TRIS RATING
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EARTH TECH ENVIRONMENT PLC

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CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 26/10/23

Company Rating History:

Date	Rating	Outlook/Alert
26/10/23	BB+	Stable
18/04/23	BBB-	Alert Negative
31/10/22	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Earth Tech Environment PLC (ETC) at “BB+” with a “stable” outlook. The company rating on ETC reflects our view of the company as a “core” subsidiary of Better World Green PLC (BWG, rated “BB+/Stable”).

ETC’s stand-alone credit profile (SACP) remains at “bb+”, which reflects its stable revenue generation, backed by long-term power purchase agreements (PPAs) with Provincial Electricity Authority of Thailand (PEA, rated “AAA/Stable”). Conversely, the SACP is constrained by ETC’s aggressive committed investment plan and the substantial risks associated with its new waste-to-energy (WTE) projects. We expect ETC’s debt-funded investment to considerably escalate its financial leverage over the next two to three years.

KEY RATING CONSIDERATIONS

Substantial investments ahead, with significant development risks

The “bb+” SACP factors in the impending pressure on ETC’s financial leverage, given the plan of substantial debt financing to fund the project development during 2025-2026. It also reflects the execution risks associated with the projects, including risks of delays in project construction, cost overruns, and operational risk.

ETC currently has upcoming project investments. These include 10 WTE projects under Get Green Power Co., Ltd. (GPP) and two WTE projects under Suntech Innovation Power Co. Ltd. (SIP), in which it will hold 50% and 33% stakes, respectively. The projects will be developed as joint ventures with Gulf Energy Development Public PLC (GULF, rated “A+/Stable”) as the co-lead partner.

The 12 new industrial WTE projects have combined capacity of 96 megawatts (MW) under the Very Small Power Producer (VSPP) scheme, with 45.3 MW attributable to ETC. These projects are in funding negotiations and construction is expected to begin in early 2025. Capital expenditure for the 12 new plants, each with an estimated project cost of THB1.5-1.6 billion, is expected to total THB 8.0-9.0 billion during 2024–2026, in proportion to ETC’s equity stake.

Financial leverage to spike during development phase

In view of the huge investment plan, we expect material deterioration in ETC’s financial risk profile. We assume that the new 12 power plants will be funded by project financing structure, with a debt-to-equity ratio we assume of 2.33 times.

While long-term project loans are still under negotiation, we conservatively assume the lender will require a sponsor guarantee, similar to the conditions on ETC’s existing project loans. For analytical purposes, we apply proportional consolidation of the new projects—consolidating the assets, loans, and earnings of the new WTE projects into ETC’s accounts corresponding to its potential guarantee exposure.

We anticipate that project financing loans, totaling THB6.0 billion, will be added to ETC’s total debt, resulting in its net debt peaking at THB8.0-THB8.5 billion at the end of 2026. This will exert significant pressure on financial leverage, with the debt to EBITDA ratio potentially hiking to around 30 times in 2026.

Over the course of project development, the debt to capitalization ratio could reach 75%. However, the financial leverage level will likely decrease significantly following the full-year cash generation realization of commercial operations of each new plant in mid-December 2026. This decline in leverage will depend on successful completion of the project development lasting about two years, which carries notable development risk. Notwithstanding our base-case forecast, we note that ETC's financial leverage level will eventually be subject to the final financing structure and ETC's net exposures and obligations tied to the projects. From a long-term business risk perspective, we expect the investments to have positive impact due to the increased scale of operations and earnings, as well as enhanced diversification.

Minimal demand risk, with secured fuel supply

As for ETC's current operation covering a total contracted capacity of 16.5 MW on a non-firm basis, we assess counterparty risk as minimal, supported by ETC's PPAs with PEA. ETC owns and operates three industrial WTE power plants selling electricity to the PEA with the benefit of a THB0.70 per kilowatt-hour (kWh) Feed-in-Tariff (FiT) premium for the first eight years.

On the supply side, ETC secures Solid Recovered Fuel (SRF) feedstock for its plants primarily through long-term agreements with its parent company, BWG, which has abundant raw materials for SRF production. These agreements feature fixed price structures with a 2% annual escalation.

Improved operational performance, but earnings pressured by imminent expiration of tariff premium

A recovery in operating efficiency in the first half of 2024 supported improvement in cash generation for the company. ETC's overall electricity sales for the period increased to 57.5 gigawatt-hours (GWh), marking an 11% year-on-year (y-o-y) growth. This improvement was mainly driven by higher availability factors at the two smaller power plants. Meanwhile, the largest 8-MW power plant in Kaeng Khoi recorded a 13% increase in electricity sales despite significant curtailments in the Kaeng Khoi grid.

