

SERMSANG POWER CORPORATION PLC

No. 190/2023
29 September 2023

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 19/09/22

Company Rating History:

Date	Rating	Outlook/Alert
19/09/22	BBB+	Stable
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” outlook. The rating mirrors the high predictability of cash flows from SSP’s power portfolio, underpinned by long-term power purchase agreements (PPAs), low operational risk, and satisfactory performance of its solar power plants. However, the rating is weighed down by a tendency of surging financial leverage due to SSP’s sizable investment outlays.

KEY RATING CONSIDERATIONS

Solar power remains majority

Solar power continues to be the majority of SSP’s power portfolio although the company has expanded into wind power and biomass power. As of June 2023, SSP owned several operating power projects across Thailand and Asia, with a net capacity of 279 megawatts (MW) when measured in proportion to SSP’s ownership of the projects. Solar power projects (ground mounted and rooftop) accounted for 79% of total capacity while the remainder was across two wind power plants and one biomass power plant.

SSP’s power plants hold long-term PPAs, mainly with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/stable”), Vietnam Electricity (EVN), and credible power buyers in Japan. The PPAs are on a non-firm basis. The cash flows from the solar power generation are largely predictable, underpinned by the committed tariff and low operational risks.

Track record of satisfactory performance

On the whole, SSP’s power portfolio has delivered satisfactory performance. In 2022, SSP sold about 540 gigawatt-hours (GWh) of electricity, a 35% increase from 400 GWh in 2021. The increase stemmed from the full-year operations of a solar farm in Japan and a near-shore wind power project in Vietnam. Solar power projects accounted for 60% of the company’s total electricity sold.

In the past three years, the annual output of most of SSP’s solar power plants achieved the P50 level (the 50% probability of energy production), the threshold of expected operating performance. The average capacity factor was 16%.

However, SSP’s two solar power projects in Japan, “Zouen” and “Yamaga”, experienced a reduction in power dispatch in the first half of 2023. As a result, these projects sold 18.8 GWh in total power, a staggering 32% decrease from 27.7 GWh year-over-year (y-o-y). However, we assume such curtailment is transitory in our base-case projection.

Acute earnings pressure from imminent adder expiration

Across SSP’s power portfolio, Sermsang Palang Ngan Co., Ltd. (SPN), a 52-MW solar power plant in Thailand, has consistently outperformed other solar power projects of SSP. SPN sold about 83-87 GWh of electricity per year, or about 8%-13% above the P50 level. In 2022, SPN contributed a substantial 27% portion of SSP’s total revenue. SPN receives adder of THB6.5 per kilowatt-hour (kWh) for the first 10 years, top up from base tariff. Revenue from adder is about THB0.5 billion per year, which will end in January 2025.

SSP was recently awarded a total of 170.5 MW in new contracted capacities of renewable power projects in Thailand. These comprise 154.5 MW in seven

solar power projects and 16 MW in two wind power projects, all of which will secure long-term PPAs and sell electricity to the state-owned utilities. However, these projects are slated to commence commercial operations from 2027 onwards. Given the imminent phase-out of adder, we therefore expect SSP to acquire operating projects to immediately replenish its declining earnings.

In our view, SSP's efforts in acquiring new projects to offset the high earnings contributed from SPN is much challenging. We remain of the view that the increasingly intensified competition has put significant downward pressure on earnings. The prospect of high-profit projects looks limited. In addition, acquisitions of operating projects generally render lower returns than developing green-field projects.

Sizable investment plans ahead

SSP is developing a 22-MW solar project, "LEO2 Project", in Japan. The LEO2 Project is scheduled to commence operation within the third quarter of 2025. The company is also developing a group of solar rooftops in Indonesia, which will add 19 MW to its power portfolio. We expect SSP to spend a tally of THB2.3 billion for the committed projects in 2023-2026.

In addition, we also assume SSP to spend about THB8.5 billion for the top-up projects. Of this amount, we assume SSP to defray about THB4.5 billion to acquire operating projects, which will immediately generate cash flows to help offset the adder expiration of SPN. The remainder will be designated for developing green-field projects, including the recently awarded Thai renewable power projects.

In our base case, we expect SSP's revenue to be THB2.9 billion in 2023, down from THB3.2 billion in 2022. The decrease is mainly from softened performance of the Japan power projects and depreciated Japanese yen. However, we forecast SSP's revenue to bounce to range THB3.4-THB3.6 billion per annum in 2024-2026, given the expectation of expanded capacity. We project SSP to gross THB2.3 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2023. We expect SSP's EBITDA to peak at around THB2.8 billion in 2024, before declining to about THB2.5 billion per year in 2025-2026 as SSP will endure the full impact of adder expiration while most of its green-field projects have yet to pay off.

