TRIS RATING
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ELECTRICITY GENERATING PLC

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CORPORATES

Company Rating: AA+
Outlook: Negative

Last Review Date: 23/09/22

Company Rating History:

Date	Rating	Outlook/Alert
23/09/22	AA+	Negative
08/10/21	AA+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Electricity Generating PLC (EGCO) at "AA+". At the same time, we maintain a "negative" outlook to reflect potential deterioration in the company's financial profile, given the prospect of softening earnings and heightening financial leverage over the next few years.

The rating continues to reflect EGCO's strong market presence, its large and well-diversified power portfolio, and the high reliability of cash flows, aided by long-term power purchase agreements (PPAs). However, these strengths are held back by risks associated with the company's overseas investments and a potential rise in financial leverage from implementing its growth strategy.

The rating factors in EGCO being a strategic affiliate of the Electricity Generating Authority of Thailand (EGAT, rated "AAA/stable"). The rating incorporates a one-notch uplift from EGCO's stand-alone credit profile (SACP) of "aa" to reflect our expectation of support from EGAT in times of financial stress.

KEY RATING CONSIDERATIONS

Large power producer

The rating reflects our expectation that EGCO will remain competitive. The company is a leading power producer and the first Independent Power Producer (IPP) in Thailand. It has strong market presence and a solid record of developing and operating several types of power plants including conventional and renewable energy. Most of its owned power projects have been completed on time and within budget, and met the criteria set forth in the respective PPAs. In addition, these power projects have also performed in accordance with their respective guidance.

EGCO has a large power portfolio. As of June 2023, the company's aggregate equity capacity (or contracted capacity in proportion to its ownership in the power plants) was 6,202 megawatts (MW). Of this, 6,015 MW came from power plants in operation.

Well-diversified portfolio

EGCO's power portfolio is well-diversified in terms of the types of generation, primary fuel used, and geography. This largely helps stabilize its revenue and earnings. Its wealth of investment assets also serves as a source of financial flexibility. The company could divest parts of its existing power assets as an option to lessen debt load.

EGCO, through its subsidiaries and affiliates, owns about 30 power plants. EGCO's power plants are located in seven countries. Domestic power plants account for nearly half of total equity capacity with overseas power plants accounting for the rest. No single plant accounts for more than 20% of the total equity capacity, suggesting a low concentration risk.

Highly reliable cash flows with long-term PPAs

EGCO's cash flows are highly reliable as most of its power projects (about 75% of total equity capacity) operate under multi-year PPAs, with typical terms of 15-30 years. Conventional power plants are the bedrock of EGCO's earnings, holding PPAs that are structured to ensure investment cost recovery and fuel price pass-through. This mechanism helps to considerably minimize market and fuel price risks.

EGCO typically carries low credit risk as it holds PPAs with credible off-takers. EGAT has remained the main off-taker, holding around 56% of EGCO's total equity capacity. Manila Electric Company (Meralco), one of the largest electricity distributors in the Philippines, comes in second accounting for 11% of EGCO's equity capacity.

Pursuit of capacity expansion

EGCO aims to boost its power capacity. After establishing a footprint in the US in 2021, with the two investments, Linden Topco, LLC and Apex Clean Energy Holdings, LLC, EGCO has continued to explore business opportunities in the country. The company recently spent THB2.2 billion in purchasing a 49% stake in Rhode Island State Energy Center, LP (RISEC), which owns a 609-MW gas-fired power plant. The RISEC power plant has operated since 2002, selling its generated electricity to the wholesale market and Shell Energy North America. Considering the limited opportunities of new large power projects in Thailand given the country's high level of power reserve, we expect EGCO to keep focusing on international expansion in the foreseeable future.

Apart from power projects, EGCO has recently expanded into new power-related businesses including oil pipeline transport, smart industrial estate, liquefied natural gas (LNG) importation, and innovation. However, we do not expect these investments to contribute significant revenue and earnings in the near term. We believe the power business will remain the core of its operating performance and assets.

Risks associated with overseas projects

EGCO has been increasingly exposed to country risks following its overseas expansion. The risks stem from less transparency and consistency of regulations in some domiciled countries, the credit risk of off-takers, and environmental challenges. Overseas projects in more developed markets are subject to other types of challenges despite their lower country and regulatory risks. In some countries such as the US and South Korea, EGCO sells electricity to the wholesale markets. Fluctuations in power demand and electricity prices could result in volatile revenue and earnings. As of June 2023, the power plants supplying electricity pools made up about one fourth of EGCO's total equity capacity.

Overseas project execution is also complicated. EGCO has faced delays and cost overruns in the Yunlin offshore wind power project in Taiwan, in which it owns a 25% stake. The project was originally scheduled to operate during 2021-2022, but only about 128 MW of the total of 640 MW were in operation as of June 2023. The Coronavirus Disease 2019 (COVID-19) pandemic, plus an incident during monopile installation, resulted in substantial cost overruns. Under the equity method, EGCO realized a significant shared loss of THB7.3 billion from the project, cutting the company's net profit to THB2.7 billion in 2022. As one of the project sponsors, EGCO is obliged to provide a sizable amount of funds to the project. Additional cost overruns remain the key risk, which could result in further increases in total investment spending and lowering returns of the project.

