TPI POLENE POWER PLC

No. 19/2023
24 February 2023

CORPORATES

Company Rating: A-
Issue Ratings:
Senior unsecured A-
Outlook: Stable

Last Review Date: 09/12/22

Rating History:

Date	Rating	Outlook/Alert
04/10/22	BBB+	Positive
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
17/09/18	BBB+	Stable

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RATIONALE

TRIS Rating upgrades the company rating on TPI Polene Power PLC (TPIPP) and the ratings on its outstanding senior unsecured debentures to "A-" from "BBB+". The upgrade follows the rating upward revision on TPI Polene PLC (TPIPL), the company's parent company, to "A-/stable" from "BBB+/positive" on 24 February 2023.

We continue to assess TPIPP's stand-alone credit profile (SACP) at "a". The rating on TPIPP is capped by the rating on TPIPL (rated "A-/stable"). The rating cap reflects our assessment of TPIPP's status as a "core" subsidiary of TPIPL, the close parent-subsidiary linkage, and the high level of business integration between the two entities.

TPIPP's SACP mirrors the company's reliable cash flows, backed by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), its competitive fuel costs, as well as cost reduction benefits from its coal replacement program. However, the ratings are constrained by the gradual phase-out of additional tariffs (adder) and the investment risks associated with the Special Economic Zone (SEZ) project development.

KEY RATING CONSIDERATIONS

Rating capped by the rating on TPIPL

We assess TPIPP's SACP at the level of "a", reflecting a stronger credit profile than that of TPIPL. TPIPP's reliable cash flow from its power generation business is a key underlying factor supporting the credit profile of TPIPL.

We expect TPIPP will remain a core subsidiary of TPIPL in the foreseeable future, considering the close parent-subsidiary linkage, the high level of business integration between the two entities, and the significant earnings contribution from TPIPP to the group.

TPIPL currently owns a 70.24% stake in TPIPP. The operational interdependence exposes TPIPP to TPIPL's business risk in the highly cyclical cement business. As TPIPL buys power from and supplies waste heat to TPIPP, any interruptions in TPIPL's cement plant operations will affect its power demand and supply of waste heat, and thus the operations of TPIPP's power plants.

TPIPP has made important earnings contributions and played a strategically important role in strengthening the group's business profile as an eco-friendly conglomerate. The company made up 30%-60% of TPIPL's consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) during 2020-2022. Moreover, TPIPP is playing a key role in the group's commitments to reduce carbon emissions. TPIPP is also the group's investment arm for the development of the SEZ project.

Predictable cash flows

TPIPP's highly predictable cash generation is supported by its multi-year PPAs with EGAT (rated "AAA/stable") to sell a total capacity of 163 megawatts (MW). The long-term PPAs with the creditworthy off-taker largely mitigate demand risk and payment risk. The PPAs grant an adder of THB3.50 per kilowatt-hour (kWh) on top of the base tariff rate for seven years, strengthening the viability of the projects.

The cash flows are also backed by the reliable performance of TPIPP's power plants using municipal solid waste derived (MSW-derived) fuel. All MSW-fired power plants selling to EGAT have continued to perform well. The company maintains its focus on efficiency improvement to ensure satisfactory performance over the long term.

Competitive fuel costs

TPIPP's operational advantages are mainly derived from the low costs of MSW-derived fuel and waste heat. The cost of MSW-derived fuel is relatively low as it is sourced from landfill waste. Waste heat, a by-product of cement production, is another advantage exclusive to TPIPP thanks to the location of its power plants near to TPIPL's cement plants. However, the waste heat supply is unstable and varies with the utilization rate of TPIPL's cement plants.

On-going cost reduction and power capacity expansion

TPIPP has endeavored to cut costs by initiating several cost-saving measures. It is implementing a fuel-transformation program (coal replacement) which will entirely substitute coal with MSW-derived fuel in its existing power plants, TG7 (70 MW) and TG8 (150 MW), aiming to be a coal-free power company by 2025. The change will help stabilize costs of electricity production as MSW-derived fuel has lower costs and a lower correlation to global commodity fuels than coal. In addition to the coal replacement scheme, TPIPP is developing a 61-MW solar farm and a 5-MW wind farm to supply electricity for TPIPL's cement production. Both are scheduled for completion in late 2024.

Earnings to improve despite adder expirations

TPIPP reported a decline in its EBITDA to THB3.9 billion in 2022. This was due to the shutdown of its TG3 and TG5 MSW-fired power plants to improve production efficiency and the lower production of its coal-fired TG8 power plant after the surge in coal prices. Its TG7 power plant was also under modification, following the coal replacement program. The plant is expected to resume operations and sell electricity to TPIPL by April 2023.

