

ABSOLUTE CLEAN ENERGY PLC

No. 141/2023
2 August 2023

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 29/08/22

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 stable cash flows of ACE, backed by 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. On the other hand, the rating is constrained by the company’s growth strategy which will likely push up its financial leverage over the next few years and the associated risks of numerous power projects under development.

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 March 2023, 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

Biomass feedstock is prone to fluctuations in supply and prices. ACE’s biomass power plants were designed to accept a wide range of feedstock types, such as wood bark, woodchips, and a variety of agricultural residues. Wood bark, woodchips, and wood scraps 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, such as, palm, rice, and sugar cane.

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 eucalyptus wood bark.

During 2020-2022, the average fuel cost for ACE's biomass power plants ranged between THB1.43-THB1.65 per sold kWh.

Satisfactory operating performance

ACE's biomass power plants have recorded satisfactory operating performance during 2020-2022. Most biomass power plants had an availability factor between 88.3%-98.5% while the forced outage factor was around 0.1%-5.3% in the same period. However, three biomass power plants that ACE acquired in 2020 remained under maintenance with an availability factor between 23.5%-90.9%. In the first three months of 2023, the availability factor of these three biomass power plants improved to range between 76.6%-87.9%. The electricity dispatch factor during 2020-2022 ranged between 97.7%-99.7% 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 was above 96% with low forced outage. The heat rate ranged from 7,317-7,407 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 2020-2022, the plants' average availability factor was 89%-96.2% with an average forced outage factor of below 0.7%-2.9%. The electricity dispatch factor was between 94.4%-99.9% of the contracted capacity over the same period.

In 2022, ACE's revenue was THB6.9 billion, a 21% increase from THB5.7 billion in 2021. The increase in revenue was mainly due to rising energy payment of ACE's gas-fired cogeneration power plant, resulted from tariff adjustment to reflect higher gas prices. Earnings before interest, taxes, depreciation, and amortization (EBITDA) was THB2.2 billion, a 7.5% decrease from THB2.4 billion in 2021. In 2022, administrative expenses totaled THB438 million, up from THB350 million in 2021, due to higher expenses to support business expansion and pre-operation expenses of new projects under development.

In the first three months of 2023, EBITDA was THB515 million, an 8% decrease from the same period in the previous year, caused by higher fuel cost of biomass power plants.

Execution risk of developing numerous power projects

As of March 2023, ACE has 42 projects under development, which consist of 18 biogas projects, 18 solar projects, two MSW projects, and four biomass projects. All developing projects has scheduled for commercial operation in 2024-2027, which could add up to 398 MW to ACE's power portfolio. In addition, ACE is also developing a cluster of solar rooftop projects under private PPA schemes, with combined installed capacity of 12 MW.

ACE's future earnings largely hinge on the success of the project executions. The company is exposed to execution risks associated with developing numerous projects at the same time. A significant delay in the construction and cost overrun could impact project returns. In addition, we view biogas power plants carry higher operation risks, particularly in anaerobic digestion process, as well as the lack of experience in operating biogas power plants.

In our base-case scenario, we expect a 20-MW biomass power plant to start operation in 2024, followed by a group of MSW, biogas and solar power plants in 2025-2026. We expect new projects to bring in sizable cash flow to ACE from 2026 onwards when most of the projects commence operation. We project ACE's EBITDA to reach THB2.7 billion in 2026.

Financial leverage is poised to hike

ACE's debt is likely to increase over the next few years due to its ongoing capacity expansion. In our base case assumption, we assume ACE to spend total amount of THB20.5 billion for capital expenditures during 2023-2026, which are mostly funded by debt. ACE's adjusted debt is forecast to reach THB18.2 billion in 2026, from THB4.3 billion at the end of 2022. The debt to EBITDA ratio is forecast to reach 7-8 times in 2025 before decelerating to lower than 7 times when new projects gradually start operation in 2025-2026. Debt to capitalization ratio is set to hover around 50% in 2026, up from 23% in 2022.

Adequate liquidity

We expect ACE to adequately manage its liquidity over the next 12 months. On a consolidated basis, ACE held cash and cash equivalents of about THB742 million at the end of March 2023. The company also has unused credit facilities of about THB500 million. We forecast ACE to generate funds from operations (FFO) of about THB1.9 billion in 2023. The combination of cash on hand, unused credit facilities, and expected FFO should provide an adequate headroom to cover debts coming due in the next 12 months of about THB1 billion.

