

ETERNITY POWER PLC

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CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 30/12/20

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) at “BBB-” with a “stable” outlook. The rating reflects the expectation of reliable earnings to be derived from the company’s wind power projects in Vietnam. The rating also takes into consideration ETP’s heightened liquidity and expected improvement in its level of cash generation against debt obligations, arising from the divestment of cogeneration power plants. Contrarily, the rating is held back by the lingering execution risks of the wind power projects, exposure in Vietnam, and a more challenging environment of renewable power business.

KEY RATING CONSIDERATIONS

A Core subsidiary of EP

We view ETP is a core subsidiary of its parent, Eastern Power Group PLC (EP; rated “BBB-/Stable”), due to its strategically important role and substantial earnings contribution. ETP is a power business arm of the group, supporting the group’s strategies to expand in power business. In our forecast, ETP will contribute around 90% of the group’s earnings before interest, taxes, depreciation, and amortization (EBITDA).

ETP’s stand-alone credit profile (SACP) is at “bbb-”. With its status as a core subsidiary, the company rating on ETP is equal to the company rating on EP, or “BBB-”.

Expected reliability of earnings from wind farms

Over the past years, ETP has succeeded in developing a number of solar power projects in Thailand, Japan, and Vietnam. The company also held investments in three cogeneration power plants. On the whole, ETP’s power portfolio has consistently delivered satisfactory performance.

Following the divestiture of several operating power plants, ETP’s revenue is derived from a small cluster of solar rooftop projects in Thailand, which have secured long-term power purchase agreements (PPAs) with Metropolitan Electricity Authority (MEA) and private power buyers. All PPAs are on a non-firm basis. However, ETP’s solar rooftop projects altogether render only THB80-THB90 million per year.

ETP is currently constructing four wind farms in Vietnam, with net capacity of around 157 megawatts (MW). The company’s future earnings therefore heavily hinge on the success of the project. Given ETP’s past records of successful project executions, we expect ETP will complete the development of the wind power projects. The rating reflects our expectation that the wind farms will consistently deliver sizable earnings in the years ahead. The reliability of cash flow will be backed by multi-year PPAs with the state-run Vietnam Electricity (EVN), fixed tariff, and expected satisfactory performances.

Wind farms will enlarge earnings

In our base-case forecast, we project ETP to begin operating its first three wind farms in March 2022, with a combined capacity of 125 MW. The remaining projects carrying 32 MW capacity will commence operation in June 2022. All projects will receive a feed-in-tariff (FiT) of US\$8.5 cents per

kilowatt-hour (kWh). When fully onstream, we expect the wind farms will generate THB1 billion in EBITDA a year.

Pandemic-led delay in constructions

Several wind power developers in Vietnam have been affected by the fallout of the Coronavirus Disease 2019 (COVID-19) pandemic, with delays in the manufacturing and transportation of wind turbines. Project construction and the installation of equipment have also been severely affected by travel restrictions and lockdowns. Similar delays occurred to ETP's wind power projects under construction.

As of mid-December 2021, the construction progress of two wind farms in Quang Tri province (96 MW) was about 80%-90% while the other two wind farms in Gia Lai province (61 MW) had slower progress. As a result, ETP's expected revenue in 2021 and 2022 appears to be weaker than our previous projection.

Risk of tariff cut

The Vietnamese government set the 20-year FIT of US\$8.5 cents kWh for onshore wind power projects commissioned before 1 November 2021. The projects that fail to commence operation by the deadline are at risk of tariff cuts. As ETP's wind power projects already miss the FIT longstop date, they may no longer be eligible for the favorable FIT. Wind power developers have requested the Vietnamese government for extension of deadline. Although the Vietnamese government's decision on the request is still pending, we assume ETP will continue to receive the offered tariff in our forecast. Nonetheless, further delays in project completion will jeopardize the expected cash flow.