ETC's overall plant efficiency was driven by higher fuel efficiency, with the fuel consumption rate decreasing by around 14% compared to the first half of 2023. We forecast that EBITDA will increase to around THB275 million in 2024, indicating an EBITDA margin of about 37%.

Looking ahead to 2025-2026, revenue generation will be pressured by expiration in March 2025 of the premium portion in the FiT tariff structure of the 8-MW power plant. This will lead to a 4.0% reduction in the overall tariff in 2025-2026 compared to 2024. Meanwhile, we assume revenue from the new power plants will begin no earlier than mid-December 2026. As a result, we expect annual EBITDA to decline to around THB240-THB265 million in 2025-2026, with an EBITDA margin of around 33%-34%.

Sufficient liquidity positioned for investments, with further funding needs ahead

In assessing ETC's liquidity position, we do not apply the above-mentioned proportional consolidation. The proceeds from the 2020 IPO and the debenture issuances during 2022-2023 have bolstered ETC's liquidity. We evaluate ETC's current liquidity position as sufficient to cover its financial obligations over the next 12 months.

The company's sources of liquidity at the end of September 2024 comprised cash on hand, including restricted cash deposits, of THB1.9 billion and total undrawn bank credit facilities of about THB60 million. We forecast ETC will generate funds from operations (FFO) over the following 12 months of THB130-THB150 million. These should be sufficient to cover maintenance capital expenditures and debts coming due over the same period, totaling about THB670 million.

Looking ahead, we expect ETC to secure sufficient fund to be used for equity injections to develop the new WTE projects, with the majority expected in 2026. This rests on our assumption that ETC will successfully roll over its two debenture issues, totaling THB1.2 billion, which will mature in 2025-2026. Should there be any funding gap, the company may need to raise additional funding through capital increases or additional debenture issuances.

"Core" subsidiary of BWG

We view ETC as a "core" subsidiary of BWG. BWG has effective control over ETC in terms of operations, finance, and business development functions. The power portfolio under ETC helps BWG create a WTE value chain drawing on its abundant raw materials for SRF production. ETC's power portfolio contributed about 57% of BWG's EBITDA in 2021-2023. Also, the more stable earnings from the power business largely help offset the volatile nature of earnings from the waste management business. The importance of ETC to BWG will likely grow in coming years, following the expansion of ETC's power portfolio.

BWG's ownership in ETC could be further diluted by ETC's capital increases through the company's private placement plan. However, we expect BWG will ultimately maintain control over ETC and provide strong financial support in times of need.

Debt structure

At the end of September 2024, ETC's total debt, excluding lease liabilities, stood at THB1.51 billion. ETC's priority debt was THB312 million, comprising all debts owed by its subsidiaries. The priority debt to total debt ratio was 21%.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2024-2026 are as follows:

- Overall availability factors of the three existing plants to be in the 86%-88% range.
- EBITDA margin of around 33%-38%.
- New investment in a 50% stake in ten 9.9-MW WTE power plants and a 33% stake in two additional 9.9-MW WTE plants, each with an estimated project cost of THB1.5-THB1.6 billion.
- The new power plants to start commercial run by mid-December 2026.
- Capital expenditure for the 12 power plants in proportion to ETC's equity stake to total THB8.3-THB8.8 billion.
- Project financing structure with a debt-to-equity ratio of about 2.33 times.
- ETC's capital structure has yet to incorporate a potential fresh capital injection from a private placement of new shares.

RATING OUTLOOK

The "stable" outlook reflects our expectation that any rise in ETC's financial leverage and level of new investments will remain in line with our base-case forecast, with all new power plants beginning commercial operation by 2026.

We also expect the operating performance to continue improving through 2024–2026. Besides, we expect BWG to maintain its controlling interest over ETC despite the possibility of dilution in its ownership due to ETC's private placement of new shares. Furthermore, we expect ETC will remain a core subsidiary of BWG.

RATING SENSITIVITIES

According to TRIS Rating's "Group Rating Methodology", the rating on ETC will move in tandem with that on BWG. Any change in the rating on BWG will result in the same change to the rating on ETC. Moreover, we could lower the rating on ETC if we view the company's status within BWG Group as having weakened materially. For instance, material dilution in parental control and support from BWG could act as a trigger.

The SACP is unlikely to be raised over the next two years, considering the investment outlays at hand. Conversely, we could lower the SACP if ETC's operating performance falls materially short of our estimates or the company elects to pursue more aggressive debt-financed investments beyond our expectations. A lower SACP could also result from any issues that materially impact the viability of the projects, such as significant cost overruns or serious delays in the commencement of operations.

