

ETERNITY POWER PLC

No. 143/2024
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 Eternity Power PLC (ETP) to “BB” from “BB+” and maintains a “negative” outlook. This follows the downward revision of the company rating on Eastern Power Group PLC (EP), its parent company, to “BB/Negative” from “BB+/Negative” on 14 August 2024.

The company rating on ETP is equal to that on EP as we assess ETP to be a “core subsidiary” of EP. At the same time, we also downgrade ETP’s stand-alone credit profile (SACP) to “bb” from “bb+”.

The downgrade reflects the prolonged delays in the commencement of operations of ETP’s wind power projects in Vietnam, which have resulted in sustained weakness in cash generation and tightening liquidity.

The “negative” outlook follows the rating outlook of the parent, which reflects the uncertainties associated with the wind power projects, including the likelihood of further delay in commencement of commercial operation, and unsettled tariff.

The SACP reflects the prospect of ETP’s earnings from the wind power projects once they become operational. However, the SACP is constrained by its weak financial profile, as well as its exposure to regulatory risks and execution risks with respect to its wind power projects.

KEY RATING CONSIDERATIONS

Core subsidiary of EP

We consider ETP to be a core subsidiary of its parent company, EP, based on its important role and substantial earnings contribution. ETP is a power business arm of the group, supporting the group’s strategies to expand in the power business. In our forecast, ETP is projected to contribute about 90% of the group’s EBITDA. We anticipate a very high likelihood of ETP receiving extraordinary support from the parent in times of distress. Therefore, the company rating on ETP is equal to that on its parent.

Prolonged delays in commercial operation of wind power projects

The downgrade of the rating on ETP follows the same rating action on EP. The downgrade comes after the lengthy delays of ETP’s four wind power projects in Vietnam in achieving commercial operation. ETP’s total wind power project capacity is 159 megawatts (MW) when measured in proportion to ETP’s equity stakes in the projects. The four projects represent around 95% of ETP’s total power capacity. Therefore, ETP’s cash generation is highly reliant on these projects. In our previous assessment, we projected the commercial operation of all four wind farms to commence by the end of 2023. However, only the Huong Linh 3 (HL3) project, with an installed capacity of 28.8 MW, achieved a formal commercial operation date (COD) on 30 December 2023, and started selling electricity from February 2024 onwards.

Meanwhile, the remaining projects, Huong Linh 4 (HL4), Che Bien Tay Nguyen (TN), and Phat Trien Mien Nui (MN), have encountered lengthy procedural delays. The projects have not obtained the necessary licenses and permits, particularly the electricity operation license. The company has not sent the dossier of recognition of COD to Vietnam Electricity (EVN), the state power buyer.

Cash generation remains weak

ETP has significant exposure in Vietnam. The company divested several power projects to invest in the four wind power projects, which had been initially planned to start operation by October 2021. Due in large part to the pandemic, project construction failed to complete by the deadline to receive the offered feed-in tariff (FIT).

The continued postponement of commercial operations for the remaining three wind projects has materially impacted ETP's financial performance. This is because these projects represent almost the entirety of ETP's power portfolio. The company has arrived at very low EBITDA and consistently incurred negative funds from operations (FFO) over the past several years. ETP's revenue base is currently limited to the relatively small HL3 wind power project, a small group of solar rooftop projects, and solar rooftop installation service.

Pending resolution on final tariff

We view ETP to remain highly exposed 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 to commence 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 ETP have applied for this scheme.

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

Financial recovery depends on wind power projects

ETP's financial recovery depends substantially on the financial performances of the wind power projects. Given the uncertain final tariff, ETP 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 ETP's applied accounting policies and the auditor's recommendation, which mean a 10% discount is conservatively applied. However, ETP 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 will be equal to the ceiling price, or VND1,587 per kWh. Thereafter, ETP will change to recognize the electricity sales revenue at 100%. Notwithstanding EVN's unclear policy, we further assume that ETP will receive compensation based on the official tariff from the commencement of the power supply to the grid, meaning that ETP 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. We forecast revenue to be about THB200 million and EBITDA to be THB170 million in 2024. The debt to EBITDA ratio is projected to be high at around 20 times while FFO will remain negative. Assuming the full-year operation of all wind power projects, the credit metrics could improve in 2025-2026, with a forecast annual revenue of THB0.8-THB1 billion and estimated EBITDA of THB680-THB810 million per year. We project the debt to EBITDA ratio to improve to 4-6 times while the FFO to debt ratio will range between 12%-18%.

However, we emphasize that ETP'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.

Fragile earnings prospect

We maintain a "negative" outlook on the rating on ETP, reflecting the same outlook on the rating on EP. The outlook reflects the ongoing uncertainties surrounding the forecast earnings from the wind power projects. Delays in tariff resolution or project commencement remain potential risks that could significantly impede ETP's earnings recovery. The cash generation of the projects is also susceptible to downside risks. For instance, the projects could eventually receive tariff lower than the ceiling price after negotiation. Also, the scenario of EVN not paying the compensation or delaying such payment remains 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 encounter capacity reduction in case of the slow adding of substations and transmission lines. The long-term viability and profitability of ETP's wind farms remain to be proven.

Constrained liquidity

As of March 2024, the company had cash and cash equivalent of THB152 million, while we forecast the company to have deficit cash flow from operations. However, ETP had short-term and long-term debts coming due in the next 12 months, totaling THB3.4 billion. We assess ETP will likely need to refinance all its maturing debts.

