

AMATA B.GRIMM POWER 3 LTD.

No. 6/2024
31 January 2024

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 31/01/23

Company Rating History:		
Date	Rating	Outlook/Alert
28/02/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Amata B.Grimm Power 3 Ltd. (ABP3) at “A-” with a “stable” outlook. The company rating is predicated on ABP3’s stand-alone credit profile (SACP) of “a-” and its status as a strategic subsidiary of B.Grimm Power PLC (BGRIM, rated “A/stable”).

The SACP reflects reliable cash flow of ABP3, underpinned by long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/stable”). The SACP also considers a solid performance track record of its cogeneration power plant. However, the SACP is constrained by the risk of reliance on its single operating asset.

KEY RATING CONSIDERATIONS

Cash flow reliability underpinned by long-term PPAs with EGAT

ABP3 owns and operates a combined cycle cogeneration power plant, which commenced commercial run in 2012. The company sells electricity to EGAT under the Small Power Producer (SPP) scheme, with contracted capacity of 90 megawatts (MW). The company holds a 25-year PPA, which is on take-or-pay basis. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. The counterparty risk is minimal.

ABP3’s electricity sales to EGAT generally represent about 60%-70% of total sales. Hence, the market risk is materially abated. The reliable earnings are also supported by the capacity payments. In addition, the adverse impact from fluctuation in fuel price and exchange rate is mitigated through the index-based tariff adjustment.

Offtake agreements with industrial customers

ABP3 also sells electricity and steam to industrial customers in Amata City (Chonburi) Industrial Estate (ACCIE). The company holds multi-year off-take agreements, covering 43.1 MW of electricity and 13 tonnes per hour of steam. Each industrial customer is obliged to purchase minimum amount of electricity and/or steam as agreed in its respective agreement. The sale volume hinges on demand, which is propelled by industrial activity levels.

ABP3 sells electricity to the industrial customers at discounts on tariff rates charged by the Provincial Electricity Authority (PEA) to large general service customers. The tariffs comprise a fuel adjustment charge, or Ft, to incorporate changes in the fuel price. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion on the timing and magnitude of the adjustments. A hike in fuel prices could significantly dent the company’s earnings.

Solid record of plant performance

ABP3’s combined cycle cogeneration power plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by Siemens, a leading manufacturer and supplier for power generation in global market. The company has its own operation and maintenance teams for day-to-day operations. The teams leverage BGRIM’s expertise in the operation and maintenance of cogeneration power plants. ABP3 also holds the long-term service agreement (LTSA) with Siemens, which has been extended until 2034. The LTSA covers the next two major overhaul cycles of the power plant, helping ABP3 achieve high availability factor and efficiency.

ABP3 has performed in accordance with operational expectations under the PPA since its commencement. For the first nine months of 2023, the plant’s availability factor was 99%. The heat rate was 7,503 British thermal units/kilowatt-hour (BTU/kWh), below the borderline of 8,000 BTU/kWh as required by the PPA with EGAT. Regarding energy efficiency, the ABP3 plant achieved the primary energy saving (PES) expectation and received an additional tariff of THB0.36/kWh from EGAT as a fuel-saving (FS) payment. We remain of the view that the risk of performance penalties and PPA termination is very limited.

Earnings recovered

ABP3’s operating performance in 2023 was in line with our forecast. For the first nine months of 2023, total electricity sales were 716 gigawatt-hours (GWh), marking a 12% increase year-on-year (y-o-y). ABP3’s earnings before interest, taxes, depreciation, and amortization (EBITDA) recovered to THB679 million, compared with THB267 million the same period in prior year. The debt to EBITDA ratio (annualized with trailing 12 months) markedly decline to 2 times. The situation of high gas prices was eased off in 2023. In 2023, average gas prices decreased to about THB400 per metric million British thermal unit (MMBTU) from about THB480 per MMBTU in 2022. Meanwhile, average Ft was raised to THB0.89 per kWh, up from THB0.4 per kWh in 2022. We expect ABP3 to arrive at THB885 million in EBITDA for the full year ending 2023.

In our base-case projection, we assume Ft adjustment to keep pace with changes in gas prices. As such, we expect the company could maintain its profit margin from electricity sales to industrial customers. We also expect ABP3’s plant availability factor to range between 94%-97%. As a result, we expect ABP3’s EBITDA to range THB660-THB780 million per year during 2024-2026. The debt to EBITDA ratio is forecast to stay at about 1.5-2.0 times. We expect the debt to capitalization ratio to reduce to below 40% by 2026.

