TRIS RATING
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SUPER ENERGY CORPORATION PLC

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CORPORATES

Company Rating:	BBB
Outlook:	Positive

Last Review Date: 04/12/20

Company Rating History:

Date	Rating	Outlook/Alert
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 on SUPER to "positive" from "stable" to reflect the promising enhancement of cash generation against debt in anticipation of SUPER's successful development and execution of upcoming power projects.

The rating continues to mirror SUPER's wealth of power-generating assets and its highly predictable cash flows, backed by long-term power purchase agreements (PPAs). On the other hand, the rating is constrained by the company's substantial exposure in Vietnam. The performances of the Vietnamese power plants also need to be proven. The rating also takes into consideration the increasingly challenging business environment for the power industry in Thailand.

KEY RATING CONSIDERATIONS

Development risk lessened

SUPER has largely materialized its growth strategy, boosting its power portfolio rapidly over the past few years. Apart from domestic projects, the company has developed several large-scale renewable power projects in Vietnam. Currently, the aggregate contracted capacity of the Vietnamese projects is 1,308 megawatts (MW). These projects are required to commence operations by the deadline to secure the agreed feed-in tariff (FiT).

SUPER's development risk has declined somewhat after three large solar power projects, "Loc Ninh 1-3", with a combined capacity of 550 MW, commenced operations at the end of last year. At present, SUPER owns a number of operating solar and wind power projects in Vietnam, totaling 887 MW. The company has 421 MW of remaining wind power projects to complete, which are scheduled to commence operations in 2021-2023. The risks associated with the projects under development remain as SUPER continues to expand. However, the company's record of accomplishments helps alleviate our concerns to some extent.

Pandemic impact on development schedules

Several wind power developers in Vietnam have suffered from the fallout of the Coronavirus Disease 2019 (COVID-19) pandemic, with delays in the manufacture and transportation of wind turbines. Project construction and the installation of equipment have also been severely affected by travel restrictions and lockdowns.

As a result, these projects may no longer be eligible for the favorable FiTs. Wind power developers have requested an extension of the deadline from the Vietnamese government. Currently, the government's decision is pending.

Like those of other companies, SUPER's wind power projects under development and construction have been delayed due to the outbreak. We expect Vietnam Electricity (EVN) to extend the completion deadlines for the projects.

Increasingly challenging business environment

We hold the view that the domestic power market has become increasingly challenging. Competition has become intense in recent years in the wake of the government's decentralization policy to suppress potential rises in electricity costs. Private companies, ranging from very small entrepreneurs to large conglomerates, have branched into the power market, leading to intensifying competition.

While demand for power is growing only modestly following the pandemic, Thailand is currently saddled with high excess reserves of capacity. Disruptive technologies, such as economical energy storage and digital transformation in energy management, will enable small businesses and households to generate power for consumption or trading. Thai power companies are leaning towards investments outside Thailand, due to the cut-off of incentive tariff, intense bidding competition, repeated delay in public projects, and contracted return on investment. However, some overseas expansions entail higher risk stemming from the host country's transparency and consistency of regulations, credit profiles of off-takers, and environmental challenges.

Substantial exposure in Vietnam

SUPER has substantial exposure in Vietnam. The company's power projects in Vietnam could make up almost two-thirds of its total production capacity, when all the projects are fully operational. Despite fast-growing demand for electricity and the government's supportive measures, power projects in Vietnam carry several risks, including potential changes in regulations, contract enforcement, insufficient infrastructure, and construction delays. In addition, the counterparty risk is noticeably higher. We view the credit profile of the state-run EVN not as strong as the Thai state-owned power buyers.

Some of SUPER's projects in Vietnam have been affected by the COVID-19 outbreak. Output from the projects has been curtailed, due not only to temporarily falling demand for electricity, but also insufficient grid capacity. The latest wave of virus infections has delayed the Vietnamese government's plan to enhance national grid capacity. As a result, the average actual output of SUPER's power plants in Vietnam has remained less than the 90% probability level of energy production (P90). That said, we expect these operating power plants to deliver better results over the medium to long term as the grid infrastructure continues to improve.