We expect TPIPP's earnings to improve after the plant modifications. The coal replacement of the TG7 and TG8 power plants will not only reduce fuel costs, but also increase revenue, boosting economies of scale. In 2022, TPIPL consumed about 1,200 Gigawatts-hour (GWh) of electricity, of which 35% was supplied by TPIPP and 65% by Provincial Electricity Authority (PEA). Given the relatively low costs of MSW-derived fuel, TPIPL should buy more electricity by TPIPP while cutting purchase from PEA to reduce its cement production costs from 2023 onwards. TG8 is expected to be able to use 100% MSW-derived fuel by 2025. We estimate the increasing power generation from TG7 and TG8, together with output from the company's new solar and wind power plants, will add about THB3.5 billion in annual revenue once they are fully utilized in 2026. The revenue and earnings increase should help offset the performance contractions of TG4 and TG6 after the adder expiry in 2025.

With the committed projects to be carried out over the next few years, TPIPP's aggregate operational capacity is projected to increase to 530 MW in 2025, from 440 MW at present. As a result, its power output will rise to about 2,600 GWh, from below 2,000 GWh, boosting total operating revenue to THB13 billion by 2025. With an EBITDA margin above 40%, we estimate the company's EBITDA will reach THB4-THB4.5 billion in 2023, increasing to THB5.4-THB5.7 billion annually during 2024-2025, following an increase in production output and cost reduction benefits from its coal replacement program.

SEZ project put on hold

TPIPP has been preparing for a substantial investment in the development of the SEZ project, Thailand's Southern Seaboard project, which will include sizable gas-fired and renewable power plants, a deep-sea port, and industrial estates. The SEZ project, if materialized, is expected to help TPIPP bolster and secure earnings over the long term.

However, the SEZ project is currently on hold following a cabinet resolution to conduct a Strategic Environmental Assessment (SEA) after facing strong opposition from the residents of Chana District. This leaves TPIPP with considerable risk as the company has already spent about THB12 billion on land procurement in Chana District. The company believes the project will proceed as it is related to national security, and it has already been approved by the cabinet.

Leverage to remain under control

We expect TPIPP's gearing to increase slightly, following significant spending on its coal replacement program and new power projects in the pipeline. However, the company's improving EBITDA will help support the expenditures, with its financial leverage likely to remain at a healthy level, and a projected debt to EBITDA ratio of 4-5 times during 2023-2025. The ratio of funds from operations (FFO) to debt will likely stay in the 15%-20% range and the debt to capitalization ratio should stay below 40% throughout the forecast period. Our base-case forecast assumes annual capital expenditures of THB6-THB8 billion during 2023-2024 and about THB2.5 billion in 2025. The expenditures include potential investments in renewable power generation following a recent auction.

Heavy reliance on debenture financing

At the end of 2022, TPIPP's consolidated debt, excluding financial lease, was THB16.2 billion, all of which was unsecured debentures. The company will likely continue to rely on debenture issuance as its main source of financing. As a result, TPIPP's refinancing ability will continue to be subject to market conditions.

We believe that TPIPP will manage its liquidity sufficiently. Given its reliable performance and track record in raising funds in the bond market, the company should be able to refinance its maturing debentures worth THB3 billion in 2023. At the end of 2022, sources of funds included cash and short-term investments totaling THB2.7billion and estimated FFO of THB3.3 billion over the next 12 months.

TPIPP's interest-bearing debt to equity ratio stood at 0.53 times at the end of 2022, well below the financial covenant limit of 1.75 times on its debenture obligations. We expect the company to stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- Total power output to increase, reaching 2,600 GWh in 2025.
- Total operating revenues to stay in the THB10-THB13 billion per annum range during 2023-2025.
- EBITDA margin to stay above 40% during 2023-2025.
- Annual capital spending to range from THB6-THB8 billion during 2023-2024, dropping to THB2.5 billion in 2025.

RATING OUTLOOK

The "stable" outlook reflects the rating outlook on TPIPL. We expect TPIPP's status as a core subsidiary of TPIPL will remain unchanged. We also expect TPIPP's power plants to continue to perform satisfactorily, with an improvement in cash generation to offset the earnings impact from adder expirations.

RATING SENSITIVITIES

Rating revisions on TPIPP are primarily tied to changes in the ratings on TPIPL.

