

BANPU POWER PLC

No. 248/2023
22 December 2023

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 09/12/22

Company Rating History:

Date	Rating	Outlook/Alert
09/11/21	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Banpu Power PLC (BPP) at “A+” with a “stable” outlook. The rating incorporates a two-notch uplift from BPP’s stand-alone credit profile (SACP) of “a-”, which reflects the company’s status as a core subsidiary of Banpu PLC (BANPU, rated “A+/stable”).

At the same time, we notch down the rating on BPP’s senior unsecured debentures from “A+” to “A” reflecting an increase in structural subordination risks of debentures, relative to financial obligations of BPP’s operating subsidiaries after the acquisition of Temple II power plant (Temple II).

BPP’s SACP reflects the predictable cash flow from its diversified power portfolio, the quality of its power portfolio, and the proven record of the operating performance of its power plants. Conversely, the rating is partly constrained by heightened financial leverage and interest burden from business expansion.

KEY RATING CONSIDERATIONS

Core subsidiary of BANPU

BANPU has three business groups: energy resources, energy generation, and energy technology. We expect BPP to remain a core subsidiary of BANPU as the company is the flagship subsidiary responsible for the power generation business.

We view BPP is essentially integral to BANPU’s greener and smarter strategy. BPP also has a high degree of integration with BANPU in terms of operations, business, and financial strategies. BPP is an important link in completing BANPU’s energy resources supply chain. We expect BPP to contribute stable cash flow to BANPU, partly offset the high volatility of BANPU’s energy resources business.

In terms of support, we believe BANPU will provide necessary support to ensure BPP’s financial strength, as well as its operation being on track with BANPU’s strategy.

Diversified power portfolio

As of September 2023, BPP owns a sizable power portfolio, with equity capacity (or installed capacity in proportion to its ownership stakes in the power plants) of 3,685 megawatts (MW). Its power portfolio is well-diversified, comprising more than 40 operating power plants in eight countries across global. Thermal and High Efficiency, Low Emission (HELE) power plants are the centerpiece of the power portfolio, making up about 88% of equity operating capacity, or 3,247 MW. BPP also has a pool of operating renewable projects through its investment in Banpu Next Co., Ltd. (BANPUNEXT)

Thermal power plants accounted for 55% of equity capacity, including three combined heat and power (CHP) plants in China, BLCP Power Ltd. (BLCP) in Rayong, and Hongsa Power Co., Ltd. (HPC) in the Lao People’s Democratic Republic (Lao PDR). HELE power plants accounted for 33% of equity capacity with the remaining 12% from renewable power plants.

Power plants in China accounted for 30% of equity capacity and those located in Thailand and Lao PDR, 41%. The gas-fired power plant in the U.S., accounted for 21%. The remaining 7% was spread across Asia and Australia.

Predictable cash flow from power plant investments

BPP's investment in two coal-fired power plants contributes stable cash flow. BPP holds 50% and 40% stakes in BLCP and HPC, respectively. BLCP and HPC operates under 25-year power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) under the Independent Power Producer (IPP) scheme. Typical PPAs under this scheme are based on pay-if-available agreements that protect the power plant from fluctuations in the supply and demand for power. The agreement provides that the power plant will receive a stable cash flow as long as the plant is maintained in accordance with the PPA and ready for EGAT's dispatch instructions.

CHP power plants to recover

We expect CHP power plants in China to gradually recover from 2024 onward. CHP's earnings had come under pressure since 2021 due to the rise in coal prices. CHP's average coal prices was RMB700-RMB1,600 per tonnes in 2021-2023, a substantial increase from RMB500-RMB700 per tonnes in 2020. Two CHP power plants, namely Zhengding (ZD) and Luannan (LN), participated in power trading market in late 2021. The generators that sell power to the power trading market are allowed to sell electricity at a price within the floating range of -20% to +20% from the benchmark tariff, giving flexibility for generators to pass some fuel costs to users. CHP's average electricity tariff in 2022 was at RMB0.40-RMB0.41 per kilowatt-hour (kWh), up from RMB0.34-RMB0.35 per kWh or 14%-17% increase year-on-year (y-o-y).

