GUNKUL ENGINEERING PLC

No. 33/2025
21 March 2025

CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 28/03/24

Company Rating History:

Date	Rating	Outlook/Alert
17/03/21	BBB+	Stable
09/03/20	BBB	Positive
11/04/17	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Gunkul Engineering PLC (GUNKUL) at "BBB+" with a "stable" outlook. The rating reflects the stable cash generation from GUNKUL's power portfolio and the advantages derived from its business integration. However, the rating is constrained by the risks associated with the company's non-power businesses and a potential rise in financial leverage stemming from its committed renewable power project developments.

KEY RATING CONSIDERATIONS

Reliable cash generation from power portfolio

The rating is mainly attributed to the highly predictable cash generation from GUNKUL's power portfolio, backed by multi-year power purchase agreements (PPAs) with state-owned power utilities (80% of the total equity contracted capacity in operation) and large industrial customers (20%). These credible power buyers entail low counterparty risk.

Also, GUNKUL diversifies geographically as regards its power plant locations and invests in low-risk power assets, ensuring consistent overall project performance. The company owns over a hundred solar and wind power assets both domestically and internationally, reducing dependency on individual projects. The total equity contracted capacity in operation is currently about 590 megawatts (MW), with 86% coming from solar power generating assets, which have low operational risk. Wind power accounts for the remaining 14%, with less predictable outputs but satisfactory performance due to low operating costs.

GUNKUL has several overseas power projects, including 160-MW solar farms in Vietnam, where we have identified higher risks from country, regulation, counterparty, and curtailment. However, we consider GUNKUL's investment risks in Vietnam as acceptable, based on past records of plant performances and payment from the power purchaser.

TRIS Rating forecasts GUNKUL's power assets to continue to perform satisfactorily, generating annual revenue of THB2.2-THB2.3 billion with an EBITDA margin of about 85% from 2025 to 2027. A pending legal issue concerning revocation of the land title deeds for the site of one of GUNKUL's wind power plants should not materially affect the company's operations, given the relatively small investment involved (3% of the total equity operating capacity).

Business integration strengthens competitiveness

We expect GUNKUL to continue to benefit from the complementary synergy of its three main businesses: power generation, electrical equipment, and engineering, procurement, and construction (EPC). As an EPC contractor and supplier of electrical equipment, GUNKUL is well-positioned to offer one-stop services to project owners. This integration also allows for more effective control over project construction costs.

GUNKUL has built its competitiveness in the trading and manufacturing of electrical equipment through a long market presence and comprehensive product range. We project annual revenue of THB2.3-THB2.4 billion from this business, with a gross margin of about 20%, during 2025-2027.

As for the EPC business, we expect GUNKUL to gain from increased investments in public infrastructure and private projects related to renewable energy. Our base-case projection forecasts revenue from this business to range between THB2-THB2.5 billion annually during the forecast period. The gross margin should stay around 15%.

Risks associated with non-power businesses

GUNKUL's non-power businesses involve significantly higher risks than power generation. The electrical equipment and EPC businesses face demand risk as growth depends on projects from public and private sector clients. The EPC business typically encounters intense competition, delays in contract bidding and awarding, as well as unexpected cost overruns, causing lower and unstable profit margins. However, the company's non-power businesses have delivered satisfactory performance so far.

Financial leverage to rise, but remain manageable

Our base-case projection forecasts GUNKUL to carry heavier debt load during the investment phase over the next five years. Its committed investments, comprising several domestic solar and wind power projects with a combined capacity of 832 MW, should require a cumulative investment of about THB40 billion, mainly during 2027-2029.

However, we expect GUNKUL to prudently manage debt obligations. Our base-case projection assumes it will develop the new projects mostly through joint ventures to avoid overleveraging. With anticipated capital and investment expenditure ranging between THB0.7-THB1.2 billion per annum during 2025-2027, the company's debt to EBITDA ratio could reach 4.8 times, while the debt to capitalization ratio should remain around 50%. We exclude capital expenditures related to the second-round renewable bidding results as the government's decision remains pending.

We believe GUNKUL will perform satisfactorily in each business segment. In all, we project GUNKUL's total operating revenue to range between THB8.7-THB9.1 billion per annum during 2025-2027. With an expected EBITDA margin of 34%-35%, its EBITDA should stay about THB3 billon per annum. The new 832 MW projects should pay off after 2026.

Sufficient liquidity

We believe GUNKUL will continue to manage its liquidity adequately. Debts amounting to THB4.6 billion will mature in 2025. As of December 2024, GUNKUL's sources of liquidity totaled THB5.6 billion, including cash and marketable securities of THB1.2 billion and undrawn credit facilities of THB4.4 billion, which should enable the company to meet its debt obligations.

A key financial covenant on GUNKUL's debentures requires the company's net interest-bearing debt to equity ratio to stay below 3 times. We expect the company to remain compliant with the covenant over the next three years.