Single operating asset

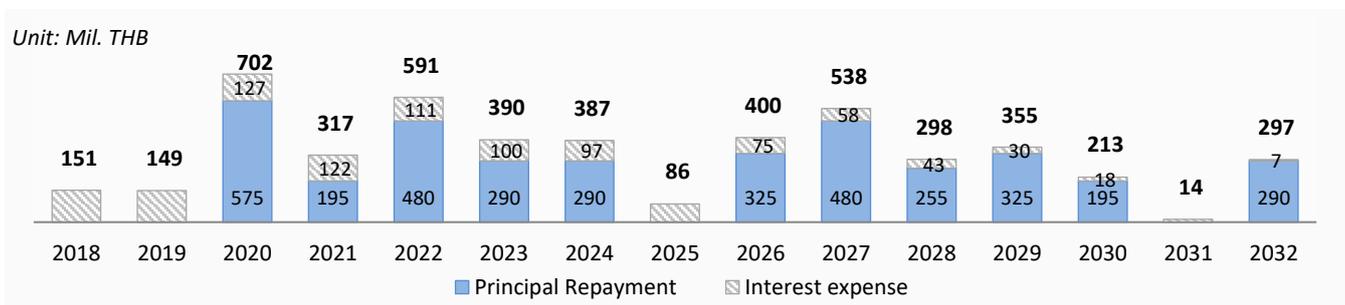
ABP3's single asset operation remains the key factor constraining the SACP. ABP3’s business risk profile is relatively weaker than those of large-scale power companies with multiple power-generating assets. In the absence of operational diversification, its earnings could be eroded by major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. However, we view the likelihood of such scenario is remote, given the proven track record of operation and the supportive LTSA.

Satisfactory debt service capability

In April 2017, ABP3 borrowed an inter-company loan of THB3.7 billion from Amata B.Grimm Power SPV 1 Ltd. (ABPSPV). The proceeds were used to refinance an outstanding bank project loan. The repayment schedule of the inter-company loan matches the maturity of the bonds issued by ABPSPV. ABP3’s debt service obligations vary significantly from year to year. Debt services will range from THB14 million to THB702 million per year during 2018-2032 with no principal repayments called for in 2018, 2019, 2025, and 2031. The first principal repayment was made in April 2020. We expect ABP3 to manage its liquidity needs and reserve cash for the years in which large principal repayments are scheduled to be made.

As of September 2023, ABP3 had cash on hand of THB647 million. We view the available cash combined with the forecast EBITDA should comfortably meet the scheduled debt services of THB86-THB400 million per year during 2024-2026.

Chart 1: Debt Service Schedule of ABP3’s Inter-company Loans



Sources: ABP3 and TRIS Rating’s estimates

Guarantee obligation to ABPSPV’s debentures

ABP3 is one of the guarantors of the guaranteed debentures issued by ABPSPV. The other two guarantors of the debt issue are Amata B.Grimm Power (Rayong) 1 Ltd. (ABPR1) and Amata B.Grimm Power (Rayong) 2 Ltd. (ABPR2). Under the terms of the guarantee, the guarantors jointly and severally provide unconditional and irrevocable guarantees on all amounts due under the debentures, including the principal amount of up to THB11.5 billion, interest accrued thereon, and related expenses.

Strategic subsidiary under BGRIM Group

ABP3 is one among 19 cogeneration power plants under BGRIM Group. As of September 2023, ABP3's installed capacity accounted for 5% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, ABP3's EBITDA represent approximately 4%-6% of the group's total EBITDA. Despite its small revenue contribution, we view ABP3 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM's power portfolio, representing 74% of BGRIM's total power generation capacity.

BGRIM has five cogeneration power plants in ACCIE, including ABP3. We view ABP3 is important to BGRIM in managing overall operating efficiency of the group's power plants in ACCIE. Therefore, we expect ABP3 will obtain parental support in a distress scenario.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for ABP3's operations during 2024-2026:

- The plant availability factor to be in the range of 94%-97%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 43.1 MW, and steam purchase agreements with industrial customers to be 13 tonnes/hour.
- Annual electricity sales to be 897-932 GWh and annual steam sales of 101-105 kilotonnes.
- Capital expenditure to be THB25-THB50 million per year.
- The inter-company loan repayment to be made according to repayment schedule of the guaranteed debentures issued by ABPSPV.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that ABP3 will continue to perform well and render reliable cash flows. The company's earnings and leverage levels will be in line with our forecast.

