

B. GRIMM POWER PLC

No. 63/2022
25 April 2022

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Hybrid	BBB+
Outlook:	Stable

Last Review Date: 29/06/21

Company Rating History:

Date	Rating	Outlook/Alert
09/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on B. Grimm Power PLC (BGRIM) at “A”. At the same time, TRIS Rating affirms the ratings on BGRIM’s senior unsecured debentures at “A-” and the rating on its subordinated capital debentures at “BBB+”. The rating outlook remains “stable”.

TRIS Rating also assigns a rating of “A-” to BGRIM’s proposed issue of up to THB12 billion in senior unsecured debentures and the additional greenshoe portion of up to THB2 billion. The assigned issue rating is one notch below the company rating, reflecting the structural subordination of the proposed debentures compared with the debt obligations at the operating subsidiaries. BGRIM will use the proceeds from the new debentures to refinance existing debts, invest in new projects, and fund its working capital.

The ratings reflect the reliability of earnings, backed by long-term power purchase agreements (PPAs) and a streak of solid performances of BGRIM’s cogeneration power plants. The ratings also mirror the company’s well-diversified power portfolio. To the contrary, the ratings are held back by heightening debt load over the course of business expansion. The ratings also factor the steep rise in gas prices which will likely pressure BGRIM’s earnings.

KEY RATING CONSIDERATIONS

Reliability of earnings

BGRIM’s competitive strengths are built from its portfolio of cogeneration power plants operating under the small power producer (SPP) scheme. The reliability of earnings is stemmed from the multi-year PPAs signed with the Electricity Generating Authority of Thailand (EGAT; rated “AAA/Stable” by TRIS Rating), and a host of credible industrial users in various industries, such as the automotive, packaging, and consumer products.

Revenue from electricity sale to EGAT remains the majority, accounting for 64% of total revenues in 2021. The key benefits of the PPAs signed with EGAT include the minimum power purchase obligation, and gas price pass-through mechanism in the tariff formula.

At the same time, electricity and steam sale to industrial users make up around 25% of total revenues. BGRIM holds PPAs and steam purchase agreement (SPAs) with industrial users covering 5-15 years. Each industrial customer is obliged to purchase a minimum amount of electricity and/or steam. However, the sale volume is driven by the demand from industrial activities.

Solid performances of cogeneration

In all, BGRIM’s cogeneration power plants have staged a streak of solid performances, with high availability factors and minimal unplanned outages. BGRIM has its own technical teams for day-to-day operations and maintenance. The plant operation is supported by long-term service agreements (LTSAs) with global manufacturers and suppliers.

During 2019-2021, most of cogeneration power plants have availability factors of above 95%, exceeding the PPA targets. The average heat rate (HR) was well below the respective borderlines.

Well-diversified power portfolio

BGRIM has a well-diversified power portfolio with more than 50 operating power plants in Thailand and abroad. The net installed power-generation capacity is 2,110 megawatts (MW), when measured in proportion to BGRIM's equity stakes in the operating assets. BGRIM owns 21 operating gas-fired cogeneration power plants, most of which are serving customers in industrial estates in Thailand's Eastern Economic Corridor (EEC). Cogeneration power plants are the key power-generating assets, making up nearly 70% of net operating capacity, or 1,458 MW.

BGRIM also has a pool of operating renewable projects, with a combined capacity of 647 MW in solar, wind, hydropower, and waste-to-energy (WTE). These are located in Thailand, Vietnam, Cambodia, and the Lao People's Democratic Republic (Lao PDR).

Capacity expansion on track

BGRIM is developing five cogeneration power plants to replace existing power plants with commercial operations scheduled by 2022. These power plants are being developed under the SPP replacement scheme. In addition, BGRIM is constructing two new cogeneration power plants in Ang Thong province which is slated to start commercial run in 2023. The company is also developing a hybrid power plant between solar, energy storage system (ESS), and cogeneration in U-Tapao area. This power plant is expected to commence operation of phase 1 (Solar farm and ESS) in 2022 and phase 2 (cogeneration power plant) toward the end of 2023.