An upward revision of TPIPP's SACP is unlikely in the near term. Conversely, a downward revision of its SACP could occur if its operating performance is significantly worse than our forecast and/or the company engages in sizable debt-financed investments, which result in a material deterioration in the group's financial profile.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest waste-to-energy (WTE) power producer in Thailand. The company commenced operation of its first waste heat recovery power plant in 2009 to support TPIPL's cement production. TPIPP later opened two MSW-fired power plants, selling the electricity to EGAT in 2015. TPIPP was listed on the Stock Exchange of Thailand (SET) in April 2017. The company's business includes the generation and sale of electricity as well as sales from petrol and gas service stations.

The company currently owns and operates eight power plants, mainly using MSW, waste heat, and coal as fuels. The total installed capacity is 440 MW. All power plants are located in Saraburi Province, proximate to TPIPL's cement plants. The company distributes electricity to two utility off-takers, EGAT and TPIPL. TPIPP holds three PPAs with EGAT, permitting the company to sell capacity of 163 MW with an adder of THB3.5 per kWh.

Currently, electricity sales account for more than 90% of total revenue. In 2022, revenue received from EGAT and TPIPL made up 75% and 15% of the company's total revenue, respectively.

KEY OPERATING STATISTICS

Table 1: Power Project Portfolio as of Dec 2022

Project/Country	Location	Fuel Type	Status	Installed Capacity (MW)	Contracted Capacity with EGAT/PEA (MW)	Off-taker	Tariff Scheme	Commercial Operating date
Thailand								
TG1 & TG2	Saraburi	Waste Heat	Operating	40		TPIPL		Jun 2009
TG3	Saraburi	MSW	Operating	20	18	EGAT	Adder THB3.5 (expire in 2022)	Jan 2015
TG5	Saraburi	MSW	Operating	60	55	EGAT	Adder THB3.5 (expire in 2022)	Aug 2015
TG4	Saraburi	Waste Heat	Operating	30	90*	EGAT	Adder THB3.5 (expire in 2025)	Jan 2016
TG6	Saraburi	MSW	Operating	70	90*	EGAT	Adder THB3.5 (expire in 2025)	Apr 2018
TG7	Saraburi	Coal/MSW	Operating	70**		TPIPL		Aug 2018
TG8	Saraburi	Coal	Operating	150		TPIPL		Jan 2019
Songkla-MSW	Songkhla	MSW	Developing	12	8	PEA		2024
Nakorn Ratchasrima-MSW	Nakorn Ratchasrima	MSW	Developing	12	9.9	PEA		2024
Saraburi-Solar	Saraburi	Solar	Developing	61		TPIPL		2024
Saraburi-Wind	Saraburi	Wind	Developing	5		TPIPL		2024
				530	**180.9**			

Source: TPIPP
* *TG4 and TG6 started selling power output to EGAT in Apr 2018 under the same PPA of 90 MW.*
** *Approved capacity of 40 MW*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----------------------Year Ended 31 December				----------------------
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	10,566	11,314	11,302	10,692	7,704
Earnings before interest and taxes (EBIT)	2,917	4,509	4,814	4,851	3,783
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,914	5,426	5,690	5,658	4,264
Funds from operations (FFO)	3,285	4,763	5,177	5,316	4,090
Adjusted interest expense	626	542	399	246	39
Capital expenditures	4,860	2,823	6,068	6,877	4,940
Total assets	50,579	48,485	43,775	37,853	31,541
Adjusted debt	14,145	13,111	10,458	6,123	1,225
Adjusted equity	31,564	30,852	28,928	27,110	25,048
Adjusted Ratios					
EBITDA margin (%)	37.04	47.96	50.34	52.91	55.35
Pretax return on permanent capital (%)	6.07	10.04	12.31	14.79	13.93
EBITDA interest coverage (times)	6.25	10.02	14.25	22.99	109.19
Debt to EBITDA (times)	3.61	2.42	1.84	1.08	0.29
FFO to debt (%)	23.23	36.33	49.50	86.83	333.92
Debt to capitalization (%)	30.94	29.82	26.55	18.42	4.66

* *Consolidated financial statements*

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
- Issue Rating Criteria, 15 June 2021

TPI Polene Power PLC (TPIPP)

Company Rating:	A-
Issue Ratings:	
TPIPP23DA: THB3,000 million senior unsecured debentures due 2023	A-
TPIPP247A: THB4,000 million senior unsecured debentures due 2024	A-
TPIPP262A: THB4,523.6 million senior unsecured debentures due 2026	A-
TPIPP267A: THB3,000 million senior unsecured debentures due 2026	A-
TPIPP278A: THB4,695 million senior unsecured debentures due 2027	A-
TPIPP281A: THB3,000 million senior unsecured debentures due 2028	A-
Rating Outlook:	Stable

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