TRIS RATING
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ETERNITY POWER PLC

No. 220/2020
30 December 2020

CORPORATES

Company Rating: BBB-

Outlook: Stable

Last Review Date: 27/12/19

Company Rating History:

Date	Rating	Outlook/Alert
07/12/18	BBB-	Stable
01/12/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Eternity Power PLC (ETP); previously named Eastern Power Group PLC (EP), at "BBB-" with a "stable" outlook. The rating reflects the change in company's power portfolio mix and the predictable cash flows from renewable power projects. The rating also takes into consideration the profits from investments in two gas-fired cogeneration power plants under the small power producer scheme (SPP). Conversely, the rating is weighed down by the risks associated with the wind power projects under development in Vietnam. The rating also recognizes challenging liquidity management during the construction period of the wind power projects.

KEY RATING CONSIDERATIONS

Change in the mix of power portfolio

Given the dearth of opportunities and declining returns on investment in the domestic market, ETP has been adjusting the mix of its power portfolio, in response to its growth strategies and efforts to strengthen its capital structure. During 2019-2020, ETP divested all of its operating solar farms with total capacity, in proportion to ETP's ownership, of 127 megawatts (MW). In total, ETP recognized gain on disposal of about THB2 billion. Some of the proceeds has been used to invest in four new onshore wind farms in Vietnam. The wind farms will add up a capacity of 155 MW to the company's power assets portfolio.

Currently, ETP's power portfolio holds a total capacity of 325 MW, comprising four wind farms in Vietnam (155 MW), two solar farms in Japan (4 MW), a cluster of small-sized solar rooftops (8 MW), and investment in two cogeneration power plants (159 MW). Of the total capacity, power plants which are in operation represent a combined capacity 168 MW.

The development and construction of the wind farms in Vietnam are in progress. When all power projects are fully operational, we expect the new portfolio mix would significantly enhance ETP's operating cash flow and improve the company's capital structure.

Predictable cash flow from operation

The rating is built on the predictable cash flow ETP earns from its power business. ETP's solar rooftop projects in Thailand have secured long-term power purchase agreements (PPAs) with Metropolitan Electricity Authority (MEA) and private power buyers. The wind farms hold 20-year PPAs with Vietnam Electricity (EVN). The company receives fixed feed-in-tariff (FiT) under PPAs with MEA and EVN. All PPAs are on a non-firm basis.

ETP has also invested in two cogeneration power plants, which have a combined contract capacity of 270 MW, under PPAs with the Electricity Generating Authority of Thailand (EGAT). In all, we view the cogeneration plants have a fair performance record as one of the two plants experienced an unplanned outage.

Enhanced cash flow against debt obligations

The rating reflects our expectation of sizable cash flow streams the wind power projects will generate. As ETP's operating power generating assets are almost entirely divested, the company's earnings are expected to drop drastically in 2021, before staging a strong rebound in 2022. We expect the wind power projects will bring in THB1.2 billion in revenue per year once they commence commercial operation. In our base-case forecast, we project ETP to start operating all of the wind farms by October 2021 and receive a fixed FiT of US$8.5 cents per kilowatt-hour (kWh). We project ETP's revenue to slide to around THB250 million in 2021, but surge to THB1.2 billion a year from 2022 onwards. Likewise, earnings before interest, taxes, depreciation, and amortization (EBITDA) are projected to drop drastically to THB100 million in 2021, before rising to around THB950 million in 2022. EBITDA margin is expected to decline to 45% in 2021 and then increase to stay at 80% from 2022 onwards.

From 2022 onwards, ETP's funds from operations (FFO) are expected to be achieved at THB600 million a year, with the ratio of FFO to debt to stay above 10%. With the previous mix of portfolio, we had projected the FFO to debt ratio to stay low at around 5% in our previous forecast. Therefore, this mirrors the expectation of heightened cash flow against debt obligations after the adjustment of portfolio.

Improved capital structure

Following the divestment, ETP's adjusted debt sharply declined to THB1 billion as of September 2020, from THB5.9 billion in 2019. In addition, the large gain on sales of power assets helped solidify ETP's equity. In effect, the debt to capitalization ratio dropped to 19.5%, from 66.8% over the same period. We expect the company's leverage will remain low throughout 2021.

In our base-case forecast, we expect ETP to obtain financing from the engineering, procurement, and construction (EPC) contractor to fund a significant portion of construction costs of the wind power projects. The EPC financing is planned to be replaced by project loans a year after the projects commence operation. The financing scheme helps lessen debt loads during the construction period.

