

SERMSANG POWER CORPORATION PLC

No. 141/2021
6 September 2021

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 06/10/20

Company Rating History:

Date	Rating	Outlook/Alert
06/10/20	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sermsang Power Corporation PLC (SSP) at “BBB” with a “stable” rating outlook. The rating reflects the stable cash flows from SSP’s power portfolio, supported by the long-term power purchase agreements (PPA), low operational risk and satisfactory performance of its solar power plants. However, the rating is held back by the increasingly challenging business environment of the renewable power industry, the execution risks of its first wind power project, and its high leverage.

KEY RATING CONSIDERATIONS

Solar power still the majority

Solar power continues to make up the majority of SSP’s power portfolio despite the company’s foray into wind and biomass power. SSP recently completed the development of a solar farm in Shizuoka, Japan. With a 26 megawatts (MW) capacity, the new solar farm began commercial operation in July 2021. SSP’s power plants operate under long-term PPAs, mainly with the Electricity Generating Authority of Thailand (EGAT), reliable power buyers in Japan, and Vietnam Electricity (EVN). The PPAs are on a non-firm basis. The cash flow from solar power generation is highly predictable, underpinned by the committed tariff and low operational risks.

Satisfactory performance of power portfolio

Most of SSP’s power plants deliver satisfactory performances. The annual output of most solar power plants exceeded the P50 level (the 50% probability of energy production), the threshold of expected operating performance. SSP’s sales volume grew to 254 gigawatt-hours (GWh) in 2020 from 190 GWh in 2019, mainly from the full-year operation of solar farms in Vietnam and Mongolia. In all, overseas solar projects represented nearly 60% of total power sold in 2020.

For the first half of 2021, SSP reported THB1 billion in revenues, up from THB0.9 billion in the same period of 2020. The 16% increase came mainly from the Yamaga project, the Japan-based solar farm launched in June 2020. Earnings before interest, tax, depreciation, and amortization (EBITDA) came in at THB916 million, up from THB742 million in the same period last year.

Earnings on uptrend

Currently, SSP still has several overseas projects under development in the pipeline, comprising one solar farm in Japan (22 MW), an offshore wind farm in Vietnam (48 MW), and a few solar rooftops in Indonesia.

On top of those greenfield projects, SSP recently spent THB500 million to acquire 100% share of Uni Power Tech Co., Ltd. (UPT). UPT owns a biomass power plant (9.9 MW), which has operated since May 2019. We forecast UPT will add about THB300 million in revenue per year.

In all, we expect SSP’s capacity will increase to 329 MW by 2024. Of the total, solar power will represent about 271 MW. In our base-case forecast, we assume that SSP will complete the projects in the pipeline as planned. In effect, annual revenue will reach THB2.1 billion in 2021 and gradually rise to THB3.0 billion in 2024. We project EBITDA to exceed THB2 billion per year from 2022 onwards, up from the THB1.6 billion in 2020.

Increasingly challenging business environment

We hold the view that the renewable power industry is facing an increasingly challenging business environment. Investment opportunities for renewable power in Thailand have become less attractive despite the government's determination to reduce heavy reliance on fossil fuel. Notwithstanding the potential rise in renewable penetration in the years ahead, Thai renewable power companies are leaning towards investments outside Thailand, due to the cut-off of incentive tariff, intense competition, repeated delays in public projects, and declining return on investment.

With the dearth in domestic opportunities, we expect SSP to attain future growth from overseas investment. Given the current portfolio, SSP's power plants in Mongolia, Vietnam, and Indonesia will make up around one-fourth of SSP's power-generating assets by 2021. We hold the view that investments in these countries carry relatively higher risks than projects in Thailand and Japan. This perceived higher risk relates to the consistency of regulations, difficulties in contract enforcement, the tendency of delays in obtaining approvals of necessary permits, and infrastructure constraints. Furthermore, SSP is also exposed to exchange rate risk and higher risk of payments from power buyers.

