TRIS RATING
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GULF ENERGY DEVELOPMENT PLC

No. 3/2022
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CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 17/09/21

Company Rating History:

Date	Rating	Outlook/Alert
26/08/21	A	Stable
26/04/21	A	Alert Negative
25/12/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Gulf Energy Development PLC (GULF) at "A" and the ratings on GULF's senior unsecured debentures at "A-". The rating outlook remains "stable". The issue ratings' single notch below the company rating reflects the structural subordination of the senior unsecured debentures to the debt obligations of GULF's operating subsidiaries.

The ratings reflect the company's position as one of the leading power producers in Thailand, its well-diversified portfolio, its proven record of developing and operating power plants, and its highly predictable cash flows, backed by long-term power purchase agreements (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated "AAA" by TRIS Rating). In contrast, the ratings are constrained by risks associated with the company's overseas expansion and the recent rise in its debt load.

KEY RATING CONSIDERATIONS

Leading market position

GULF is one of the leading power producers in Thailand, considering its sizable power portfolio. As of November 2021, the company had an aggregate equity capacity (or installed capacity in proportion to its ownership stakes in the power plants) in the operational phase of 3,929 megawatts (MWe). After completing all the power projects under development by 2027, its capacity should double to 8,005 MWe.

The company's capacity will likely grow further, considering its growth strategy and potential project developments, such as solar rooftop developments under private PPAs in Thailand, hydro power projects in the Lao People's Democratic Republic (Lao PDR), and an LNG-to-power project in Vietnam. GULF is also exploring acquisition opportunities, focusing on renewable power projects to make its power portfolio greener. We have not incorporated the LNG-to-power project and potential acquisitions in our base-case forecast.

Well-diversified portfolio

GULF has a well-diversified power portfolio with more than 30 projects in Thailand and abroad. Gas-fired power plants are the centerpiece of its power-generating assets, making up 93% of total power capacity or 7,469 MWe. The remaining 536 MWe is made up of renewable power projects including solar and wind power plants in Vietnam (229 MWe), a wind power plant in Germany (232 MWe), as well as a biomass power plant and solar rooftops in Thailand (about 75 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 (1,266 MWe of installed capacity) under the Small Power Producer (SPP) scheme, and six combined-cycle power plants (6,043 MWe of installed capacity) under the Independent Power Producer (IPP) scheme. These include capacities from the "Hin Kong Power" and "Burapa Power" IPP power plants with a combined capacity of 965 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.

Highly predictable cash flows from PPAs with EGAT

The ratings reflect the highly 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 are 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 efficient 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 enjoys favorable terms with suppliers. The identical plants under its SPP portfolio and the pooling of spare parts help ensure parts availability and cost efficiency.

Overseas expansion to boost renewable energy

GULF has continued to expand internationally, as part of its growth strategy. The company has developed 229 MWe renewable projects in Vietnam, which includes two solar power plants (107 MWe) and one wind power plant (122 MWe). The two solar power plants in Vietnam delivered satisfactory results during 2019-2020. However, output from both projects was curtailed in the first nine months of 2021 due to a temporary slump in demand for electricity in Vietnam during the Coronavirus Disease 2019 (COVID-19) outbreak. GULF has also suffered from construction delays on the wind power plant due to the travel restrictions and lockdowns in Vietnam. As a result, a mere 4 MWe out of the total of 122 MWe was able to start operations by the deadline. The remaining 118 MWe are at risk of not being eligible for the favorable FiTs because of the failure to meet the completion deadline. However, we expect Vietnam Electricity (EVN) to extend the completion deadline for the project. Most wind power developers including GULF have requested an extension of the deadline from the Vietnamese government due to the impact from the pandemic.

In addition to Vietnam, GULF acquired a 50% stake in a brownfield offshore wind power plant in Germany (232 MWe) in late 2020. Output from the wind power project in the first nine months of 2021 was slightly below our estimates, due to typical seasonally low wind speeds in the second and third quarters of the year. Output from this project will likely increase during the peak wind season in the last quarter. The performance of this German wind project needs to be evaluated over the long term, as wind power is by nature volatile.

