

NATIONAL POWER SUPPLY PLC

No. 131/2021
20 August 2021

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 30/03/21

Company Rating History:

Date	Rating	Outlook/Alert
28/08/20	BBB	Stable
16/11/17	BBB-	Stable
28/11/16	BBB	Negative
08/01/10	BBB	Stable
21/07/05	BBB+	Stable

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RATIONALE

TRIS Rating upgrades the company rating on National Power Supply PLC (NPS) and the ratings on NPS's senior unsecured debentures to "BBB+" from "BBB", with a "stable" outlook. The upgrade reflects the continued improvement of NPS's financial profile and more stabilized operations. The "BBB+" ratings continue to reflect NPS's stable cash flows from long-term Power Purchase Agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme and from long-term contracts with Double A (1991) PLC (DA). However, the ratings are partially offset by the ongoing group restructuring.

KEY RATING CONSIDERATIONS

Long-term PPAs secure revenues

About 75%-85% of NPS's revenue comes from the sale of power and steam. This revenue is secured under long-term PPAs with EGAT and industrial customers. NPS has 25-year PPAs with EGAT covering 296 megawatts (MW) of electricity, or 41% of its total capacity. NPS also sells 167.6 MW (23% of total capacity) to DA under power and steam sales agreements lasting from one to 19 years. Customers in the industrial estates in Prachinburi and Chachoengsao provinces take up the remaining power and steam generating capacity.

Under PPAs with EGAT, EGAT is obliged to dispatch at least 80% of the contracted capacity based on operating hours, while other off-takers also have minimum off-take obligations.

IPP project is underway

NPS's Independent Power Producer (IPP) project, namely the "Burapa Power Project", is now under development, after a 10-year delay due to the environmental concerns of using coal as the primary fuel. The project finally received approval from the regulator to change the fuel type to gas in July 2019. NPS has already signed a PPA with EGAT and a gas sale and purchase agreement with PTT PLC (PTT). The 560-MW project has a scheduled commercial operation date in November 2027. Currently, the company is in the process of conducting an Environmental Impact Assessment (EIA) for the power plant and gas pipeline, which is expected to be completed in 2021. Once the EIA is approved, the company will select the engineering, procurement, and construction (EPC) contractor and arrange financing. NPS holds a 65% interest in this project, with the remainder held by Gulf Energy Development PLC (GULF). TRIS Rating forecasts NPS's equity investment portion of about THB3.4 billion to be injected to the project over 2024-2027.

Improving ethanol business

NPS's ethanol business continues to improve after completing a plant upgrade to use both cassava and molasses as raw materials in late 2018. The upgrade gives the company more flexibility to manage its raw materials and lower its production costs. In 2020, the plant utilization rate increased to about 72%, from about 50% in 2019. The earnings before interest, taxes, depreciation and amortization (EBITDA) generated by the ethanol plant increased to about THB146 million in 2020 from THB120 million in 2019. In the first three months of 2021, the plant's utilization rate was about 65% and recorded an EBITDA of THB49 million from the ethanol business.

Success in FIT tariff conversion

In 2020, NPS was successful in converting the electricity tariff scheme for 116 MW (16% of total portfolio) of its bio-mass power plants with EGAT. The tariff scheme was changed from the indexed fuel price scheme to the Feed-in-Tariff (FIT) scheme, at the rate of THB3.66 per kilowatt-hour (kWh). The FIT scheme is less prone to the effect of fuel price fluctuation than the indexed-price scheme. Under the former scheme, NPS's bio-mass electricity tariff was indexed to the natural gas and fuel oil prices, which are more volatile. The FIT tariff is made up of two components, which are a fixed component of THB1.81 per kWh and a variable component of THB1.85 per kWh that is indexed to inflation. The company's EBITDA improved to THB4.65 billion in 2020 from THB4.47 billion in 2019. This level of EBITDA beat our previous forecast of about THB3.8-THB4.1 billion per year, which was based on the former tariff scheme for NPS's bio-mass power plants.

