

ENERGY ABSOLUTE PLC

No. 89/2021
10 June 2021

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Guaranteed	AA+
Outlook:	Stable

Last Review Date: 19/06/20

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 its senior unsecured debentures at “A-”. TRIS Rating also reassigns the rating on the company’s guaranteed debentures at “AA+”. The guaranteed debentures are guaranteed by Siam Commercial Bank PLC (SCB), rated “AA+/Stable” by TRIS Rating.

The ratings continue to reflect EA’s robust cash flows from its power generation assets with long-term Power Purchase Agreements (PPAs), consistent performance of its power generation assets, and moderate financial profile. However, the ratings are constrained by execution risks and intensifying competition in its battery manufacturing and electric vehicle (EV) businesses.

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 60%-70% of total revenue to the group.

Cash flows from EA’s power portfolio are sizable and 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 cyclicalities. The low operational risks of solar and wind farms also support the stability of cash flow generation. In addition, the company benefits from 10-year adder tariffs, which should continue to enlarge cash flow and profitability until the adder expiration.

Wind power underperformed in 2020

Total electricity output from EA’s power portfolio decreased slightly in 2020 as a result of low wind speeds in most part of Thailand. The outputs from wind projects fell by 15%-17% from our estimate. However, this shortfall was partly compensated by strong performance of solar power projects.

The total power output in 2020 amounted to 1,353 gigawatt hours (GWh), dropping by 2.5% from the 2019 figure. During the first quarter of 2021, the total power production was 361 GWh, up by around 2% from the 353 GWh for the same period of 2020. We estimate EA’s total power output should reach 1,430-1,480 GWh in 2021, based on the historical average wind speeds.

Enhanced output following the replacement of solar panels

TRIS Rating anticipates that EA’s total power output to increase in 2022, considering its plan to improve efficiency of its solar projects. The company will replace old solar panels with new “bifacial” solar panels in the two projects in Lopburi and Nakornsawan provinces with an investment of THB 2.8 million. The panel replacements are expected to be completed within this year and should result in an increase in power output by 10%-15%. After installation is completed, we expect EA’s total power generation will rise by 3%-4% in 2022. If

* The rating assigned to SCB is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of SCB. The rating is assigned without participation from SCB.

the result of this panel upgrade is satisfactory, the company plans to expand the panel replacement for the remaining solar plants.

Government's policy hastening EV demand

The Thai government's policy to accelerate the production of EVs is beneficial to EA, rendering long-term growth potential for its battery manufacturing and EV businesses. The government has revised its targets to accelerate EV production to account for 50% of new vehicle production by 2030 and 100% by 2035, five years faster than the previous plan. Under the revised plan, total EV production in Thailand is projected to reach 1.05 million units by 2025 and 6.22 million units by 2030, from about 0.21 million units in 2020.

EA's early start in the EV business has positioned the company to capitalize the opportunity from the beginning stage of the industry uptrend, in our view. EA's integrated EV businesses consist of a 1-GWh battery plant, assembly plants for EV cars and E-buses, E-ferry transportation services, and over 400 charging stations. As one of the first movers in battery manufacturing, we believe EA would have an advantage and benefit from business integration along the EV business value chain. Additionally, the company has cooperated with experienced partners to widen its technical knowhow and scope of services in the future.

Nevertheless, we assess that the challenging environment and a broad range of risks continue to constrain EA's new business. The competition in the EV and battery market will likely intensify from the entry of several global automakers or larger players. Other crucial risks for this new business include the rapid change in battery technology, the downtrend of battery prices, and a scenario of slower-than-expected EV demands due to the economic impact of the Coronavirus Disease 2019 (COVID-19) pandemic.

EV revenue to begin in the second half of 2021

We expect EA's revenue from the EV business will rise gradually in 2021, led by the sales of E-buses. The company's battery manufacturing factory with 1-GWh capacity is currently undergoing test run and is scheduled for commissioning in June this year. The batteries will be primarily targeted for captive uses of various types of EVs. Meanwhile, we expect the assembly factory of E-buses with the production capacity of 3,000 units per year to begin operation in the second half of this year. The company has secured orders for the delivery of 500 units of E-buses to a private bus operator. The order will be delivered from the second quarter of 2021 onwards. The company plans to participate in a bid to supply about 2,500 E-buses and maintenance services for Bangkok Mass Transit Authority (BMTA) once the auction opens.

We view EA's success in its battery business will hinge on building trusts in its battery quality and secure sufficient orders to utilize EV production capacity. Forming partnerships with automakers or large clients to secure long-term contracts will be important for long-term business prospects and enhance revenue visibility.

Expected recovery of financial position

EA's financial position weakened slightly in 2020, caused by a drop in cash flows and rising debts following the developments of its battery manufacturing and EV-related projects. Earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2020 dropped by 6.4% year-on-year to THB9.3 billion, owing to declining power outputs and rising administrative expenses from new business expansions. As a result, the net debt to EBITDA rose to 4.7 times in 2020, from 3.4 times in 2019.

