SUPER ENERGY CORPORATION PLC

No. 206/2020
4 December 2020

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 06/12/19

Company Rating History:

Date	Rating	Outlook/Alert
06/12/19	BBB-	Positive
03/01/18	BBB-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Super Energy Corporation PLC (SUPER) to "BBB" from "BBB-". At the same time, TRIS Rating revises the rating outlook on SUPER to "stable" from "positive". The rating upgrade reflects a steady increase in SUPER's operating cash flow, supported by its large and diverse portfolio of power-generating assets. The upgrade also incorporates the successful development of its sizable overseas investments.

The rating mirrors the predictable cash flows from SUPER's power-generating assets, underpinned by long-term power purchase agreements (PPAs). On the other hand, the rating is constrained by the company's growth strategy which will likely push up its financial leverage over the next few years and the associated risks of large-scale power projects under development in Vietnam.

KEY RATING CONSIDERATIONS

Operating cash flow on uptrend

We expect SUPER to continue to grow in the years ahead. Our base-case forecast projects its total operating revenues to reach THB13 billion and earnings before interest, taxes, depreciation, and amortization (EBITDA) to rise to about THB11 billion in 2023. The steady growth in revenue and earnings has resulted from the completion of several renewable power projects, mostly solar power plants, in Thailand and Vietnam.

Currently, SUPER has a large and diverse portfolio of power generation assets, comprising more than 100 operating power plants. SUPER has secured an aggregate contracted capacity of 868 megawatts (MW). Solar power plants are the centerpiece of SUPER's power-generating assets (850 MW). We expect SUPER's total contracted capacity will leap to 2,000 MW in the next three years.

Successful development of large-scale solar farms in Vietnam

SUPER managed to complete the development of large-scale solar power projects in Vietnam, despite the tight deadline. The company currently owns and operates six solar farms in Vietnam, with a combined capacity of 287 MW.

Some of SUPER's projects in Binh Thuan and Ninh Thuan provinces in Vietnam have been affected by the overcapacity of the nation's power grid. The Vietnamese government has been enhancing grid capacity to absorb growing power production, causing the curtailment of electricity supply during the upgrade. However, the average actual output of the company's solar power plants in Vietnam has reached the 90% probability level of energy production (P90) since inception, beating our previous estimates. Looking ahead, we expect SUPER's solar farms to deliver better results as the infrastructure in Vietnam has been improving.

Predictable cash flows

SUPER's power plants have generated predictable cash flows over the past few years, supported by the long-term PPAs and low operational risks of the solar power plants. All of the company's power plants have multi-year PPAs with state-owned producers and distributors of electricity in both Thailand and Vietnam. The counterparty risk of power buyers in Thailand is low, while that in Vietnam is comparatively higher.

SUPER's strength is its proven record in managing multiple solar power plants. In all, SUPER's solar farms have consistently performed at high efficiency. Since inception, the actual annual outputs of most of the company's solar power plants have reached initial estimates, based on the P75 level of energy production which is a satisfactory level. Thanks to its efficient cost control, the company's EBITDA margin (EBITDA as a percentage of revenues) has remained at high levels in the range of 80%-90% over the past three years.

We expect SUPER's power plants to continue to deliver satisfactory performances over the next three years. The company's EBITDA margin should remain high at 80%-90%, supported in large part by enhanced economies of scale. In our base case forecast, its EBITDA is projected to grow to THB11 billion in 2023, from THB6 billion in 2020. Funds from operations (FFO) should reach THB8 billion in 2023, from THB4 billion in 2020.

Risks of large-scale power projects under development

The rating is held back by the execution risks associated with several large-scale projects in Vietnam. Currently, SUPER is constructing three new solar power projects, "Loc Ninh 1-3", with a combined capacity of 550 MW. The projects are scheduled to commence operations by the end of this year. Despite the challenging timeline, we believe SUPER will be able to get the projects onstream in time and obtain the agreed feed-in-tariff (FiT), considering the company's track record.