GULF will likely keep pursuing growth opportunities overseas. The company aims to increase the mix of renewable power to 30% of the total power capacity by 2030, from about 8% at present. Additional capacities of 5,000-6,000 MW from new local and overseas renewable power projects would be needed to achieve the target. Overseas investment is expected to account for 10%-20% of the company's total investments.

Risks associated with overseas expansion

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 EVN is not as strong as the Thai state-owned power buyers. Additionally, the national power grid in some provinces in Vietnam needs to be upgraded to avoid curtailments. However, we project GULF's investments in Vietnam will represent less than 10% of its total power portfolio, when all of the company's power projects are operational. Risks associated with the German wind power project are acceptable. The partner in this project is Ørsted A/S, one of the largest energy companies in Denmark, which is highly 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 thereafter offers minimum guarantees on selling prices up to the 20th year.

Diversification into infrastructure and digital

GULF is expanding into new areas 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 2024.

Apart from the MTP3 project, GULF, through GPC Consortium (GPC), is developing the Laem Chabang Port Phase 3 (LCP3) project. The approximately THB30 billion project requires GPC, comprising GULF, PTT Tank, and China Harbour Engineering Co., Ltd. (CHEC), to design, build, and operate Terminals F1 and 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 dividends 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.

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 also developing two motorway projects, M6 and M81. These two projects, costing about THB12.6 billion in total, require BGSR to design and install toll collection systems, control systems, and other related infrastructure (phase 1) and operate and maintain the projects (phase 2). BGSR will not be exposed to traffic demand risk as it will receive fixed returns after these projects commence operations in 2024. GULF will receive a share of profit and dividends from BGSR.

In addition to the infrastructure projects, the company's acquisition of a 42.25% stake in Intouch Holdings PLC (INTUCH) charts a path to new opportunities in the space of telecom and digital businesses. The INTUCH acquisition not only provides additional dividend income, but it also enables GULF to access new opportunities by leveraging the existing digital platforms owned by Advanced Info Service PLC (ADVANC) and Thaicom PLC (THCOM). The digital platforms could support power trade if the government permits power producers to sell electricity directly to end-users in the future. Furthermore, GULF has recently entered into a Memorandum of Understanding (MOU) with Singapore Telecommunications Limited (SINGTEL) to jointly study potential development of the data center business and with Binance Group (BINANCE) to jointly study potential development of the digital asset exchange and related businesses in Thailand. The collaboration should be clearer in the coming years. We do not include this potential synergy in our base-case forecast.

Anticipated steep rise in revenue and cash flows

We project GULF's revenue and cash flows to rise steeply over the next three years, mainly driven by its two giant IPP projects in Thailand, scheduled for operation during 2021-2024. In our base-case forecast, the company's aggregate installed power capacity in the operational phase should reach 7,700 MWe in the next three years, boosting GULF's total operating revenue to THB111 billion in 2024, from about THB46 billion in 2021. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) should climb to THB39 billion in 2024, from about THB19 billion in 2021. We project GULF to receive an annual dividend of THB3-THB4 billion from INTUCH during 2022-2024.

We expect the performance of the company's power assets to remain satisfactory, considering its proven record. As cash flows generated from IPP/SPP power plants are highly 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 to complete the power projects under construction and to acquire a major stake in INTUCH. As a result, GULF's debt to EBITDA ratio surged to 9.9 times as of September 2021, from about 6 times in 2019.

However, our base-case forecast projects GULF's debt to EBITDA ratio will revert to about 6 times in 2024, thanks mainly to anticipated cash flows from the two IPP projects in Thailand, which will create headroom for new investments. Capital expenditures and equity investments are projected to range from THB25-THB35 billion per annum during the next three years.

Debt structure

As of September 2021, GULF's consolidated debt was about THB219 billion, of which THB164 billion was considered priority debt, comprising secured debt owed by GULF and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 75%, suggesting that GULF's unsecured creditors are significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

Liquidity to stay manageable

We expect GULF to manage its liquidity properly. Over the next 12 months, the company should generate about THB17 billion in funds from operations (FFO) while it has THB8.2 billion in long-term loans and debentures coming due. As of September 2021, GULF had undrawn credit facilities, plus cash and marketable securities, of about THB42 billion, as additional sources of liquidity.