In addition to construction risks, wind power generation generally entails higher operational risks, such as mechanical and electrical breakdowns. The success of a wind power project largely hinges on the availability and the speed of wind. Small variations of wind speeds over time may result in a significant deviation in power outputs. The performances ETP's very first wind farms will need to be proven.

Divestment of cogeneration power plants

In December 2021, ETP sold off its shares in Eastern Cogeneration Co., Ltd. (E-COGEN), to Univentures BGP Co., Ltd. (UVBGP), the joint ventures between Univentures PLC (UV) and B. Grimm Power PLC (BGRIM). E-COGEN holds shares in PPTC Co., Ltd. (PPTC) and SSUT Co., Ltd. (SSUT), which own three cogeneration power plants under the small power producer scheme (SPP). The cogeneration power plants hold 25-year PPAs with the Electricity Generating Authority of Thailand (EGAT) and long-term contracts with industrial users. After the divestment, ETP's power portfolio capacity reduced by around half to 164 MW when measured in proportion to ETP's ownership. This comprises 157 MW of four developing wind projects in Vietnam and 7 MW of operating solar rooftop projects. That said, we view the divestment does not impact ETP's EBITDA as the cogeneration power plants are not distributing dividends, due to their long-pending disputes with the engineering, procurement, and construction (EPC) contractor.

Enhanced liquidity

The divestment transaction will enhance ETP's liquidity. We expect ETP to receive cash of THB10.7 billion, net of arbitration reserve, and to recognize profit of about THB2 billion from the divestment. In our forecast, ETP will spend about THB6.3 billion to repay short-term debts and hold remaining cash balance of THB4.4 billion at the end of 2021. ETP plans to pay remaining project cost of the wind farms under construction by cash since the projects no longer obtain financing from the EPC contractor. We expect ETP will pay the remaining cost of wind farms totaling THB2.1 billion in 2022, the amount of which could be fully covered by the available cash from divestment. Therefore, construction risks of the wind farms are partly mitigated.

Improvement in cash flow against debt

In total, we project ETP's revenue to slide to around THB33 million in 2021. Revenue will soar to THB900 million in 2022 and reach THB1.3 billion a year in 2023-2024. At the same time, ETP will arrive at EBITDA of THB700 million in 2022 and THB1 billion a year in 2023-2024.

In our base-case forecast, we expect the debt to EBITDA ratio of ETP will improve to range 3-5 times by 2023. We project its funds from operations (FFO) will total THB390 million in 2022 and range around THB570 million a year in 2023-2024. The FFO to debt ratio will increase to 10% in 2022 and range 16%-18% in 2023-2024. We also forecast the debt to capitalization ratio to improve to 23% in 2021 from 69% in 2020. Looking ahead, we expect ETP will keep the debt to capitalization ratio at around 40%-45%, well below 60%-70% over its early years.

More challenging business environment

We hold our view that the domestic power market has become more challenging. Competition has intensified in recent years in the wake of the government's decentralization policy to control electricity costs to consumers. Private companies, ranging from very small entrepreneurs to large conglomerates, have branched into power business. While the demand for power

tends to grow modestly due to the pandemic-led slowdown, the country is currently saddled with high excess reserve of capacity. Thai power companies are leaning towards investments outside Thailand, due to the cut-off of incentive tariff, intense bidding competition, repeated delays in public projects, and contracted return on investment. However, some overseas expansions entail higher country risk stemming from transparency and consistency of regulations, credit profiles of off-takers, and environmental challenges.

Substantial exposure in Vietnam

ETP has substantial exposure in Vietnam. Its power plants in Vietnam will represent almost 100% of its total power production capacity and earnings when all wind farms commence their operations in 2022. In addition, ETP still looks for growth in Vietnam with a greater amount of investment. Despite fast-growing demand for electricity, we view that investments in Vietnam carry several risks, including changes in regulations, contract enforcement, insufficient infrastructure, and construction delays. In addition, the counterparty risk is noticeably higher. We view the credit profile of EVN is not as strong as the Thai state-owned power buyers. In addition, high debt-funded investment will weigh negatively on the rating.

