TRIS RATING
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THAI SOLAR ENERGY PLC

No. 133/2024
1 August 2024

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 29/09/23

Company Rating History:

Date	Rating	Outlook/Alert
30/09/20	BBB-	Stable
26/09/19	BBB	Negative
08/02/16	BBB	Stable

RATIONALE

TRIS Rating upgrades the company rating on Thai Solar Energy PLC (TSE) to "BBB" from "BBB-" with a "stable" rating outlook. The upgrade reflects TSE's substantial deleveraging and ease of concentrated risk exposure, following the divestiture of the Onikoube project. The rating upgrade also incorporates our anticipation of moderate financial leverage as capital spending is expected to be moderate over the next two to three years.

The rating continues to reflect the reliable cash flows from the company's renewable power portfolio and the consistent performance of its operating power plants. Conversely, the rating is hindered by shrinking cash flows due to the expiring adder benefits of its core projects and constraints on growth potential resulting from challenges in acquiring new Power Purchase Agreements (PPAs) in Thailand.

KEY RATING CONSIDERATIONS

Significant deleveraging after Onikoube divestiture

The divestiture of the Onikoube project, TSE's single large-scale solar farm in Japan, has resulted in significant deleveraging and improved capital structure. TSE's adjusted debt fell remarkably to THB6.2 billion at the end of March 2024, from THB 14.4 billion at the end of 2022. Over the same period, the debt to capitalization ratio dropped to 55.9% from 68.2%. The debt to EBITDA ratio declined to around 4 times (annualized with trailing 12 months), plunging from 8-9 times throughout project development. We view TSE's debt as potentially being further reduced as the company intends to use the THB3.4 billion in proceeds received from the project sale to mainly prepay debt obligations.

We view the divestment as not only resulting in significant deleveraging but also eliminating the risks of highly concentrated investment exposure and potential project underperformance. Impacted by low plant efficiency and Japanese yen depreciation, there existed the possibility the project would have persistently constrained TSE's financial performance if the company had opted to carry on.

TSE decided to sell off the project in December 2023 and recognized one-time impairments. The project was the main cause behind TSE's significantly deteriorating financial profile, leaving the company with a debt-heavy capital structure with no corresponding incremental cash generation over the past years.

Solar portfolio remains a core earnings source

TSE's credit strength remains underpinned by reliable cash generation from its renewable power portfolio. The consistent and predictable cash inflows are supported by multi-year PPAs with reputable utility off-takers. TSE's solar power plants have low operational risks with their steady operation. The strong cash flow is also supported by the reliable performance of TSE's biomass power plants.

Currently, TSE's power portfolio has an installed capacity of 312.2 megawatts (MW), of which 183.3 MW, or 59% of the total installed capacity, is operational. Solar power constitutes about 92% of the total installed capacity, while biomass power accounts for around 8%.

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Annual EBITDA base to decline

TSE's cash flow generation is declining due to the phase-out of adder benefits for Thai Solar Renewable Co., Ltd. (TSR), starting from the second half of 2023 to the first half of 2024. TSR, a joint venture between TSE and Global Power Synergy PLC (GPSC), operates 10 solar farm projects with a total capacity of 104.8 MW and receives a 10-year adder of THB6.5 per kilowatt-hour (kWh). We note that TSE holds a 60% equity interest in TSR. In assessing TSE's financial leverage and earnings, we include the respective assets, liabilities, and financial performance of TSR in TSE's consolidated accounts, proportionate to TSE's equity stake in TSR. TSE will face another cash flow reduction in 2026 when the THB0.3 per kWh tariff premium for its biomass power plants ends.

As a result, we forecast TSE to arrive at THB1.0 billion in EBITDA for 2024 before declining to a new base of THB700-THB800 million during 2025-2026. EBITDA contributions from solar power projects will be about 60%-65% of the total, with half of this contributed by the TSR projects. The biomass projects are expected to contribute around 35%-40%. We assess TSE's smaller cash generation as meaning less investment capability, as well as less resilience to heavy debt load and unforeseen financial difficulties.

