

ENERGY ABSOLUTE PLC

No. 58/2022
19 April 2022

CORPORATES

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

Last Review Date: 10/06/21

Company Rating History:

Date	Rating	Outlook/Alert
10/05/19	A	Stable
09/04/18	A-	Stable
02/06/16	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Energy Absolute PLC (EA) at “A” and affirms the ratings on EA’s senior unsecured debentures at “A-”. TRIS Rating also affirms the “stable” rating outlook to EA. The ratings continue to reflect EA’s robust cash flows from its power generation assets with long-term Power Purchase Agreements (PPAs), as well as its first-mover position in the lithium-ion battery manufacturing industry and moderate financial profile. However, the ratings are constrained by execution risks in its battery manufacturing and electric vehicle (EV) businesses as well as continued rising debt from investments and working capital needs for the EV business.

KEY RATING CONSIDERATIONS

Robust cash flows from power generation business

EA’s investments in renewable power projects continue to play a critical part in supporting the company’s credit strength. EA’s total power generating capacity is 664 megawatts (MW), consisting of four solar farms (278 MW) and two wind projects (386 MW). All of EA’s renewable power projects have been operating fully since 2019, providing over 90% of total earnings before interest, taxes, depreciation, and amortization (EBITDA) to the group. EA generates an annual EBITDA of THB9.3-THB10.0 billion during 2019-2021.

Cash flows from EA’s power portfolio are sizable and highly predictable, supported by long-term PPAs with strong utility off-takers, including the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). The conditions of the PPAs mitigate demand risk and guard the company against the impacts of economic cyclicality. The low operational risks of solar and wind farms also support the stable cash flow generation. In addition, the company benefits from 10-year adder tariffs, which should continue to support cash flow and profitability until the adder expiration.

EA’s power plant operations have remained consistent. Total output was 1,423 million kilowatts (kWh) in 2021, up by 5.1% from 2020, due mainly to better wind speeds.

First-mover in the lithium-ion battery manufacturing industry

The company’s lithium-ion battery factory started operation in December 2021 with a production capacity of 1 gigawatt-hour (GWh). The battery technology is supported by Amita Technologies Inc., a Taiwanese battery manufacturer in which EA holds about 71%.

EA’s early start in the EV business has enabled the company to capitalize on opportunities in the nascent industry. The company’s EV business benefits from business integration along the EV value chain, consisting of a battery plant, assembly plants for EVs, transportation services for E-ferries and E-buses, and over 400 charging stations. Initially, the battery products will primarily be used in EA’s assembly plant to produce commercial EVs, such as E-buses. The company benefits from tax exemptions as its battery factory is in the tax-free zone area.

Growth through commercial EVs

EA has implemented a strategy to accelerate the EV industry transition, at the same time, build up market recognition for its battery products. The company

expects to see rapidly increasing demand for its batteries in commercial EVs, for instance, E-buses and E-trucks. To be competitive in the EV industry, the company looks to draw on its strengths in cost competitiveness as the sole local battery producer, fast charging technology solutions, and one-stop services. The company recently entered the downstream business through the acquisition of a bus operator, SMART Bus Co., Ltd., in March 2022. Once the transaction is completed, the company will convert all existing buses into E-buses with the aim to demonstrate its quality and performance of battery and E-buses.

The market growth potential for E-buses and E-trucks is substantial, supported by the government's EV policy that targets 18,000 newly registered units by 2025, compared with merely 121 units registered in 2021. Anticipating this future demand, EA decided to start expanding its battery production capacity to 4 GWh and doubling its assembly capacity in this year.

Execution risks in the battery manufacturing and EV businesses

We assess that the challenging environment and a broad range of risks will continue to constrain EA's EV business profile. The main risk stem from intensifying competition following the entry of global automakers or much-larger battery suppliers into the Thai or nearby markets. Since battery technology keeps evolving, technology disruption is another key risk that will require EA to invest upfront in research and development (R&D) capability to keep up with fast technology development. A downtrend in battery price would also put pressure on the company's operating efficiency to maintain its price competitiveness.

The company's limited operational records in the EV business are a constraining factor for its credit profile. We view that EA's success in the EV business will hinge on its ability to build trust in its battery quality and securing sufficient orders to fully utilize EV production capacity. Forming partnerships with automakers or large clients to secure long-term contracts will be important for business prospects in the long run.

New earnings from EV to compensate reduced profit from power investments

We expect EA's revenue to grow to THB29 billion in 2022 and to THB37 billion in 2024 from THB20 billion in 2021. The revenue growth is primarily driven by new incomes from selling E-buses and E-trucks, backed by upcoming government's measures to stimulate the adoption of various types of EVs in Thailand. In 2021, EA sold 112 units of E-buses to a business partner. The company has set a sales target for 1,500 E-bus units in 2022. Currently, the company has on-hand orders for about 800 units.