In addition to solar power, SUPER has an array of wind power projects in Vietnam in the pipeline. It plans to add 421 MW of capacity from four wind power projects, which are slated to start commercial run in the last quarter of 2021 in order to secure the tariff rates. Compared with solar power projects, wind power projects entail higher construction risks due to the complexity of technology and plant designs. Installation difficulties with the key components can lead to cost overruns or project delays. Although partly mitigated by the terms of contract with the engineering, procurement, and construction (EPC) contractor, the construction risks of SUPER's wind power projects remain, due to the tight timeline to meet the FiT long stop date.

Substantial exposure in Vietnam

Solar and wind power projects in Vietnam will be the key growth engines for SUPER over the next three years. When fully onstream, the power projects in Vietnam will make up about two-thirds of SUPER's total production capacity, meaning the company has substantial exposure to the country. Despite fast-growing demand for electricity and the government's supportive measures, power projects in Vietnam carry several risks, including changes in regulations, contract enforcement, insufficient infrastructure, and construction delays. In addition, the counterparty risk is noticeably higher. We view the credit profile of the state-run Vietnam Electricity (EVN) as not being strong as the Thai state-owned power buyers.

Growth strategy continues

The rapid expansion will challenge the company in maintaining satisfactory performance. Apart from solar and wind power, the company aims to enlarge its waste-to-energy (WTE) portfolio, adding at least 22 MW with two new projects. WTE generally carries higher operational risks than solar and wind power plants, due mainly to environmental issues and uncertainties in feedstock supply and volatile prices.

SUPER has also recently moved into a new area of business, acquiring a 100% stake in Super Water Co., Ltd., which holds a concession to sell raw and tap water. However, we expect the water production and distribution business will remain small in the coming years.

Heightening financial leverage

SUPER's high growth should raise financial leverage. We forecast its total investment to be about THB44 billion over the next three years. However, the EPC contractor financing for the projects in Vietnam will help keep its capital structure and cash flow against debt at acceptable levels. SUPER will pay most of the construction costs after the projects in Vietnam are operational. In our forecast, the debt to capitalization ratio is projected to be 65%-75% over the next three years, compared with 65.3% as of September 2020. The ratio of debt to EBITDA should range between 6-7 times and the ratio of FFO to debt should stay above 11% during 2021-2023.

We view the establishment of Super Energy Power Plant Infrastructure Fund (SUPEREIF) as having helped enhance SUPER's financial flexibility and investment capability. Last year, SUPER sold a pool of its solar power projects (118 MW) to the fund and received a large amount of cash. Infrastructure funds, as a financing option, will help the company manage debt load and expand its capacity for future investments. SUPER's currently large operating power capacity enables the company to set up another infrastructure fund as an alternative funding option to support business expansion.

Liquidity stays manageable

Over the next 12 months, we expect SUPER will arrive at about THB4.5 billion in FFO while it has almost THB2.9 billion in long-term loans and bonds coming due. As of September 2020, SUPER had a huge amount of short-term bank loans of THB7.4 billion, most of which are expected to turn to long-term project loans. At the same time, the company had undrawn credit facilities, and cash and marketable securities of THB0.8 billion, as additional sources of liquidity. Based on the above assessment, we expect SUPER will be able to manage its liquidity adequately over the next 12 months.

SUPER and its subsidiaries have financial covenants on their bank loans and debentures. SUPER is required to maintain a debt service coverage ratio above 1.2 times and keep the interest-bearing debt to equity ratio below 3 times. Its subsidiaries are required to maintain a debt service coverage ratio above 1-1.2 times and keep the interest-bearing debt to equity ratio below 2-3 times. In this regard, TRIS Rating views that SUPER and its subsidiaries should continue to comply with the respective financial covenants.

BASE-CASE ASSUMPTIONS

- Aggregate capacity of operating power plants to reach 2,000 MW in the next three years.
- Total operating revenue to reach THB13 billion.
- EBITDA margin to range between 80%-90%.
- Capital expenditures to total about THB44 billion.
- EPC contractors to provide long credit terms for project construction in Vietnam.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that SUPER's operating power plants will continue to deliver satisfactory performances and generate sizable and steady cash flows. In addition, we expect the company to develop the projects in the pipeline as planned and manage its financial leverage in line with our forecast.