Execution risks of wind power project

SSP is developing a 48-MW offshore wind farm in Vietnam, which is slated to commence commercial operation by October 2021. The main benefits of offshore wind power as opposed to onshore are the more frequent and stronger winds, which lead to higher energy production. However, offshore construction is more complex and costly. Offshore construction work could be delayed or disrupted by rough seas, high winds, as well as defects in the design of the structures.

A significant project delay could harm its viability as the Vietnamese government requires wind power projects to be commissioned before 1 November 2021. Wind projects that fail to be commissioned by the deadline will be at risk of tariff cut. As of 12 August 2021, construction of SSP's wind project was 77% complete, in line with the company's plan. We expect SSP to be able to meet the tariff longstop date. Added to the construction risks, offshore wind farms also generally carry higher operation risks, particularly mechanical and electrical breakdown, as well as extreme weather.

Lower tariffs strain profitability

The lower tariffs of new projects and high interest expenses are placing a strain on SSP's profitability. SSP had an average tariff of higher than THB9 per kilowatt-hour (kWh) during 2015-2018. The average tariff dropped to THB7-THB8 per kWh in 2019-2020. In our base-case forecast for 2021-2024, the average tariff will stay at the level of THB6-THB8 per kWh, following the blend of tariffs received from the new solar farms in Japan, the wind farm in Vietnam, and the biomass power plant.

Leverage expected to remain high

As of June 2021, adjusted debt totaled THB9 billion. The debt to capitalization ratio stood at 63%. In July 2021, SSP's Board of Directors meeting approved the issuance of new shares through private placement, expecting to receive THB605 million in new capital after the Extraordinary General Meeting (EGM) in October 2021. However, we expect SSP's leverage to remain high as the company will take on debt financing for the projects in the pipeline and we believe SSP will grow further.

We project that SSP will spend a total of THB8 billion on expansion during 2021-2024. As such, we project adjusted debt will reach its peak at THB13.2 billion in 2022, resulting in a rise in the debt to capitalization ratio to 68%. However, we expect the leverage to gradually decline starting from 2023. This embeds our assumption that SSP will obtain financing from an Engineering Procurement and Construction (EPC) contractor for the construction of the offshore wind farm in Vietnam, whereby SSP will pay most of the construction costs after the project starts commercial run. We forecast funds from operations (FFO) will range between THB1.2-THB1.8 billion a year during 2021-2024. The ratio of FFO to debt is projected at 11%-16% over the period.

Adequate liquidity

Most of SSP's power projects already have secured long-term project loans. SSP has also utilized both short- and long-term banking facilities to support its subsidiaries. At the end of June 2021, SSP had total debt of THB10.8 billion, including THB10.6 billion of the priority debt. This means the ratio of priority debt to total debt was about 98%. As its priority debt ratio is more than the threshold of 50%, we view that SSP's unsecured creditors are significantly disadvantaged with respect to the priority of claim against SSP's assets.

We assess SSP to have adequate liquidity over the next 12 months. As of June 2021, the company had about THB1.3 billion in short-term debts, as well as long-term debts and debentures maturing in the next 12 months. At the same time, it had cash on hand of THB1.3 billion and an expected FFO of about THB1.2 billion.

BASE-CASE ASSUMPTIONS

- Offshore wind farm in Vietnam to start operation in the fourth quarter of 2021.
- New solar farm in Japan (Leo2) to start operation in 2024.
- Gross capacity to reach 329 MW in 2024.
- During 2021-2024, power plants to generate a combined power output of 263-461 GWh per year.
- Revenues to lie in the THB2.1-THB3 billion per year range.
- EBITDA margin to stay in the 72%-76% range.
- Capital expenditure and investments of THB8 billion during 2021-2024.
- SSP to obtain financing from the EPC contractor for construction of the wind project.

RATING OUTLOOK

The “stable” outlook reflects our expectations that SSP’s power plants will continue to run satisfactorily and generate cash flow as forecast. We also expect the company’s projects under development to commence operations as planned, without material project delays or cost overruns, and its leverage ratio to be in line with the forecast.