Cash flows and earnings at risk of contraction

In 2023, our base-case forecast expects the company's total operating revenue to fall to THB49 billion as fuel prices drop. However, its operating profit will likely stay flat at about THB8 billion. A substantial dividend from the Paju power plant, as well as other power projects, should add income and boost EGCO's earnings before interest, taxes, depreciation, and amortization (EBITDA) to about THB20 billion.

However, EGCO's cash flows and earnings look set to fall in the next two years. In addition to the adder expiry on its solar power projects, the PPA of the Quezon project, a large coal-fired power plant in the Philippines, will end in mid-2025. This 460-MW power project has generated an annual EBITDA of about THB5 billion, representing one-fourth of the company's total annual EBITDA. Our base-case projection does not expect EGCO's newly added investment assets to produce large enough returns to offset the earnings contraction. As a result, its EBITDA could slide to THB16-THB17 billion annually after the Quezon project retires. The company is negotiating with the project's off-taker over the PPA extension. Our conservative scenario does not include this upside potential.

Potential rise in financial leverage

EGCO's gearing recently declined following the divestment of its Indonesian geothermal power plants. The proceeds of THB16.8 billion lowered the company's debt to EBITDA ratio to about 4 times in the first quarter of 2023, a level below our previous forecast of 6 times.

However, we expect EGCO's financial leverage to increase in the years ahead. The company is assumed to incur a total investment spending of almost THB50 billion throughout the next three years, given its growth strategy. The combination of additional debt to support the outlays and the potentially softening earnings gives rise to the prospect of a weakening financial profile. We project EGCO's debt to EBITDA ratio to possibly reach 6 times in 2025.

Strategic affiliate of EGAT

We assess EGCO as a strategic affiliate of EGAT. After privatization, EGCO has remained majorly owned and significantly influenced by EGAT. EGCO's president is normally nominated from EGAT's top management. Five of the fifteen members of EGCO's board of directors are also appointed by EGAT. Also, their discernible relationship is tied to long-term contractual commitments in electricity supply and business synergy. Some investment opportunities are initiated by EGAT, especially government-to-government projects.

Based on the assessed linkages and likelihood of support from EGAT in times of need, the assigned rating incorporates a one-notch uplift from EGCO's SACP.

Solid liquidity

EGCO has abundant liquidity, with THB40.8 billion in cash and marketable securities and THB4 billion in undrawn credit facilities as of March 2023. Including the expected funds from operations (FFO) over the next 12 months of THB15.3 billion, sources of cash add up to THB60.1 billion, sufficient to cover all the debt coming due over the next 12 months of THB24.6 billion.

Debt structure

As of March 2023, EGCO's consolidated debt, excluding lease liabilities, was about THB117 billion, of which THB26 billion was considered priority debt. The priority debt to total debt ratio was 22%.

BASE-CASE ASSUMPTIONS

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

- Total operating revenue to be about THB49 billion in 2023, declining to THB30-THB40 billion per annum in 2024-2025, following fuel price declines.
- EBITDA margin to range from 40%-50%.
- Dividend income received from affiliates to range from THB6.5-THB7.5 billion per annum.
- Investment spending of THB50 billion throughout 2023-2025.
- Annual dividend payment of THB6.5 per share.

RATING OUTLOOK

The "negative" outlook reflects the prospect of deterioration in EGCO's financial profile. The combination of earnings contraction from the PPA expiry of its large power plant and the expected rise in debt load from its growth strategy is likely to weaken the company's cash generation against debt.

RATING SENSITIVITIES

The rating outlook could be revised to "stable" if EGCO has solid plans to manage the earnings contraction and leverage to keep the debt to EBITDA ratio below 5 times. This could develop from a capital increase or divesting parts of its power projects. Conversely, we could revise EGCO's SACP downward if the weakened earnings prospect and looming rise in debt burden continue, pushing EGCO's debt to EBITDA ratio to above 5 times without clear signs of reduction. Any further material cost overruns and delays in projects under development could also negatively affect the SACP. A revision to the rating on EGAT or a change in our view on EGCO's degree of importance to EGAT could also affect the rating on EGCO.

COMPANY OVERVIEW

EGCO, the country's first IPP, was founded by EGAT in 1992 under the government's privatization scheme. Initially, EGAT held a 100% ownership in EGCO, which was subsequently diluted to about 48% when EGCO was listed on the Stock Exchange of Thailand (SET) in 1995.

As of March 2023, EGAT remained a major shareholder, with a 25.4% stake in EGCO, followed by TEPDIA Generating B.V. (TEPDIA), which held 23.9%. TEPDIA is owned by three major shareholders including 1) a joint venture (JV) between Tokyo Electric Power Group and Chubu Electric Power Group, 2) Mitsubishi Corporation, and 3) Kyushu Electric Power.

