

TPC POWER HOLDING PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 04/10/19

Company Rating History:

Date	Rating	Outlook/Alert
09/10/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPC Power Holding PLC (TPCH) at “BBB” with a “stable” outlook. The rating reflects the predictable and robust cash flows the company receives through long-term power purchase agreements (PPAs) with state-owned utilities. The rating also mirrors the sound operating performance of TPCH’s power plants. However, the rating is held back by uncertainties in feedstock supply and volatile prices. The rating recognizes the challenging business environment of the power industry as well. TPCH’s rating is tied to the credit profile of Thai Polycons PLC (TPOLY), TPCH’s parent company.

KEY RATING CONSIDERATIONS

Predictable cash flow stream

The rating is reflective of predictable cash flows from its power plants, backed by long-term PPAs and solid performances. Currently, TPCH has seven operating biomass power plants, six of which are majority-owned by the company. In total, the contracted capacity of the operating power plants is 73.8 megawatts (MW). All power plants have multi-year PPAs with the state-owned producers and distributors of electricity, namely Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). Both of them are rated “AAA” by TRIS Rating. The payment risk of the power buyers is minimal. Under PPAs, TPCH earns most of the feed-in-tariff (FiT) with a premium for the first eight years. This tariff scheme strengthens the viability of the projects.

TPCH will add a total of 32.7 MW in contracted capacity from new power projects in the pipeline, comprising three biomass power plants (24.7 MW) and one waste-to-energy plant (8 MW). Some of the new projects have experienced construction delays due to the Coronavirus Disease 2019 (COVID-19) pandemic. However, the investment budgets remain under control. These new projects are scheduled to commence operations within the next six months, lifting the aggregate contracted capacity to 106.5 MW.

Sound performances of power plants

TPCH’s power plants consistently stage solid performance. Over the past three years, the actual output of most power plants has been high, surpassing 80% of the full capacity. In all, the EBITDA margin (earnings before interest, taxes, depreciation, and amortization as percentage of revenues) of the power plants has held at a high level of 48%-50%.

We expect TPCH’s operating performance will stay solid over the next three years. Apart from the additional capacity from new projects in the pipeline, we assume TPCH will add another 9 MW in new capacity. In our base-case forecast, the aggregate contracted capacity of TPCH’s operating power plants will increase to 115.5 MW in 2022. As a result, we forecast the company’s total operating revenues will grow steadily to THB3.15 billion in 2022, from about THB2 billion in 2020.

Uncertainties in feedstock supply and volatile prices

TPCH is highly exposed to the risk of shortages and volatile prices of biomass feedstock. The key feedstocks for biomass power generation are derived from agricultural waste, such as woodchip, rice husk, coconut shells, and other fast-

growing plants. The availability of feedstock is subject to several factors, such as seasonality, the use of biomass in other industries, and an increasing number of biomass power plants. Biomass power producers who do not have their own farm waste need to compete with others in securing feedstock. The prices of biomass fuel could also fluctuate greatly while feedstock varies in terms of humidity and calorific value.

TPCH hires operation and maintenance (O&M) contractors to run most of its operating power plants. For some of the projects, the O&M contractors are responsible for managing the supply of biomass feedstock, carrying the price risk. The company will need to strengthen its supply chain through collection, transportation, and storing the feedstock, following its expansion. TPCH plans to hire O&M contractors to operate its new power plants, but manage the supply of biomass feedstock itself. This could heighten exposure to the supply risk. Given the lack of its own farm waste, TPCH has secured long-term supply agreements with local suppliers to ensure the availability of fuel. However, contract enforcement remains a challenge. TPCH mitigates this risk by taking in suppliers as partners in the company's projects. In addition, TPCH has developed its own bio-fuel plantation.

