

ABSOLUTE CLEAN ENERGY PLC

No. 148/2022
29 August 2022

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 11/10/21

Company Rating History:

Date	Rating	Outlook/Alert
11/10/21	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Absolute Clean Energy PLC (ACE) at “BBB+” with a “stable” rating outlook. The rating reflects the company’s stable cash flow from long-term power purchase agreements (PPAs) with state-owned utilities under the small and very small power producer (SPP and VSPP) schemes, and satisfactory operating performance of its power plants. In contrast, the rating is partly constrained by the increase in leverage during the company’s expansion phase and its development risks associated with new power projects in the pipeline.

KEY RATING CONSIDERATIONS

Predictable cash flow from long-term PPAs

ACE’s power portfolio mostly has long-term PPAs with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA).

As of June 2022, ACE owned and operated 22 power plants across Thailand with a total capacity of 257.6 megawatts (MW). Thirteen biomass power plants account for 49% of ACE’s power portfolio while one gas-fired combined cycle cogeneration power plant accounts for 44%. The remaining 7% is spread across two municipal solid waste (MSW) power plants, five solar rooftop projects, and one solar floating project.

The PPAs of biomass power plants under the VSPP scheme carry a fixed feed-in tariff (FiT) of THB2.39 per kilowatt-hour (kWh) and variable FiT of THB1.85 per kWh, which is linked to the core inflation rate. PPAs also carry a premium FiT of THB0.3 per kWh for the first eight years.

The cogeneration power plant is secured by a 25-year PPA with EGAT under the SPP scheme. The contract covers a capacity of 90 MW. Under the terms of a standard PPA for an SPP cogeneration power plant, EGAT agrees to dispatch at least 80% of the contracted capacity, based on plant operating hours. The PPA is on a take-or-pay basis, which stabilizes the cash flow. In addition, the PPA contains a formula that includes adjustments for changes in fuel prices and currency exchange rates. This largely mitigates the risks associated with changes in fuel price and currency fluctuations.

Mitigations of feedstock supply risk

ACE’s biomass power plants were designed to accept a wide range of feedstock types, such as woodchips, wood bark, and a variety of agricultural residues. Woodchip and wood bark are the primary fuels used in ACE’s biomass power plants, accounting for 60%-70% of total fuel consumption. The remainder comprises other agricultural residues.

Biomass feedstock is prone to fluctuations in supply and prices. ACE’s biomass power plants are located near sources of biomass feedstock to easily secure feedstock supply and limit transportation cost. ACE also mitigated feedstock risks by leveraging its major shareholders’ expertise in eucalyptus plantation and wood chip businesses. ACE’s biomass power plants have secured long-term supply agreements with related companies to ensure the availability of woodchip and eucalyptus wood bark.

During the past three years, the average fuel cost for ACE’s biomass power plants ranged between THB1.45-THB1.63 per sold kWh during 2019-2021.

Satisfactory operating performance

ACE's biomass power plants have recorded satisfactory operating performance during 2019-2021. Most biomass power plants had an availability factor between 84.9%-99.8% while the forced outage factor was around 0.1%-6.6% in the same period. However, two biomass power plants that ACE acquired in 2020 remained under maintenance with an availability factor between 50.7%-70.4%. The electricity dispatch factor during 2019-2021 ranged between 95%-99% of the contracted capacity.

ACE's cogeneration power plant has met the targets specified in the PPA since the plant started up in 2017. The availability factor has ranged from 96.6%-99.5% with low forced outage factor. The heat rate ranged from 7,366-7,407 British thermal units per kilowatt-hour (BTU/kWh), better than the threshold of 7,950 BTU/kWh specified in the PPA.

ACE's MSW power plants had a decent performance. During 2019-2021, the plants' average availability factor was 89%-96% with an average forced outage factor of below 0.7%-2.2%. The electricity dispatch factor remained at 98.9%-99.9% of the contracted capacity over the same period.

In the first six months of 2022, ACE's revenue was THB3.3 billion, a 21% increase from the same period in the previous year. The increase in revenue was mainly due to the full period of operation of a newly commenced operation 9.9-MW biomass power plant in November 2021 and higher revenues of ACE's gas-fired cogeneration power plant resulted from energy payment tariff adjustment to reflect higher gas prices. Earnings before interest, taxes, depreciation, and amortization (EBITDA) stood at THB1.2 billion, a 2% increase from the same period of previous year. Less EBITDA growth was caused by higher fuel prices and the increase in expenses from pre-operation expenses of new projects under development.

