TRIS RATING

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SUPER ENERGY CORPORATION PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 03/01/18

Company Rating History:

Date	Rating	Outlook/Alert
03/01/18	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Super Energy Corporation PLC (SUPER) at "BBB-". The rating reflects the predictable cash flows SUPER receives from its power projects. Each project has long-term power purchase agreements (PPAs) with state-owned utilities. The rating also recognizes the solid operating performance of the company's power plants. In contrast, the rating is constrained by SUPER's aggressive investment strategy and a potential rise in leverage. The rating is also tempered by the execution risk associated with the power projects SUPER is developing.

KEY RATING CONSIDERATIONS

Predictable cash flows

The rating affirmation is predicated on the predictable cash flows SUPER receives from its power plants. SUPER currently owns more than one hundred operating power plants. Solar power contributes the majority of the company's power-generating assets. The contracted capacity of the operating power plants, in aggregate, is currently about 780 megawatts (MW).

All power plants have multi-year PPAs with the state-owned producers and distributors of electricity, namely the Electricity Generating Authority of Thailand (EGAT), rated "AAA" by TRIS Rating, the Metropolitan Electricity Authority (MEA), and the Provincial Electricity Authority (PEA). The payment risk of the power buyers is minimal. In addition, solar power engages relatively low operational risks, resulting in predictable power output.

Operating performance on solid course

Most of SUPER's solar power plants started commercial operations in 2016. The performances of the solar power plants have been satisfactory. Since inception, the actual annual outputs of most solar power plants have reached the initial estimates based on a 75% probability (P75 level) of energy production. As a result, the EBITDA margin (earnings before interest, taxes, depreciation, and amortization as percentage of revenues) of the solar power plants has held at a high level of above 85%.

In June 2018, SUPER's first waste-to-energy project (WTE) commenced operation. The 9-MW WTE plant still needs to fine-tune, which is quite common during the early stages. Performance over the long haul has yet to be proven. TRIS Rating expects that the WTE plant will begin to plateau and generate an EBITDA margin of above 50% from the third operating year onwards.

SUPER's investments in power projects have started to pay off over the past two years. Total operating revenues have risen remarkably since 2016. As SUPER expands briskly, TRIS Rating expects total operating revenues will continue to grow and reach Bt8.0 billion in the next three years, from about Bt5.5 billion in 2018.

The operating margin (operating income as a percentage of total operating revenues) improved to 89.1% in the first nine months of 2018, from negative values in 2014 and 2015. SUPER's operating performance should remain strong, considering its efficient cost controls. TRIS Rating's base-case forecast assumes the operating margin will stay above 75% over the next three years.

Execution risks associated with new power projects

TRIS Rating expects SUPER will continue to contend with execution risks as it has many projects under development. The company is expanding to other types of renewable energy, such as WTE, which carry higher operational risks than solar power plants. SUPER has to grapple with the inventory risk from fluctuations in supply and prices of feedstock and the environmental impact from the production process. SUPER currently has four domestic WTE projects, with an aggregate contracted capacity of 32 MW. In addition to the first 9-MW WTE plant, the other three projects should commence operations in the next two years.

In addition, SUPER will be exposed to several risks associated with new business ventures as it is developing 236.72 MW of solar power projects in Vietnam. TRIS Rating is of the view that the investments in Vietnam carry higher risks than the projects in Thailand. SUPER will be exposed to many risks, such as country risk, regulatory risk, challenging contract enforcement, delay of construction, and changes in tariffs. The projects in Vietnam also carry higher counterparty risk. The state-run Electricity of Vietnam (EVN) is the only authorized buyer of electricity in the country. EVN's credit profile is considered lower than Thai state-owned power buyers. Moreover, solar power in Vietnam is in the early stages of development, and the track record for solar power is limited.

Construction risk of SUPER's solar power projects in Vietnam is currently very challenging. The Vietnamese government has supported renewable energy developers by offering a fixed feed-in-tariff (FiT) of US$9.35 cent per kilowatt-hour (kWh) for solar power. However, this initial FiT will apply to projects commercializing by June 2019. Delays in construction would jeopardize the viability of the projects. The government's policy on tariff rates for solar projects starting after the deadline is uncertain. However, the construction risk could be partially alleviated by the terms on the Engineering Procurement and Construction (EPC) contracts.

Furthermore, SUPER is also developing a 100-MW wind power project in Vietnam, which is the first phase of wind power projects totaling 700 MW for which SUPER signed a memorandum of understanding (MOU) with a local partner in 2017. In all, these power projects in Vietnam require investments worth about Bt15 billion, spread over the next three years.

Aggressive investment strategy

The rating is constrained by SUPER's aggressive investment strategy. The company has grown rapidly after acquiring several solar power projects in 2015. TRIS Rating expects that SUPER will continue to grow over the next three years, considering the projects under development and its growth strategy. We believe SUPER's aggregate contracted capacity of its operating power plants will reach 1,000 MW in the next three years, from current 780 MW. EBITDA will range from Bt5-Bt7 billion a year.

On the downside, SUPER's staggering growth will saddle the company with heavy debt burden. The company's aggressive investment plans could put a lid on the amount of free cash flow. TRIS Rating estimates annual capital expenditures will range from Bt10-Bt14 billion over the next three years. The vigorous expansion will force SUPER to add more manpower and require a well-equipped monitoring system to ensure satisfactory outputs from its power plants.

Leverage on the rise

The rating is weighed down by a debt-heavy capital structure, as SUPER has expanded tremendously since 2014. The debt to capitalization ratio stood at 60.8% as of September 2018. SUPER's costs of debt are also higher than most renewable power producers rated by TRIS Rating. The high funding costs cut SUPER's return on assets, in spite of high operating efficiency. Net profit is largely sensitive to the performances of the power plants. To keep the bottom line at a satisfactory level, SUPER needs to keep the performances of the power plants high.

