

TPC POWER HOLDING PLC

No. 199/2022
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CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 29/10/21

Company Rating History:

Date	Rating	Outlook/Alert
29/10/21	BBB-	Stable
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 is reflective of the reliability of TPCH’s cash flows, backed by long-term power purchase agreements (PPAs) with state-owned utilities. Conversely, the rating is tempered by a feedstock supply risk and volatile prices, the increasingly competitive renewable power industry, and deterioration in TPCH’s financial profile.

The company rating also incorporates our view on TPCH as the core subsidiary of Thai Polycons PLC (TPOLY, rated “BBB-/Stable” by TRIS Rating). Therefore, the company rating on TPCH is equal to that of TPOLY. We assess the stand-alone credit profile (SACP) of TPCH as “bbb”, reflecting its stronger credit profile relative to that of TPOLY.

KEY RATING CONSIDERATIONS

Core subsidiary of TPOLY

We believe TPCH will remain the core subsidiary of TPOLY. TPOLY owns the majority of TPCH (43.3%) and has direct control over TPCH’s business and financial policies, reflecting the strong linkage between the two companies. Moreover, TPOLY’s earnings almost entirely stem from the power business of TPCH. TPCH’s reliable cash generation considerably helps countervail the cyclical and susceptibility of TPOLY’s construction business.

Reliability of cash flows

TPCH’s stand-alone credit profile mirrors the reliability of cash flows generated by its power plants, underpinned by long-term PPAs. Currently, TPCH has 11 operating power plants including biomass and waste-to-energy (WTE), with an aggregate contracted capacity of 106.5 megawatts (MW). All the plants have multi-year PPAs with the state-owned producers and distributors of electricity, namely Electricity Generating Authority of Thailand (EGAT), the Provincial Electricity Authority (PEA), and the Metropolitan Electricity Authority (MEA). These power buyers are rated “AAA” by TRIS Rating, suggesting minimal counterparty risk to TPCH.

Feedstock supply risk and volatile prices

The rating is held back by the risk of key feedstock supply, derived from agricultural waste. TPCH’s biomass power plants use woodchip, rice husk, coconut shells, and other fast-growing plants to produce electricity. The availability of feedstock relies on several factors, such as seasonality, use of biomass in other industries, and number of biomass power plants. Biomass power producers who do not have their own farm waste need to compete with others in securing feedstock.

To ensure the availability of feedstock, TPCH has secured long-term supply agreements with local suppliers. That said, contract enforcement remains a significant risk. TPCH’s performance is also susceptible to the volatile prices of feedstock. Biomass fuel prices can swing wildly while feedstock varies in terms of humidity and calorific value.

As for WTE, different types of waste provide different calorific value, while contaminants can affect operational stability. WTE power producers need to manage feedstock efficiently to ensure satisfactory outcomes. The

performance of TPCH's first WTE power project remains to be seen as it just started operations in late 2021.

Heightening competition in power business

We see growth opportunities for renewable power in Thailand as the government is bent on increasing the proportion of renewable energy, given its long-term goals to achieve carbon neutrality and net-zero greenhouse gas emissions. We expect the opening of a new quota for purchasing electricity from renewable energy sources. However, we view competition in the domestic power market as having mounted in recent years. Meanwhile, the high excess reserve of capacity could deter development of new power projects.

TPCH's most recent biomass power plants (TPCH1, TPCH2, and TPCH5) receive lower tariff rates, due to highly competitive bidding. Therefore, TPCH will need to double down on production cost control. Investment in additional greenfield or brownfield projects could offer inferior returns due to low tariff rates or high acquisition costs. This should continue to weigh on TPCH's return on investment over the long term. Looking forward, we expect TPCH to shift towards developing WTE projects, considering the more attractive tariff rates than biomass power projects. The company may also expand internationally for more growth opportunities. However, domestic projects should remain the company's core assets and performance.

Weaker-than-expected plant performances

TPCH reported a significant drop in its operating performance during the first half of 2022 as some of its power plants generated lower-than-expected outputs. The company's newly added power generating units underperformed and needed longer periods of fine-tuning, while its two existing plants endured serious machinery breakdowns. TPCH's power plants sold electricity of 315 gigawatts-hour (GWh) during the first half of 2022, translating to an average capacity factor of about 70%, which was significantly below its past records of about 90%. As a result, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) fell by 15.8% year-on-year (y-o-y) to THB364 million during the first half of 2022. Its EBITDA margin dropped to 27.8%, from above 30% over the several previous years.

The rating affirmation embeds our expectation that TPCH will manage to address the technical problems of some of its power plants and gradually improve the overall plant efficiency to the ordinary. Our base-case forecast assumes TPCH's total operating revenue to grow from THB2.8 billion in 2022 to THB3.4-THB3.5 billion a year during 2023-2024, boosting its EBITDA to reach THB1.2 billion a year during 2023-2024. Its EBITDA margin should recover from 29% in 2022 to 33%-34% during 2023-2024.

Leverage to decline

TPCH guarantees the debts of the incorporated joint ventures (JVs) in proportion to its stakes in the JVs. In assessing TPCH's 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 of TPCH in each venture.

TPCH's financial leverage climbed recently, due mainly to the significant construction delays of new projects and weakened plant performances. However, the expected improvement in the company's EBITDA should lower gearing. We forecast the debt to EBITDA ratio to decline to about 4 times during 2023-2024, from a peak of 6.9 times in the first half of 2022. The debt to capitalization ratio will likely range between 50%-60% and the ratio of funds from operations (FFO) to debt is projected to reach 10%-20% during 2022-2024. We expect TPCH to incur annual capital spending of THB0.3-THB0.8 billion over the forecast period. Our projection assumes Siam Power Co., Ltd. (SP), the JV in which TPCH owns a 50% stake, will secure new WTE projects with an aggregate capacity of 30 MW over the next three years.