Numerous power projects under development

The rating is partly constrained by the development risks associated with the projects in the pipeline. Currently, the company is developing 34 power projects with a combined capacity of 270.8 MW. The projects consist of four power plants under the SPP hybrid program, 10 biomass power plants, two MSW power plants, and 18 biogas power plants. The company expects to start the operations of one SPP hybrid power plant by 2023. All biogas power plants are expected to commence operations in late 2025 and the biomass and MSW power plants in 2026-2027.

For our base case scenario, we expect new projects to bring in considerable cash flow to ACE from 2026 onward when the projects are fully operated. Thus, we project ACE's EBITDA to remain between THB2.1-THB2.4 billion per year during 2022-2025.

Heightened financial leverage

ACE's debt level will increase over the next several years due to its capacity expansion. In our base case assumption, we estimate ACE to spend up to THB17.3 billion to develop new projects during 2022-2025 which is largely funded by debt. Consequently, the company's total debt is forecast to peak at THB15.5 billion in 2025, a considerable increase from THB5 billion at the end of June 2022. Debt to capitalization ratio is set to hover around 50% in 2025, up from 20.4% at the end of June 2022.

The leverage level in relation to cash generation will also rise during the period of expansion. The debt to EBITDA ratio is forecast to reach over 6 times in 2025, a jump from 1.5 times at the end of June 2022. However, the debt to EBITDA ratio could improve to 5 times when all projects commence operations.

Adequate liquidity

We expect ACE to adequately manage its liquidity over the next 12 months. Most of ACE's debts are project finance loans for the power projects. As of June 2022, the company had cash of approximately THB1.5 billion. Funds from operations (FFO) over the next 12 months is forecast to reach THB2.2 billion. Sources of cash add up to THB3.7 billion, adequately covering long-term loans coming due over the next 12 months that total THB0.8 billion. ACE and its subsidiaries have complied with the respective financial covenants on their bank loans.

Capital structure

As of June 2022, ACE reported consolidated debt of THB5 billion, excluding financial lease. All the debt was at the subsidiary level, which is considered priority debt. The company's priority debt to total debt ratio is 100%, well above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", suggesting that ACE's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Total power output to be 1,500-1,625 gigawatt-hour (GWh) per annum in 2022-2025.
- During 2022-2025, revenue to reach THB6.2-THB7 billion per year. EBITDA is projected at THB2.1-THB2.5 billion per year.
- Total capital expenditure to reach about THB17.3 billion over the forecast period in 2022-2025.
- Dividend payout ratio to be 30% each year.

RATING OUTLOOK

The “stable” outlook reflects our expectations that ACE’s power plants will continue to run smoothly and generate reliable cash flow. We also expect the company’s projects under development to commence operation as planned.

RATING SENSITIVITIES

A rating upgrade could occur if the company is able to materially enlarge its cash flow from operation while prudently manage its debt to cash generation level on a sustained basis. Conversely, a rating downgrade could occur if ACE’s financial position weakens substantially, possibly from weakening capital structure from high debt-funded investments.

COMPANY OVERVIEW

ACE was founded in December 2015 as a holding company to invest in companies that own and operate power plants. The company was listed on the Stock Exchange of Thailand (SET) in November 2019. As of March 2022, ACE’s major shareholder was the “Songmetta” family, owning 76% of the company’s shares.