We expect EA's EBITDA will rise from THB11.0 billion in 2022 to THB12.5 billion in 2024. We also expect the EBITDA from the EV business will adequately cover an anticipated THB1.5 billion reduction in EBITDA from the power generation business due to adder expirations in 2023-2024. EA's profitability in the EV business is likely to be thin initially but it should improve later as it ramps up production utilization. The company's average EBITDA margin will likely shrink to 30%-40% due to the rise in revenue mix from the EV business which has lower profit margin than electricity generation business.

Moderate financial profile

We view EA's financial profile during 2022-2024 will maintain at the current level despite the rise in debt to fund the company's capital expenditure (CAPEX). Over the next three years, EA's CAPEX is forecast to total THB17.9 billion, including THB6.75 billion for a battery capacity expansion to 4 GWh, THB1.7 billion for new charging stations, THB2.5 billion for an expansion of assembling capacity, and THB6.9 billion for the acquisition of SMART Bus and new E-buses. The company plans to finance its CAPEX by issuing a convertible bond worth EUR900 million (equivalent to THB33 billion) with the balance reserved for working capital needs to facilitate the production and distribution of E-buses in the future.

During 2022-2024, we forecast the new debt of EA will be partly compensated by growing EBITDA from sales of commercial EVs. The net debt to EBITDA will hover at 4-5 times and the ratio of funds from operations (FFO) to net debt will be about 20%.

Adequate liquidity

We assess that the company's sources of funds will be adequate to cover the uses of funds. Sources of funds will include cash and cash equivalent of THB3.3 billion at the end of December 2021 and an estimated FFO of about THB10 billion in 2022. The company's uses of funds will include bank loan and debenture repayments of THB9.0 billion and dividend payments of THB1.1 billion. CAPEX of THB11 billion over the next 12 months will be funded by the planned issuance of convertible bonds in April or May 2022.

Capital structure

At the end of December 2021, EA's total outstanding debt was THB44.97 billion, of which about THB24.51 billion was priority debt comprising secured and unsecured debts at operating subsidiaries. The priority debt ratio was 57%, exceeding the threshold of 50% in determining significant subordination risk of unsecured bond holders. The ratings on the company's

senior unsecured debentures are therefore assigned one-notch below the company rating to reflect the significant subordination risk.

BASE-CASE ASSUMPTIONS

- EA's revenue to grow to THB29-THB37 billion per annum during 2022-2024.
- EA's EBITDA to rise from THB11.0 billion to THB12.5 billion per annum during 2022-2024.
- CAPEX of THB11.0 billion in 2022 and about THB7.5-THB7.8 billion annually in 2023-2024.
- Dividend payout ratio of around 20%.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EA's reliable and sizable cash generation from its power business will continue to be the main source of cash flows to the group. We expect EA's financial performance to stay in line with our forecast while the EV business should begin to generate satisfactory returns for the company over the next few years.

RATING SENSITIVITIES

A rating upgrade is limited in the next few years due to the execution risks associated with the battery- and EV-related businesses. However, a rating upside may occur if EA can materially enlarge its cash generation while maintaining a sound balance sheet. On the other hand, we could lower the ratings if EA's financial profile is materially weaker than our expectations. This could happen due to aggressive debt-funded investments or large equity losses from the new businesses.

COMPANY OVERVIEW

EA is a holding company, primarily investing in solar and wind power plants. Established in 2006, the company was previously known as Suntech Palm Oil Ltd., a biodiesel manufacturer, before changing its name to Energy Absolute PLC in 2008. In late 2012, EA expanded into the renewable energy business through the development of solar and wind power projects. The company was listed on the Market for Alternative Investment (MAI) in 2013 and was moved to the Stock Exchange of Thailand (SET) in January 2017. The company's major shareholder is the Ahunai family, holding about 43.5% of total shares as of December 2021.

EA's power business has a total contracted capacity of 664 MW, comprising four solar power projects (278 MW) and two wind power projects (386 MW). All of the power plants are in commercial operation. The company is expanding its scope of investment into the energy storage business and developing a framework to support its emerging EV business. EA's EV business includes manufacturing of battery, production and distribution of E-cars and E-buses, E-ferry transport services, and EV charging stations.