Expected heavier debt load

According to our base-case forecast, we assume SSP will spend to the tune of THB10.9 billion for capital expenditures and investments during 2023-2026. We assume SSP's outlays will concentrate in 2024 as the company pursues its acquisitive growth strategy. As a result, we project SSP's debt to soar to THB13 billion in 2024 and peak at THB14 billion in 2025. We forecast the company's debt to EBITDA ratio will rise to 4.5 times in 2024 from 3.3 times in 2022. The ratio could transitorily exceed 5 times in 2025, before trending down in the following years. In addition, we forecast its debt to capitalization ratio to stay at about 55% during 2024-2026. The ratio of funds from operations (FFO) to debt is projected at 11%-16% over the same period. Given a tendency of a run-up in financial leverage, we expect that SSP will maintain prudent financial discipline and keep investments in a range balanced with its operating cash flows and capital.

Adequate liquidity

We assess SSP's liquidity as adequate. Most of SSP's power projects have already secured long-term project loans. As of June 2023, the company had THB1.6 billion in short-term and long-term debts coming due in the next 12 months. At the same time, it had cash and cash equivalents of THB4.9 billion. In addition, we also expect FFO of about THB1.8 billion over the next 12 months.

Debt structure

As of June 2023, SSP had consolidated debt of about THB12.4 billion, excluding lease liabilities. Of this amount, THB10.3 billion was priority debt, comprising secured debt owed by SSP and all borrowings incurred by its operating subsidiaries. The company's priority debt to total debt ratio was 83%, far above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that SSP's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- The 22-MW solar farm in Shizuoka, Japan, to start operation in the third quarter of 2025.
- A pool of 19-MW solar rooftops in Indonesia to gradually start operation in 2023-2024.
- Total operating revenues of THB2.9 billion in 2023, and THB3.4-THB3.6 billion per annum in 2024-2026.
- EBITDA margin to range 70%-80% during 2023-2026.
- Capital expenditure and investments to total THB10.9 billion during 2023-2026.

RATING OUTLOOK

The “stable” outlook embeds our expectations that SSP’s power plants will continue to exhibit decent performance and generate cash flows as expected. In addition, we expect the company to expand, with the level of cash flow against financial leverage aligned with our forecast range.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, we could take a positive rating action if the company could generate sizable cash flows that substantially reduces its financial leverage. On the contrary, downward rating pressure would develop on account of a steep deterioration in SSP’s financial risk profile. This could likely occur if SSP embarks on excessive debt-financed acquisitions or performances of its power plants considerably fall short of our estimates, resulting in the debt to EBITDA ratio staying over 5 times for a prolonged period.

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 the Stock Exchange of Thailand (SET) in March 2019. In 2021, the company issued 50 million new shares under a private placement for UOB Kay Hian Private Ltd. and Mr. Pongsak Thammatucharee. As of June 2023, its major shareholder was the Kraipisitkul Family, which owns 58% of the company’s shares. Public shareholders owned the rest.

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. SPN receives an adder of THB6.5 per kWh for the first 10 years. SSP later expanded into solar rooftop projects and solar farms overseas, including Japan, Vietnam, Mongolia, and Indonesia.

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 time of use (TOU) tariff minus a discount, as specified in the PPAs.

SSP also has several operating solar farms overseas. The company has three solar farms in Japan, with total gross capacity of 68 MW. These three projects receive a FiT of JPY36 per kWh under 20-year PPAs with reputable off-takers in Japan, such as Kyushu Electric Power Co., Inc. 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. 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 a 100% share of Uni Power Tech Co., Ltd. (UPT). UPT owns and operates a 9.9-MW biomass power plant in Nakorn Ratchasima, Thailand. UPT commenced operation in May 2019 and sells power to the Provincial Electricity Authority (PEA) under a 20-year PPA. The PPA carries a fixed FiT of THB2.39 per kWh and a variable FiT, which is linked to the core inflation rate. PPAs also carry a premium FiT of THB0.3 per kWh for the first eight years. In October 2021, SSP’s 48-MW nearshore wind farm in Vietnam commenced its operation. In March 2022, SSP invested in 25% shares of “Winchai Wind Farm” through Qian Xing Long Co., Ltd. (QXL), adding net capacity of 11 MW to SSP’s power portfolio.

In July 2023, SSP invested in 75% shares of Samart Plaspac Co., Ltd. with the investment cost of THB140.8 million. Samart Plaspac is a manufacturer of plastic packaging used in variety products, such as food & beverage and cosmetics. Currently, SSP is developing a 22-MW solar farm in Shizuoka, Japan, and a number of solar rooftop projects in Indonesia.