Along with the conventional power plants, BGRIM is also enlarging its capacity in several renewable power projects including solar farms in Malaysia, wind farms in Vietnam and Poland, and hydropower in the Lao PDR. In our base case, we expect total capacity to increase to 3,615 MW in 2024.

Intensifying pressure from soaring gas prices

We expect the steep rise in gas prices will have significant impact on BGRIM's earnings in 2022. BGRIM sells electricity to industrial customers at discounts on the tariff rates charged by the Provincial Electricity Authority (PEA) to large electricity users. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect 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 adjustments. As such, a surge in fuel prices will affect the company's earnings.

Driven by a strong revival of demand and the ongoing Russia-Ukraine conflict, gas prices continued to rise from the last quarter of 2021 to hit the record high of above THB400 per metric million British thermal unit (MMBTU) in the first quarter of 2022. In our base-case projection, we assume gas prices to remain high in 2022 and gradually decline to ordinary levels from 2023 onwards. Although we expect an escalation of Ft in our forecast, the adjustment is unlikely to match the surge in gas prices. In response to the pressuring fuel cost, BGRIM is now looking to cut other costs and expenses. The company also plans to start importing liquefied natural gas (LNG) in 2023 in efforts to more effectively manage fuel costs over the long term.

In our base-case forecast, we project BGRIM's earnings before interest, taxes, depreciation, and amortization (EBITDA) to shrink to THB10 billion in 2022, from THB13 billion in 2021. That could result in a surge in the debt to EBITDA ratio to peak at about 9 times in 2022. However, based on our assumption of a gradual normalization of gas prices in 2023, the ratio could revert to 6.5 times in 2023.

Heightening debt load

We expect BGRIM will load up more debt in 2022 to support the committed projects in the pipeline. These projects consist of conventional and renewable power plants, with the largest investment slated for seven gas-fired cogeneration power plants. In our base-case forecast, we expect BGRIM to spend around THB43 billion for capital expenditures and investments during 2022-2025. In effect, BGRIM's adjusted net debt could peak at THB95 billion in 2023 and gradually decline to THB85 billion in 2025. The ratio of debt to capitalization will likely increase to 72% in 2022 and steadily decline to 64% in 2025.

We expect EBITDA to improve to range THB14-THB16 billion per year in 2023-2025 when all developing projects start to operate as planned. The debt to EBITDA ratio will likely hover at 5-6 times over the same period, with the funds from operations (FFO) to debt ratio to be 10%-14%.

Debt structure

As of December 2021, BGRIM's consolidated debt (including financial obligation relating to the Amata B. Grimm Power Plant Infrastructure Fund) totaled THB95.8 billion, of which THB67.3 billion was considered priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 70% suggesting that BGRIM's

unsecured creditors are significantly disadvantaged to the priority debt holders with respect to claims against the company's assets. Therefore, we rate BGRIM's senior unsecured debentures one notch below the company rating.

Adequate liquidity profile

On a consolidated basis, BGRIM held cash and cash equivalents of about THB27.8 billion at the end of 2021. The company also has unused credit facilities of about THB8.7 billion. We forecast BGRIM to generate FFO of about THB6.2 billion in 2022. The cash on hand, unused credit facilities and expected FFO combinedly have ample headroom to cover scheduled repayments of long-term loans and maturing debentures due in the next 12 months of about THB4.4 billion.

BASE-CASE ASSUMPTIONS

- Electricity sale of gas-fired cogeneration power plants to be in range of 12,600-14,000 gigawatts-hour (GWh) per year in 2022-2025 and steam sale to exceed 1.2 million tons per year from 2024 onward.
- Capacity factor of renewable power plants during 2022-2025 to be:
 - Solar power : 12%-18%
 - Wind power : 15%-25%
 - Hydro power : 53%-54%.
- EBITDA to be in range of THB10-THB16 billion per year during 2022-2025.
- Total capital expenditures and investments of THB43 billion during 2022-2025.
- Debt repayment (loans and debentures) to be THB4.3-THB9.3 billion per year in 2022-2025.

RATING OUTLOOK

The "stable" outlook embeds our expectations that BGRIM's power plants will continue to perform satisfactorily and deliver reliable cash flow, the company will complete the committed projects as planned, and its earnings and financial leverage are in line with our forecasts.