As a result, adjusted debt is forecast to stay about THB1.2-THB1.4 billion in 2020-2021 before surging to THB5.6 billion in 2022. The debt to capitalization ratio is projected to peak at around 50% in 2022, before gradually declining. In our previous forecast based upon ETP's preceding mix of portfolio, we had projected ETP's debt to capitalization ratio to peak at about 70%.

Challenging construction and operational risks

In our view, there is an array of execution risks related to ETP's aforesaid efforts to strengthen its financial profile. With the current portfolio mix, wind power will represent around 48% of total capacity while solar power will account for a minimal slice. In general, wind power requires high investment and more experience in project management. ETP's wind farm development entails higher construction risks, relative to solar power assets. The construction of a wind power project could be stretched for a long period, given the high requirement of plant design and construction. A delay of construction and cost overrun could induce a significant financial burden.

In addition, wind power plants entail higher operational risks, particularly mechanical and electrical breakdowns. Moreover, the success of a wind power project largely hinges on the availability and the speed of wind. Small variations in average wind speed over time can make a significant deviation in power output.

Risk of lower tariff

Vietnam has raised tariff for wind power in 2018 to draw investment interest. The Vietnamese government set the 20-year FiT at US$0.085/kWh for onshore wind power projects commissioned before 1 November 2021. The projects that fail to commence by the deadline are at risk of tariff cuts. Although partly mitigated by the terms of contract with the EPC contractor, the construction risks of ETP's wind power projects remain a serious threat to the project viability, given the tight timeline to meet the FiT longstop date. However, ETP has a track record of successful development of large-scaled solar farms in Vietnam within a tight timeline.

Growing exposure in Vietnam

ETP's growth strategy will broaden the company's exposure to Vietnam country risk. With the new wind power projects, Vietnam will represent 48% of ETP's total capacity. Vietnam's monsoonal climate and long coastlines explain the country's strategy for the wind power development. The demand for energy grows almost twice as fast as the gross domestic product (GDP). However, power projects in Vietnam carry several risks, including changes in regulations, contract enforcement, and curtailment risks. We are also of the opinion that the credit profile of the state-run EVN is not as strong as the Thai state-owned power buyers.

Tight liquidity

We assess ETP to have tight liquidity over the next 12 months. We see significant refinancing risk in relation to the company's debt profile, in particular the debentures coming due in 2021. ETP also has to manage the funding of the new wind farm projects. Meanwhile, ETP is expected to experience a drastic drop in EBITDA and FFO in 2021 as a result of the divestment in solar power assets.

As of September 2020, ETP had cash on hand of approximately THB1.9 billion and incoming cash of THB0.3 billion from the divestment. The available cash of approximately THB2.2 billion can accommodate the investment in wind farm projects since ETP is required to pay around THB2.1 billion for the share purchase and equity injection to the project companies. The rest of project developments are funded by EPC financing. For the next 12 months, ETP has debentures coming due of THB1 billion. ETP would need to refinance the maturing debentures. We opine that the refinancing risk will be lessened with the progress of the wind power projects.

BASE-CASE ASSUMPTIONS

- In 2021, revenues will be generated by existing solar rooftop and by four developing wind farms for the last two months of 2021.
- Solar rooftop projects to be based on P50 case and the wind farms to be based on P90 case. During 2021-2023, revenues to range from THB0.2-THB1.2 billion.
- EBITDA to range between THB110-THB960 million.
- Total capital expenditure to be THB6.8 billion during 2020-2023.
- ETP to refinance all debentures due in 2021. The adjust net debt to stay around THB1.2-THB5.6 billion.
- ETP to obtain long credit terms from EPC contractors for the construction of new projects in Vietnam.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ETP’s new wind farm projects will progress as planned and the projects will perform in line with expectations. Moreover, we expect ETP to prudently manage liquidity over the course of construction of the wind farms.

RATING SENSITIVITIES

A rating upgrade is unlikely in the next 12-18 months. Conversely, downward rating pressure would build if the wind farm projects face significant delay and/or cost overrun, which considerably hurt the return of the projects, or if the performances of the projects fall significantly short of expectations. Moreover, downward revision to the rating could develop if ETP engages in sizable investment, which leads to heightened liquidity or financial risk.

Based on TRIS Rating’s “Group Rating Methodology”, ETP’s credit rating will move in tandem with the rating of its parent, Eastern Power Group PLC (EP; rated “BBB-/Stable”). Any change in EP’s credit rating and/or outlook will affect ETP’s credit profile accordingly.

COMPANY OVERVIEW

Incorporated in 2010 under the name of “BorPloi Solar Co., Ltd.”, ETP is a renewable power subsidiary of Eastern Power Group PLC (EP), which was formerly known as Eastern Printing PLC (EPCO). The company later changed its legal status to a public company and changed its name from “BorPloi Solar Co., Ltd.” to “Eastern Power Group PLC”.