COMPANY OVERVIEW

Established in 2004, ETC is a subsidiary of BWG—a leading provider of industrial waste management services. In 2020, ETC was listed on the Market for Alternative Investment (MAI) and later moved to the Stock Exchange of Thailand (SET). Currently, BWG has an effective shareholding of 47.6% in ETC.

ETC and its subsidiaries produce electricity from industrial waste for sale to the PEA under the FiT tariff structure. In all, ETC has total installed capacity of 20.4 MW and total contracted capacity of 16.5 MW. The fuel feedstock for each of the company's three plants is secured by long-term SRF purchase agreements with its parent, BWG.

ETC pioneered the industrial WTE business in Thailand. ETC's first power plant started commercial runs in March 2017. Located in Kaeng Khoi Industrial Estate, the plant has installed capacity of 9.4 MW. The second project is owned and operated by ETC's subsidiary, Recovery House Co., Ltd. (RH). Located in Nakornluang Industrial Estate, the power plant commenced operations in September 2019, with 7-MW installed capacity. ETC's third power project is owned by AVA Grand Energy Co., Ltd. (AVA). Located in Phichit Industrial Estate, the 4-MW power plant started operations in December 2019.

ETC currently has several project investments in the pipeline, including 10 WTE projects under GPP and 2 WTE projects under SIP, in which it will hold 50% and 33% interests, respectively. The 12 new industrial WTE projects have combined capacity of 96 MW under the VSPP scheme, with 45.3 MW attributable to ETC. These projects are undergoing funding negotiations and construction is expected to begin in early 2025.

Table 1: BWG's Power Portfolio as of 30 September 2024

1. Projects in Operation	Plant Type	Installed Capacity (MW)	Contracted Capacity (MW)	ETC's Holding (%)	PPA Term (Year)	Expiry Year
1.1 ETC PP	Industrial WTE	9.4	8.0	100.0	20	2037
1.2 RH PP	Industrial WTE	7.0	5.5	94.9	20	2039
1.3 AVA PP	Industrial WTE	4.0	3.0	97.0	20	2039
Total (in operation)		***20.4***	***16.5***			

2. Projects in Pipeline	Plant Type	Installed Capacity (MW)	Contracted Capacity (MW)	ETC's Holding (%)	PPA Term (Year)	SCOD
2.1 GGP's 10 WTE projects	Industrial WTE	99.0	80.0	50.0%	20	2026
2.2 SIP's 2 WTE projects	Industrial WTE	19.8	16.0	33.0%	20	2026
Total (in pipelines)		***118.8***	***96.0***			

Sources: ETC & BWG

KEY OPERATING PERFORMANCE

Table 2: ETC's Plant Performance Statistics

	Unit	Jan-Jun 2024	------------ Year Ended 31 December ----------- 2023	2022	2021	2020
Waste-to-Energy VSPP power plants						
ETC PP – Net output	GWh	26.6	51.1	55.1	51.7	49.3
ETC PP – Availability factor	%	84.0	89.0	87.5	86.3	87.4
RH PP – Net output	GWh	19.6	37.1	40.0	39.8	39.1
RH PP – Availability factor	%	91.2	88.4	91.3	91.3	89.1
AVA PP– Net output	GWh	11.3	21.7	20.6	22.9	20.6
AVA PP– Availability factor	%	88.8	82.0	82.3	89.5	83.7

Source: ETC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December ---------			
	Jan-Sep 2024	2023	2022	2021	2020
Total operating revenues	577	752	783	749	673
Earnings before interest and taxes (EBIT)	134	153	201	259	282
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	223	269	318	370	388
Funds from operations (FFO)	141	151	254	301	303
Adjusted interest expense	82	118	63	69	85
Capital expenditures	94	351	76	98	96
Total assets	4,683	5,102	4,552	3,970	4,025
Adjusted debt	0	0	0	0	0
Adjusted equity	3,017	2,932	2,899	2,762	2,569
Adjusted Ratios					
EBITDA margin (%)	38.7	35.8	40.6	49.4	57.6
Pretax return on permanent capital (%)	3.8 **	3.3	4.9	6.7	8.8
EBITDA interest coverage (times)	2.7	2.3	5.0	5.4	4.6
Debt to EBITDA (times)	0.0 **	0.0	0.0	0.0	0.0
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.0	0.0	0.0	0.0	0.0

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
n.m. = *Not measurable*

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

Earth Tech Environment PLC (ETC)

Company Rating:	BB+
Rating Outlook:	Stable

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