Improving financial profile

At the end of 2020, the company's adjusted debt stood at THB14 billion, down from about THB16.9 billion at the end of 2019. NPS prepaid some of its bonds by exercising a call option on bonds worth THB1.1 billion in November 2020. The company's debt to capitalization ratio improved to 55.3% from 63.5% in 2019. The debt to EBITDA ratio improved to about 3 times in 2020 from 3.8 times in 2019.

In May 2021, the company reorganized its debt obligations by issuing new debentures worth THB5.5 billion. The company used the proceeds from new debentures and internal cashflow to prepay its long-term loans of THB1.9 billion and debentures due of THB3.9 billion in August 2021. The company's debt repayment schedule is now better aligned with operating cashflow with average debt life extend to about five years from about three years in the first six months of 2020.

We expect NPS's financial leverage to continue to decline during 2021-2023. The forecast is based on an assumption that the company will not make any major investments during the forecast period. We expect the company to spend on capital expenditures of about THB3.9 billion during 2021-2023. The expenditure will mainly be used to expand its transmission lines and substation in "304 Industrial Park" to support demand growth from new and existing industrial users. A portion will also be used to maintain and to improve plant efficiency to extend the useful life of the plant to support industrial users after the expiration of PPAs with EGAT starting in 2024.

We forecast NPS's EBITDA to be around THB4.1-THB4.6 billion per year during 2021-2023, based on the FIT scheme for its bio-mass power plant, and assume an overall plant availability factor to be about 84%-86%. This level of EBITDA would be sufficient to cover the company's planned expenditures. We expect NPS's debt to EBITDA ratio to hover around 3 times in 2021 before improving to about 2-3 times in 2022-2023. The company's debt to capitalization is expected to be around 45%-55% during 2021-2023, from 55.3% at the end of 2020.

Manageable liquidity

We believe NPS should be able to properly manage its liquidity during the forecast period. NPS was already paid its due debentures of THB3.9 billion in early August 2021 by using its cash on hand and cashflow from operations. We forecast NPS's funds from operations (FFO) to about THB3-THB3.5 billion per year, which could cover the next debentures due in July 2022 worth THB1.8 billion.

Debt structure

As of June 2021, NPS reported total debt of THB17.7 billion, which is all unsecured debt. The company's subsidiaries prepaid all debts in the first half of 2021. As a result, the ratio of priority debt was 0% at the end of June 2021.

BASE-CASE ASSUMPTIONS

- NPS's plant availability factor to be in the range of 84%-86% during 2021-2023.
- NPS's bio-mass plants to use the FIT electricity tariff scheme.
- NPS's EBITDA to be in the range of THB4.1-THB4.6 billion per annum during 2021-2023.
- Total capital expenditure to be about THB3.9 billion over 2021-2023.
- Debt to EBITDA ratio to stay around 2-3 times during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NPS's power plants can maintain their performance and generate reliable cash flow as planned. TRIS Rating also expects NPS to smoothly replace expiring EGAT PPAs with industrial users in the medium to long term.

RATING SENSITIVITIES

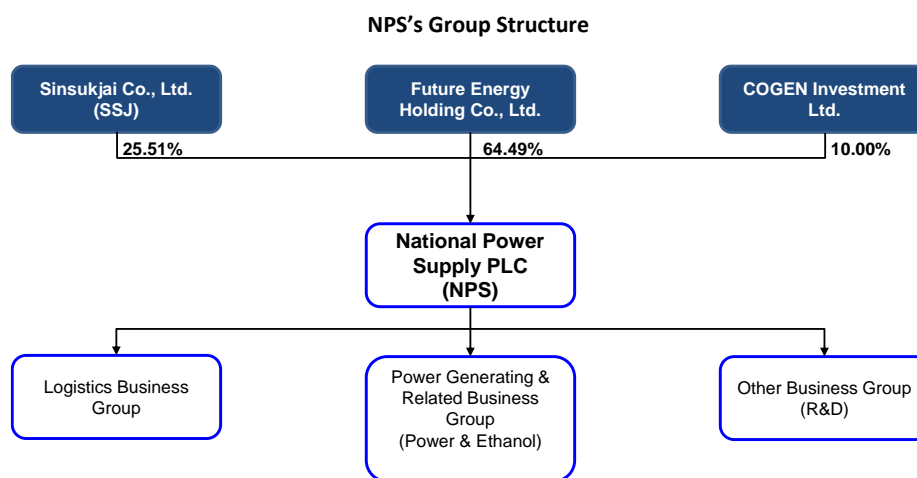
The prospect of a rating upgrade is limited over the next 12-18 months. In contrast, rating downgrade pressure could develop should there be material deterioration in the company's operating performance, as well as any huge debt-funded investment that brings about a weaker-than-expected financial profile.