Leverage will increase as investments rise. In an attempt to reduce debt burden, SUPER is bent on establishing an infrastructure fund and selling a pool of solar power projects (118 MW) to the fund. Given the uncertain timeline and bearish market sentiments, TRIS Rating's base case excludes this transaction. The debt to capitalization ratio could reach 70% over the next three years. The leverage ratio would be slightly lower if the infrastructure fund is successfully established.

As leverage rises, operating cash flows in relation to debt obligations or cash flow protection will drop. The heavy debt burden will reduce operating cash flows after interest charges. Over the next three years, the EBITDA interest coverage ratio should slide to below 3 times, from 3.5 times in the first nine months of 2018. The ratio of funds from operations (FFO) to debt should range from 10%-12%, compared with an annualized 12.8% in the first nine months of 2018.

Liquidity stays manageable

TRIS Rating believes SUPER will manage its liquidity properly. FFO should be sufficient to repay the annual long-term debt repayment. Over the next three years, FFO will range from Bt3.5-Bt4.0 billion per annum, versus the annual long-term debt repayment of Bt2-Bt3 billion. As of September 2018, SUPER also had undrawn credit facilities, plus cash and marketable securities, of nearly Bt4 billion, as other sources of liquidity. The amounts should cover all the short-term debt outstanding, about Bt2.2 billion.

SUPER and its subsidiaries have financial covenants in 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 times or 1.2 times and keep the interest-bearing debt to equity ratio below 2.5 or 3.0 times. SUPER complies with the respective financial covenants, but some of its subsidiaries do not. However, TRIS Rating believes the subsidiaries will be able to get waivers from the banks as SUPER, on a consolidated basis, tends to perform well.

BASE-CASE ASSUMPTIONS

- Aggregate capacity of SUPER's power plants will reach 1,000 MW in the next three years.
- Total operating revenues should rise further to Bt8 billion.
- Operating margin will stay above 75%.
- Total capital spending will range from Bt10-Bt14 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that SUPER's power plants will perform satisfactorily and generate sizable cash flows as planned. SUPER is also expected to successfully execute the projects under development and earn satisfactory returns. Despite a rise in leverage, the debt to capitalization ratio should stay below 70%.

RATING SENSITIVITIES

A rating upgrade could occur if SUPER's operating performance exceeds expectations, while leverage remains at the current level. In contrast, the rating could be lowered if the performances of the power projects fall short of the initial estimates or respective guidance. A downward rating could also develop if the capital structure deteriorates significantly, possibly due to a failure to generate sufficient cash flows, excessive debt-funded investments, or project 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 acquired a 76.25% stake in Open Technology PLC, an ICT system integrator in Thailand, in late 2012. Moreover, SUPER took over Rootfarm Co., Ltd., a solar power producer, in late 2013. Currently, the power segment is the centerpiece of the company, accounting for nearly all revenues. As of September 2018, the Lochaya Group remained the major shareholder, holding approximately 39% interest in SUPER.

As of December 2018, SUPER's aggregate contracted capacity, spread across all the operating power projects, was nearly 780 MW. This includes solar power projects (769 MW) and WTE projects (9 MW). SUPER held the largest capacity among the solar power producers rated by TRIS Rating.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

	2014	2015	2016	2017	9M18
Power	60%	75%	97%	98%	94%
ICT	40%	25%	2%	2%	6%
Others	-	-	0%	-	-
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total revenue (Bt million)	**205**	**398**	**3,612**	**5,510**	**4,244**

Source: SUPER

Table 2: Operating Power Project Portfolio

Scheme	Tariff (Bt/kWh)	Gross Contracted Capacity (MW)
Solar		
Adder	6.50	5.95
Adder	8.00	7.00
FiT	5.66	696.70
FiT	5.377	30.95
FiT	4.120	28.00
Subtotal - Solar		**768.60**
Waste		
Adder	3.50	9.00
Subtotal - Waste		**9.00**
Grand total		**777.60**

Note: included SUPER's equity investment
Source: SUPER

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2018		------------- Year Ended 31 December ------------ 2017	2016	2015	2014
Total operating revenues	4,271		5,584	3,626	409	207
Operating income	3,804		4,837	3,043	(265)	(3)
Earnings before interest and taxes (EBIT)	2,175		3,027	1,739	(571)	(50)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,890		5,101	3,133	(429)	14
Funds from operations (FFO)	2,775		3,586	1,917	(677)	(26)
Adjusted interest expense	1,107		1,492	1,233	246	36
Capital expenditures	1,037		4,658	16,526	16,609	848
Total assets	47,355		46,871	48,025	39,179	5,115
Adjusted debt	26,853		27,948	28,171	15,416	0
Adjusted equity	17,278		16,223	14,696	11,987	4,230
Adjusted Ratios						
Operating income as % of total operating revenues (%)	89.08		86.63	83.92	(64.83)	(1.40)
Pretax return on permanent capital (%)	5.93	**	6.79	4.83	(3.42)	(1.73)
EBITDA interest coverage (times)	3.51		3.42	2.54	(1.75)	0.37
Debt to EBITDA (times)	5.42	**	5.48	8.99	(35.89)	0.00
FFO to debt (%)	12.82	**	12.83	6.80	(4.39)	n.m.
Debt to capitalization (%)	60.85		63.27	65.72	56.26	0.00

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*
n.m. Not meaningful

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Super Energy Corporation PLC (SUPER)

Company Rating:	BBB-
Rating Outlook:	Stable

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