

# GULF ENERGY DEVELOPMENT PLC

No. 3/2021

19 January 2021

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 31/07/20

### Company Rating History:

Date	Rating	Outlook/Alert
25/12/18	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Gulf Energy Development PLC (GULF) at “A”. At the same time, we affirm the ratings on GULF’s senior unsecured debentures at “A-”. The rating outlook remains “stable”. The issue ratings’ one notch below the company rating reflects the structural subordination of the claims under the debentures, due to GULF’s status as a holding company, compared with the debt obligations of the company’s operating subsidiaries.

The ratings reflect the company’s position as one of the leading power producers in Thailand, its well-diversified portfolio, predictable cash flows from its long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable” by TRIS Rating), as well as proven record of developing and operating power plants. In contrast, the ratings are constrained by risks associated with the company’s overseas expansion and a rise in its debt load. The recent capital increase helped reduce leverage pressure during a period of massive investments.

## KEY RATING CONSIDERATIONS

### Leading market position

GULF is one of the leading power producers in Thailand. The company has an aggregate equity capacity (or installed capacity in proportion to its ownership stakes in the power plants) in the operational phase of 2,959 megawatts (MWe). After completing all the power projects under development, its capacity should almost triple to 7,998 MWe. The company’s capacity will likely grow further, considering its growth strategy and many new potential projects, such as LNG-to-power project in Vietnam and hydro power projects in the Lao People’s Democratic Republic (Lao PDR). Our base-case forecast has not incorporated these potential projects.

### Well-diversified portfolio

GULF has a well-diversified power portfolio with 35 projects in Thailand and abroad. Gas-fired power plants are the centerpiece of its power-generating assets, making up 92% of total power capacity or 7,338 MWe. The remaining 659 MWe is made up of renewable power projects including solar and wind power plants in Vietnam (401 MWe), a wind power plant in Germany (232 MWe), and a biomass power plant in Thailand (25 MWe).

Most of the company’s gas-fired power plants are in the central and eastern regions of Thailand. The gas-fired power plants in Thailand comprise 19 co-generation power plants (1,231 MWe of installed capacity) under the Small Power Producer (SPP) scheme, and six combined-cycle power plants (5,947 MWe of installed capacity) under the Independent Power Producer (IPP) scheme. These include added capacities from two new IPP projects, “Hin Kong Power” and “Burapa Power”, with a combined capacity of 875 MWe. The co-generation power plants are spread across seven industrial estates in the central and Eastern Economic Corridor (EEC) areas. The IPP power plants are located in Saraburi, Ayudhya, Rayong, Ratchaburi, and Chachoengsao provinces.

### Predictable cash flows from PPA with EGAT

The ratings reflect the predictable cash flows GULF receives from its power plants. The company currently sells about 90% of its equity capacity to EGAT under the SPP and IPP schemes. Each contract with EGAT is effective for 25

years from the date the power plant commences commercial operation. For the IPP projects, EGAT is obliged to pay the full amount of the availability payment (AP) as long as GULF has maintained the availability of the plant as agreed in the PPA. Even if EGAT has not dispatched electricity from GULF's IPP power plants, it is obliged to pay the AP. A PPA under the SPP scheme is slightly different. Under the terms of PPA for an SPP plant, EGAT is obliged to buy not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP power plants contain gas price pass-through mechanisms. Cash flows generated from these power plants have been highly predictable, as a result.

### **Proven record of developing and operating IPP/SPP plants**

The company's management and operating teams have over 20 years of experience in developing and operating power plants in Thailand. The management team continues to demonstrate sound capability in project management. All power projects currently in operation were completed on time and within budget. This track record helps build confidence that GULF's projects currently under development and construction will be completed on time. Also, GULF's power plants, both SPP and IPP plants, have consistently exceeded the plant availability targets.

