SUPER ENERGY CORPORATION PLC

No. 224/2023
21 November 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 25/11/22

Company Rating History:

Date	Rating	Outlook/Alert
14/12/21	BBB	Positive
04/12/20	BBB	Stable
06/12/19	BBB-	Positive
03/01/18	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Super Energy Corporation PLC (SUPER) at "BBB". At the same time, we revise the rating outlook to "stable" from "positive". The outlook revision reflects the prospect of softened earnings as opposed to our previous assessment, due in large part to escalating interest burden.

The rating continues to mirror SUPER's large and well-diversified power portfolio, as well as the high reliability of cash generation, underpinned by long-term power purchase agreements (PPAs). At the same time, the rating factors in SUPER's significant exposure in Vietnam and the increasingly competitive renewable power industry.

KEY RATING CONSIDERATIONS

Large, well-diversified power portfolio

The rating factors in SUPER's large and diversified pool of power projects across different sites. Currently, the company has more than 100 operating power plants in diverse locations with an aggregate contracted capacity of 1,495 megawatts (MW). The large number of power assets has enhanced the stability of the company's overall earnings, as well as financial flexibility. SUPER can divest parts of its investments to reduce debt load, if needed.

We estimate SUPER will add 210 MW in operating power capacity over the forecast period. Hence, the total contracted capacity of its operating power plants should rise to 1,705 MW by 2025. Most of the added capacity will come from wind power projects under development in Vietnam.

Highly reliable cash flow

Almost all its power plants have multi-year PPAs with state-owned producers and distributors of electricity, which translates into minimal counterparty risk to the company. Solar power continues to represent the bulk of SUPER's power portfolio (1,421 MW) although the company has expanded into wind power and waste-to-energy (WTE). Cash flows from the solar power generation are highly predictable, buoyed by the committed tariff and low operational risks.

Intensified competition in power market

We view the increasingly intensified competition as putting downward pressure on earnings, despite growth opportunities for the renewable power industry in Thailand. Considering the lower tariffs offered, the prospect of high-profit investments tends to be limited. Like other power developers, SUPER has explored opportunities abroad over the past several years. However, some overseas expansions entail higher country and regulatory risks. Yielding returns commensurate with the higher risks remains a significant challenge.

Significant exposure in Vietnam

SUPER has significant exposure in Vietnam. Power projects in the country currently make up about 60% of the company's total capacity. Despite growth opportunities, investments in Vietnam carry several uncertainties, particularly regulatory risk. The pending clarity of the country's National Power Development Plan and prolonged indecision of the Vietnamese Government on the new tariffs for renewable energy remain the key risks. We also view the credit profile of the state-run Vietnam Electricity (EVN) as not being as strong as the Thai state-owned power buyers. Also, power output from plants in Vietnam is at risk of being curtailed due to insufficient grid capacity.

SUPER has recently shaken up its portfolio, aiming at reducing its exposure in Vietnam. The company is currently reducing its stakes in all the solar power projects in Vietnam to 51% from 100%. In all, SUPER will eventually earn THB6 billion in proceeds from the divestiture. Also, SUPER has been awarded 19 renewable projects in Thailand under the state 5.2-gigawatt renewable power scheme. In total, this will secure 185.5 MW in contracted capacity, selling electricity to the state-run utilities. These projects are slated to be up and running during 2026-2029.

Wind power projects in Vietnam face headwinds

Several wind power projects in Vietnam remain mired in problems arising from the pandemic-induced delays in construction and prolonged tariff finalization. Several projects failed to complete construction ahead of the expiry of the Feed-in Tariff (FiT) in November 2021. The commercial operations of these projects have been waiting for new FiTs. The Ministry of Industry and Trade (MOIT) of Vietnam has announced the tariff brackets for pending renewable power projects. These are far below the expectation of project developers. As a result, the new tariffs require further negotiation. In response, MOIT has recently employed the temporary mobilization of the power generation scheme, whereby it has allowed all pending projects to commence operations and receive temporary tariffs which are 50% of the ceiling tariff brackets while final tariff negotiations continue.

SUPER currently has four wind power projects in Vietnam with a total contracted capacity of 421 MW in the pipeline. These include Soc Trang (30 MW), which has completed construction and applied to sell electricity under the temporary tariff scheme. SUPER is also developing Bac Lieu (141 MW), of which construction is ongoing.

