

# EASTERN POWER GROUP PLC

No. 191/2018  
7 December 2018

## CORPORATES

**Company Rating:** BBB-

**Outlook:** Stable

### Last Review Date:

Date	Rating	Outlook/Alert
09/11/17	BBB	Stable

### Company Rating History:

Date	Rating	Outlook/Alert
30/11/16	BBB	Stable
01/12/15	BBB	Stable

### Contacts:

Narongchai Ponsirichusopol  
narongchai@trisrating.com

Auyporn Vachirakanjanaporn  
auyporn@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Monthian Chantarklam  
monthian@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating downgrades the company rating on Eastern Power Group PLC (EP) to “BBB-” from “BBB”. The downgrade reflects EP’s heightened leverage stemming from its massive investments. The deluge use of debt leads to additional strain on its financial resilience.

The rating continues to reflect the predictable cash flows from solar projects, and profits from investment in two small power producers (SPPs). However, these strengths are partially offset by EP’s short track record as a power producer, highly-leveraged capital structure, and higher execution risks from overseas expansion.

## KEY RATING CONSIDERATIONS

### Heavy debt loads weigh down the rating

The rating downgrade is primarily predicated on EP’s higher leverage from huge debt-funded investments. The company is developing and constructing five solar power projects: two solar farms in Vietnam and three solar farms in Japan. Once the projects are all in operation, EP’s aggregate equity capacity (or production capacity in proportion to its ownership stakes in the power projects) will edge up to 291 megawatts equity (MWe), from its current 205 MWe. The solar farms in Vietnam (64.5 MWe) are scheduled to commence operation by June 2019 while the Japan-based projects (21.5 MWe) are set for 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2019.

On a consolidated basis, EP will spend Bt5.1 billion in connection with these investments. The solar farm projects in Vietnam are considered a huge investment for the company, as they will make up nearly one-fourth of the company’s total assets.

On the downside, EP will raise a sizable debt of approximately Bt4.3 billion to support the construction of the five projects. Total debt would increase from Bt5.5 billion as of 2017 to a record Bt9.4 billion in 2019. Such massive investments will cause EP to remain saddled with debt over the next few years.

### Predictable cash flows from solar projects

The rating continues to reflect the predictable cash flows from EP’s solar power plants. EP has secured long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) and the Metropolitan Electricity Authority (MEA). The company also holds PPAs with reliable power buyers in Japan. The solar power plants have very low operational risks. The predictable cash flow is substantiated by the contractually committed tariff and the minimal payment risk of the power buyers.

Due to the long rainy season in Thailand, solar power performance in 2018 fell short of estimates. For the first nine months of 2018, revenue slightly dropped by 5% year-over-year (y-o-y). Earnings before interest, tax, depreciation, and amortization (EBITDA) declined by 3% y-o-y.

### Cogeneration power plants enhance profit

EP has invested in two cogeneration power companies, which help enhance its overall profit. EP holds 49.5% of PPTC Co., Ltd. (PPTC) and 40% stake in SSUT Co., Ltd. (SSUT). Both companies produce cogeneration power under the Small Power Producer (SPP) scheme, securing 25-year PPAs with the Electricity

Generating Authority of Thailand (EGAT) and long-term contracts with industrial users (IUs).

The profitable cogeneration power plants helped enhance EP's profit since 2017. For the first nine months of 2018, the two power plants performed well in line with TRIS Rating's expectation, led by improvements in efficiencies. In our base case, we expect share of profit from the cogeneration plants to gradually increase from Bt300 million to Bt400 million per year as SSUT secures additional IUs. We also expect EP to obtain dividends from the two projects from 2019 onwards, which will enhance the company's EBITDA. In our base case, EBITDA will range from Bt300-Bt600 million per year in 2018-2019, but will surpass Bt1.0 billion from 2020 onwards, assuming that all new projects commence operation as planned.

#### **Execution risks of forthcoming projects**

In our view, the investments in Vietnam carry relatively higher risks than the projects in Thailand and Japan. Despite benefits from expanding capacity, EP, in common with other power producers, is exposed to several risks, such as country risk, regulatory risk, challenging contract enforcement, delay of construction, changes in tariff, etc. Furthermore, the projects carry relatively higher counterparty risk by the state-run Electricity of Vietnam (EVN), which is the only authorized buyer of electricity in the country. Despite high potential, solar power in Vietnam is in its early stages. The track record of solar power of the country is relatively limited, compared with Thailand and Japan.

Currently, construction risk is very challenging. The Vietnamese government has demonstrated support for developing renewable energy by offering a fixed feed-in-tariff (FiT) of US9.35 cent per kilowatt-hour (kWh). However, this initial FiT will apply to projects that achieve commercial operation by June 2019. Delays in construction would jeopardize the viability of the projects. The government's policy on solar prices for projects starting after the deadline is uncertain. However, the construction risk is partially alleviated by the terms of the Engineering Procurement and Construction (EPC) contracts and bonds. In case of delay commissioning caused by the EPC contractors, EP is not obliged to make its final EPC payments.

#### **Debt-heavy capital structure**

EP's leverage is higher than our previous forecast as the company opts to grow overseas at the expense of ever-mounting debt. On a consolidated basis, EP will spend around Bt793 million in 2018, followed by a hefty Bt4.3 billion in 2019 for the overseas projects EP is developing. In our base case, total debt would edge up steeply to Bt9.4 billion in 2019, steadily increasing from Bt5.5 billion as of 2017 and Bt6.0 billion as of September 2018. The ratio of debt to capitalization stood at 72.4% as of 2017. The ratio would remain at around 70% in 2018, before gradually declining.