GULF mitigates execution risk by signing engineering procurement and construction (EPC) contracts with reputable EPC contractors such as Toyo Engineering Corporation and Mitsubishi Hitachi Power System (MHPS). Proven technology from well-known suppliers like Siemens, GE, and Mitsubishi is employed to ensure proper operations. GULF generally holds long-term service agreements (LTSA) and long-term parts agreements (LTPA) with the original equipment suppliers. The service agreements, which cover the life of the PPA agreements, ensure reliable maintenance service for major pieces of equipment and mitigate fluctuations in the prices of spare parts. Having such a large power portfolio, GULF benefits from economies of scale and enjoy favorable terms with suppliers. The identical plants under its SPP portfolio and the pooling of spare parts help ensure parts availability and cost efficiency.

### **Risks associated with overseas expansion**

GULF has continued to expand internationally, as part of its growth strategy. The company initiated development of 401 MWe renewable projects in Vietnam. These projects include two solar power plants (107 MWe) and one wind power plant (295 MWe). The two solar power plants are operating at satisfactory performance. Since their inception in the first half of 2019, the actual outputs have reached initial estimates, based on a 50% probability (P50 level) of energy production. In addition to Vietnam, GULF recently acquired a 50% stake in a brownfield offshore wind power plant in Germany (232 MWe). The company started to realize revenue from this German project in the last quarter of 2020, and it should perform well, considering its operational record. GULF will likely keep expanding abroad to pursue growth opportunities. However, overseas investment should account for less than 15% of the company's total investments, in our base-case forecast.

Overseas power projects typically carry higher risks, particularly in fast-growing emerging markets such as Vietnam. The notable risks include changes in regulations, contract enforcement, and insufficient infrastructure. TRIS Rating also views that the credit profile of the state-run Vietnam Electricity (EVN) is not as strong as the Thai state-owned power buyers. Additionally, the national power grid in some provinces in Vietnam, such as Binh Thuan and Ninh Thuan, needs to be upgraded to avoid curtailments. However, we project GULF's investments in Vietnam to represent less than 10% of its total power portfolio, when all of the company's power projects are operational. We also expect the Vietnamese projects to be less susceptible to curtailments, considering their locations. Risks associated with the German wind power project are acceptable. The partner of this project is Ørsted A/S, one of the largest energy companies in Denmark, which is vastly experienced in the development of wind power projects in several countries. Also, the German government provides guarantees on selling prices for the first 9.5 years of operations and from thereon offers minimum guarantees on selling prices up to the 20<sup>th</sup> year.

### **Diversification into infrastructure projects**

GULF is expanding into a new area of businesses. The company, through GULF MTP LNG Terminal, is developing the Map Ta Phut Industrial Port Development Phase 3 (MTP3) project, under a Public Private Partnership (PPP) contract with the Industrial Estate Authority of Thailand (IEAT). GULF MTP LNG Terminal is a joint venture between GULF and PTT Tank Terminal Co., Ltd. (PTT Tank). The project, worth more than THB40 billion, includes infrastructure work (dredging and land reclamation) and superstructure work (seaport and LNG terminal construction). The joint venture company will receive annual fixed payments of about THB1 billion from IEAT for 30 years after the completion of the infrastructure work, scheduled for 2023.

Apart from the MTP3 project. GULF, through GPC Consortium (GPC), is developing the Laem Chabang Port Phase 3 (LCP3) project. The approximately THB32 billion project requires GPC, comprising GULF, PTT Tank, and China Harbour Engineering Co., Ltd. (CHEC), to design, build, and operate Terminal F1 and Terminal F2. The LCP3 project will be exposed to market risk as performance of the joint venture will be subject to transport demand. As an equity partner, GULF will receive a share of profit and dividend from GPC. We expect GULF to attempt to minimize demand risk, considering its policy to invest in projects generating fixed returns and predictable cash flows.

In addition, GULF, through BGSR Consortium (BGSR), consisting of GULF, BTS Group Holdings PLC (BTS), Sino-Thai Engineering & Construction PLC (STEC), and Ratch Group PLC (RATCH), is developing two motorway projects, M6 and M81. These two projects, costing about THB13.5 billion in total, require BGSR to design and install toll collection system, control system, and other infrastructure (phase 1) and operate and maintain the projects (phase 2). BGSR will not be exposed to traffic demand as it will receive fixed returns after these projects commence operations during 2023-2024. GULF will receive a share of profit and dividend from BGSR. In all, we expect investment in the infrastructure projects to make up less than 10% of the company's total investments over the next three years.

