SPCG PLC

No. 100/2017 17 August 2017

Company Rating: A

Issue Ratings:

Guaranteed	A
Senior unsecured	A

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/06/15	A-	Stable
02/05/14	BBB+	Stable

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Rating Rationale

TRIS Rating upgrades the company rating of SPCG PLC (SPCG) and the ratings of SPCG’s debentures to “A” from "A-". The upgrade reflects the steady, forecast-beating performance the company has achieved since its inception and a waning debt burden. Both factors combine to considerably strengthen the company’s financial flexibility. The ratings also continue to reflect the reliable cash flows SPCG receives from its investment portfolio of solar power projects, the management experience the company earned as a pioneer in solar power, the efficacy of its power plants, and an encouraging outlook for renewable energy in Thailand. However, the ratings are constrained by risks associated with forthcoming investments SPCG will make to expand its capacity.

SPCG was founded in 1996 as Solar Power Co., Ltd. (SPC) to develop solar power projects in Thailand. In 2011, the company was listed on the Market for Alternative Investment (MAI), through a reverse listing process, and was renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET). As of March 2017, the Khunchornyakong family held a 49% interest in SPCG. SPCG is a holding company, investing in 36 solar farms with a combined contracted capacity of 205.92 megawatts (MW). In 2016, solar farms continued to account for the vast majority (80%) of its revenue. About 16% of revenue came from the solar rooftop segment and the rest (4%) came from a sheet metal roofing factory and other businesses.

SPCG’s strong business profile is buoyed by the reliable cash flows it earns from the investment in solar power projects. SPCG, through its operating subsidiaries, owns 36 operational solar power plants. All of the plants have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) and will receive a tariff adder of Bt8 per kilowatt hour (kWh) on top of normal tariff for 10 years. The cash flows from the solar power projects are reliable and predictable because of the tariffs in the contracts and the fact that the payment risk of the buyer is minimal. The company’s solar farms are located in nine provinces in the Northeastern region of Thailand and in Lopburi province. The Northeastern region is best suited for solar power production, based on the statistics for solar irradiation levels in the area. In terms of the power purchase agreements, SPCG’s power plants have an advantage over most other solar power projects because SPCG's plants obtain the highest rate of state-sponsored solar incentives. SPCG’s management experience in the solar power business underpins the company's strength. It was the first developer of commercial-scale solar power plants in the country. The company's business strength is also derived from prudent financial policy.

The rating upgrade is the result of SPCG’s steady, forecast-beating performance, as well as waning debt burden, and the resultant increases in financial flexibility. SPCG’s power plants have performed well since inception, largely backed by technologically-proven and certified equipments, as well as operating efficiencies. SPCG’s power plants are well-equipped as the company sources the major equipments, i.e., photovoltaic (PV) modules and inverters, from reputable suppliers, namely Kyocera Corporation (Kyocera) and SMA Solar Technology AG (SMA). Both suppliers also provide SPCG with multi-year warranty covering the efficiency of their products.

SPCG has outperformed the expectations of TRIS Rating since 2014, the first year SPCG received a rating. The amount of power actually produced has exceeded the forecast by about 13% per year. The company generated about 391 gigawatt-hours (GWh) of electricity in 2016, 13% higher than the expectation of 346 GWh. The actual amount of power produced also outpaced the output estimation based on a 50% probability of energy production (P50) by 7% in 2016. P50 denotes the annual amount of power production which has a 50% chance of being exceeded. P50 generally represents the best outcome in forecasting project revenue, given the project's specific uncertainties. SPCG's average plant performance ratio was 77.5% in 2016. For the first six months of 2017, SPCG generated 199 GWh of electricity, the same level as a year ago. With its existing capacity, the solar power plants are expected to generate about Bt4-Bt4.5 billion in revenue per annum.

Given the high efficacy of its power plants, SPCG has demonstrated the predictable and robust cash flows produced by each solar plant. As a result, the debt burden has waned and its financial flexibility has increased. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage increased from 4.4 times in 2015 to 6.5 times in the first half of 2017. Solar farms have a high operating margin (operating income before depreciation and amortization as percentage of sales) because of the tariff adder and low operating expenses. Each of SPCG's solar farms has a favorable electricity tariff of approximately Bt11 per kWh with an EBITDA margin of approximately 85%. The company's total debt declined from Bt15.8 billion at the end of 2015 to Bt13 billion at the end of June 2017. The total debt to capitalization ratio improved from 65.1% at the end of 2015 to 55.4% at the end of June 2017. The ratio of funds from operations (FFO) to total debt improved from 19.1% in 2015 to 25% (annualized with trailing 12 months) in the first half of 2017. Added to leverage tapering off, SPCG put aside hefty cash to weather unexpected downside risks and facilitate new investments.