RATING SENSITIVITIES

A rating upgrade could occur if SSP’s power plants considerably outperform and generate higher-than-expected cash flow or if SSP strengthens its capital structure significantly. On the other hand, downward revision to the rating could emerge if SSP’s financial profile weakens substantially, possibly from a deluge of debt-fund investments or the performance of the power plants undershoots estimates resulting in a significant drop in cash flow.

COMPANY OVERVIEW

SSP was founded in 2015 as a holding company. SSP invests in companies that generate and sell electricity produced from renewable resources. The company was listed on the Market for Alternative Investment (MAI) in September 2017. SSP’s shares were moved to trade on the Stock Exchange of Thailand (SET) in March 2019. As of June 2021, SSP’s major shareholder was the Kraipisitkul family, which owns 53% of the company’s shares. Public shareholders owned the rest. SSP recently issued new shares of 50 million shares under private placement for UOB Kay Hian Private Ltd. and Mr. Pongsak Thammatucharee.

SSP’s first power plant was a solar power plant in Lopburi, with an installed capacity of 52 MW. The plant was owned and run by its subsidiary, Sermsang Palang Ngan Co. Ltd. (SPN). SPN has a long-term PPA with EGAT for 40 MW of power supply. The term of the PPA with EGAT spans five years with an option to renew every five years. The electricity tariff has three components: the time of use (TOU) tariff, the fuel tariff (Ft) charge, and an adder of THB6.5 per kWh for the first 10 years after the commercial operation date (COD). SPN has been the main source of revenue and profit for SSP. Among SSP’s power plants, SPN has established a longest track record. SPN has produced 85-90 GWh of power per annum, or 15% above the P50 level.

The company later expanded into solar rooftop projects and solar farms in overseas markets. In Thailand, SSP owns a 5-MW solar farm, which it co-developed with the War Veterans Organization of Thailand (WVO). The project receives a fixed feed-in-tariff (FiT) of THB4.12 per kWh. The term of the PPA is 25 years. Apart from solar farms, SSP also has solar rooftop projects with many industrial users under private PPAs. The electricity tariffs charged to industrial users are based on the TOU tariff minus a discount, as specified in the PPAs.

Currently, SSP also has several operating solar farms overseas. The company has four solar farms in Japan, with total gross capacity of 89 MW. These four projects receive a FiT of JPY36-JPY40 per kWh under 20-year PPAs with reputable off-takers in Japan, such as Hokkaido Electric Power Co., Inc. (HEPCO) and Kyushu Electric Power Co., Inc. (KYUDEN). SSP also owns the Khunsight Kundi solar farm project, a 16-MW solar farm in Mongolia. This project has a 12-year PPA with National Dispatch Center LLC. The tariff is a FiT basis of US cent16.2 per kWh. SSP also owns a 50-MW solar farm in Vietnam. Electricity of Vietnam (EVN) is the off-taker for this project under a 20-year PPA. The tariff is a fixed FiT basis of US cent9.35 per kWh.

In July 2021, SSP acquired 100% share of UPT. UPT owns and operates a 9.9-MW biomass power plant in Nakornratchasima, Thailand. UPT commenced operation in May 2019 and sold power to the Provincial Electricity Authority (PEA) under a 20-year term PPA. The PPA carries a fixed FiT of THB2.39 per kWh and variable FiT, which is linked to the inflation rate. PPAs also carry a premium FiT of THB0.3 per kWh for the first eight years. Currently, SSP has three types of projects under development and construction including one solar farm in Japan, one wind farm in Vietnam, and many solar rooftop projects in Indonesia.