KEY OPERATING STATISTICS

Table 1: Portfolio of SSP (As of Jun 2023)

Project Name	Type	Off-taker	Location	SCOD/ COD	Ownership %	Capacity (MW)	
						Installed	Contracted
Operating						331.1	293.7
1 SPN	Solar farm	EGAT	Lopburi	Feb-15	100	52.0	40.0
2 WVO	Solar farm	PEA	Ratchaburi	Nov-18	100	5.0	5.0
3 Zouen	Solar farm	KYUDEN ^(a)	Kumamoto, Japan	Aug-18	100	8.0	6.0
4 Yamaga	Solar farm	KYUDEN ^(a)	Kumamoto, Japan	May-20	90	34.5	30.0
5 Leo1	Solar farm	TEPCO ^(b)	Shizuoka, Japan	Jul-21	100	26.0	20.0
6 Binh Nguyen	Solar farm	EVN ^(d)	Quang Nai, Vietnam	May-19	100	49.6	40.0
7 Khunsight Kundi	Solar farm	NDC LLC ^(c)	Ulaanbaatar, Mongolia	Jul-19	75	16.4	15.0
8 SNNP1	Solar rooftop	Srinanaporn	Samutsakorn	Mar-18	100	0.4	0.4
9 SNNP2	Solar rooftop	Srinanaporn	Ratchaburi	Mar-18	100	1.0	1.0
10 Do-Home	Solar rooftop	Do Home	Bangkok, Korat, KhonKaen, Chiang Mai	Jul-18	100	3.0	3.0
11 SNNP3	Solar rooftop	Srinanaporn	Samutsakorn	Apr-19	100	0.4	0.4
12 SNNP4	Solar rooftop	Srinanaporn	Samutsakorn	Mar-20	100	0.3	0.3
13 TAPACO	Solar rooftop	TAPACO	Chon Buri, Prachin Buri	Apr-20	100	0.9	0.9
14 PRC	Solar rooftop	PRC	Nonthaburi	Apr-20	100	1.0	1.0
15 SPT	Solar rooftop	SPT	n.a.	Jun-22	100	0.8	0.8
16 SNNP5	Solar rooftop	Srinanaporn	Samutsakorn	Jan-23	100	0.4	0.4
16 SSE	Solar rooftop	Private users	Indonesia	Q4/19-Q2/23	95	28.5	28.5
17 UPT	Biomass	PEA	Nakorn Ratchasima	May-19	100	9.9	8.0
18 TTTV	Wind farm	EVN ^(d)	Tra Vinh, Vietnam	Oct-21	80	48.0	48.0
19 Winchai	Wind farm	PEA	Mukdaharn	Apr-19	25	45.0	45.0
Developing (Committed Projects)						41.9	36.1
20 Leo2	Solar farm	TEPCO ^(b)	Shizuoka, Japan	Q3/25	100	22.2	16.4
21 SSE	Solar rooftop	Private users	Indonesia	Q3/23-Q4/23	95	8.4	8.4
22 SSE	Solar rooftop	Private users	Indonesia	2024	95	11.3	11.3
Total						373.0	329.8

Source: SSP

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

(b) Tokyo Electric Power Company

(c) National Dispatching Center LLC

(d) Electricity of Vietnam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	1,552	3,155	2,695	2,192	1,481
Earnings before interest and taxes (EBIT)	849	1,577	1,351	1,160	771
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,290	2,661	2,102	1,693	1,088
Funds from operations (FFO)	919	2,046	1,676	1,303	799
Adjusted interest expense	321	561	356	367	276
Capital expenditures	36	189	4,891	1,013	2,255
Total assets	21,847	21,292	24,063	16,925	13,045
Adjusted debt	8,139	8,897	9,427	9,407	7,370
Adjusted equity	8,436	8,277	6,374	4,804	3,997
Adjusted Ratios					
EBITDA margin (%)	83.17	84.36	77.97	77.26	73.47
Pretax return on permanent capital (%)	7.65 **	7.57	7.27	7.93	6.30
EBITDA interest coverage (times)	4.02	4.74	5.90	4.61	3.94
Debt to EBITDA (times)	3.08 **	3.34	4.49	5.56	6.77
FFO to debt (%)	23.44 **	2.99	17.78	13.85	10.85
Debt to capitalization (%)	49.11	51.81	59.66	66.19	64.84

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Sermsang Power Corporation PLC (SSP)

Company Rating:	BBB+
Rating Outlook:	Stable

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