COMPANY OVERVIEW

NPS was established in July 1995. The company is the leading operator of biomass power plants in Thailand. NPS's ultimate shareholder is Mr. Yothin Dumnernchanvanit and other related parties, indirectly holding 90% of NPS's shares.

As of June 2021, NPS owned and operated a total of nine biomass-fired and coal-fired power plants under the SPP scheme. The nine plants, located in industrial parks in Prachinburi and Chachoengsao provinces, have a total capacity of 716 MW of electricity and 1,017 tonnes per hour of steam.

In addition to producing electricity, NPS has diversified into energy-related businesses and supporting businesses. During 2018-2020, approximately 75%-85% of NPS's EBITDA came from the power segment; the balance, or 15%-25%, came from industrial water and ethanol businesses.



Source: NPS

KEY OPERATING PERFORMANCE

Table 1: EBITDA Breakdown

Unit: %

Segment	2017	2018	2019	2020	Jan-Jun 2021
Power and steam	70.3	87.2	85.7	86.3	88.9
Industrial water	11.2	7.7	8.0	8.0	7.5
Ethanol	13.2	(1.2)	4.1	5.4	3.6
Others	4.7	6.3	2.2	0.3	0.0
Total	100.0	100.0	100.0	100.0	100.0
Total EBITDA (mil. THB)	2,703	3,969	4,472	4,653	2,413

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2017	2018	2019	2020	Jan-Jun 2021
Net output*	GWhe	3,590	4,097	3,946	3,857	1,886
Plant heat rate	BTU/kWhe	12,490	12,710	12,425	12,450	13,780
Availability	%	83.16	88.49	84.97	85.46	82.3
Forced outage	%	6.85	1.94	5.08	5.16	7.72
Schedule & maintenance outage	%	9.99	9.57	9.95	9.39	9.98

* Net output of power and steam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	7,566	15,719	15,231	14,816	13,976
Earnings before interest and taxes (EBIT)	1,636	3,103	2,863	2,328	1,114
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,413	4,653	4,472	3,969	2,703
Funds from operations (FFO)	1,844	3,756	3,355	2,989	1,484
Adjusted interest expense	420	917	1,042	1,136	1,228
Capital expenditures	467	871	883	288	426
Total assets	31,948	27,835	28,826	30,401	31,420
Adjusted debt	14,422	14,036	16,911	19,087	19,367
Adjusted equity	12,403	11,324	9,707	8,660	8,056
Adjusted Ratios					
EBITDA margin (%)	31.89	29.60	29.36	26.79	19.34
Pretax return on permanent capital (%)	10.52 **	11.63	10.33	8.17	3.70
EBITDA interest coverage (times)	5.75	5.07	4.29	3.49	2.20
Debt to EBITDA (times)	3.11 **	3.02	3.78	4.81	7.17
FFO to debt (%)	26.07 **	26.76	19.84	15.66	7.66
Debt to capitalization (%)	53.76	55.35	63.53	68.79	70.62

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

National Power Supply PLC (NPS)

Company Rating:	BBB+
Issue Ratings:	
NPS242A: THB1,383.7 million senior unsecured debentures due 2024	BBB+
NPS24NA: THB1,250 million senior unsecured debentures due 2024	BBB+
NPS258A: THB2,298.2 million senior unsecured debentures due 2025	BBB+
NPS265A: THB2,000 million senior unsecured debentures due 2026	BBB+
NPS273A: THB2,250 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Stable

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