### Revenue and cash flows show rising trend

We project GULF's revenue and cash flows to continue rising over the next three years. The two IPP projects in Thailand and the wind power project in Germany will be the key growth engines. Our base-case forecast projects that the company's total operating revenue to triple, reaching THB90 billion in 2023, from nearly THB32 billion in 2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) should climb to THB27 billion in 2023, from about THB11 billion in 2020.

We expect the performance of the company's power projects to remain satisfactory, considering its proven record. As cash flows generated from IPP/SPP power plants are predictable, we forecast the EBITDA margin (EBITDA as a percentage of revenue) to stay above 30% over the next three years.

### Leverage pressure to decline

GULF's interest-bearing debt has risen steadily, following its heavy investments. In addition to the power projects under construction, the company recently invested in a 14.4% stake in Intouch Holdings PLC (INTUCH). GULF had raised THB32 billion in fresh capital before making this investment, alleviating the concerns over a further rise in leverage.

Our base-case forecast projects that the company's debt to EBITDA ratio to peak at about 10 times in 2020, before declining gradually to about 6 times in 2023, thanks mainly to additional cash flows from the two IPP projects in Thailand and the wind power project in Germany. The wind power projects in Vietnam come with EPC financing. GULF will pay most of the construction costs after the projects commence operations, scheduled for 2021. This EPC financing scheme helps alleviate the pressure on the debt to EBITDA ratio during the construction stage. Capital expenditures and equity investments are forecast to range between THB25-THB35 billion per annum during the next three years.

### Liquidity to stay manageable

TRIS Rating believes GULF will be able to manage its liquidity properly. Over the next 12 months, we expect the company will arrive at about THB10 billion in funds from operations (FFO) while it has THB5.8 billion in long-term loans and bonds coming due. As of September 2020, GULF also had undrawn credit facilities, plus cash and marketable securities, of about THB40 billion, as additional sources of liquidity.

GULF is required to maintain the net interest-bearing debt to equity ratio below 3.5 times, given a financial covenant on its debentures. The ratio stood at 1.6 times, as of September 2020. We expect GULF to stay compliant with the financial covenant.

### BASE-CASE ASSUMPTIONS

- Aggregate installed capacity of power plants in the operational phase to reach 6,200 MWe in the next three years.
- Total operating revenues to reach THB90 billion in 2023.
- EBITDA margin to stay above 30%.
- Capital expenditures and equity investments to range between THB25-THB35 billion per annum.
- GULF receives long credit terms from its EPC contractors for the renewable projects in Vietnam.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that GULF's power plants in operation will run smoothly and generate cashflows as planned, while the plants under construction will commence operations as scheduled.

### RATING SENSITIVITIES

GULF's rating upside could arise if the debt to EBITDA ratio improves and maintains below 8 times on a sustained basis. A rating downside may occur if the projects under development are materially delayed from the schedule, which would have an impact on the projected cash flow. Any huge debt-funded investment, that materially deteriorates the company's capital structure, could be another factor pressuring the ratings.

### COMPANY OVERVIEW

GULF was established in 2011 as a holding company to invest in power and other energy-related projects. The company

received the power portfolio transferred from Gulf Holding Co., Ltd., founded by Mr. Sarath Ratanavadi, in 2012. GULF was listed on the Stock Exchange of Thailand (SET) in late 2017. As of October 2020, Mr. Sarath and related parties held a 73.4% interest in the company.

As of November 2020, GULF had 35 power projects with an aggregate installed capacity of 7,998 MWe. Of these, 29 power plants with a capacity of 2,959 MWe are in operation; the rest are under development and construction.