Debt structure

As of December 2024, GUNKUL's consolidated debt, excluding lease liabilities, was about THB15.8 billion. Of this, THB12.5 billion was priority debt, comprising secured debt owed by GUNKUL and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 79%, suggesting GUNKUL's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2025-2027 are as follows:

- GUNKUL to secure a total of 120 MW in new solar private PPAs.
- GUNKUL to secure new EPC contracts for THB2 billion per annum.
- Total operating revenues to range between THB8.7-THB9.1 billion per annum.
- EBITDA margin to stay in the 34%-35% range.
- Capital expenditures and investments to range between THB0.7-THB1.2 billion annually.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GUNKUL will achieve satisfactory results, as forecast. Its operational power plants will maintain consistent performance and generate stable cash flows, while development of new plants will proceed as scheduled. Also, the non-power businesses will continue performing well. We further expect GUNKUL to maintain manageable debt levels over the course of project developments.

RATING SENSITIVITIES

We are unlikely to raise the rating in the near term. However, we could consider a rating upgrade if GUNKUL considerably enlarges its earnings base, translating into a stronger level of cash generation against debt obligations. Conversely, downward rating pressure could arise if there is material deterioration in the company's financial profile, possibly resulting from substantial debt-financed investments and/or underperforming non-power businesses.

COMPANY OVERVIEW

GUNKUL was founded in 1982 by Mr. Gunkul Dhumrongpiyawut as a provider of electrical equipment. In 2010, the company expanded into the EPC business and the power business and was listed on the Stock Exchange of Thailand (SET). As of November 2024, the Dhumrongpiyawut family remained the major shareholder, holding 59% of the company's interest.

The company was one of the first movers in the renewable power business, starting development of solar power projects in 2010. The power business accounted for the majority (30%) of its total revenue in 2024, followed by the EPC business (27%, excluding sales of asset under finance lease), and the electrical equipment business (23%). Currently, GUNKUL holds an aggregate equity contracted capacity of 1,422 MW, comprising existing power projects (590 MW) and new power projects under the state 5.2-gigawatt renewable scheme (832 MW).

In the EPC business, GUNKUL's construction works mainly comprise electrical substations, solar rooftops, and underground cables. Through the trading and manufacture of its electrical equipment business, GUNKUL provides both public and private sector clients with an extensive range of products covering all stages of the transmission and distribution of electricity.

GUNKUL began new ventures into the hemp and cannabis business in 2021. However, unclear regulations have meant the revenue remains negligible.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2020	2021	2022	2023	2024
Electrical equipment	17	16	24	23	25
EPC	34	30	26	39	46
Power	47	51	46	30	23
Others	2	3	4	8	6
Total	**100**	**100**	**100**	**100**	**100**
Total revenue (million THB)	**8,649**	**9,318**	**7,506**	**7,605**	**9,451**

Source: GUNKUL

Table 2: Current Power Project Portfolio

Company/Country	Held by GUNKUL (%)	Gross Contracted Capacity (MW)	Equity Contracted Capacity (MW)	Tariff
Solar Projects				
GPS	40	26.0	10.4	Adder
GCPG	100	30.9	30.9	Adder
RNS	100	87.0	87.0	FiT
SES, GIG, GSP1	100	119.7	119.7	Agreed Prices
Japan	100	65.3	65.3	FiT
Malaysia	70	30.0	21.0	FiT
Vietnam	100	160.0	160.0	FiT
Others	25-100	19.5	10.4	Adder/FiT
Sub total - Solar		**538.3**	**504.6**	
Wind Projects				
WED	50	60.0	30.0	Adder
GNP	50	60.0	30.0	Adder
KWE	50	50.0	25.0	Adder
Sub total - Wind		**170.0**	**85.0**	
Projects under New Quota				
Solar and Solar plus BESS	100	652.4	652.4	FiT
Wind	100	180.0	180.0	FiT
Sub total - New Quota		**832.4**	**832.4**	
Grand total		**1,540.7**	**1,422.0**	

Source: GUNKUL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	---------------------Year Ended 31 December ---------------				
	2024	2023	2022	2021	2020
Total operating revenues	9,569	7,717	7,554	9,380	8,727
Earnings before interest and taxes (EBIT)	2,568	2,382	2,233	3,165	2,235
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,210	3,215	3,639	4,706	3,714
Funds from operations (FFO)	2,155	2,350	2,493	3,577	2,734
Adjusted interest expense	720	690	872	973	915
Capital expenditures	713	2,590	857	3,017	3,505
Total assets	32,704	32,850	32,331	42,485	46,032
Adjusted debt	14,126	13,069	11,621	21,627	21,155
Adjusted equity	13,880	13,990	14,140	13,283	12,475
Adjusted Ratios					
EBITDA margin (%)	33.5	41.7	48.2	50.2	42.6
Pretax return on permanent capital (%)	8.5	8.0	6.5	8.0	6.0
EBITDA interest coverage (times)	4.5	4.7	4.2	4.8	4.1
Debt to EBITDA (times)	4.4	4.1	3.2	4.6	5.7
FFO to debt (%)	15.3	18.0	21.5	16.5	12.9
Debt to capitalization (%)	50.4	48.3	45.1	62.0	62.9

* *Consolidated financial statements*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Gunkul Engineering PLC (GUNKUL)

Company Rating:	BBB+
Rating Outlook:	Stable

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