In April 2020, it was renamed “Eternity Power PLC” (ETP). At the same time, EPCO was renamed “Eastern Power Group PLC”, the former name of ETP.

Currently, EP is the major shareholder of ETP, with 75% ownership. Based upon its sizable contributions to EP and the promising prospects for renewable power, ETP is considered a core subsidiary of EP.

ETP launched its two pilot solar farm projects in Kanchanaburi province, with a total capacity of 11 MW in 2012. In 2013, ETP added a solar farm project in Lopburi province, with a capacity of 6 MW. During 2014-2015, the company invested in eight solar rooftop projects in Bangkok and Samutprakan province, with aggregate contracted capacity of 1.5 MW.

ETP later expanded solar power projects in Thailand and Japan, as well as cogeneration power projects. In 2016, ETP increased its capital through a private placement and received THB750 million in new funds in a bid to support the acquisition of two cogeneration power companies. Currently, ETP holds 50.7% of PPTC Co., Ltd. (PPTC) and 41% of SSUT Co., Ltd. (SSUT). Both companies produce cogeneration power under the SPP scheme, through 25-year PPAs with EGAT and long-term contracts with industrial users. ETP also added solar farm in Prachinburi province to its portfolio with capacity of 5 MW. In addition, ETP added up 44 MW into the portfolio by expanding to invest in five solar farms in Japan.

In 2018, ETP invested in two solar farms in Vietnam, “Xuan Tho 1” and “Xuan Tho 2”. In effect, ETP owned four solar farms in Thailand, five solar power farms in Japan, two solar power farms in Vietnam, and a cluster of solar rooftop power plants in Thailand. Total capacity measured in proportion to ETP’s ownership was at 137 MW. Apart from the renewable power plants, ETP also hold an investment in two cogeneration power plants which added up total capacity to 296 MW.

In late 2019, ETP sold off the two solar farms in Vietnam after they commenced operation. In 2020, ETP sold all operating solar farms from its portfolio. Instead, ETP invested in four wind farms in Vietnam, namely “Huong Linh 3” (HL3), “Huong Linh 4” (HL4), “Che Bien Tay Nguyen” (TN), and “Phat Trien Mien Nui” (MN). The four wind farms are slated to commence operation by end of October 2021.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (After the Divestment)

Project	Plant Type	Held by EP (%)	Installed (MW)	Equity (MWe)	SCOD/COD
OPERATING			**366.9**	**166.0**	
Solar rooftop	Solar rooftop	100	1.5	1.5	Sep-14
Commercial rooftop	Solar rooftop	100	5.4	5.4	2018-2019
PPTC	CCGT [(1)]	51	120.0	60.8	Mar-16
SSUT	CCGT [(1)]	41	240.0	98.3	Dec-16
CONSTRUCTING & DEVELOPING			**164.2**	**159.2**	
SHICHI KACHUKU1, 2	Solar farm	98	4.4	4.3	2021
HL3	Wind farm	100	28.8	28.8	Oct-21
HL4	Wind farm	100	32.0	32.0	Oct-21
TN	Wind farm	90	49.5	44.6	Oct-21
MN	Wind farm	100	49.5	49.5	Oct-21
Total portfolio			**531.1**	**325.2**	

Remark: [(1)] Combined cycle gas turbine
Source: ETP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	--------------Year Ended 31 December ------------ 2019	2018	2017	2016
Total operating revenues	701	967	603	501	353
Earnings before interest and taxes (EBIT)	427	799	499	395	165
Earnings before interest, taxes, depreciation, and amortization (EBITD/	505	603	388	335	248
Funds from operations (FFO)	236	163	125	124	154
Adjusted interest expense	200	368	263	202	94
Capital expenditures	87	647	814	907	1,093
Total assets	7,842	9,687	9,012	7,658	5,735
Adjusted debt	969	5,919	6,205	5,210	2,452
Adjusted equity	3,999	2,946	2,336	1,969	1,681
Adjusted Ratios					
EBITDA Margin (%)	71.98	62.33	64.42	66.83	70.23
Pretax return on permanent capital (%)	6.61 **	8.84	6.11	6.03	4.40
EBITDA interest coverage (times)	2.52	1.64	1.48	1.66	2.64
Debt to EBITDA (times)	1.59 **	9.81	15.98	15.55	9.90
FFO to debt (%)	20.27 **	2.75	2.01	2.37	6.26
Debt to capitalization (%)	19.51	66.77	72.65	72.57	59.33

* *Consolidated financial statements*
** *Annualized with 12 months trailing*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Eternity Power PLC (ETP)

Company Rating:	BBB-
Rating Outlook:	Stable

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