The deluge of debt financing will put additional strain on the company's resilience against unexpected adverse circumstances. Moreover, we expect EP's financial cost would rise in the wake of the elevated debt and potential rise in interest rate. In our forecast, funds from operations (FFO) to debt ratio would stay in the range of 2%-8% in the next few years, which is considered relatively low.

#### **Mismatch funding for long-term projects**

There is an evidence of mismatch funding. Some of EP's Japan-based solar farm projects are funded by bank loans with bullet payments at maturity of up to three and a half years. The tenors of loans do not match the long-term projects as EP is obliged to make a large repayment in 2021. Given the current debt profile, EP has repayment obligations, including bonds, of Bt0.8-Bt1.0 billion in 2019-2020 and nearly Bt2.0 billion in 2021. Meanwhile, FFO is expected at Bt200-Bt600 million per year during 2019-2021. We expect that the company would prudently manage liquidity during the build-up phase.

#### **RATING OUTLOOK**

The "stable" outlook reflects the expectation that EP will successfully execute the power projects under construction such that the new power plants will commence their operations as planned and perform well in line with expectations. In addition, we expect that EP's capital expenditure would not deteriorate significantly from the current level. We expect the company to prudently manage liquidity as well.

#### **RATING SENSITIVITIES**

A rating upgrade is unlikely in the near term but it could occur if EP substantially strengthens its capital structure or its power plants outperform their guidance. Conversely, a rating downgrade could develop if EP's operating performance undershoots estimates, if EP continues to invest with deluge use of debt, or if it fails to execute new projects as planned.

Based on TRIS Rating's Group Rating Methodology, EP's credit rating will move in tandem with the rating of its parent, Eastern Printing PLC (EPCO; rated "BBB-/Stable"). Any change in EPCO's credit rating and/or outlook will affect EP's credit profile accordingly.

**COMPANY OVERVIEW**

EP was established in 2010 as a renewable energy company. In 2012, the company became a subsidiary of EPCO, a leading provider of printing services in Thailand, after EPCO acquired EP from Inter Far East Engineering PLC (IFEC). Based upon its sizable contribution to EPCO and the promising prospects for solar power, EP is considered a core subsidiary of EPCO.

In January 2016, the company changed its legal status to a public company and changed its name from “BorPloi Solar Co., Ltd.” to “Eastern Power Group PLC”. In 2016, EP increased its capital through private placement and received Bt750 million in new funds in a bid to support the acquisitions of two cogeneration power companies. As of September 2018, EPCO remained the major shareholder of EP, with 75% ownership.

In 2012, EP launched two pilot solar farm projects in Kanchanaburi Province, with a total contracted capacity of 10 megawatts (MW). The two projects commenced operations in mid-October 2012. In 2013, EP added a solar farm project in Lopburi Province, with a contracted capacity of five MW. The project has been operational since February 2014. During 2014-2015, the company invested in eight solar rooftop projects in Bangkok and Samutprakan Province, with aggregate contracted capacity of 1.5 MW. EP later expanded to solar power projects outside Thailand, as well as cogeneration power.

**Table 1: Power Project Portfolio**

Project	Plant Type	Held by EP (%)	Installed (MW)	Equity (MWe)	SCOD
<b>OPERATING</b>			<b>412.6</b>	<b>204.9</b>	
JKR	Solar Farm	100	5.5	5.5	Oct-13
RVP	Solar Farm	100	5.5	5.5	Oct-13
LOPBURI	Solar Farm	100	6.0	6.0	Feb-14
PS	Solar Farm	48	5.0	2.4	Dec-16
Solar rooftop	Solar Rooftop	100	1.5	1.5	Sep-14
KYOTEMBA	Solar Farm	98	12.0	11.8	Nov-16
KURIHARA1	Solar Farm	98	11.7	11.4	Oct-18
Commercial rooftop	Solar Rooftop	100	5.4	5.4	2018-2019
PPTC	CCGT <sup>(1)</sup>	50	120.0	59.4	Mar-16
SSUT	CCGT <sup>(1)</sup>	40	240.0	96.0	Dec-16
<b>CONSTRUCTING &amp; DEVELOPING</b>			<b>121.2</b>	<b>86.0</b>	
Solar Vietnam	Solar Farm	65	99.2	64.5	Jun-19
KURIHARA2	Solar Farm	98	17.6	17.2	2019
SHICHI KACHUKU1, 2	Solar Farm	98	4.4	4.3	2019
<b>Total Portfolio</b>			<b>533.8</b>	<b>290.9</b>	

Remark: <sup>(1)</sup> Combined cycle gas turbine

Source: EP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	407	501	353	371	227
Operating income	264	333	247	312	195
Earnings before interest and taxes (EBIT)	402	395	165	244	153
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	266	335	248	312	195
Funds from operations (FFO)	79	126	154	262	161
Adjusted interest expense	186	200	94	50	34
Capital expenditures	526	878	1,093	255	13
Total assets	8,375	7,629	5,735	1,972	960
Adjusted debt	5,700	5,180	2,452	1,078	560
Adjusted equity	2,206	1,970	1,681	731	275
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	64.90	66.43	69.99	84.15	86.00
Pretax return on permanent capital (%)	6.65	6.05	4.40	17.64	16.65
EBITDA interest coverage (times)	1.43	1.68	2.64	6.28	5.67
Debt to EBITDA (times)	17.38	15.46	9.90	3.46	2.87
FFO to debt (%)	1.25	2.43	6.26	24.33	28.69
Debt to capitalization (%)	72.10	72.44	59.33	59.60	67.05

**RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

**Eastern Power Group PLC (EP)**

<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)