ASIA GREEN ENERGY PLC

No. 100/2024
19 June 2024

CORPORATES

Company Rating: BBB-
Outlook: Negative

Last Review Date: 01/06/23

Company Rating History:

Date	Rating	Outlook/Alert
01/06/23	BBB-	Stable
01/10/21	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Asia Green Energy PLC (AGE) at "BBB-". At the same time, we revise the rating outlook to "negative" from "stable" as AGE experienced a sharp decline in earnings while we see a tendency of prolonged weakness in profitability and credit metrics that could lead to a rating downgrade.

The rating continues to reflect AGE's established position in the coal trading business in Thailand, as well as its competitive advantages of coal trading facilities and logistics management. However, the rating is constrained by its price risk exposure, significant customer concentration, and concerns over the long-term prospect of coal consumption in view of the global decarbonization trend.

KEY RATING CONSIDERATIONS

Steep decline in earnings

AGE's operating performance fell short of our forecast in 2023 due to a faster-than-expected decrease in global coal prices and tougher price competition. The company's gross margin in the coal trading segment reduced to 7.7%, compared with 11%-14% over the four previous years. AGE's EBITDA stood at THB643 million in 2023.

AGE's weak performance persisted in the first quarter of 2024, with significant losses, despite more stable coal prices. While AGE managed to maintain sales volume, its coal gross margin plummeted to 3.4%. This worsening profitability was driven by amplified pricing competition in the domestic coal market, high-cost inventory, and elevated transportation expenses.

Also, AGE's loss resulted from the intentional clearance of low-margin screened coal, a very small coal with low heat value, to a new customer in Southern Thailand. Despite this transaction helping improve inventory turnover, the profit margins proved thin and involved higher transportation costs. With all these challenges, AGE's EBITDA and funds from operations (FFO) turned negative in the first quarter of this year.

Recovery in profits remains vulnerable

We view AGE's vulnerable earnings prospects as a significant constraint on the rating. In our view, AGE will likely face several near-term headwinds, including lingering price competition, softening domestic demand, and elevated transportation cost pressure. Domestic coal consumption dropped by 5.8% in the first quarter of 2024 while downside risks to the Thai economy persist. The potential rise in diesel prices also poses risk to AGE's delivery transportation expenses. We do not expect AGE can fully pass through the delivery costs to its customers.

We also note that AGE's earnings revival is hindered by the significant volume of low-margin screened coal in its remaining inventory. We anticipate AGE's weak performance will endure at least in the second quarter of 2024 as we expect the sale of low-margin screened coal to continue.

In our base case, we forecast AGE's sales volume to be flat with around 4.1-4.3 million tonnes per annum during 2024-2026. Additionally, we assume a slight downward trend in coal prices, implying a risk of some inventory losses. We project AGE's total revenue to decline to THB11 billion per annum in 2025-

2026, from THB13 billion in 2024. AGE is likely to face near-term acute pressure on earnings. We forecast AGE's EBITDA to remain low at THB130 million in 2024, before improving to THB400-THB600 million per annum in the following years. The FFO is likely to gradually improve but remain negative in 2024, before turning positive in 2025, and could recover to THB450 million in 2026.

The "negative" outlook reflects our forecast of AGE's weak credit metrics in 2024, with excessive debt to EBITDA ratio of over 10 times. The debt to EBITDA ratio is projected to fall to 4-6 times in 2025-2026 in anticipation of a gradual rebound in profit margin. However, we consider such credit metrics incommensurate with the company's current rating. A revision to a "stable" outlook would require AGE to rapidly restore its earnings.

Competitive strengths in domestic market

We expect AGE to sustain its strong market presence and competitiveness. In 2023, AGE's market share, measured by domestic sales volume as percentage of total coal imported to Thailand, was approximately 20%. AGE's competitive strengths are derived from its riverfront facilities and proximity to customers. The main facilities, including a sizable stockpile area, owned loading ports, and a fleet of trucks and lighters, enable the company to undertake large-volume orders and ensure reliable supplies and prompt deliveries.

The company's location on the Pasak River in Ayutthaya Province also provides additional advantages, allowing the company to transport coal economically by barge. The company further benefits from its proximity to Saraburi Province, which is a significant hub of cement production and one of the main coal-consuming industries. In addition, we view AGE's efficient logistic management as giving it a cost advantage over local coal traders.

