

GLOW ENERGY PLC

No. 149/2019
25 September 2019

CORPORATES

Company Rating:	AA-
Issue Ratings:	
Guaranteed	AA-
Outlook:	Stable

Last Review Date: 22/01/19

Company Rating History:

Date	Rating	Outlook/Alert
06/11/18	AA-	Developing
22/06/18	AA-	Alert Developing
21/09/17	AA-	Stable
09/09/14	A+	Stable
04/05/06	A	Stable
25/07/03	A-	Stable
27/07/00	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on GLOW Energy PLC (GLOW) and the ratings on GLOW's guaranteed debentures at "AA-". At the same time, TRIS Rating revises the rating outlook to "stable" from "developing". The change to "stable" outlook reflects our view that there is no material impact on GLOW's credit profile after reviewing the effect from Global Power Synergy PLC (GPSC) becoming GLOW's major shareholder.

The "AA-" ratings continue to reflect the company's solid cash flow generation, supported by long-term power purchase agreements (PPA), reliable record of operation, and expected strong financial profile.

Since GPSC is now the ultimate shareholder of GLOW, GLOW's credit ratings will be linked to the credit profile of GPSC according to TRIS Rating's Group Rating Methodology.

KEY RATING CONSIDERATIONS

Post-acquisition business risk remains unchanged

We do not expect the change of GLOW's major shareholders from ENGIE to GPSC to have any material impact on GLOW's operation. GPSC is the flagship company of the power generating business under PTT Group. After consolidation with GPSC, GLOW's operation approximately constitutes 60% of GPSC's total electricity capacity and 70% of GPSC's earnings before interest, taxes, depreciation, and amortization (EBITDA). GLOW's long-standing experience and expertise in operating cogeneration and large-scale power plants will be leveraged to enhance GPSC's operating efficiency as well as the development of new projects in the future.

Solid cash flow generation

We expect GLOW's steady cash flow generation to continue, underpinned by sizable PPAs with the Electricity Generating Authority of Thailand (EGAT) and industrial customers. As of 30 June 2019, GLOW's total equity capacity was 2,771 megawatts (MW). The PPAs with EGAT cover 70% of equity capacity and the remaining capacity is contracted with industrial customers.

Electricity sales to EGAT are reliable since the conditions in the PPAs, comprising minimum off-take amounts and a pass-through mechanism of fuel costs, help mitigate demand risk and fuel price risk. The remaining lives of the existing PPAs with EGAT are long, varying from five to 18 years. The PPAs with industrial customers are also a steady source of revenue, supported by strong electricity demand from large petrochemical producers in the Map Ta Phut area.

TRIS Rating forecasts that GLOW's contracted capacity with EGAT will drop by 300 MW during 2022-2025. We believe that GLOW's seven expiring PPAs under the small power producer (SPP) program will be renewed but the contracted capacity in the new PPAs will drop to 30 MW per each PPA from 60-90 MW per each PPA previously. The contract renewal risk lessened after the resolution of the National Energy Policy Council (NEPC) in January 2019 reconfirmed the SPP replacement program in clearer detail.

Strong operating efficiency

GLOW has long-standing track record of achieving high operating performance.

Over the past several years, GLOW's plant factors have demonstrated reliable operating results such as high level of availability, plus well controlled plant heat rate and operating costs. GLOW also has proven project management skills from executing a number of SPP projects and independent power producer (IPP) projects in the past. We believe that GLOW's excellent plant operation will continue and help sustain its stable revenue and earnings over the long term.

Exposure to fuel price risk

GLOW partially exposes to fuel price risk in the PPAs with industrial customers. The risk is caused by a possible mismatch between the adjustable Ft in tariff rate and its fuel cost used to generate electricity. The Ft adjustment carries a time lag and is subject to the authorities' discretion on the timing and size of the adjustments. The diverging movements between the Ft adjustment and fuel cost could result in a swing of GLOW's EBITDA. However, its impact is limited as the electricity sales to industrial customers made up only about 25%-30% of GLOW's total revenue.

EBITDA continues to be strong

We forecast GLOW's EBITDA to stay between Bt14.5-Bt15.5 billion a year during 2019-2021. We expect the demand from its petrochemical customers to remain strong despite the weak market sentiment. Some upsides of EBITDA would stem from realizing synergy benefits between GLOW and GPSC from the integration of power networks. GLOW's electric supply to industrial customers may increase to some extent since GPSC plans to reallocate some of their industrial customers to GLOW, given the lower production cost of GLOW's power plants.