RATING SENSITIVITIES

A rating upgrade could occur if the company's cash flows against debt and capital structure improve significantly. In contrast, the rating could be lowered if the performances of the power projects fall materially short of expectation. A downward rating pressure could also develop if its capital structure weakens significantly, which could be a result of deterioration in cash flow generation, excessive debt-funded investments, or project cost overruns.

COMPANY OVERVIEW

SUPER was founded as a producer of Autoclaved Aerated Concrete in 1994 and listed on the Stock Exchange of Thailand (SET) in 2005. The company discontinued the original business and sold it to Siam City Cement PLC (SCCC) in 2013. SUPER then began two new businesses: information and communication technology (ICT) and renewable energy. SUPER entered the water production and distribution business in 2019. Currently, the power segment is the centerpiece of the company, accounting for nearly all revenues. As of September 2020, the Lochaya Group remained the major shareholder, holding a 39.5% interest in SUPER.

Currently, SUPER's aggregate contracted capacity, spread across all the operating power projects, is 868 MW. This includes solar power projects (850 MW) and WTE projects (18 MW). SUPER holds the largest capacity among the solar power producers rated by TRIS Rating.

All power plants have multi-year PPAs with state-owned producers and distributors of electricity, namely the Electricity Generating Authority of Thailand (EGAT), rated "AAA/Stable" by TRIS Rating, the Metropolitan Electricity Authority (MEA), the Provincial Electricity Authority (PEA), rated "AAA/Stable" by TRIS Rating, and Vietnam Electricity (EVN).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

	2016	2017	2018	2019	Jan-Sep 2020
Power	97%	98%	98%	97%	95%
IT	2%	2%	2%	1%	1%
Water	-	-	-	1%	3%
Others	0%	-	-	1%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total revenue (mil. THB)	**3,612**	**5,510**	**5,729**	**6,246**	**4,928**

Source: SUPER

Table 2: Operating Power Project Portfolio

Scheme	Tariff (THB/kWh)	Gross Contracted Capacity (MW)
Solar		
Adder	6.50	5.95
Adder	8.00	7.00
FiT	5.66	491.70
FiT	5.377	30.95
FiT	4.120	28.00
FiT	US9.35 cent	286.72
Subtotal - Solar		**850.32**
Waste		
Adder	3.50	18.00
Subtotal - Waste		**18.00**
Grand total		**868.32**

Note: excluding the capacities sold to SUPEREIF
Source: SUPER

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	------------- Year Ended 31 December ------------ 2019	2018	2017	2016
Total operating revenues	5,102	6,376	5,778	5,584	3,626
Earnings before interest and taxes (EBIT)	2,796	2,895 **	2,762	3,027	1,739
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,842	5,067 **	5,090	5,101	3,133
Funds from operations (FFO)	3,572	3,256 **	3,602	3,586	1,917
Adjusted interest expense	1,228	1,528	1,481	1,492	1,233
Capital expenditures	8,165	2,435	2,152	4,658	16,526
Total assets	61,801	55,706	49,650	46,871	48,025
Adjusted debt	37,347	27,822	28,195	27,948	28,171
Adjusted equity	19,862	18,858	17,555	16,223	14,696
Adjusted Ratios					
EBITDA Margin (%)	94.90	79.48	88.09	91.34	86.40
Pretax return on permanent capital (%)	6.39 ***	5.88	5.86	6.79	4.83
EBITDA interest coverage (times)	3.94	3.32	3.44	3.42	2.54
Debt to EBITDA (times)	6.18 ***	5.49	5.54	5.48	8.99
FFO to debt (%)	11.94 ***	11.70	12.78	12.83	6.80
Debt to capitalization (%)	65.28	59.60	61.63	63.27	65.72

* *Consolidated financial statements*
** *Excluding the gains on the sale of assets to SUPEREIF*
*** *Adjusted with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Super Energy Corporation PLC (SUPER)

Company Rating:	BBB
Rating Outlook:	Stable

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