We view SUPER's earnings from the above-mentioned projects as remaining vulnerable to several uncertainties. Despite the Vietnamese Government's ongoing efforts to resolve the FiT issues, further delays on the resolution remain possible and could pose threats to the viability of the projects. Recognizing this, we conservatively assume SUPER's wind power projects under development will receive low selling rates at the temporary tariffs in our base-case forecast.

Hefty interest burden to strain earnings

We forecast the company's total operating revenue to remain at about THB10 billion per annum over 2023-2025, down from THB11-THB13 billion in our previous assessment, as we incorporate delays in ramping up operating capacity. Added to this, SUPER has recently faced increases in operating expenses associated with its projects under development. Given our expectation on the lower revenue and narrower profit margins, we slash our forecast on SUPER's earnings. We project SUPER will arrive at earnings before interest, taxes, depreciation, and amortization (EBITDA), excluding gains or losses on exchange rates, of around THB8 billion per annum during 2023-2025, as opposed to about THB9 billion per annum in our previous forecast. The EBITDA margin is assumed to be 75%-80%.

Also, we view hefty interest expenses as putting a strain on SUPER's earnings, given the run-up in interest rates connected to the USD project loans financing its power projects in Vietnam. SUPER's average cost of debt surged to 6.7% in the first nine months of 2023, from 4.5%-5.5% over the past several years. Therefore, we expect its funds from operations (FFO) to stay in the THB4-THB5 billion per annum range over the forecast period, a level lower than that of our previous assessment. The company currently plans deleveraging and interest rate swaps to alleviate financial cost pressure.

Financial leverage under control

We project SUPER will spend THB22 billion in aggregate over the next three years, mostly piled into four wind power projects in Vietnam (421 MW) and three WTE projects in Thailand (40 MW). Our base-case forecast expects the company to continue to receive financing from the engineering, procurement, and construction (EPC) contractors for its projects in Vietnam. SUPER will pay most of the construction costs after the projects are operational, keeping the gearing at acceptable levels.

We expect SUPER's financial leverage to stay at the current level. Our forecast estimates the ratio of debt to EBITDA will range from 6-7 times during 2023-2025, compared with 6.4 times (annualized based on trailing 12 months) in the first nine months of 2023. The ratio of FFO to debt should stay in the 8%-9% range and the EBITDA interest coverage ratio should remain above 2 times over the forecast period. The debt to capitalization ratio should range from 63%-68%. Proceeds from the partial divestment in its Vietnamese solar power projects will help offset heavy interest burden. We view that SUPER's wealth of power assets provides financial flexibility as the company may consider divesting parts of investments to reduce debt load and financial cost pressure.

Debt structure

As of September 2023, SUPER's consolidated debt was THB55.8 billion. Of this, THB47.1 billion was priority debt, comprising secured debt owed by SUPER and all borrowings incurred by its operating subsidiaries. The company's priority debt to total debt ratio is 84%, suggesting the company's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Liquidity to stay manageable

We believe SUPER will adequately manage its liquidity. As of September 2023, the company had cash and undrawn credit facilities of around THB1.5 billion in total. Its FFO over the next 12 months is forecast to be THB4.4 billion. Sources of cash add up to THB5.9 billion, adequately covering long-term bank loans coming due over the next 12 months of about THB5 billion. The company plans to repay debentures coming due in the next 12 months, totaling THB2.7 billion, with proceeds from new debenture issuance and the partial divestment of its solar power projects in Vietnam. SUPER also had substantial short-term bank loans totaling about THB13 billion, most of which are expected to be converted to long-term project loans.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2023-2025 are as follows:

- Aggregate capacity of operating power plants to reach 1,705 MW in 2025.
- Aggregate power output to be 2,400-2,900 gigawatt-hours (GWh) per annum.
- Total operating revenue to stay at about TH10 billion per annum.
- EBITDA margin to range from 75%-80%.
- Capital expenditures to total THB22 billion over the next three years.
- EPC contractors to continue providing long credit terms for project construction in Vietnam.

RATING OUTLOOK

The "stable" outlook embeds our expectation that SUPER's operating power plants will continue to generate reliable cash flows. As such, SUPER's financial leverage level and cash generation against debt obligations will align with our forecast. Also, the projects under development will materialize as planned.