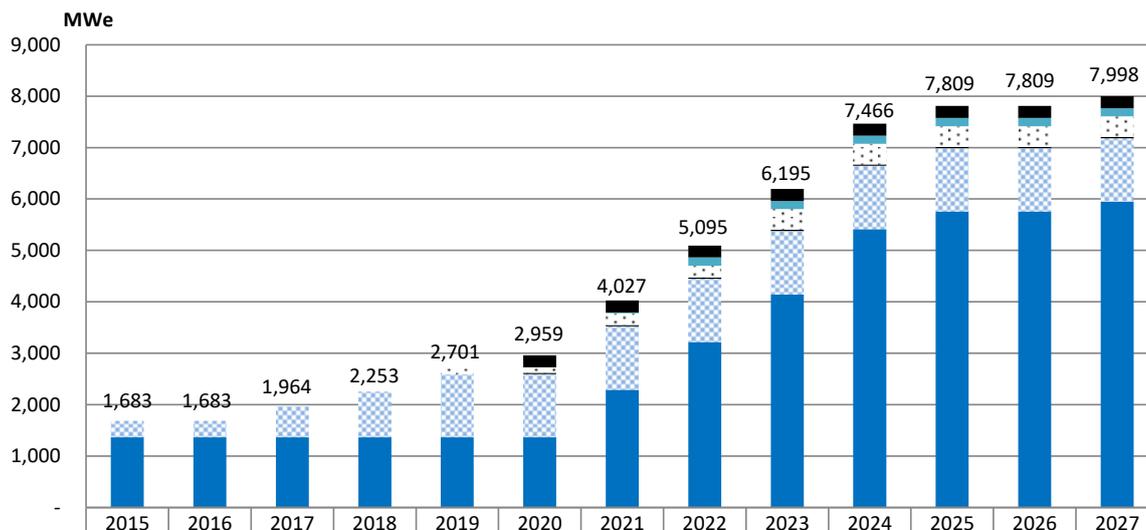
## KEY OPERATING PERFORMANCE

Table 1: GULF's Power Portfolio (as of Nov 2020)

Company/Project	Type	Fuel	Installed Capacity (MW)	Ultimate Holding (%)	Equity Capacity (MW)	PPA with EGAT (MW)
<b>In operation</b>						
<b>1. Under GMP</b>						
1. GVTP	SPP	NG	137	52.5	72	90
2. GTS1	SPP	NG	134	52.5	70	90
3. GTS2	SPP	NG	134	52.5	70	90
4. GTS3	SPP	NG	130	52.5	68	90
5. GTS4	SPP	NG	130	52.5	68	90
6. GNC	SPP	NG	127	70.0	89	90
7. GBL	SPP	NG	127	52.5	67	90
8. GBP	SPP	NG	127	52.5	67	90
9. GNLL2	SPP	NG	127	52.5	67	90
10. GNPM	SPP	NG	135	70.0	95	90
11. GNRV1	SPP	NG	128	70.0	90	90
12. GNRV2	SPP	NG	128	70.0	90	90
<b>Sub total</b>			<b>1,563</b>		<b>911</b>	<b>1,080</b>
<b>2. Under GJP</b>						
1. GNS	IPP	NG	1,653	40.0	661	1,600
2. GUT	IPP	NG	1,752	40.0	701	1,600
3. GKP1	SPP	NG	114	40.0	46	90
4. GKP2	SPP	NG	114	40.0	46	90
5. GTLC	SPP	NG	114	40.0	46	90
6. GNNK	SPP	NG	114	40.0	46	90
7. GNLL	SPP	NG	123	30.0	37	90
8. GCRN	SPP	NG	119	40.0	48	90
9. GNK2	SPP	NG	133	40.0	53	90
<b>Sub total</b>			<b>4,237</b>		<b>1,682</b>	<b>3,830</b>
<b>3. Under Gulf Solar</b>						
1. BV	Rooftop	Solar	0	75.0	0	-
2. TS1	Rooftop	Solar	0	75.0	0	-
3. KKS	Rooftop	Solar	0	75.0	0	-
4. TS2	Rooftop	Solar	0	75.0	0	-
<b>Sub total</b>			<b>1</b>		<b>0</b>	<b>-</b>
<b>4. Others</b>						
1. GTN1	Solar farm	Solar	69	90.0	62	-
2. GTN2	Solar farm	Solar	50	90.0	45	-
3. GCG	SPP	Woodchip	25	100.0	25	21
4. BKR2	Wind farm	Wind	465	50.0	232	-
<b>Sub total</b>			<b>609</b>		<b>364</b>	<b>21</b>
<b>Total in operation</b>			<b>6,409</b>		<b>2,959</b>	<b>4,931</b>
<b>Under construction/development</b>						
<b>1. Others</b>						
1. GSRC	IPP	NG	2,650	70.0	1,855	2,500
2. GPD	IPP	NG	2,650	70.0	1,855	2,500
3. Oman	Power & Water	NG	326	49.0	160	-
4. Mekong	Wind farm	Wind	310	95.0	295	-
5. Hin Kong Power	IPP	NG	1,400	49.0	686	1,400
6. Burapa Power	IPP	NG	540	35.0	189	540
<b>Sub total</b>			<b>7,876</b>		<b>5,039</b>	<b>6,940</b>
<b>Total under construction/development</b>			<b>7,876</b>		<b>5,039</b>	<b>6,940</b>
<b>Total portfolio</b>			<b>14,285</b>		<b>7,998</b>	<b>11,871</b>