The current ratings also incorporate the encouraging prospects for renewable sources of energy in Thailand over the long run. The government has a concrete long-term plan to develop alternative energy sources and support producers of solar power. In addition, energy consumption will continue to grow steadily.

The ratings are, however, constrained by the risks associated with SPCG's investment plan to satisfy the company's growth. TRIS Rating is of the view that SPCG will invest in new power projects, in a bid to replenish its portfolio of power-generating assets. SPCG will be forced into making the new investment in order to solidify earnings. The ten-year tariff adder currently received by the power plants will expire in 2020 through 2024. The expiration will cause a precipitous falloff in revenue from each power plant. SPCG is contemplating solar power projects abroad, given the dearth of domestic investment opportunities over the next few years and its desire to avoid investments in renewable power sources that use more sophisticated technologies. Over the course of the project development process, SPCG, like other project sponsors, is inevitably exposed to several risks, including country and regulatory risks, construction risk, cost overruns, delays in the granting of permits, financing risk, delays of commercial operation date, and more.

TRIS Rating expects that SPCG will invest Bt4-Bt5 billion during 2017-2019 to enlarge capacity. With its conservative financial policies, the company plans to add approximately Bt1.8 billion in new equity capital through a private placement by issuing about 92.4 million new shares. In recognition of this, TRIS Rating does not expect that SPCG will rely heavily on debt financing to fund the expansion. Given the forecast levels of EBITDA, investment expenditures, and the capital increase, the company's total debt to capitalization ratio is expected to stay below 50%. The ratio of FFO to total debt will be over 23% during the forecast period.

TRIS Rating's base-case scenario assumes the company's energy generation will match the P90 estimate and the performance ratio will be 78%. The amount of electricity produced in the base-case scenario is expected to range from 340-350 GWh per annum. SPCG's EBITDA is expected to reach Bt3.3-Bt3.5 billion per year during 2017-2020. From 2021 onwards, EBITDA is expected to gradually decline as the tariff adder programs start to expire.

Rating Outlook

The "stable" outlook embeds the expectation that SPCG will be capable of maintaining the plant performance ratio at a satisfactory level above 75% over the next three years, leaving the company with EBITDA of at least Bt3.3-Bt3.5 billion per year. SPCG's financial policy is expected to remain prudent, such that the forthcoming expansions would not markedly hurt its financial flexibility.

A rating upgrade could occur if SPCG could generate more EBITDA on a sustained basis, the result of building sound and profit-making assets, or earning solid returns from the investments, while maintaining leverage at a manageable level. On the contrary, a downward rating pressure could develop if solar plant performances drop drastically, which would then considerably weaken SPCG's cash flow. A negative rating pressure could also come from SPCG's excessive use of debt to fund the expansion plans.

SPCG PLC (SPCG)

Company Rating:	A
Issue Ratings:	
SPCG196A: Bt4,000 million guaranteed and amortizing debentures due within 2019	A
SPCG17DA: Bt1,800 million senior unsecured debentures due 2017	A
SPCG18DA: Bt1,800 million senior unsecured debentures due 2018	A
SPCG19DA: Bt1,800 million senior unsecured debentures due 2019	A
SPCG20DA: Bt1,700 million senior unsecured debentures due 2020	A
SPCG21DA: Bt1,700 million senior unsecured debentures due 2021	A
SPCG22DA: Bt1,250 million senior unsecured debentures due 2022	A
SPCG23DA: Bt650 million senior unsecured debentures due 2023	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-----------------------Year Ended 31 December -------------------				
	Jan-Jun 2017	2016	2015	2014	2013	2012
Revenue	2,517	5,448	5,000	4,357	2,473	1,214
Gross interest expense	315	745	898	979	605	230
Net income from operations	1,257	2,314	2,196	1,632	496	7
Funds from operations (FFO)	1,683	3,217	3,018	2,514	1,023	279
Earnings before interest, tax, depreciation, and amortization (EBITDA)	2,060	4,016	3,940	3,407	1,658	555
Capital expenditures	61	80	202	1,358	8,339	6,055
Total assets	24,061	24,232	24,736	25,571	22,501	13,052
Total debts	12,977	13,321	15,796	18,014	16,646	8,171
Shareholders' equity	10,434	9,766	8,470	7,100	3,513	2,589
Operating income before depreciation and amortization as % of sales	79.4	72.0	77.7	77.5	65.5	44.7
Pretax return on permanent capital (%)	14.2**	14.2	13.4	12.5	8.5	5.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.5	5.4	4.4	3.5	2.7	2.4
FFO/total debt (%)	25.0**	24.1	19.1	14.0	6.1	3.4
Total debt/capitalization (%)	55.4	57.7	65.1	71.7	82.6	75.9

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

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