Revenue and earnings to continue to grow

SUPER has a large and diverse portfolio of power generation assets, comprising more than 100 operating power plants. The company currently has an aggregate operating capacity of 1,468 MW. Of this, solar power plants are the centerpiece of SUPER's power-generating assets, accounting for about 1,400 MW. We expect SUPER to stay on the growth path, considering its projects in the pipeline and its growth strategy. In addition to the Vietnam-based wind projects, SUPER plans to add 116 MW in new power projects in Thailand, covering waste-to-energy (WTE), hybrid, and solar rooftop developments under private PPAs.

In our base-case forecast, we assume SUPER will successfully execute all the projects in the pipeline, as well as other potential projects. As a result, the company's total operating capacity is projected to reach 2,000 MW, boosting its total operating revenues to THB14.7 billion in 2024. We project SUPER will arrive at earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB7.9-THB9.5 billion per year during 2022-2023, before climbing to THB11.5 billion in 2024. Its funds from operations (FFO) are forecast to be THB5.6-THB6.9 billion a year during 2022-2023, rising to THB8.5 billion in 2024.

Highly predictable cash flows

In all, SUPER's power plants have performed well and generated highly predictable cash flows over the past five years, supported by long-term PPAs and the low operational risks of the solar power plants. Almost all of the company's power plants have multi-year PPAs with state-owned producers and distributors of electricity in both Thailand and Vietnam. The counterparty risk of power buyers in Thailand is low, while that in Vietnam is assessed to be comparatively higher.

SUPER has a proven record in managing solar power plants. Its solar farms have consistently delivered favorable results. Since inception, the average actual annual outputs of the solar power plants have reached initial estimates, based on the P75 level of energy production which is a favorable level. Thanks to its efficient cost control, the company's EBITDA margin (EBITDA as a percentage of revenues) has remained at high levels of above 80% over the past five years.

One of the company's wind power projects started operations in late October this year. The operational results of wind power projects are by nature more volatile than solar power projects. However, we believe SUPER's power plants, overall, will continue to perform well over the next three years. SUPER's EBITDA margin should remain high at 80%-85%, given the heightened economies of scale.

Promising enhancement of cash generation against debt

SUPER's financial leverage has risen recently as the company continues to expand. However, the engineering, procurement, and construction (EPC) contractor financing for the projects in Vietnam has helped keep leverage at acceptable levels. SUPER pays most of the construction costs after the projects in Vietnam are operational.

We expect pressure on SUPER's financial leverage to decline. The consistently favorable results of its operating power plants and its enlarged cash flow base should support its planned investment expenditures. Based on expected capital expenditures of THB10-THB20 billion per annum over 2022-2024, the ratio of debt to EBITDA is forecast to hover around 6 times over the next three years, lower than 6-7 times in our previous forecast. The FFO to debt ratio should range from 11%-13%. The debt to capitalization ratio should remain at about 70% or below, as opposed to 65%-75% in our previous forecast.

The establishment of Super Energy Power Plant Infrastructure Fund (SUPEREIF) in 2019 has helped SUPER manage debt load and expand its capacity for future investments. SUPER's large operating power capacity at present enables the company to set up another infrastructure fund as an alternative funding option to support business expansion.

Debt structure

As of September 2021, SUPER's consolidated debt was THB50.2 billion, out of which THB42.9 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 86%, well above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", suggesting that SUPER's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Liquidity stays manageable

We expect SUPER to adequately manage its liquidity over the next 12 months. As of September 2021, the company had cash and undrawn credit facilities of approximately THB1.8 billion in total. Its FFO over the next 12 months is forecast to be THB5.7 billion. Sources of cash add up to THB7.4 billion, adequately covering long-term loans and bonds coming due over the next 12 months that sum up to THB5.7 billion. The company also had a huge amount of short-term bank loans of about THB17 billion, most of which are expected to be converted to long-term project loans.

SUPER and its subsidiaries are obliged to comply with the financial covenants on their bank loans and debentures. SUPER is required to maintain a debt service coverage ratio above 1.2 times and keep the interest-bearing debt to equity ratio below 3 times. Its subsidiaries are required to maintain a debt service coverage ratio above 1-1.2 times and keep the interest-bearing debt to equity ratio below 2-3 times. We expect SUPER and its subsidiaries to prudently manage their commitments with respect to the financial covenants.