GULF is required by a financial covenant on its debenture obligations to maintain a net interest-bearing debt to equity ratio below 3.5 times. The ratio stood at 1.9 times as of September 2021. We expect GULF to stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- Aggregate installed capacity of power plants in the operational phase to reach 7,700 MWe in the next three years.
- Total operating revenues to reach THB111 billion in 2024.
- EBITDA margin to stay above 30% during 2022-2024.
- Capital expenditures and equity investments to range from THB25-THB35 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectations 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, and that the company’s growth strategy will not significantly weaken its financial profile from the current level.

RATING SENSITIVITIES

A rating upgrade could happen if GULF’s debt to EBITDA ratio improves and remains below 8 times on a sustained basis. In contrast, a rating downside could occur if the projects under development are materially delayed from schedule, significantly affecting projected cash flows. Any large debt-funded investment, that materially deteriorates the company’s capital structure, could also put downward pressure on 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 September 2021, Mr. Sarath and related parties held a 73.4% interest in the company.

As of November 2021, GULF had an aggregate installed capacity across all power projects of 8,005 MWe. Of these, 3,929 MWe were in operation.

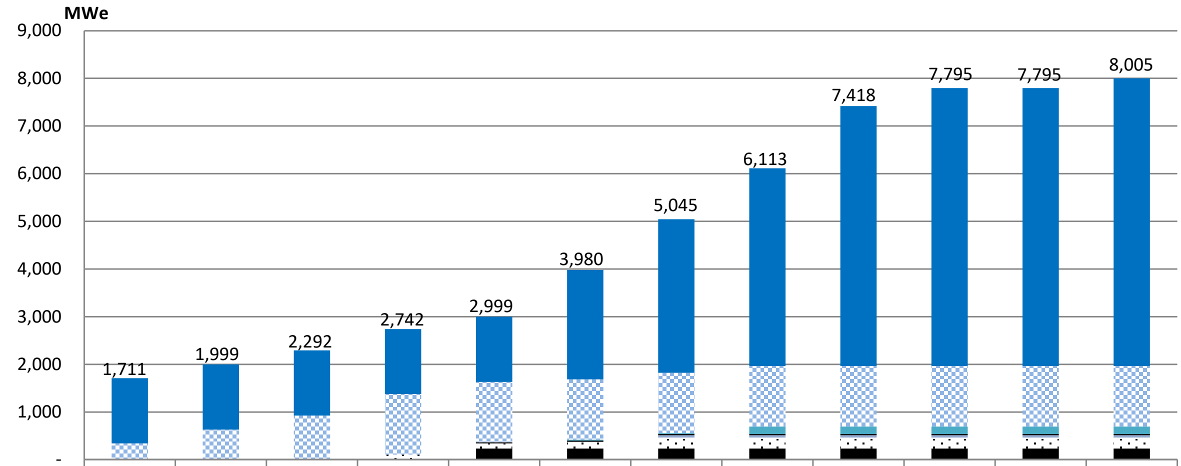
KEY OPERATING PERFORMANCE

Table 1: GULF's Power Portfolio (as of Nov 2021)