RATING SENSITIVITIES

A rating upgrade would require a substantial reduction in SUPER's debt load and interest burden. This could be in the case where its debt to EBITDA ratio stays below 6 times for a sustained period. Also, its operating results should be in line with our forecast. Conversely, we could take a negative rating action if the company's financial profile weakens significantly, which could result from a deterioration in cash generation, excessive debt-funded investments, or significant cost overruns.

COMPANY OVERVIEW

SUPER was founded as a producer of autoclaved aerated concrete in 1994 and listed on the Stock Exchange of Thailand (SET) in 2005. The company discontinued the original business and sold it to Siam City Cement PLC (SCCC) in 2013. SUPER then began two new businesses: information and communication technology (ICT) and renewable energy. SUPER entered the water production and distribution business in 2019. Currently, the power segment is the centerpiece of the company, accounting for nearly all revenues. As of September 2023, the Lochaya Group remained the major shareholder, holding a 36% interest in SUPER.

Currently, SUPER's aggregate contracted capacity, spread across all the operating power projects, is 1,495 MW. This includes solar power (1,421 MW), wind power (50 MW), and WTE projects (24 MW). SUPER holds the largest capacity among the solar power producers rated by TRIS Rating.

Almost all of SUPER's power plants in Thailand have multi-year PPAs with state-owned producers and distributors of electricity, namely the Electricity Generating Authority of Thailand (EGAT), the Metropolitan Electricity Authority (MEA), and the Provincial Electricity Authority (PEA), all of which are rated "AAA/stable". As for power projects in Vietnam, SUPER holds PPAs with the state-run EVN.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

	2019	2020	2021	2022	Jan-Sep 2023
Power	96%	96%	96%	95%	96%
IT	1%	1%	1%	1%	1%
Water	2%	2%	2%	2%	2%
Others	1%	1%	1%	2%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total revenue (mil. THB)	**6,246**	**6,515**	**8,530**	**9,361**	**7,395**

Source: SUPER

Table 2: Operating Power Project Portfolio (as of Sep 2023)

Scheme	Tariff (THB/kWh)	Gross Contracted Capacity (MW)
Solar		
Adder	8.00	7.00
Adder	6.50	5.95
FiT	5.66	491.70
FiT	5.377	30.95
FiT	4.120	28.00
FiT	2.918	16.00
Agreed prices	Agreed prices	4.83
FiT	US9.35 cent	286.72
FiT	US7.09 cent	550.00
Sub total - Solar		**1,421.15**
Wind		
FiT	US8.50 cent	50.00
Sub total - Wind		**50.00**
Waste		
Adder	3.50	18.00
FiT	5.08	6.00
Sub total - Waste		**24.00**
Grand total		**1,495.15**

Note: Excluding the capacities sold to Super Energy Power Plant Infrastructure Fund (SUPEREIF)
Source: SUPER

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2023		-----------Year Ended 31 December ---------- 2022	2021	2020	2019
Total operating revenues	7,543		9,460	8,681	6,592	6,298
Earnings before interest and taxes (EBIT)	3,458		4,156	3,660	3,004	2,984
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,314		7,767	6,997	5,758	5,156
Funds from operations (FFO)	3,449		4,765	4,906	4,047	3,581
Adjusted interest expense	2,865		2,905	2,028	1,690	1,548
Capital expenditures	1,788		7,570	13,228	12,173	2,435
Total assets	84,068		83,851	80,530	73,160	55,669
Adjusted debt	53,103		52,627	47,047	37,724	27,800
Adjusted equity	22,528		21,500	21,434	20,623	18,858
Adjusted Ratios						
EBITDA margin (%)	83.71		82.10	80.60	87.35	81.87
Pretax return on permanent capital (%)	5.62	**	5.45	5.42	5.38	6.06
EBITDA interest coverage (times)	2.20		2.67	3.45	3.41	3.33
Debt to EBITDA (times)	6.41	**	6.78	6.72	6.55	5.39
FFO to debt (%)	8.62	**	9.05	10.43	10.73	12.88
Debt to capitalization (%)	70.21		71.00	68.70	64.65	59.58

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

RELATED CRITERIA

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

Super Energy Corporation PLC (SUPER)

Company Rating:	BBB
Rating Outlook:	Stable

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