KEY OPERATING STATISTICS
Table 1: Portfolio of SSP

	Project Name	Type	Off-taker	Location	SCOD/ COD	Ownership %	Capacity (MW)	
							Installed	Contracted
Operating							233	191
1	SPN	Solar Farm	EGAT	Lopburi	Feb-15	100	52	40
2	Hidaka	Solar Farm	HEPCO ^(a)	Hokkaido, Japan	Mar-18	87	21	17
3	SNNP1	Solar Rooftop	Srinanaporn	Samutsakorn	Mar-18	100	0.4	0.4
4	SNNP2	Solar Rooftop	Srinanaporn	Ratchaburi	Mar-18	100	1	1
5	Do-Home	Solar Rooftop	Do Home	Bangkok, Korat, Khonkhan, Chiang Mai	Jul-18	100	3	3
6	Zouen	Solar Farm	KYUDEN ^(b)	Kumamoto, Japan	Aug-18	100	8	6
7	WVO	Solar Farm	PEA	Ratchaburi	Nov-18	100	5	5
8	Binh Nguyen	Solar Farm	EVN ^(e)	Quang Nai, Vietnam	May-19	80	50	40
9	Khunsight Kundi	Solar Farm	NDC LLC ^(d)	Ulaanbaatar, Mongolia	Jul-19	75	16	15
10	SNNP3	Solar Rooftop	Srinanaporn	Samutsakorn	Apr-19	100	0.4	0.4
11	SNNP4	Solar Rooftop	Srinanaporn	Samutsakorn	Mar-20	100	0.3	0.3
12	Yamaga	Solar Farm	KYUDEN ^(b)	Kumamoto, Japan	May-20	90	34	30
13	TAPACO	Solar Rooftop	TAPACO	Chonburi, Prachinburi	Apr-20	100	0.9	0.9
14	PRC	Solar Rooftop	PRC	Nonthaburi	Apr-20	100	1	1
15	Leo1	Solar Farm	TEPCO ^(c)	Shizuoka, Japan	Jul-21	100	26	20
16	SSE	Solar Rooftop	Private users	Indonesia	Q4/19-Q2/21	84	4	4
17	UPT	Biomass	PEA	Nakornratchasima	May-19	100	10	8
Developing							96	91
18	Leo2	Solar Farm	TEPCO ^(c)	Shizuoka, Japan	Jan-24	100	22	17
19	TTTV	Wind Farm	EVN ^(e)	Tra Vinh, Vietnam	Oct-21	80	48	48
20	SSE	Solar Rooftop	Private users	Indonesia	Q3/21-Q4/21	84	18	18
21	SSE	Solar Rooftop	Private users	Indonesia	Q1/22	84	9	9
Total							329	283

Source: SSP

Remark: (a) Hokkaido Electric Power Co., Inc.

(b) Kyushu Electric Power Co., Inc.

(c) Tokyo Electric Power Company

(d) National Dispatching Center LLC

(e) Electricity of Vietnam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,044	1,886	1,481	1,137	877
Earnings before interest and taxes (EBIT)	617	1,075	771	663	524
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	916	1,572	1,088	888	648
Funds from operations (FFO)	709	1,209	800	648	409
Adjusted interest expense	179	341	276	238	231
Capital expenditures	2,316	1,008	2,255	3,369	1,961
Total assets	18,459	16,104	13,045	11,893	8,270
Adjusted debt	8,988	8,950	7,370	6,218	3,460
Adjusted equity	5,248	4,542	3,997	3,858	3,422
Adjusted Ratios					
EBITDA margin (%)	87.69	83.37	73.47	78.07	73.92
Pretax return on permanent capital (%)	7.59	7.56	6.30	6.56	7.55
EBITDA interest coverage (times)	5.13	4.61	3.94	3.73	2.81
Debt to EBITDA (times)	5.15	5.69	6.77	7.00	5.34
FFO to debt (%)	15.10	13.51	10.85	10.42	11.83
Debt to capitalization (%)	63.13	66.34	64.84	61.71	50.28

RELATED CRITERIA

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

Sernsang Power Corporation PLC (SSP)

Company Rating:	BBB
Rating Outlook:	Stable

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