ETP 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 for up to 50% of project cost, or VND597,297 (around 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 view ETP's tight liquidity situation to possibly be alleviated by ETP seeking long-term project loans for the wind farms, with repayment schedules matching the project cash flows.

Debt structure

At the end of March 2024, ETP had consolidated debt of THB3.4 billion (excluding lease liabilities), most of which were loans from the parent at the company level. The ratio of priority debt to total debt was about 3%. 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:

- 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 to be around THB200 million in 2024, THB800 million in 2025, and THB1 billion in 2026.
- Total capital expenditure to add up to THB440 million.
- ETP to obtain project finance loans for all its wind power projects in Vietnam.

RATING OUTLOOK

The "negative" outlook follows the rating outlook on EP. The outlook reflects uncertainties surrounding the wind power projects, which constrain the group's earnings prospects. These include the risk of further delay in commercial operation, possible lower-than-expected tariff, and EVN's unclear policy for the payment of accrued electricity charges. We view the group's financial risk profile as worsening 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

Based on TRIS Rating's "Group Rating Methodology", the rating on ETP will move in tandem with the rating on its parent company, EP. Any change in the rating and/or outlook on EP will affect the rating and/or outlook on ETP accordingly.

We could consider revising the outlook to "stable" if the group's financial performance is in line with our expectation. That means wind power projects commencing commercial operations as expected and the overall plant performance meet our forecast. Moreover, the tariff has to be finalized as anticipated, and accrued revenue is collected accordingly.

An upgrade of SACP is unlikely in the near term. Conversely, we could revise downward the SACP if we see an increased possibility of continued weak 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, we could take a negative action if we see signs of imprudent liquidity management.

COMPANY OVERVIEW

Incorporated in 2010 under the name BorPloi Solar Co., Ltd., ETP is a renewable power subsidiary of EP, which was formerly known as Eastern Printing PLC (EPCO). The company later changed its legal status to a public company and changed its name from BorPloi Solar Co., Ltd. to Eastern Power Group PLC.

In April 2020, it was renamed Eternity Power PLC (ETP). At the same time, EPCO was renamed Eastern Power Group PLC, the former name of ETP.

Currently, EP is the major shareholder of ETP with an 81.4% ownership. Based upon its sizable contributions to EP and the promising prospects for renewable power, ETP is considered a core subsidiary of EP.

ETP 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, ETP invested in two solar farms in Vietnam, Xuan Tho 1 and Xuan Tho 2. In effect, ETP owned four solar farms in Thailand, five in Japan, two in Vietnam, and a cluster of solar rooftop power plants in Thailand. In total, ETP's capacity measured in proportion to its ownership was 296 MW.

In late 2019, ETP sold off the two solar farms in Vietnam after they commenced operation. In 2020, ETP sold all operating solar farms from its portfolio. ETP then invested in four wind farms in Vietnam, namely Huong Linh 3 (HL3), Huong Linh 4 (HL4), Che Bien Tay Nguyen (TN), and Phat Trien Mien Nui (MN). The four wind farms were initially planned to commence operations by the end of October 2021.

In 2021, ETP sold its investments in three cogeneration power plants and small solar farms in Japan. Currently, ETP's power portfolio has a total installed capacity of 167.7 MW.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (End of Mar 2024)

Project	Plant Type	Held by ETP (%)	Installed (MW)	Equity (MWe)	SCOD/ COD
Operating			7.9	7.9	
Solar rooftop	Solar rooftop	99.9	1.5	1.5	2014-2015
Commercial rooftop	Solar rooftop	99.9	6.4	6.4	2019-2020
Constructing & developing			159.8	159.4	
HL3	Wind farm	99.8	28.8	28.7	Dec-23
HL4	Wind farm	99.8	32.0	31.9	Dec-24 *
TN	Wind farm	99.8	49.5	49.4	Dec-24 *
MN	Wind farm	99.9	49.5	49.4	Dec-24 *
Total portfolio			167.7	167.3	

SCOD = Scheduled commercial operation date

COD = Commercial operation date

* TRIS Rating's estimates

Source: ETP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	89	242	201	86	707
Earnings before interest and taxes (EBIT)	(8)	10	(15)	120	467
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16	25	(0)	(90)	412
Funds from operations (FFO)	(61)	(207)	(156)	(985)	64
Adjusted interest expense	56	226	147	330	273
Capital expenditures	11	105	1,256	4,777	430
Total assets	8,578	8,624	8,554	7,665	7,031
Adjusted debt	3,430	3,257	3,407	1,589	1,922
Adjusted equity	4,345	4,445	4,673	5,012	3,934
Adjusted Ratios					
EBITDA margin (%)	18.2	10.2	(0.2)	(105.4)	58.3
Pretax return on permanent capital (%)	0.1 **	0.1	(0.2)	1.8	5.8
EBITDA interest coverage (times)	0.3	0.1	(0.0)	(0.3)	1.5
Debt to EBITDA (times)	82.6 **	132.3	(8,539.4)	(17.6)	4.7
FFO to debt (%)	(6.2) **	(6.4)	(4.6)	(62.0)	3.3
Debt to capitalization (%)	44.1	42.3	42.2	24.1	32.8

* 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

Eternity Power PLC (ETP)

Company Rating:	BB
Rating Outlook:	Negative

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