Highly concentrated market and exposure to price risk

AGE's revenue profile demonstrates the significant risk of its heavy reliance on the cement industry and a large single cement producer. About 30%-50% of the company's total revenue originates from the Thai cement industry during 2019-2023, while its largest customer makes up 25%-30% of total revenue.

Also, we view AGE's profitability to be tied to global coal price fluctuations, exposing the company to the risk of inventory losses when coal prices drop sharply. However, the price risk is partially mitigated by AGE's fast inventory turnover and back-to-back orders with large customers.

Disruptive decarbonization trend

AGE's business risk profile incorporates the expected decline in coal demand over the long term, driven by the global shift towards greener energy sources. The coal industry is expected to face numerous challenges, including stricter environmental regulations, government carbon reduction policies, reduced financial support, and increasing customer preference for clean energy alternatives. These factors are pushing coal users to seek out alternative fuels and greener energy solutions.

In response, AGE is strategically moving away from coal trading towards non-coal segments: logistics, sustainable energy, and diversified investments. In sustainable energy, AGE has invested THB327 million in QTC Energy PLC in mid-2023, focusing on transformers manufacturing. This segment also includes refuse derived fuel (RDF) production, a joint investment in a solar farm, and a utility service provider business. The diversified investments will primarily focus on electric vehicle (EV) dealerships and leasing businesses.

The strategic shift is crucial to offset the earnings volatility of the coal business and mitigate risks from the decarbonization trend. However, establishing new businesses with significant earnings contributions could take time to accomplish. We project that the profit contribution from non-coal businesses to rise to approximately 25%-30% within the next three years.

Manageable liquidity

We assess AGE's liquidity position as manageable. The company had cash of THB173 million as of March 2024 and an estimated FFO of THB140 million over the next 12 months, based on the expected gradual earnings recovery since March 2024. The debt obligations coming due over the next 12 months of THB178 million in long-term loans and lease payments, should be adequately covered by its cash on hand and ample undrawn credit lines. Moreover, we believe AGE will manage to roll over its short-term debt to support its ongoing business.

Debt structure

At the end of March 2024, AGE's outstanding debt, excluding lease liability, amounted to THB3.1 billion. Secured loans, including bank loans and trust receipts, totaled THB1.89 billion. As its priority debt ratio of 61% well exceeds our 50% threshold, we view AGE's unsecured creditors as being significantly disadvantaged concerning the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for AGE's operations during 2024-2026 are as follows:

- Newcastle coal price at USD120 per tonne in 2024 and at USD90 per tonne in 2024-2025.
- Total sales volume of around 4.1-4.3 million tonnes per annum.
- Total revenue to be THB13.1 billion in 2024 to THB11 billion per year in 2025-2026.
- EBITDA margin to be 1.5% in 2024, to 3.7% in 2025, and 6% in 2026.
- Capital spending to add up to THB120-THB150 million per year.
- Dividend payout of 40%.

RATING OUTLOOK

The "negative" outlook reflects the risk of a rating downgrade within the next 12 months as AGE's performance is likely to remain under pressure from the remaining low-margin inventory, lingering price competition, and softened demand. We view AGE's restoration of earnings as vulnerable, potentially resulting in continually weak credit metrics over the next 12 months.

RATING SENSITIVITIES

A rating downgrade would likely result from AGE failing to recover its operating performance, with an EBITDA of below THB700 million per annum, and a sustained ratio of debt to EBITDA above 3.5 times.

We could consider revising the rating outlook to "stable" if we see evident signs of an instant recovery of operating performance that leads to much stronger earnings and a faster-than-expected decline of the debt to EBITDA ratio. This could most likely occur from significant improvement of the coal gross margin, combined with efficient working capital management.

COMPANY OVERVIEW

AGE was established in 2004 to engage in the coal distribution business in Thailand and nearby countries. The major shareholder is the Kuansataporn Family. AGE is a medium-sized coal trader in Thailand, importing coal primarily from Indonesia, Australia, and Russia for distribution in the Thai market. The company also distributes coal overseas to countries such as Vietnam, Cambodia, China, Myanmar, and Taiwan.