Company/Project	Type	Fuel	Installed Capacity (MW)	Ultimate Holding (%)	Equity Capacity (MW)	PPA with EGAT (MW)
In operation						
1. Under GMP						
1. GVTP	SPP	NG	141	52.5	74	90
2. GTS1	SPP	NG	138	52.5	73	90
3. GTS2	SPP	NG	138	52.5	73	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	130	52.5	68	90
8. GBP	SPP	NG	130	52.5	68	90
9. GNLL2	SPP	NG	130	52.5	68	90
10. GNPM	SPP	NG	138	70.0	97	90
11. GNRV1	SPP	NG	128	70.0	89	90
12. GNRV2	SPP	NG	128	70.0	89	90
Sub total			***1,586***		***924***	***1,080***
2. Under GJP						
1. GNS	IPP	NG	1,668	40.0	667	1,600
2. GUT	IPP	NG	1,752	40.0	701	1,600
3. GKP1	SPP	NG	124	40.0	50	90
4. GKP2	SPP	NG	124	40.0	50	90
5. GTLC	SPP	NG	126	40.0	50	90
6. GNNK	SPP	NG	130	40.0	52	90
7. GNLL	SPP	NG	125	30.0	38	90
8. GCRN	SPP	NG	126	40.0	50	90
9. GNK2	SPP	NG	132	40.0	53	90
Sub total			***4,309***		***1,711***	***3,830***
3. Under Gulf Solar						
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	-
Sub total			***1***		***0***	***-***
4. Others						
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	-
Sub total			***609***		***364***	***21***
Total in operation			***6,504***		***2,999***	***4,931***
Under construction/development*						
1. Others						
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. DIPWP	Power & Water	NG	326	49.0	160	-
4. Mekong	Wind farm	Wind	128	95.0	122	-
5. Hin Kong Power	IPP	NG	1,540	49.0	755	1,400
6. Burapa Power	IPP	NG	600	35.0	210	540
7. Gulf 1***	Rooftop	Solar	100	50.0	50	-
Sub total			***7,994***		***5,006***	***6,940***
Total under construction/development			***7,994***		***5,006***	***6,940***
Total portfolio			**14,498**		**8,005**	**11,871**

* *Excluding LNG-to-power and hydro power projects*
** *Unit 1&2 with an aggregate installed capacity of 1,325 MW (or 928 MWe) were operational*
*** *The projects with an aggregate installed capacity of 10 MW (or 5 MWe) were operational*
Source: GULF

Chart 1: GULF's Installed Capacity in Operational Phase (Based on Projects in Pipeline)



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
IPP - Gas-fired	1,368	1,368	1,368	1,368	1,368	2,296	3,223	4,151	5,456	5,833	5,833	6,043
SPP - Gas-fired	343	630	923	1,266	1,266	1,266	1,266	1,266	1,266	1,266	1,266	1,266
Oman - Gas-fired	-	-	-	-	-	20	20	160	160	160	160	160
SPP - Biomass	-	-	-	-	25	25	25	25	25	25	25	25
Private PPA - Solar Rooftop	-	-	-	-	-	5	50	50	50	50	50	50
Vietnam - Solar and Wind	-	-	-	107	107	135	229	229	229	229	229	229
Germany - Wind	-	-	-	-	232	232	232	232	232	232	232	232

Source: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021		--------------Year Ended 31 December ---------------			
			2020	2019	2018	2017
Total operating revenues	32,313		32,847	30,054	17,191	4,370
Earnings before interest and taxes (EBIT)	10,512		10,050	9,049	5,927	4,267
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	15,004		13,717	10,540	7,839	2,724
Funds from operations (FFO)	10,141		9,040	6,798	4,685	(229)
Adjusted interest expense	4,825		4,676	3,731	3,154	2,952
Capital expenditures	16,419		18,611	13,649	18,558	19,016
Total assets	355,188		245,581	134,278	123,669	100,652
Adjusted debt	196,204		120,797	63,289	51,542	36,308
Adjusted equity	99,384		72,080	49,040	44,788	39,348
Adjusted Ratios						
EBITDA margin (%)	46.44		41.76	35.07	45.60	62.34
Pretax return on permanent capital (%)	5.38	**	5.86	7.47	5.60	5.54
EBITDA interest coverage (times)	3.11		2.93	2.83	2.49	0.92
Debt to EBITDA (times)	9.88	**	8.81	6.00	6.57	13.33
FFO to debt (%)	6.92	**	7.48	10.74	9.09	(0.63)
Debt to capitalization (%)	66.38		62.63	56.34	53.51	47.99

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

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Gulf Energy Development PLC (GULF)

Company Rating:	A
Issue Ratings:	
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-
GULF249A: THB12,000 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-
GULF269A: THB6,000 million senior unsecured debentures due 2026	A-
GULF278A: THB2,000 million senior unsecured debentures due 2027	A-
GULF289A: THB3,000 million senior unsecured debentures due 2028	A-
GULF291A: THB1,000 million senior unsecured debentures due 2029	A-
GULF308A: THB1,000 million senior unsecured debentures due 2030	A-
GULF319A: THB9,000 million senior unsecured debentures due 2031	A-
Rating Outlook:	Stable

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