Strong financial profile

TRIS Rating expects GLOW's net debt to EBITDA ratio to stay between 1.5-2.5 times during 2019-2021, largely due to projected small capital expenditures (CAPEX). GLOW's major CAPEX is earmarked for the first phase of its SPP replacement projects. The project needs investment budget of about Bt6 billion during 2020-2022. We believe that GLOW's long-term growth potential is likely to be limited as new power projects are likely to be executed at GPSC's level instead. We expect the excess cash on hand of GLOW to be paid as dividends to support GPSC's deleverage plan.

BASE-CASE ASSUMPTIONS

- Average EBITDA to be around Bt14.5-Bt15.5 billion during 2019-2021
- EBITDA margin to be between 30%-32% during 2019-2021
- Capital spending to be around Bt2.5-Bt3.5 billion per annum during 2019-2021
- 90% dividend payout between 2020-2021

RATING OUTLOOK

The "stable" outlook reflects our expectation that GLOW will continue its strong, steady cash flow generation in the foreseeable future. We also expect GLOW to sustain a good operating performance and its strong financial profile. We do not expect GLOW to undertake new and sizable investments over the next 2-3 years.

RATING SENSITIVITIES

A rating and/or outlook upgrade could happen if there is an uplift in GPSC's credit profile since GLOW's ratings are tied to GPSC's credit profile. In contrast, the ratings and/or outlook could be revised downward if GLOW's net debt to EBITDA increases to above 4 times for a sustained period. The ratings or outlook could also be revised downward if, in our view, there is material deterioration in GPSC's credit profile.

COMPANY OVERVIEW

GLOW is a leading private power producer in Thailand. The company was established in 1993 to provide utility services in the Map Ta Phut area. GLOW was listed on the Stock Exchange of Thailand (SET) in April 2005. The business comprises the cogeneration (including the SPP) and the IPP segment. The company and its affiliates supply electricity, steam, and treated water to large customers in the Map Ta Phut Industrial Estate, the Eastern Seaboard Industrial Estate, and Siam Eastern Industrial Park.

GPSC is currently the ultimate shareholder of GLOW after the company announced its acquisition of GLOW in mid-2018. As of 30 June 2019, GPSC held 99.5% interest in GLOW. GPSC will purchase the remaining shares of GLOW and plans to delist GLOW within December 2019.

As of 30 June 2019, GLOW's power generating capacity totaled 3,093 MW, consisting of 1,525 MW in the IPP plants and 1,556 MW in the cogeneration segment. GLOW's equity capacity was 2,771 MW.

KEY OPERATING PERFORMANCE
Table 1: GLOW's Power Portfolio as of 30 Jun 2019

Plant Name	Type	Capacity (MW)	Holding (%)	Equity Capacity (MW)	Steam (Tonne/Hr)	Commercial Operating Date
IPP Business						
GLOW IPP	Gas	713	95	677	-	Jan 2003
GHECO-One	Coal	660	65	429	-	Aug 2012
Houay Ho	Hydro	152	67.25	102	-	Sep 1999
Total IPP		1,525		1,208		
Cogeneration Business						
Glow Energy Phase 1	Gas	-	100	-	250	Jul 1994
Glow Energy Phase 2	Gas	281	100	281	300	Apr 1996
Glow Energy Phase 4	Gas	77	100	77	137	Jan 2005
Glow Energy Phase 5	Gas	328	100	328	160	Sep 2011
Glow SPP2/Glow SPP3	Hybrid Gas/Coal	513	100	513	190	Mar 1999
Glow Energy CFB 3	Coal	85	100	85	79	Nov 2010
Glow SPP 11 Phase 1 & 3	Gas	162	100	162	-	Oct 2000
Glow SPP 11 Phase 2	Gas	110	100	110	-	Dec 2012
Total SPP		1,556		1,556	1,116	
Glow Energy Solar	Solar	1.55	100	1.55	-	Aug 2012
C&I Rooftop Solar 1	Solar	0.9	100	0.9	-	Dec 2018
C&I Rooftop Solar 2	Solar	1.0	100	1.0	-	Feb 2019
Chonburi Clean Energy (CCE)	Waste	8.3	33.3	2.74	-	End 2019
Total Capacity		3,093		2,771	1,116	