Challenging business environment

In our view, investments for renewable power in the domestic market have become increasingly challenging, taking into account the cut-off of the incentive tariff and intensified bidding competition. Furthermore, the revision of the country's Power Development Plan (PDP) has long been pending final approval. This has resulted in a delay in introducing the criteria for the purchase of electricity under the community power project, the government scheme which allows private companies to co-invest with local communities in rural areas to operate renewable power generation, including biomass, biogas, and so on. Hence, public project bidding will likely be delayed despite the government's intention to support the use of renewable power. Currently, the country's high reserve of generation capacity and the pandemic-induced decline of power demand are downside factors to the growth of renewable power. Given the dearth of new opportunities, acquisitions and divestiture of existing power projects are trend being seen.

Our base-case forecast assumes the gross margin of TPCH will slide from the current level as the new biomass plants carry lower tariff rates. The new biomass power projects are under a competitive bidding system, yielding much lower tariffs. The tariffs for most of the new biomass power plants range between THB2.8-THB3.4 per kilowatt hour (kWh), versus above THB4 per kWh for existing plants. This requires TPCH to double-down on production cost control. However, the new projects will drive revenue, boosting economies of scale and reducing selling and administrative expenses as percentage of revenue.

We expect the EBITDA margin to hover around 40% during 2020-2022, compared with an average of 45.6% for the past three years. We forecast EBITDA to grow steadily to THB1.26 billion in 2022, from THB880 million in 2020. Funds from operations (FFO) should rise to about THB1 billion in 2022, from THB720 million in 2020.

Leverage to stay at current level

TPCH guarantees the debts of the incorporated joint ventures (JVs) in proportion to its stakes in the JVs. In assessing the financial profile and performance, we include the assets, liabilities, and respective financial performances of the JVs in TPCH's consolidated accounts, in proportion to the ownership stake of TPCH in each venture.

TPCH's leverage is expected to stay at the current level over the next three years. We do not expect the company to expand aggressively. In addition, all power projects in the pipeline should start commercialization as planned. The cash flows from the operating power plants will support the company's expansion.

Our base-case projection assumes TPCH will spend THB1-THB2 billion a year on the new power projects during 2020-2022. As a result, the debt to capitalization ratio will likely hover around 50%, compared with 51.3% as of June 2020. The ratio of FFO to debt is projected to be 17%-23% and the debt to EBITDA ratio to be 4-5 times over the next three years.

Manageable liquidity

We expect TPCH to manage its liquidity prudently. The company has a low debt level and has no funding mismatch. As of June 2020, it had debt coming due in the next 12 months of THB822 million. We forecast FFO to arrive at THB845million, sufficient for debt servicing. TPCH also had undrawn credit facilities, plus cash and marketable securities, of THB295 million.

There are no financial covenants imposed on TPCH's bank loans. However, its subsidiaries and JVs are required to maintain a debt service coverage ratio above 1.1 times or 1.2 times and keep the debt to equity ratio below 1.2 times, 1.5 times, or 2.5 times. All the subsidiaries and JVs have complied with their respective financial covenants. We believe they will stay in compliance for the next 12-18 months.

Rating determined by group profile

Based on our “Group Rating Methodology”, the rating on TPCH is capped at “BBB”, the company rating we assign to TPOLY, the group. TPOLY owns about 41% of TPCH and has direct control over TPCH’s business and financial policies. These reflect a strong linkage between the two companies.

TPOLY’s earnings are almost entirely derived from the solid cash flows of TPCH. TPCH’s power business greatly helps offset the cyclical nature and susceptibility of TPOLY’s construction business. Given the importance of TPCH, we consider TPCH as a core subsidiary of TPOLY.

BASE-CASE ASSUMPTIONS (2020-2022)

- Aggregate contracted capacity of TPCH’s operating power plants to increase to 115.5 MW in the next three years.
- EBITDA margin to hover around 40%.
- Total capital spending to range between THB1-THB2 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that TPCH’s power plants will continue to perform well and bring in sizable cash flows as planned. TPCH will remain the core subsidiary of TPOLY. Given the parent-subsidiary relationship, any changes in the company rating on TPOLY will have a direct impact on the company rating on TPCH.