EGCO is a holding company engaging in the power business through its operating subsidiaries and affiliates. The company has also leveraged its expertise in power plant operations, providing operation and maintenance services for others. As of June 2023, the total equity capacity of its power projects was 6,202 MW, of which 6,015 MW was in operation.

EGCO has a well-diversified power portfolio in terms of the types of generation, primary fuel used, and geography. Offshore power projects are located in South Korea (15% of the total equity capacity), the Lao People's Democratic Republic (Lao PDR) (11%), the Philippines (11%), the US (10%), Taiwan (3%), and Australia (2%). Conventional power plants using natural gas and coal as primary fuels make up the majority of 80% of the total equity capacity. The remainder is accounted for by renewable power plants, including hydropower, wind, solar, biomass, and fuel cells. EGCO aims to enlarge the proportion of renewable power in response to global energy trends.

EGCO has diversified into oil pipeline transport, jointly investing with Thai Pipeline Network Co., Ltd. (TPN) to expand the oil pipeline system from the central to the northeastern parts of Thailand. EGCO is developing its first industrial estate located at the site of its retired power plant in Rayong province and it has been granted permits by the Energy Regulatory Commission (ERC) to engage in the LNG shipping business. It is also focusing on the power innovations and energy trading platform in response to energy trends.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (as of June 2023)

Project	Location	Plant Type	Holding (%)	100% Contracted Capacity (MW)	EGCO Contracted Capacity (MWe)
Projects in Operation					
IPP (Domestic)					
1. KN4	Nakorn Si Thammarat	CCGT	100	930	930
2. GPG (KK2)	Saraburi	CCGT	50	1,468	734
3. BLCP	Rayong	Coal-fired	50	1,347	673
SPP (Domestic)					
4. EGCO Cogen	Rayong	Cogen	80	116	93
5. KLU	Pathum Thani	Cogen	100	102	102
6. BPU	Ratchaburi	Cogen	100	215	215
Renewable (Domestic)					
7. NED	Lopburi	Solar	67	63	42
8. SPP 2-5 (4 projects)	Saraburi, Si Saket, Ubon Ratchathani	Solar	100	30	30
9. GYG	Yala	Biomass	50	20	10
10. GPS	Chai Nat, Nakhon Sawan, Phetchabun	Solar	60	26	16
11. TWF	Chaiyaphum	Wind	100	7	7
12. CWF	Chaiyaphum	Wind	100	80	80
13. RG	Roi Et	Biomass	70	9	6
14. Solarco	Nakhon Pathom, Suphan Buri	Solar	49	57	28
Renewable (Overseas)					
15. NTPC	Lao PDR	Hydro	35	1,070	375
16. BRWF	Australia	Wind	100	113	113
17. XPCL	Lao PDR	Hydro	13	1,280	160
18. Gangdong	South Korea	Fuel cells	49	20	10
19. Yunlin (Partial)	Taiwan	Wind	25	128	32
20. APEX (Partial)	US	Solar, Wind	17	294	51
21. NT1PC	Lao PDR	Hydro	25	645	161
Overseas					
22. QPL	Philippines	Coal-fired	100	460	460
23. SBPL	Philippines	Coal-fired	49	455	223
24. Paju	South Korea	CCGT	49	1,823	893
25. Linden Cogen	US	CCGT	28	972	272
26. RISEC	US	CCGT	49	609	298
Subtotal - Projects in Operation				**12,339**	**6,015**
Projects under Construction					
1. Yunlin (Partial)	Taiwan	Wind	25	512	128
2. EGCO Cogen Replacement	Rayong	Cogen	80	74	59
Subtotal - Projects under Construction				**586**	**187**
Grand Total				**12,925**	**6,202**

Source: EGCO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023		------------Year Ended 31 December ---------- 2022	2021	2020	2019
Total operating revenues	14,098		61,233	37,963	35,730	39,822
Earnings before interest and taxes (EBIT)	2,784		10,675	15,430	13,819	15,201
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,462		18,312	18,788	19,717	24,684
Funds from operations (FFO)	3,121		13,153	14,256	14,851	19,314
Adjusted interest expense	1,140		4,039	3,714	3,869	4,252
Capital expenditures	364		1,560	704	251	329
Total assets	255,346		254,043	241,932	214,438	208,523
Adjusted debt	77,215		78,791	92,204	74,500	67,702
Adjusted equity	120,949		120,797	114,037	102,834	105,106
Adjusted Ratios						
EBITDA margin (%)	30.78		29.37	48.57	54.03	60.74
Pretax return on permanent capital (%)	3.46	**	4.51	7.16	6.94	7.74
EBITDA interest coverage (times)	3.91		4.53	5.06	5.10	5.81
Debt to EBITDA (times)	4.22	**	4.30	4.91	3.78	2.74
FFO to debt (%)	16.71	**	16.69	15.46	19.93	28.53
Debt to capitalization (%)	38.97		39.48	44.71	42.01	39.18

* *Consolidated financial statements*
** *Adjusted 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

Electricity Generating PLC (EGCO)

Company Rating:	AA+
Rating Outlook:	Negative

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