During 2021-2023, we expect EA's financial position to recover after the construction of all core facilities of EV business is completed in 2021. We forecast its total capital expenditure (CAPEX) of THB6.5 billion for 2021 before falling by half for 2022-2023. We forecast that EA's power generation business to remain the core earnings contributor over the next few years. The revenue from EV business will rise but we believe that the cash flows are still non-material to the group. We expect the company's total EBITDA to remain in the THB10.5-THB11.5 billion range per annum, contributed mostly from the power business. The ratio of net debt to EBITDA should gradually improve to around 4 times while the ratio of funds from operations (FFO) to net debt should recover to about 20%.

Manageable liquidity

Over the next 12 months, we assess that the company's sources of funds will be adequate to cover the use of funds. The sources of funds will be derived from cash and cash equivalent of THB4.78 billion at the end of March 2021 and an estimated FFO of THB8.6 billion. The company's use of funds will include bank loan repayments of THB2.3 billion, dividend payments of THB1.1 billion, and capital spending of THB6.5 billion. In addition, we expect the company to refinance debentures of THB4 billion, maturing in July 2021, with new issuance of debentures.

Guarantor's credit profile

The company rating on SCB reflects the bank's competitive position as the fourth largest bank in Thailand by assets, its solid franchise in retail lending, and well-diversified revenue structure. The rating also takes into account the bank's robust capital position and healthy capital buffer, strong funding and liquidity profile, and adequate risk management.

BASE CASE ASSUMPTIONS

- EA's revenue to grow to THB20-THB26 billion per annum during 2021-2023.
- EA's EBITDA to rise from THB10.5 to THB11.5 billion per annum during 2021-2023.
- CAPEX of THB6.5 billion in 2021 and about THB3.5 billion each year in 2022-2023.
- Dividend payout ratio rising to around 30%.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade is limited in the medium term due to the execution risks associated with battery and EV related businesses. However, a rating upside may occur if EA can materially enlarge its cash flow base 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.

The rating and outlook on EA's guaranteed debentures solely reflect the creditworthiness of its guarantor, SCB. The rating and outlook on the guaranteed debentures could be revised should there be any changes in the rating on SCB.

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 Mr. Somphote Ahunai, holding 46.2% as of January 2021.

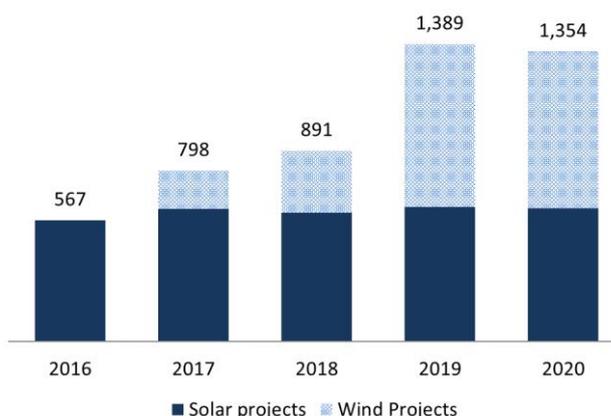
EA's power business has a total contracted capacity of 664 MW, comprising four solar power projects (278 MW) and two wind power projects (386 MW). All of the power plants are in commercial operation. The company is expanding its scope of investment into the energy storage business and developing an ecosystem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

KEY OPERATING PERFORMANCE

Table 1: Power Portfolio as of Mar 2021

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

Source: EA

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


Source: EA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	4,706	17,109	14,913	11,578	11,584
Earnings before interest and taxes (EBIT)	1,783	6,538	7,423	5,302	4,907
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,499	9,329	9,970	7,168	6,503
Funds from operations (FFO)	2,071	7,702	8,548	6,033	5,344
Adjusted interest expense	391	1,646	1,433	1,106	1,202
Capital expenditures	1,522	7,247	14,726	5,779	3,524
Total assets	81,018	78,484	70,220	59,208	44,530
Adjusted debt	42,483	44,104	34,372	24,803	24,292
Adjusted equity	31,189	29,627	24,866	19,518	14,744
Adjusted Ratios					
EBITDA margin (%)	53.1	54.5	66.9	61.9	56.1
Pretax return on permanent capital (%)	8.6 **	8.9	12.4	11.3	11.7
EBITDA interest coverage (times)	6.4	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 (%)	18.3 **	17.5	24.9	24.3	22.0
Debt to Capitalization (%)	57.7	59.8	58.0	56.0	62.2

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Energy Absolute PLC (EA)

Company Rating:	A
Issue Ratings:	
EA217A: THB4,000 million guaranteed debentures due 2021	AA+
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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