In the third quarter of 2023, CHP's average coal prices decreased to RMB800-RMB1,000 per tonnes, from RMB900-RMB1,500 per tonnes in 2022. In our base-case projection, we expect the performance of CHP power plants will gradually recover, as we expect the coal price in China will trending down, reflecting China's policy to increase domestic coal production.

Acquired gas-fired power plant in U.S.

In July 2023, Temple Generation Intermediate Holdings II, LLC (Temple Holdings II), a 50% owned subsidiary of BPP, purchased 100% shares in CXA Temple II, LLC (CXA) with a total investment cost of around USD460 million. BPP raised project loans at Temple Holdings II to support all investment costs.

CXA owns Temple II power plant, a 755-MW gas-fired power plant in U.S. Temple II is located next to Temple I power plant (Temple I) and sell electricity to the merchant market in Texas, The Electric Reliability Council of Texas (ERCOT), the same as Temple I. As a result, BPP has a total capacity of 1,523 MW in the ERCOT market. The strategic proximity of two power plants creates synergistic value enabling the company to efficiently operate and manage the power plants, thereby enhancing flexibility and reliability in electricity generation.

Sizable cash flow from U.S. gas-fired power plants

We expect U.S. gas-fired power plants will generate the majority of cash flow to BPP in the next few years resulting from the acquisition of the Temple II.

For the first nine months of 2023, U.S. gas-fired power plants generated earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB6.5 billion accounting for about 73% of BPP's total EBITDA. This outstanding performance was mainly from heatwaves in Texas that led to high electricity demand and wider spark spread (The different between electricity tariff and fuel cost). For the first nine months of 2023, Temple I sold electricity unit of 3,344 gigawatt-hour (GWh), a 5.2% increased y-o-y. Average spark spread was 3.9 cents per kWh, a 56% increased y-o-y. Temple I's EBITDA was USD98 million, up from USD49 million over the same period. BPP's recent investment in Temple II has also benefited from heatwaves and generated sizable EBITDA since July 2023.

In our base-case projection, we expect the power plants to maintain their efficiency and satisfactory heat rates. Average capacity factor is expected to stay around 58% in 2024-2025. We forecast that EBITDA from Temple power plants to contribute about 60%-70% of BPP's total EBITDA.

Heightened leverage from business expansion

The company's financial leverage increased significantly following the acquisition of Temple II in July 2023. As of September 2023, BPP's adjusted debt was THB30.5 billion, up from THB17.2 billion in 2022. The debt to capitalization ratio was 35%, increased from 25% in 2022. However, the net debt to equity ratio was at 0.45 times, in line with the financial covenants of debentures of below or equal 2.5 times. We expect BPP to spend about THB20-THB21 billion for capital and investments during 2023-2025. BPP's adjusted debt to hover around THB27-THB29 billion.

In our base-case projection, we forecast BPP's EBITDA to peak at THB10-THB11 billion in 2023, a significant increase from THB4.3 in 2022. The substantial increase in earnings was mainly from the exceptional performance of Temple power plants. Funds from operation (FFO) is forecast to reach THB7-THB8 billion in 2023. The debt to EBITDA ratio could improve to 2-3 times, and the FFO to debt ratio of about 25%-30%.

We expect BPP's performance to return to a normal level in 2024-2025. BPP's EBITDA is forecast to stay in the range of THB6.5-THB7.0 billion per year. We expect BPP to have pressure from the interest burden given the run-up in interest rates on USD loans. With this in mind, we expect BPP's FFO to arrive at THB3.7-THB4.1 billion per year over 2024-2025. We project the debt to EBITDA ratio to stay below 5 times and the debt to capitalization ratio to stay below 30% by 2025.

Satisfactory liquidity

We assess BPP has adequate liquidity. As of September 2023, the company had cash on hand of about THB9.3 billion, sufficient to meet BPP's short-term and long-term debts coming due in the next 12 months, totaling THB5.5 billion.