RATING SENSITIVITIES

An upward revision on the ratings could happen if BGRIM can materially enlarge its cash flows while improving its capital structure on a sustained basis. Contrarily, a downward revision to the ratings could occur if BGRIM's operating performance falls significantly short of our expectation. A negative rating pressure could also arise if the capital structure weakens significantly due to large amounts of debt-funded investments.

COMPANY OVERVIEW

BGRIM was established in 1993 as a holding company for the power business under the conglomerate of the B. Grimm Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. BGRIM was listed on the Stock Exchange of Thailand (SET) on 19 July 2017. As of 30 December 2021, BGRIM's major shareholder was Mr. Harald Link and the B. Grimm Group, with a combined 68.6% stake. The rest of the company's shares are publicly owned.

BGRIM has extensive experience in developing and operating gas-fired combined-cycle cogeneration power plants. BGRIM was awarded its first SPP contract through a subsidiary, Amata B. Grimm Power 1 Ltd. (ABP1), in 1996. ABP1 commenced operation in 1998.

As of December 2021, BGRIM had gross operating capacity of 3,254 MW or net capacity of 2,110 MW when measured in proportion to BGRIM's ownership of the plants. The operating power portfolio consists of 21 gas-fired cogeneration power plants in Thailand, 22 solar farms in Thailand, two solar farms in Vietnam, one solar farm in Cambodia, three hydropower plants in Lao PDR, one waste-to-energy power plant in Thailand, two wind farm in Thailand, and one diesel power plant back up for power trading in Vietnam.

BGRIM sells electricity mainly to EGAT and a number of industrial users. BGRIM also holds PPAs with the Provincial Electricity Authority (PEA), the Metropolitan Electricity Authority (MEA), Electricite du Laos (EDL), Vietnam Electricity (EVN), Electricite du Cambodge (EDC), and industrial users in Vietnam.

Most of BGRIM's power plants employ proven technologies from reputable suppliers, such as Siemens and GE Power (GE). The cogeneration power plants have LTSA to ensure the reliability of the turbines and keep maintenance costs under control. BGRIM's cogeneration power plants hold gas supply contracts (GSAs) with PTT PLC (PTT) for 21-25 years. The terms of the GSAs usually match the terms of the PPAs with EGAT.

