	(37.8)	(1.6)
Debt to capitalization (%)	51.8	50.2	49.5	32.3	30.8

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Eastern Power Group PLC (EP)

Company Rating:	BB
Rating Outlook:	Negative

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