Consistent plant performance supportive of rating factor

The consistent and predictable performance of TSE's power plants will continue to support steady cash inflows and thus TSE's long-term credit profile. The operations of its existing power projects remain in line with our projections. In the first quarter of 2024, TSE generated a total power output of 104 gigawatt-hours (GWh), similar to the same period last year.

We forecast total output to remain flat in 2024, with a slight increase during 2025-2026, driven by efficiency improvements from replacing solar panels in TSR projects and the intention to build private PPAs, targeting the addition of 5 MW in new capacity per year. We expect the company's power output to be 410 GWh in 2024, escalating by 1%-2% per year thereafter.

TSE's business prospects remain constrained by a lack of new projects supporting near-term EBITDA growth. Although TSE successfully acquired new PPAs totaling 88.7 MW from the state 5.2-GW renewable power scheme, all of these projects are scheduled to start commercial operation in 2030. Hence, we do not include them in our base-case forecast for 2024-2026.

More challenging Thai renewables market

TSE's restoration of its earnings base is likely to rely heavily on securing new PPAs. The company's growth strategy focuses on the renewable power segment, targeting the acquisition of about 200 MW in new contracted capacity. Potential projects include new solar projects from the government's new round of bidding, solar private PPAs, waste-to-energy projects, and acquisitions of other operating solar farms.

We view TSE's growth plan as facing several challenges, including intensified competition, a dearth of high-profit projects, and uncertainties surrounding government policies and the bidding timeline. Acquisitions of operating renewable energy projects generally yield lower returns compared to developing greenfield projects. The delay of bidding for government projects and the uncertain number of PPAs TSE will be able to secure will likely continue constraining the company's growth plan over the next few years.

Financial leverage to remain moderate

In our base-case scenario, we forecast TSE's financial leverage to remain moderate as we do not foresee huge capital spending over the next 2-3 years. We assume annual capital spending will be about THB250 million, allocated for planned maintenance, solar panel replacements, and new private PPAs for 5 MW per year. We project TSE's debt to EBITDA ratio to consistently remain at 4 times during 2024-2026, with a debt to capitalization ratio of 45%-50%. We also forecast the funds from operation (FFO) to debt ratio to range between 15%-20%.

Refinancing risk for maturing debentures

We assess TSE's liquidity without proportionate consolidation of TSR. We view TSE's cash flows as sufficient for bank loan payments and capital expenditures. However, we expect TSE will need to refinance most of its outstanding debentures coming due in the next 12 months. The refinancing risk from TSE's debentures of THB 1.18 billion maturing in October 2024 are expected to be covered by THB0.69 billion of the remaining proceeds from the sale of the Onikoube project, which was received in the second quarter of 2024, and new bank loans of around THB0.7-0.75 billion.

Meanwhile, we view that TSE will need to issue new debentures to refinance THB 1.2 billion debentures due in February 2025. This means the company is exposed to some degree of refinancing risk given the tightening capital market condition. We expect TSE to prudently manage the refinancing risk.

Debt structure

At the end of March 2024, TSE's total debt, excluding lease liability, as reported in its financial statement was THB5.57 billion. The debt included about THB1.76 billion of priority debt which was composed entirely of secured loans. This means the ratio of priority debt to total debt was 31.6%.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for TSE's operations during 2024-2026:

- Total operating revenues to decline from about THB1.7 billion in 2024 to THB1.5 billion per year during 2025-2026.
- EBITDA margin to decrease from 57% in 2024 to around 50% during 2025-2026.
- Total capital expenditures and investment to add up to THB0.76 billion.
- Dividend payout ratio of 30%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TSE's power portfolio will continue to deliver decent performance and generate predictable cash flows. We do not expect TSE's investment outlays to be material over the next three years. As such, we expect TSE to have comfortable headroom on its credit metrics for the current rating.

RATING SENSITIVITIES

We are unlikely to raise the rating given TSE's smaller earnings size and TSE's relatively smaller business scale in comparison to higher-rated peers. In contrast, we could lower our rating on TSE if there is a significant deterioration in the company's financial profile and earnings base. An indication of this would be a sustained debt to EBITDA ratio of above 8 times which could result from aggressive debt-funded investments, or a material reduction in annual EBITDA below the forecast base.