Capital structure

As of March 2023, ACE reported consolidated debt of THB5 billion, excluding financial lease. All 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 sold to be 1,490-1,940 gigawatt-hour (GWh) per annum in 2023-2026.
- Revenue to be in the range of THB6.4-THB7.6 billion per year. EBITDA is projected at THB1.9-THB2.7 billion per year for 2023-2026.
- Total capital expenditure of about THB20.5 billion over the forecast period in 2023-2026.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term due to the company is in the expansion phase. However, 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, cost overrun or delay of developing projects.

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 2023, ACE's major shareholder was the "Songmetta" family, owning 76% of the company's shares.

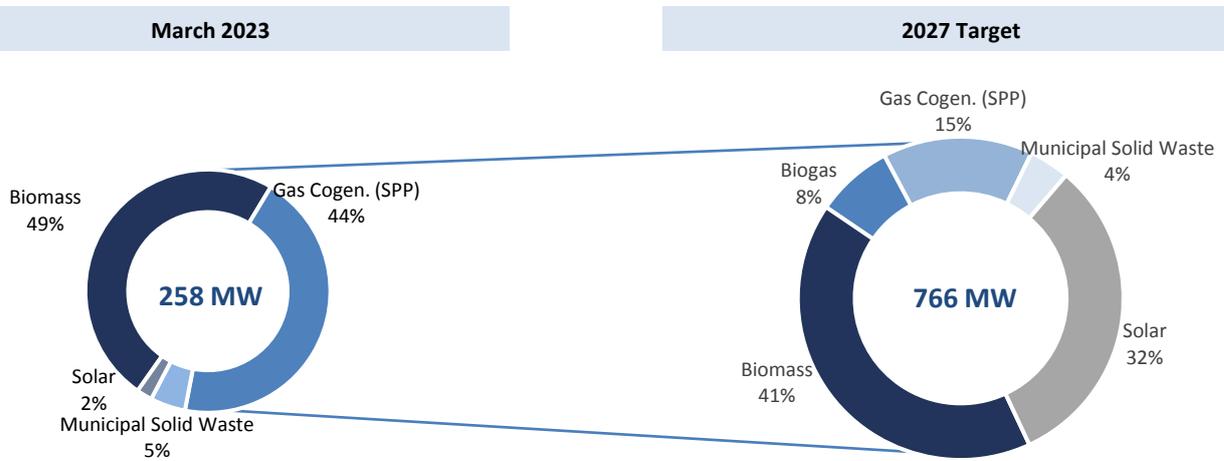
ACE's first power plant started operation in April 2012, a 9.9-MW biomass power plant in Chonburi Province. During 2012-2019, ACE expanded its biomass power plant portfolio to include nine power plants, with a total capacity of 89 MW. In 2020, ACE acquired three biomass power plants from Ua Withya PLC (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 March 2023, ACE had 22 operating projects and 42 developing projects in Thailand. The developing projects are consisting of four biomass power plants under the SPP hybrid program, 18 biogas power plants under "Community Power Plants for Local Economy Project" (pilot project) program, 18 solar power plants under the renewable big lot program, and two MSW power plants. ACE also had a cluster of biomass power plants and solar rooftop projects in development pipeline.

KEY OPERATING STATISTICS

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



Source: ACE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	1,745	6,931	5,738	5,863	5,057
Earnings before interest and taxes (EBIT)	331	1,506	1,749	1,482	1,202
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	515	2,235	2,417	2,024	1,730
Funds from operations (FFO)	460	2,065	2,247	1,886	1,312
Adjusted interest expense	44	132	141	113	415
Capital expenditures	487	1,814	1,856	1,552	654
Total assets	20,240	20,071	18,740	16,430	14,145
Adjusted debt	4,257	4,265	3,463	3,196	2,466
Adjusted equity	14,460	14,185	13,369	11,993	10,793
Adjusted Ratios					
EBITDA margin (%)	29.49	32.25	42.12	34.51	34.22
Pretax return on permanent capital (%)	7.74 **	8.05	10.26	9.95	8.83
EBITDA interest coverage (times)	11.82	16.90	17.08	17.86	4.17
Debt to EBITDA (times)	1.94 **	1.91	1.43	1.58	1.43
FFO to debt (%)	47.26 **	48.42	64.89	59.00	53.18
Debt to capitalization (%)	22.75	23.12	20.58	21.04	18.60

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Absolute Clean Energy PLC (ACE)

Company Rating:	BBB+
Rating Outlook:	Stable

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