Note: excluding LNG-to-power and hydro power projects

Source: GULF

**Chart 1: GULF's Installed Capacity in Operational Phase**


	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
■ Germany - Wind	-	-	-	-	-	232	232	232	232	232	232	232	232
■ Oman - Gas-fired	-	-	-	-	-	-	20	160	160	160	160	160	160
■ Vietnam - Solar and Wind	-	-	-	-	107	107	229	229	401	401	401	401	401
■ SPP - Biomass	-	-	-	-	-	25	25	25	25	25	25	25	25
■ SPP - Gas-fired	320	320	601	891	1,231	1,231	1,231	1,231	1,231	1,231	1,231	1,231	1,231
■ IPP - Gas-fired	1,362	1,362	1,362	1,362	1,362	1,362	2,290	3,217	4,145	5,415	5,758	5,758	5,947

Source: GULF

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Sep 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	23,536	30,054	17,191	4,370	257
Earnings before interest and taxes (EBIT)	6,562	9,049	5,927	4,267	999
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,869	10,540	7,839	2,724	(426)
Funds from operations (FFO)	5,601	6,821	4,706	(173)	(2,041)
Adjusted interest expense	3,328	3,733	3,154	2,952	1,663
Capital expenditures	11,798	13,596	18,558	19,016	19,831
Total assets	221,982	134,278	123,669	100,652	59,816
Adjusted debt	108,150	63,529	51,542	36,308	49,821
Adjusted equity	65,705	49,040	44,788	39,348	3,782
<b>Adjusted Ratios</b>					
EBITDA Margin (%)	37.68	35.07	45.60	62.34	(165.57)
Pretax return on permanent capital (%)	5.34 **	7.46	5.60	5.54	2.59
EBITDA interest coverage (times)	2.67	2.82	2.49	0.92	(0.26)
Debt to EBITDA (times)	8.72 **	6.03	6.57	13.33	(117.06)
FFO to debt (%)	7.56 **	10.74	9.13	(0.48)	(4.10)
Debt to capitalization (%)	62.21	56.44	53.51	47.99	92.94

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

**Gulf Energy Development PLC (GULF)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
GULF221A: THB2,000 million senior unsecured debentures due 2022	A-
GULF238A: THB4,500 million senior unsecured debentures due 2023	A-
GULF241A: THB2,500 million senior unsecured debentures due 2024	A-
GULF258A: THB2,500 million senior unsecured debentures due 2025	A-
GULF261A: THB2,000 million senior unsecured debentures due 2026	A-
GULF278A: THB2,000 million senior unsecured debentures due 2027	A-
GULF291A: THB1,000 million senior unsecured debentures due 2029	A-
GULF308A: THB1,000 million senior unsecured debentures due 2030	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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