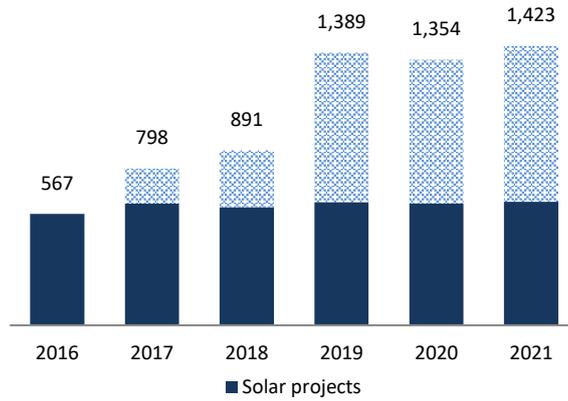
KEY OPERATING PERFORMANCE

Table 1: Power Portfolio as of December 2021

Project	Type	Hold (%)	Status	Contracted Capacity (MW)	Tariff Scheme	Commercial Operating Date
Thailand						
ESLO	Solar	100	Operating	8	THB8 adder	Oct-12
ESN	Solar	100	Operating	90	THB6.5 adder	Dec-13
ESL	Solar	100	Operating	90	THB6.5 adder	Feb-15
ESP	Solar	100	Operating	90	THB6.5 adder	Apr-16
Hadkanghan	Wind	100	Operating	126	THB3.5 adder	Jun-17
Hanuman	Wind	100	Operating	260	THB3.5 adder	Apr-19
				664		

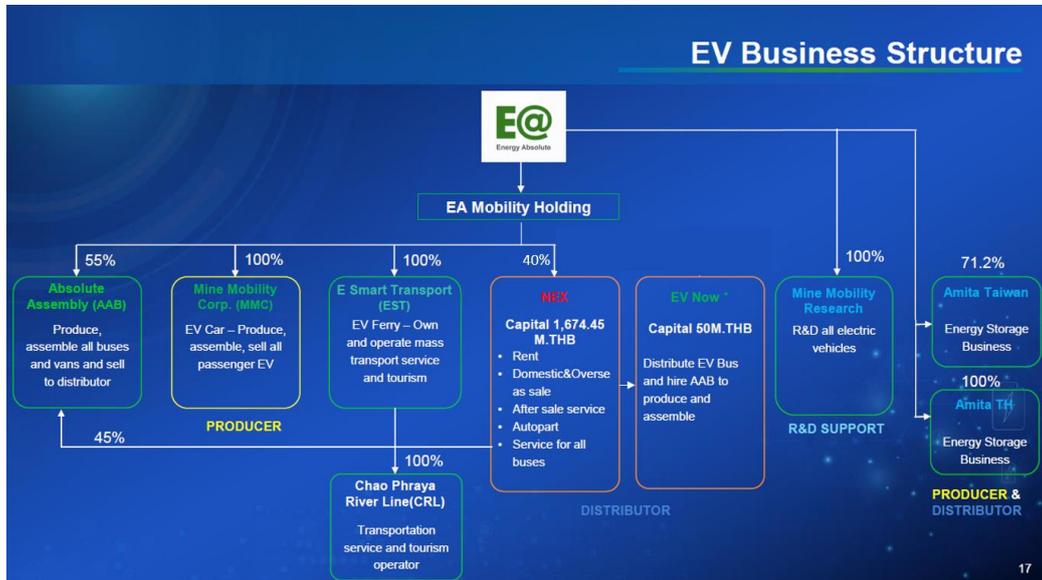
Source: EA

Chart 1: EA's Total Power Outputs (Million Units)



Source: EA

Chart 2: EA's EV Business Structure



Source: EA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	20,197	17,109	14,913	11,578	11,584
Earnings before interest and taxes (EBIT)	6,979	6,538	7,423	5,302	4,907
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,735	9,329	9,970	7,168	6,503
Funds from operations (FFO)	8,274	7,662	8,526	6,030	5,279
Adjusted interest expense	1,421	1,646	1,433	1,106	1,202
Capital expenditures	6,025	7,247	14,726	5,779	3,524
Total assets	85,476	78,484	70,220	59,208	44,530
Adjusted debt	43,820	44,104	34,372	24,803	24,292
Adjusted equity	35,102	29,627	24,866	19,518	14,744
Adjusted Ratios					
EBITDA margin (%)	48.2	54.5	66.9	61.9	56.1
Pretax return on permanent capital (%)	8.8	8.9	12.4	11.3	11.7
EBITDA interest coverage (times)	6.8	5.7	7.0	6.5	5.4
Debt to EBITDA (times)	4.5	4.7	3.4	3.5	3.7
FFO to debt (%)	18.9	17.4	24.8	24.3	21.7
Debt to capitalization (%)	55.5	59.8	58.0	56.0	62.2

RELATED CRITERIA

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

Energy Absolute PLC (EA)

Company Rating:	A
Issue Ratings:	
EA227A: THB1,000 million senior unsecured debentures due 2022	A-
EA227B: THB500 million senior unsecured debentures due 2022	A-
EA228A: THB500 million senior unsecured debentures due 2022	A-
EA237A: THB1,000 million senior unsecured debentures due 2023	A-
EA248A: THB1,500 million senior unsecured debentures due 2024	A-
EA257A: THB700 million senior unsecured debentures due 2025	A-
EA260A: THB3,000 million senior unsecured debentures due 2026	A-
EA297A: THB2,000 million senior unsecured debentures due 2029	A-
EA298A: THB2,000 million senior unsecured debentures due 2029	A-
Rating Outlook:	Stable

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