RATING SENSITIVITIES

A rating upgrade could arise if TPCH’s performance and capital structure improve significantly, and thus help strengthen the financial profile of the Group. Rating upside could also occur if TPOLY’s rating is uplifted. Conversely, downward rating pressure would emerge if the performances of the power projects fall significantly short of our estimates, or if the capital structure of TPCH weakens materially on account of aggressive debt-funded investments. The rating could be also revised downward if the company rating of TPOLY is downgraded.

COMPANY OVERVIEW

TPCH was founded in 2012 specifically to receive the power projects owned by TPOLY. TPCH was listed on the Market for Alternative Investment (MAI) in 2015. As of June 2020, TPOLY remained the major shareholder of TPCH, holding a 41.3% stake.

In 2016, the company won contracts for three biomass power projects in Yala and Narathiwat provinces. The contracts cover a combined contracted capacity of 24.7 MW. TPCH also secured a PPA under the Small Power Producer (SPP) scheme to operate a 21-MW biomass power plant in Pattani province. This plant will be the company’s largest power project. TPCH is also developing a waste-to-energy project in Nonthaburi province, with a contracted capacity of 8 MW.

As of September 2020, TPCH’s aggregate contracted capacity was 106.5 MW, across 10 biomass power projects (98.5 MW), and one waste-to-energy project (8 MW). Seven biomass power plants are currently operating (73.8 MW).

KEY OPERATING PERFORMANCE
Table 1: Power Project Portfolio

Company/Country	Held by TPCH (%)	Status	Installed Capacity (MW)	Contracted Capacity (MW)	Tariff
Biomass Projects					
CRB	73	Operating	9.5	9.2	Fit
MWE	85	Operating	9.0	8.0	Fit
MGP	46	Operating	9.5	8.0	Fit
TSG	65	Operating	9.5	9.2	Fit
PGP	60	Operating	9.9	9.2	Fit
SGP	51	Operating	9.9	9.2	Fit
PTG	69	Operating	23.0	21.0	Adder
TPCH1	88	Developing	9.9	9.2	Fit
TPCH2	88	Developing	9.9	9.2	Fit
TPCH5	89	Developing	6.3	6.3	Fit
Sub total - Biomass			106.4	98.5	
Waste Projects					
SP	50	Developing	9.5	8.0	-
Sub total - Waste			9.5	8.0	
Grand total			115.9	106.5	

Source: TPCH

CRB = Chang Raek Bio Power

MGP = Mahachai Green Power

PGP = Phathalung Green Power

PTG = Pattani Green

TPCH2 = TPCH Power 2

SP = Siam Power

MWE = Maewong Energy

TSG = Thungsuang Green

SGP = Satun Green Power

TPCH1 = TPCH Power 1

TPCH5 = TPCH Power 5

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total operating revenues	898	1,784	1,705	1,235	759
Earnings before interest and taxes (EBIT)	319	667	656	401	293
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	411	837	824	512	367
Funds from operations (FFO)	372	746	729	437	311
Adjusted interest expense	39	90	92	75	53
Capital expenditures	732	1,825	668	837	860
Total assets	8,906	8,166	6,134	5,402	4,711
Adjusted debt	4,101	3,576	2,108	1,857	1,410
Adjusted equity	3,892	3,707	3,268	2,754	2,437
Adjusted Ratios					
EBITDA Margin (%)	45.75	46.91	48.35	41.48	48.32
Pretax return on permanent capital (%)	8.99 **	10.16	12.36	8.57	7.61
EBITDA interest coverage (times)	10.44	9.26	8.95	6.84	6.91
Debt to EBITDA (times)	4.89 **	4.27	2.56	3.63	3.85
FFO to debt (%)	18.39 **	20.87	34.60	23.53	22.08
Debt to capitalization (%)	51.31	49.10	39.21	40.28	36.64

Note: The figures include assets, liabilities, and the respective financial performances of MGP and SP, in proportion to the ownership stake in these JVs.

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

TPC Power Holding PLC (TPCH)

Company Rating:	BBB
Rating Outlook:	Stable

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