KEY OPERATING PERFORMANCE
Table 1: Power Plants' Key Operating Performance

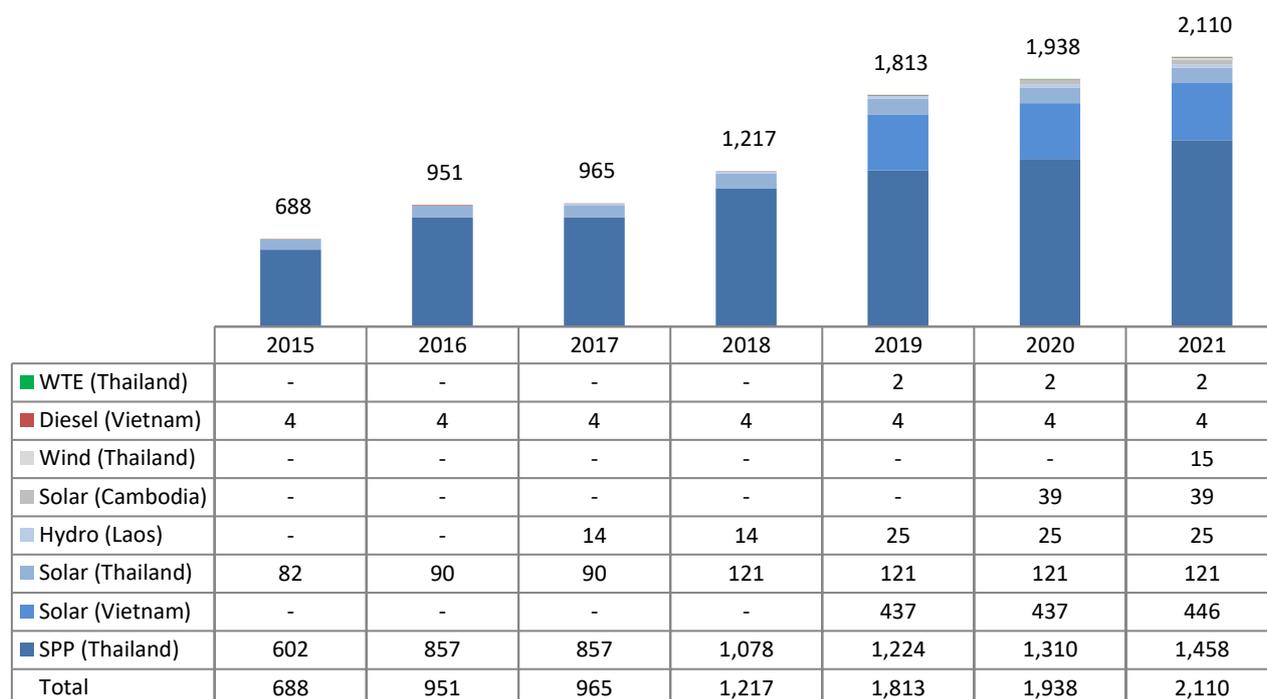
Plant Performance	Unit	2017	2018	2019	2020	2021
Gas-fired SPP power plants						
Net output energy ¹	GWhe ¹	9,826	10,926	12,421	12,796	13,272
Plant heat rate ²	BTU/kWh	7,833	7,797	7,845	7,874	7,873
Availability factor ²	%	96.7	96.8	97.3	96.9	92.5
Unplanned outage ²	%	2.7	1.3	0.9	1.0	1.1
Planned outage ²	%	0.6	1.9	1.8	2.2	3.5
Solar power plants						
Net output energy ³	GWh	12	59	720	1,161	916
Hydro power plants						
Net output energy	GWh	48	51	133	166	181
Wind power plants						
Net output energy	GWh	-	-	-	-	16

Sources: BGRIM

Notes: 1) Net output of electricity and steam equivalent (GWh equivalent – GWhe)

2) Values are average across all operating plants

3) Excluding output energy from associate and joint ventures companies

Table 2: Power Portfolio Development (Net Capacity in Proportion to BGRIM's Ownership)


Sources: BGRIM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	46,701	44,111	44,193	36,631	31,495
Earnings before interest and taxes (EBIT)	8,017	7,147	6,840	5,834	5,834
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,183	12,830	11,547	9,218	8,579
Funds from operations (FFO)	8,380	9,452	8,546	5,864	6,014
Adjusted interest expense	4,420	3,067	2,757	3,129	2,335
Capital expenditures	11,436	16,721	4,041	5,837	6,272
Total assets	149,198	130,696	121,693	100,636	89,241
Adjusted debt	74,877	64,759	44,640	47,801	39,885
Adjusted equity	36,840	35,328	34,701	27,739	25,744
Adjusted Ratios					
EBITDA margin (%)	28.23	29.09	26.13	25.17	27.24
Pretax return on permanent capital (%)	6.16	6.39	7.05	6.63	7.40
EBITDA interest coverage (times)	2.98	4.18	4.19	2.95	3.67
Debt to EBITDA (times)	5.68	5.05	3.87	5.19	4.65
FFO to debt (%)	11.19	14.59	19.15	12.27	15.08
Debt to capitalization (%)	67.02	64.70	56.26	63.28	60.77

* Consolidated financial statement

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

B. Grimm Power PLC (BGRIM)

Company Rating:	A
Issue Ratings:	
BGRIM230A: THB1,500 million senior unsecured debentures due 2023	A-
BGRIM247A: THB2,000 million senior unsecured debentures due 2024	A-
BGRIM267A: THB3,000 million senior unsecured debentures due 2026	A-
BGRIM280A: THB5,000 million senior unsecured debentures due 2028	A-
BGRIM317A: THB7,000 million senior unsecured debentures due 2031	A-
BGRIM19PA: THB8,000 million subordinated capital debentures	BBB+
Up to THB12,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,000 million due within 10 years	A-
Rating Outlook:	Stable

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