Debt structure

In assessing the level of priority debt in TPCH's borrowings, we exclude the debt incurred by the JVs which are guaranteed by TPCH. As of June 2022, TPCH's consolidated debt was about THB5 billion, of which THB3.4 billion was considered priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 68%, suggesting the company's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Manageable liquidity

As of June 2022, the company had debt coming due in the next 12 months of THB694 million while we forecast FFO to come in at about THB700 million. Its undrawn credit facilities, plus cash and marketable securities, were THB380 million, usable as other sources of funds. Hence, we assess TPCH's liquidity as manageable.

There are no financial covenants imposed on TPCH's bank loans. However, its debentures require the company to maintain an interest-bearing debt to equity ratio below 2.5 times. In addition, the company's subsidiaries and JVs are required to maintain a debt service coverage ratio above varying thresholds of 1.1 times and 1.2 times, and a debt-to-equity ratio below

varying thresholds of 1.2 times, 1.5 times, and 2.5 times. We expect TPCH and each of its subsidiaries and JVs to meet the financial covenants set forth under their respective loans over the next 12-18 months.

BASE-CASE ASSUMPTIONS

- Aggregate contracted capacity of operating power plants to increase to about 112 MW within the next three years.
- Average capacity factor of operating power plants to range between 75%-90% during 2022-2024.
- Aggregate power output to be 670 GWh in 2022 and 780-820 GWh per annum during 2023-2024.
- EBITDA margin to range between 29%-34% during 2022-2024.
- Total capital spending to range between THB0.3-THB0.8 billion per annum during 2022-2024.

RATING OUTLOOK

The “stable” outlook embeds our expectation that the overall performance of TPCH’s power plants will recover, which will lower the company’s financial leverage and enhance cash flows. TPCH’s financial leverage and cash generation against debt obligations will be at levels in line with our forecast. As we expect TPCH to remain a core subsidiary of TPOLY, the outlook on TPCH will continue to be linked to the outlook on TPOLY.

RATING SENSITIVITIES

Based on the status as a core subsidiary of TPOLY, any change in the rating on TPOLY will have the same effect on the rating on TPCH. In addition, the SACP of TPCH could be revised downward if the performances of its power plants fall significantly below our expectations, or if its capital structure weakens materially due to aggressive debt-funded investments. In contrast, the SACP of TPCH could be raised to a higher level if its performance and capital structure improve significantly, surpassing our forecast.

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 February 2022, TPOLY remained the major shareholder of TPCH, holding a 43.3% 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. Since then, TPCH has expanded its power portfolio, focusing on biomass power. In 2021, the company successfully developed its first 8-MW waste-to-energy project in Nonthaburi province.

As of September 2022, TPCH’s aggregate contracted capacity was 112.2 MW, across 12 biomass power projects (104.2 MW), and one waste-to-energy project (8 MW). Eleven of its power plants are currently operating (106.5 MW).

KEY OPERATING PERFORMANCE
Table 1: Power Project Portfolio (as of Sep 2022)

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	95	Operating	23.0	21.0	Adder
TPCH1	99	Operating	9.9	9.2	FiT
TPCH2	99	Operating	9.9	9.2	FiT
TPCH5	99	Operating	6.3	6.3	FiT
PBM	59	Constructing	3.0	2.9	FiT
PBB	59	Constructing	3.0	2.9	FiT
Sub total - Biomass			112.4	104.2	
Waste Projects					
SP	50	Operating	9.5	8.0	FiT
Sub total - Waste			9.5	8.0	
Grand total			121.9	112.2	

Source: TPCH

CRB = Chang Raek Bio Power
MGP = Mahachai Green Power
PGP = Phathalung Green Power
PTG = Pattani Green
TPCH2 = TPCH Power 2
PBM = Pracharat Biomass Mae Lan
SP = Siam Power

MWE = Maewong Energy
TSG = Thungsung Green
SGP = Satun Green Power
TPCH1 = TPCH Power 1
TPCH5 = TPCH Power 5
PBB = Pracharat Biomass Bannang Sata

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,308	2,611	1,910	1,783	1,705
Earnings before interest and taxes (EBIT)	174	468	522	666	656
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	364	841	764	846	824
Funds from operations (FFO)	244	661	667	756	732
Adjusted interest expense	114	171	96	90	92
Capital expenditures	114	366	1,261	1,823	668
Total assets	9,754	10,243	9,308	8,166	6,134
Adjusted debt	5,344	5,175	4,315	3,576	2,108
Adjusted equity	3,766	3,749	4,051	3,707	3,268
Adjusted Ratios					
EBITDA margin (%)	27.80	32.22	39.99	47.47	48.35
Pretax return on permanent capital (%)	4.28 **	5.16	6.55	10.14	12.36
EBITDA interest coverage (times)	3.20	4.93	7.96	9.36	8.95
Debt to EBITDA (times)	6.91 **	6.15	5.65	4.22	2.56
FFO to debt (%)	10.31 **	12.76	15.46	21.14	34.74
Debt to capitalization (%)	58.66	57.99	51.58	49.10	39.21

Note: The figures include assets, liabilities, and the respective financial performances of Mahachai Green Power Co., Ltd. (MGP) and SP, in proportion to the ownership stake in these JVs.

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

TPC Power Holding PLC (TPCH)

Company Rating:	BBB-
Rating Outlook:	Stable

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