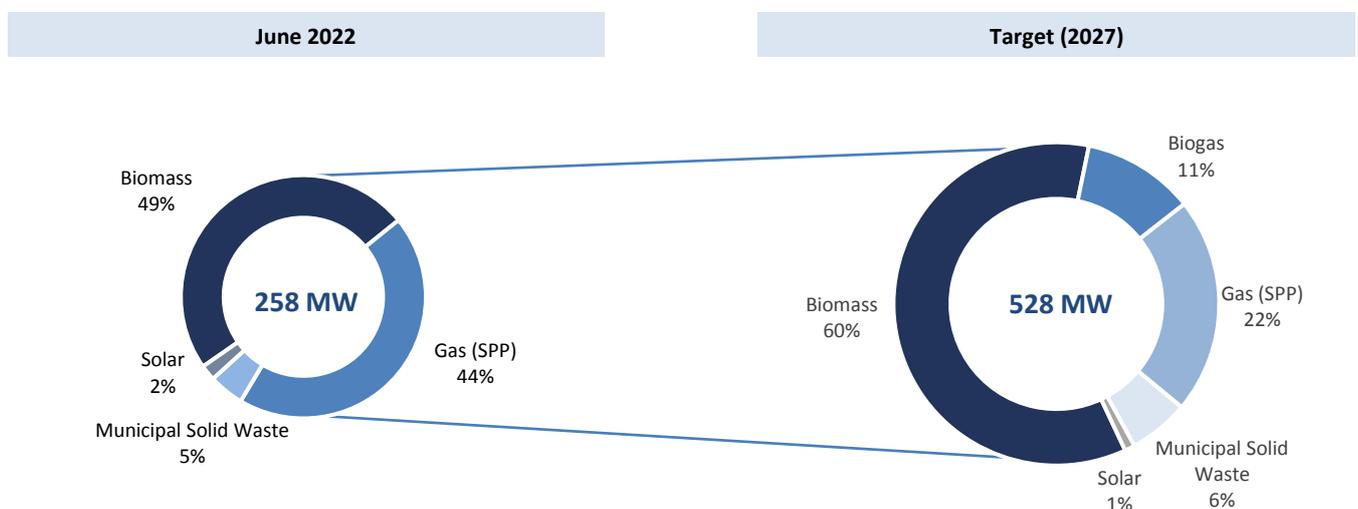
ACE’s first power plant started operation in April 2012, a 9.9-MW biomass power plant in Chonburi province. During 2012-2019, ACE expanded its biomass power plant portfolio to include nine power plants, with a total capacity of 89 MW. In 2020, ACE acquired three biomass power plants from Ua Withya PLC (UWC) bringing biomass capacity to 116 MW. The PPA terms of the biomass power plants are 20 years. Most PPAs carry a fixed FiT of THB2.39 per kWh, core inflation-linked variable FiT of THB1.85 per kWh, and a premium FiT of THB0.3 per kWh for the first eight years.

The company owns and operates a 114.4-MW gas-fired cogeneration power plant in Chachoengsao province. ACE also owns two MSW power plants in Khonkaen and Krabi provinces, with a total capacity of 12 MW. Besides, ACE has five solar rooftop projects and one solar floating project. These solar projects have private PPAs with industrial users. The solar power projects tariffs are based on the PEA tariff with some percentage discount from the tariff.

As of June 2022, ACE had 34 projects under development in Thailand, consisting of 10 biomass power plants under the VSPP program, two MSW power plants, 18 biogas power plants under “Community Power Plants for Local Economy Project” (Pilot Project) program, and four hybrid power plants under the SPP hybrid program. The company has 36 months from the PPA date to develop and commence operation of the biogas power plants.

KEY OPERATING STATISTICS

Chart 1: ACE’s Operating Power Portfolio (Installed Capacity)



Source: ACE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total operating revenues	3,270	5,738	5,863	5,057	4,837
Earnings before interest and taxes (EBIT)	843	1,749	1,482	1,202	1,038
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,203	2,417	2,024	1,730	1,575
Funds from operations (FFO)	1,121	2,247	1,886	1,312	1,089
Adjusted interest expense	64	141	113	415	484
Capital expenditures	696	1,856	1,552	654	334
Total assets	19,607	18,740	16,430	14,145	13,887
Adjusted debt	3,550	3,463	3,196	2,466	7,407
Adjusted equity	13,875	13,369	11,993	10,793	5,572
Adjusted Ratios					
EBITDA margin (%)	36.79	42.12	34.51	34.22	32.56
Pretax return on permanent capital (%)	9.62 **	10.26	9.95	8.83	7.69
EBITDA interest coverage (times)	18.89	17.08	17.86	4.17	3.25
Debt to EBITDA (times)	1.45 **	1.43	1.58	1.43	4.70
FFO to debt (%)	64.02 **	64.89	59.00	53.18	14.70
Debt to capitalization (%)	20.37	20.58	21.04	18.60	57.07

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022

Absolute Clean Energy PLC (ACE)

Company Rating:	BBB+
Rating Outlook:	Stable

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