RATING SENSITIVITIES

The prospect of a higher SACP is limited. In contrast, we could downgrade the SACP on account of a sustained deterioration of ABP3's operating performance, which considerably weakens its debt service capability. Negative pressure on the SACP could also emerge following a substantial increase in debt upon demand for payment with respect to the guaranteed obligation.

According to TRIS Rating's "Group Rating Methodology", a material change in the credit profile of BGRIM or in the linkage between ABP3 and BGRIM could also impact the company rating on ABP3.

COMPANY OVERVIEW

ABP3 was established in 2010 to own and operate a cogeneration power plant under the SPP scheme. Located in ACCIE, Chonburi Province, the power plant has an installed capacity of 132.5 MW plus 30 tonnes per hour of steam. ABP3 has a 25-year PPA with EGAT, covering 90 MW while it has multi-year off-take agreements with industrial customers in ACCIE to sell 43.1 MW of electricity and 13 tonnes per hour of steam. The contracts with the customers in the industrial estate specify the minimum amounts of electricity and/or steam each customer is obligated to purchase. ABP3's plant commenced commercial operations on 1 October 2012.

ABP3's combined cycle cogeneration power plant employs proven technology from Siemens. The Siemens SGT 800 gas turbine has a proven track record, with more than 100 units sold worldwide since 1997. ABP3's power plant comprises two gas turbine units with bypass stacks, two heat recovery steam generators, and one steam turbine. The gas turbines and the steam turbine are all made by Siemens.

ABP3 has entered into the LTSA with Siemens. Siemens will provide maintenance services, including spare parts and performance upgrades, for the gas turbine units. The collaboration between Siemens and BGRIM will help ensure the reliability of the turbines and keeps maintenance costs under control. ABP3 has a 25-year gas supply contract with PTT PLC and a long-term water supply agreement with AMATA Water Co., Ltd. Moreover, the company has a contract with the PEA to purchase backup power in the event of an emergency.

As of September 2023, ABP3's shareholders were BGRIM (60.7%), Summit Sunrise Energy Co., Ltd. of the Sumitomo Group (SSEC -- 18%), Amata Corporation PLC (AMATA -- 18.3%), and B.Grimm Joint Venture Holding Ltd. (BGJV -- 3%).

The major shareholder, BGRIM, was established in 1993 as a holding company for the power business under the conglomerate of the BGRIM Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. As of October 2023, BGRIM had installed capacity of 3,830 MW in operation.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABP3

Plant Performance	Unit	9M-23	2022	2021	2020	2019	2018
Net output energy ¹	GWhe ²	735.7	835.1	949.4	924.4	969.8	960.0
Plant heat rate	BTU/kWh	7,503	7,554	7,496	7,499	7,439	7,523
Primary energy saving factor	%	15.4	14.9	15.4	15.1	15.7	15.1
Availability	%	99.0	84.0	96.7	97.8	96.0	95.6
Unplanned outage	%	1.0	2.6	3.3	1.8	0.9	1.2
Planned outage	%	0.0	13.4	0.0	0.4	3.2	3.1

Remarks: ¹ Net output of electricity and steam

² Gigawatt-hour equivalent

Source: ABP3

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	4,066	3,041	2,815	3,074	2,980
Earnings before interest and taxes (EBIT)	175	601	584	525	557
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	378	802	821	759	791
Funds from operations (FFO)	229	585	658	604	636
Adjusted interest expense	115	122	128	150	151
Capital expenditures	25	9	8	17	7
Total assets	4,646	5,044	5,203	5,917	5,830
Adjusted debt	2,155	2,222	2,398	2,594	2,723
Adjusted equity	1,747	1,749	1,808	1,637	1,590
Adjusted Ratios					
EBITDA margin (%)	9.3	26.4	29.2	24.7	26.5
Pretax return on permanent capital (%)	3.9	12.3	11.2	9.8	10.4
EBITDA interest coverage (times)	3.3	6.6	6.4	5.1	5.2
Debt to EBITDA (times)	5.7	2.8	2.9	3.4	3.4
FFO to debt (%)	10.6	26.4	27.4	23.3	23.3
Debt to capitalization (%)	55.2	56.0	57.0	61.3	63.1

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

Amata B.Grimm Power 3 Ltd. (ABP3)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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