Revenue from AGE's coal business accounted for 97% of the total, with the balance coming from oil sales and logistics services. Over 90% of coal sales are derived from the Thai market. AGE's domestic end-customers cover a broad spectrum of industries, including cement, power, food and beverage, paper, and textiles. The company maintained the highest coal trading volume in Thailand, trading between three to five million tonnes annually from 2019 to 2023.

AGE's core facilities in Ayutthaya Province include a sizable stockpile area with a storage capacity of one million tonnes, three owned loading ports, two warehouses, five screening plants, and a fleet of trucks and lighters. AGE's logistics operations involve the utilization of dry-bulk vessels to transport coal from international mines to Sichang Island. From there, barge transportation is employed to move the coal from Sichang Island to the company's ports situated in Ayutthaya Province. Then, in-land transportation is utilized to deliver coal to customer factories.

KEY OPERATING PERFORMANCE

Table 1: AGE's Revenue Breakdown (Mil. THB)

Revenue	2019	2020	2021	2022	2023	1Q23	1Q24
Coal Trading							
- Domestic	5,630	6,652	11,699	16,778	11,794	4,238	2,581
- Export	173	897	715	1,425	840	96	633
Total Coal Trading	**5,803**	**7,549**	**12,414**	**18,203**	**12,634**	**4,334**	**3,214**
Logistics and Oil	393	348	470	531	555	154	158
Others				81	50	13	18
Total	**6,196**	**7,897**	**12,884**	**18,815**	**13,238**	**4,501**	**3,390**

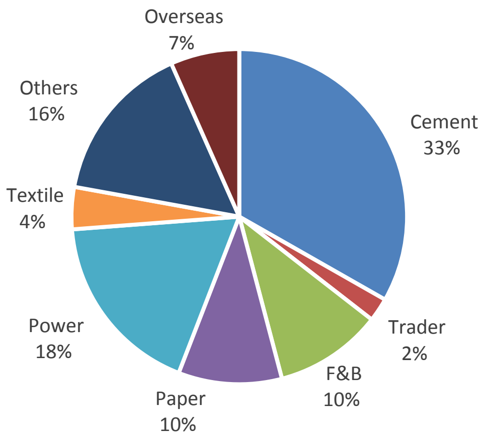
Source: AGE

Table 2: AGE's Coal Sales Volumes (Mil. Tonnes)

Volumes	2019	2020	2021	2022	2023	1Q23	1Q24
Coal Trading							
- Domestic	2.69	3.76	4.77	3.82	3.45	1.04	0.89
- Export	0.13	0.65	0.34	0.26	0.24	0.02	0.17
Total Coal Trading	**2.82**	**4.41**	**5.11**	**4.08**	**3.69**	**1.06**	**1.06**

Source: AGE

Chart 1: AGE's Coal Revenue Breakdown by Industry in 2023



Source: AGE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-------------Year Ended 31 December ---------			
	Jan-Mar 2024	2023	2022	2021	2020
Total operating revenues	3,392	13,278	18,852	12,957	7,931
Earnings before interest and taxes (EBIT)	(100)	531	1,746	862	307
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(57)	694	1,956	1,039	451
Funds from operations (FFO)	(102)	431	1,455	819	375
Adjusted interest expense	45	204	173	71	47
Capital expenditures	46	91	31	139	216
Total assets	8,502	7,544	8,976	7,582	5,434
Adjusted debt	2,829	3,069	3,760	3,481	2,302
Adjusted equity	3,237	3,360	3,342	2,483	1,888
Adjusted Ratios					
EBITDA margin (%)	(1.7)	5.2	10.4	8.0	5.7
Pretax return on permanent capital (%)	(0.1) **	7.3	25.5	16.0	6.9
EBITDA interest coverage (times)	(1.3)	3.4	11.3	14.5	9.7
Debt to EBITDA (times)	18.1 **	4.4	1.9	3.3	5.1
FFO to debt (%)	(0.5) **	14.0	38.7	23.5	16.3
Debt to capitalization (%)	46.6	47.7	52.9	58.4	54.9

* *Consolidated financial statements*
** *Annualized with 12 months trailing*

RELATED CRITERIA

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

Asia Green Energy PLC (AGE)

Company Rating:	BBB-
Rating Outlook:	Negative

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