BASE-CASE ASSUMPTIONS

- Aggregate capacity of operating power plants to reach 2,000 MW in 2024.
- Total operating revenue is estimated at TH9.6 billion in 2022, THB11.8 billion in 2023, and THB14.7 billion in 2024.
- EBITDA margin to range from 80%-85%.
- Capital expenditures to range from THB10-THB20 billion per annum during 2022-2024.
- EPC contractors to provide long credit terms for project construction in Vietnam.

RATING OUTLOOK

The "positive" rating outlook reflects the prospect of heightening cash generation against debt obligations, based on the expected successful development and execution of SUPER's upcoming power projects.

RATING SENSITIVITIES

A rating upgrade could materialize if SUPER is able to deliver operating results as expected, the projects under development are successfully completed, and the level of cash generation against debt obligations is in line with our forecast. That is, the debt to EBITDA ratio will stay around 6 times. In contrast, a downward pressure on the rating could develop if the company's leverage weakens significantly, which could be the result of a deterioration in cash flow generation, excessive debt-funded investments, project delays, 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 2021, the Lochaya Group remained the major shareholder, holding a 35.4% interest in SUPER.

Currently, SUPER's aggregate contracted capacity, spread across all the operating power projects, is 1,468 MW. This includes solar power (1,400 MW), wind power (50 MW), and WTE projects (18 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" by TRIS Rating. As for power projects in Vietnam, SUPER holds PPAs with the state-run EVN.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

	2017	2018	2019	2020	Jan-Sep 2021
Power	98%	98%	97%	95%	96%
IT	2%	2%	1%	1%	1%
Water	-	-	1%	3%	2%
Others	-	-	1%	1%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total revenue (mil. THB)	**5,510**	**5,729**	**6,246**	**6,515**	**6,457**

Source: SUPER

Table 2: Operating Power Project Portfolio

Scheme	Tariff (THB/kWh)	Gross Contracted Capacity (MW)
Solar		
Adder	6.50	5.95
Adder	8.00	7.00
FiT	5.66	491.70
FiT	5.377	30.95
FiT	4.120	28.00
FiT	US9.35 cent	286.72
FiT	US7.09 cent	550.00
Sub total - Solar		**1,400.32**
Wind		
FiT	US8.50 cent	50.00
Sub total - Wind		**50.00**
Waste		
Adder	3.50	18.00
Sub total - Waste		**18.00**
Grand total		**1,468.32**

Note: Excluding the capacities sold to SUPEREIF
Source: SUPER

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021		------------- Year Ended 31 December ------------		
		2020	2019	2018	2017
Total operating revenues	6,596	6,592	6,298	5,778	5,584
Earnings before interest and taxes (EBIT)	4,211	3,230	2,895 **	2,762	3,027
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,685	5,984	5,067 **	5,090	5,101
Funds from operations (FFO)	5,184	4,312	3,256 **	3,602	3,586
Adjusted interest expense	1,453	1,688	1,528	1,481	1,492
Capital expenditures	11,179	12,173	2,435	2,152	4,658
Total assets	77,917	73,160	55,669	49,650	46,871
Adjusted debt	47,147	37,724	27,800	28,195	27,948
Adjusted equity	21,986	20,623	18,858	17,555	16,223
Adjusted Ratios					
EBITDA Margin (%)	101.35	90.78	80.46	88.09	91.34
Pretax return on permanent capital (%)	7.00 ***	5.78	5.88	5.86	6.79
EBITDA interest coverage (times)	4.60	3.55	3.32	3.44	3.42
Debt to EBITDA (times)	6.02 ***	6.30	5.49	5.54	5.48
FFO to debt (%)	12.56 ***	11.43	11.71	12.78	12.83
Debt to capitalization (%)	68.20	64.65	59.58	61.63	63.27

* *Consolidated financial statements*
** *Excluding the gains on the sale of assets to SUPEREIF*
*** *Adjusted with trailing 12 months*

RELATED CRITERIA

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

Super Energy Corporation PLC (SUPER)

Company Rating:	BBB
Rating Outlook:	Positive

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