COMPANY OVERVIEW

TSE is an investment holding company established in 2008 that primarily focuses on developing renewable power projects. The company was listed on the Market for Alternative Investment (MAI) in October 2014 and later moved to the Stock Exchange of Thailand (SET) in May 2019.

TSE's core power project is operated by TSR, a 60:40 joint venture between TSE and GPSC. The project has an installed capacity of 104.8 MW and a contracted capacity of 80 MW. Thanks to a tariff adder of THB6.5 per kWh for 10 years, this project has been the centerpiece of profit-making, generating over 50%-55% of TSE's EBITDA during 2019-2023.

In December 2023, TSE decided to divest its investment in the Onikoube project, which was TSE's largest solar power plant in Japan with an installed capacity of 147 MW. The Onikoube project achieved its commercial operating date in May 2023.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio at End of June 2024

Project/Country	Held by TSE (%)	Status	Installed Capacity (MW)	Contracted Capacity (MW)	Equity Installed Capacity (MW)	Equity Contracted Capacity (MW)	Tariff	Commercial Operating Date
1. Thailand								
Solar								
TSR (SSE1)	60	Operating	104.8	80	62.9	48	Adder (THB6.5)	Jul-13-Jun-14
Solar rooftop	100	Operating	14	14	14	14	FiT (THB6.16)	Sep-14 – Aug-15
SLC (Prajuab Khiri Khan)	100	Operating	1	1	1	1	FiT (THB5.66)	Dec-16
INS (Ang Thong)	100	Operating	2	2	2	2	FiT (THB5.66)	Dec-15
BSS (Ayutthaya)	100	Operating	5	5	5	5	FiT (THB5.66)	Dec-16
SSP (Ang Thong)	100	Operating	9.7	8	9.7	8	Adder (THB8.0)	Mar-13
MARS (Krabi)	100	Operating	5	5	5	5	Fit (THB4.12)	Dec-18
STF (Prachinburi)	100	Operating	8	8	8	8	Private PPA	May-21
SCT (Nakhon Sawan)	100	Operating	8	8	8	8	FiT (THB5.66)	Dec-15
Solar Biglot1 (6 projects)	100	Developing	90.6	73.7	90.6	73.7	FiT (THB2.1679)	2030
Solar Biglot1 + Battery storage	100	Developing	38.3	15	38.3	15	FiT (THB2.8331)	2030
Biomass								
BSW	100	Operating	6	4.6	6	4.6	FiT (THB4.24) + premium (THB0.3) (8 years)	Mar-18
OSW 1 & 2	100	Operating	19.8	17.6	19.8	17.6	FiT (THB4.24) + premium (THB0.3) (8 years)	Aug-Oct-18
			312.2	**241.9**	**270.3**	**209.9**		
Total capacity			**312.2**	**241.9**	**270.3**	**209.9**		

Source: TSE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ----------			
	Jan-Mar 2024	**2023**	**2022**	**2021**	**2020**
Total operating revenues	487	2,231	2,298	2,461	2,441
Earnings before interest and taxes (EBIT)	196	821	988	952	912
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	311	1,290	1,551	1,541	1,478
Funds from operations (FFO)	218	727	1,031	1,030	1,025
Adjusted interest expense	82	492	445	492	450
Capital expenditures	50	1,913	3,009	1,798	2,756
Total assets	10,234	10,876	21,387	20,762	20,407
Adjusted debt	4,565	4,631	13,789	12,842	12,820
Adjusted equity	3,596	3,622	6,443	6,349	5,919
Adjusted Ratios					
EBITDA margin (%)	63.9	57.8	67.5	62.6	60.5
Pretax return on permanent capital (%)	4.5**	5.3	4.8	4.7	5.0
EBITDA interest coverage (times)	3.8	2.6	3.5	3.1	3.3
Debt to EBITDA (times)	3.9**	3.6	8.9	8.3	8.7
FFO to debt (%)	15.1**	15.7	7.5	8.0	8.0
Debt to capitalization (%)	55.9	56.1	68.2	66.9	68.4

* *Consolidated financial statements*
** *Annualized with 12 months trailing*

Note: *All figures and financial ratios are adjusted by including TSR's financial performance on proportionate basis instead of equity method.*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Thai Solar Energy PLC (TSE)

Company Rating:	BBB
Rating Outlook:	Stable

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