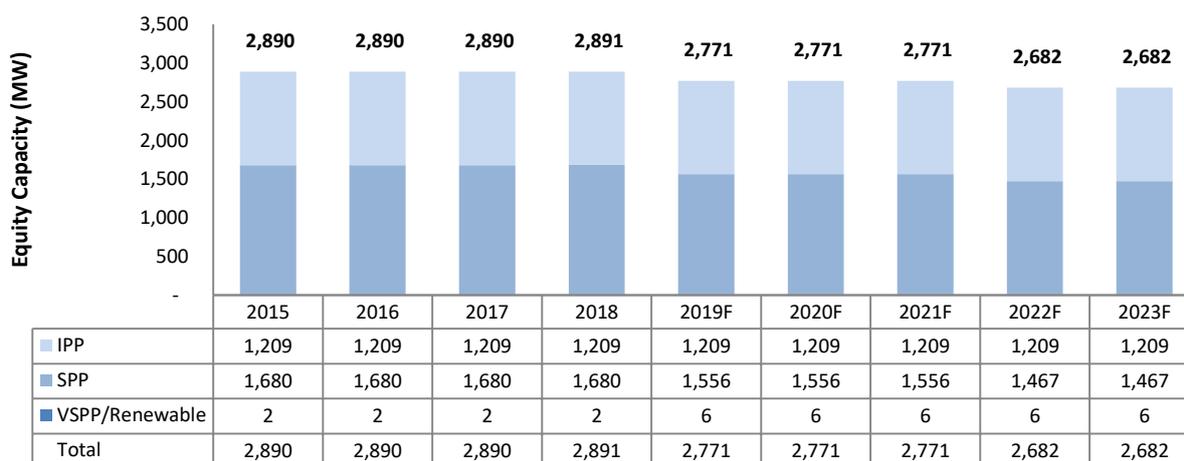
Table 2: Plant Performance Statistics of GLOW

Cogeneration Performance	Unit	6M2019	2018	2017	2016	2015
Net output*	MWhe ('000)	5,710	12,392	12,599	12,640	12,655
Availability	%	93.7	95.6	96.7	97.0	94.1
Forced outage	%	2.3	0.6	0.5	1.0	1.9
Schedule & maintenance outage**	%	3.9	3.8	2.75	2.0	4.0
Plant heat rate* - Gas-fired	BTU/kWh eq	8,055	8,073	8,136	8,113	8,098
Plant heat rate* - Coal-fired	BTU/kWh eq	10,586	10,423	10,293	10,363	10,389
IPP Performance***						
Net output	MWhe ('000)	2,215	5,543	5,056	5,521	7,477
Availability	%	89.1	95.3	91.8	93.5	88.0
Forced outage	%	0.4	2.7	0.2	1.7	2.7
Schedule & maintenance outage**	%	10.6	2.1	8.0	4.8	9.3
Plant heat rate - Gas-fired	BTU/kWh eq	n.a.	7,400	7,465	7,400	7,054
Plant heat rate - Coal-fired	BTU/kWh eq	8,810	8,832	8,915	9,021	8,895

* Including power and steam

** Planned and unplanned maintenance outages

*** Excluding Houay Ho Power Company (HHPC)

Chart 1: GLOW's Power Portfolio Development (Equity Capacity)


Source: GLOW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December-----			
		2018	2017	2016	2015
Total operating revenues	25,385	53,731	51,212	52,825	64,274
Operating income	7,405	17,345	17,220	17,870	18,523
Earnings before interest and taxes (EBIT)	5,525	13,082	13,703	13,594	13,037
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,857	17,527	18,227	18,017	17,370
Funds from operations (FFO)	6,092	14,109	14,807	14,367	12,961
Adjusted interest expense	1,257	2,109	2,444	2,669	3,315
Capital expenditures	708	1,005	853	1,276	3,337
Total assets	106,628	104,428	106,031	109,518	116,864
Adjusted debt	20,853	27,764	31,553	39,372	44,848
Adjusted equity	52,575	58,904	58,009	56,771	55,958
Adjusted Ratios					
Operating income as % of total operating revenues (%)	29.2	32.3	33.6	33.8	28.8
Pretax return on permanent capital (%)	13.2 **	13.4	13.6	12.7	11.8
EBITDA interest coverage (times)	6.2	8.3	7.5	6.8	5.2
Debt to EBITDA (times)	1.3 **	1.6	1.7	2.2	2.6
FFO to debt (%)	61.9 **	50.8	46.9	36.5	28.9
Debt to capitalization (%)	28.4	32.0	35.2	41.0	44.5

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Glow Energy PLC (GLOW)

Company Rating:	AA-
Issue Ratings:	
GLOW190A : Bt1,400 million guaranteed debentures due 2019	AA-
GLOW218A : Bt5,555 million guaranteed debentures due 2021	AA-
GLOW259A : Bt4,000 million guaranteed debentures due 2025	AA-
GLOW265A : Bt3,000 million guaranteed debentures due 2026	AA-
Rating Outlook:	Stable

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