Capital structure

At the end of September 2021, ETP had debt of THB8.9 billion. Most of debt was secured debt at the subsidiary level, which is considered as priority debt. This means the priority debt to total debt ratio was about 59%. As its priority debt ratio is more than the threshold of 50%, we view that ETP's unsecured creditors are significantly disadvantaged with respect to the priority of claim against ETP's assets. After the divestment of cogeneration power, we project the priority debt ratio will fall below 10%. However, the ratio could bounce back to surpass 50% once the wind farms obtain project financing.

BASE-CASE ASSUMPTIONS

- Solar rooftop projects to produce power yield with the capacity factor of 13%.
- Energy yield of Vietnam wind farms to be at P90 (90% probability level of energy production).
- Revenue to arrive at THB0.9 billion in 2022 and surge to THB1.3 billion a year in 2023-2024.
- EBITDA margin to stay at around 76%-80%.
- Total capital expenditure to be THB7.9 billion during 2021-2024.
- ETP to obtain project finance loan of THB5.5 billion in 2022 for wind power projects in Vietnam.
- Dividend pay-out to be THB687 million in 2022 and range at THB70-THB100 million during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that all wind farm projects of ETP will commence operation as forecast and the projects will perform in line with expectations. Moreover, we expect ETP to prudently manage liquidity over the course of the wind farms development.

RATING SENSITIVITIES

A rating upgrade may occur if ETP could generate higher-than-expected cash flow from operation on a sustain basis leading to significant improvement in cash flow against its leverage level. Conversely, downward rating pressure would emerge if the company generated drastically lower cash flow than forecast resulted from project delays of the wind farms under construction, cutting-off tariff, or significantly undershoot performance. Moreover, downward revision to the rating could develop if ETP engages in additional 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, 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 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 an 81.4% 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. ETP held 50.7% in PPTC Co., Ltd. (PPTC) and 41% in 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. In total, ETP’s capacity measured in proportion to its ownership was at 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 were slated to commence operation by end of October 2021.

In 2021, ETP sold its investment in three cogeneration power plants and small solar farms in Japan. As a result, ETP’s power portfolio capacity reduces to 164 MW.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (End of Dec 2021)

Project	Plant Type	Held by ETP (%)	Installed (MW)	Equity (MWe)	SCOD/COD
Operating			6.9	6.9	
Solar rooftop	Solar rooftop	100	1.5	1.5	2014-2015
Commercial rooftop	Solar rooftop	100	5.4	5.4	2019-2020
Constructing & developing			159.8	157.3	
HL3	Wind farm	100	28.8	28.8	1H-2022
HL4	Wind farm	100	32.0	32.0	1H-2022
TN	Wind farm	95	49.5	47.0	1H-2022
MN	Wind farm	100	49.5	49.5	1H-2022
Total portfolio			166.7	164.2	

Source: ETP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	53	707	967	603	501
Earnings before interest and taxes (EBIT)	529	451	799	499	395
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	347	396	603	388	335
Funds from operations (FFO)	73	48	163	125	124
Adjusted interest expense	213	273	368	263	202
Capital expenditures	3,582	430	647	814	907
Total assets	13,058	7,031	9,687	9,012	7,658
Adjusted debt	8,690	1,922	5,919	6,205	5,210
Adjusted equity	3,972	3,934	2,946	2,336	1,969
Adjusted Ratios					
EBITDA margin (%)	651.88	56.01	62.33	64.42	66.83
Pretax return on permanent capital (%)	5.57	5.59	8.84	6.11	6.03
EBITDA interest coverage (times)	1.63	1.45	1.64	1.48	1.66
Debt to EBITDA (times)	36.44	4.86	9.81	15.98	15.55
FFO to debt (%)	(1.33)	2.48	2.75	2.01	2.37
Debt to capitalization (%)	68.63	32.83	66.77	72.65	72.57

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Eternity Power PLC (ETP)

Company Rating:	BBB-
Rating Outlook:	Stable

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