Debt Structure

As of September 2023, BPP had consolidated debt (excluding lease liabilities) of THB39.9 billion. BPP's priority debt was THB23.1 billion, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 58%, above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that BPP's senior unsecured creditors are disadvantaged to the priority debt holders with respect to claims against the company's assets. In effect, we lower BPP's senior unsecured debentures by one notch below the company rating.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2023-2025:

- Revenue to range between THB28-THB32 billion per annum.
- Dividend received from affiliates to hover around THB0.7-THB1.2 billion per annum.
- EBITDA to stay around THB6.6-THB10.5 billion per annum.
- Total capital spending and investment of THB20-THB21 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectations that BPP's power plants will continue to perform well and render predictable cash flows. We also expect BPP's financial leverage and cash flow against debt obligations will be in line with our forecasts.

RATING SENSITIVITIES

The SACP could be revised upward if BPP is able to substantially increase its cash generation against leverage level. Conversely, a downward revision on the SACP could occur if BPP's operating performance falls significantly short of our expectation, or the financial profile deteriorates considerably due to excessive debt-funded investments.

Based on TRIS Rating's "Group Rating Methodology", the credit rating on BPP will move in tandem with the rating on BANPU. Any change in the credit rating and/or outlook on BANPU will affect the rating/outlook on BPP accordingly. In addition, any change in the group status of BPP will also affect the rating on BPP.

COMPANY OVERVIEW

BPP was established in December 1996 as a holding company for investing in the power generation and other related businesses. BPP was listed on the Stock Exchange of Thailand (SET) in October 2016. As of September 2023, BANPU held around 79% of the company's total shares while the rest were held by the public.

As of September 2023, BPP owned a power portfolio of 3,685 MW through its operating subsidiaries and affiliates. Its subsidiaries owned three CHP plants in China, with a total capacity of 548 MW. BPP also owned 50% share in a combined 1,523-MW gas-fired power plant in Texas, U.S.

BPP holds equity interests of 50% and 40% in BLCP and HPC, respectively, as well as a 30% share in SLG, a 1,320-MW coal-fired power plant in China, and a 13% share in Nakoso power plant. BPP also holds a renewable portfolio through its investment in a 50% stake in BANPUNEXT.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Sep 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	22,819	25,049	7,437	6,152	6,243
Earnings before interest and taxes (EBIT)	10,819	7,753	3,240	4,900	3,512
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,892	4,315	1,783	2,712	11,408
Funds from operations (FFO)	7,518	3,295	1,515	2,196	10,890
Adjusted interest expense	1,306	897	249	243	305
Capital expenditures	949	407	258	588	1,049
Total assets	103,673	77,665	74,867	49,563	48,808
Adjusted debt	30,488	17,190	18,983	3,505	1,520
Adjusted equity	57,643	52,792	49,579	41,978	39,816
Adjusted Ratios					
EBITDA margin (%)	38.97	17.22	23.98	44.08	182.74
Pretax return on permanent capital (%)	13.19 **	10.64	5.42	10.31	7.29
EBITDA interest coverage (times)	6.81	4.81	7.15	11.16	37.44
Debt to EBITDA (times)	3.34 **	3.98	10.64	1.29	0.13
FFO to debt (%)	24.81 **	19.17	7.98	62.66	716.38
Debt to capitalization (%)	34.59	24.56	27.69	7.71	3.68

* Consolidated financial statements

** Annualized with trailing 12 months

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
- Issue Rating Criteria, 15 June 2021

Banpu Power PLC (BPP)

Company Rating:	A+
Issue Ratings:	
BPP266A: THB1,500 million senior unsecured debentures due 2026	A
BPP296A: THB700 million senior unsecured debentures due 2029	A
BPP326A: THB1,900 million senior unsecured debentures due 2032	A
BPP346A: THB1,400 million senior unsecured debentures due 2034	A
Rating Outlook:	Stable

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