

# XAYABURI POWER CO., LTD.

No. 244/2023  
13 December 2023

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 11/09/23

### Company Rating History:

Date	Rating	Outlook/Alert
29/03/22	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Xayaburi Power Co., Ltd. (XPCL) at “A-”. At the same time, TRIS Rating affirms the ratings on XPCL’s senior unsecured debentures at “BBB+”. The rating outlook remains “stable”. The issue ratings’ one-notch below the company rating reflect XPCL’s high level of secured debt that leads to a significant subordination risk for the company’s senior unsecured creditors.

The ratings factor in the reliable cash flow, underpinned by XPCL’s long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/stable”). The ratings also incorporate the risk mitigated contractual framework of the PPA and XPCL’s competitive cost of electricity generation. Conversely, the ratings are held back by the uncertainty of water flow, XPCL’s heavy debt load, and the hefty interest expense burden. The ratings also take into consideration the country risk of the Lao People’s Democratic Republic (Lao PDR).

## KEY RATING CONSIDERATIONS

### Large run-of-river hydroelectric power plant

XPCL owns and operates the Xayaburi Hydroelectric Power Plant (XHPP), a 1,285 megawatts (MW) run-of-river hydroelectric power plant, a project established under the memorandum of understanding (MOU) between the government of Thailand and the government of the Lao PDR (GOL) in relation to the power sale to Thailand.

Located on the Mekong River’s mainstream in Xayaburi Province, XHPP commenced operation in October 2019. The project is a diversion dam on the river, without a reservoir as in the case of most other conventional dams. The dam regulates the level of upstream water and release water through power generators along the river. The amount of water flowing in is equal to the amount of water flowing out of the power plant. As a result, XHPP is capable of generating electricity all year round if the water flow is sufficient.

XPCL is a company incorporated in the Lao PDR and its project is operating in the country. That said, we hold our view that the respective country risk is considerably mitigated as the project is established under the collaboration between the government of Thailand and the GOL. Moreover, XPCL sells the electricity almost entirely to EGAT, with the rights to receive the payment from EGAT through its bank account in Thailand. As a result, the cross-border risks of fund transferability and currency convertibility are significantly mitigated.

### Long-term PPA underpins reliability of cash flow

The ratings are primarily built on the reliability of cash flow, underpinned by a 29-year PPA with EGAT. The PPA is a take-or-pay basis, which significantly mitigates market risk.

The electricity sale consists of three components: Primary Energy (PE), Secondary Energy (SE), and Excess Energy (EE). PE and SE are separated by the period of power sold while EE is the excess electricity of PE and SE. The tariff for PE is paid in US dollars for a portion of 50% and in Thai baht for 50% while the tariffs for SE and EE are paid in Thai baht. EGAT is obliged to purchase up to 5,709 gigawatt-hour (GWh) each year, which is the Annual Supply Target or the Committed Energy. The Annual Supply Target comprises PE of 4,299 GWh and SE of 1,410 GWh.

### Competitive cost of electricity generation

With the benefit of no fuel cost, XPCL has a relatively low cost of electricity generation among other types of power plants. Average tariff is about THB1.9-THB2 per kilowatt-hour (kWh). Therefore, we expect EGAT to have priority in dispatching electricity from XPCL as base load.

In the first nine months of 2023, XPCL's revenue plunged by 21% year-over-year (y-o-y) to THB10 billion, due to a drop-off in water flow. The average daily water inflow was 2,992 cubic meter per second (cms), a lofty 26% decrease from 4,033 cms over the same period of last year. XPCL sold electricity of 4,910 GWh to EGAT in the first nine months of 2023, 3,868 GWh of which was counted under the quota of the Annual Supply Target. The rest was counted as non-committed energy supply.

### Contractual framework mitigates the impact of water flow fluctuations

The fluctuation of water flow in the Mekong River is the key risk to XPCL's operating performance. The level of water flow through the power plant largely depends on rainfalls, water volume in secondary rivers, and water flow from upstream dams in China. Climate change could disrupt rainfall pattern and lead to more irregularity of water flow. XPCL needs water inflow of approximately 400-600 cms to operate one generator for EGAT while the lowest water flow in Mekong River during dry season is approximately 1,200 cms.

However, XPCL's PPA is structured to mitigate the impact from water flow fluctuations. The mechanism of PPA allows XPCL to sell electricity in excess of the Annual Supply Target in wet years. The delivery of energy in excess of the target is accounted and compensated in dry years. Conversely, if XPCL delivers electricity less than the Annual Supply Target in a dry year, the company could account the shortfall and deliver more electricity in the following years.

### Leverage remains high

The company carries a debt-heavy capital structure and substantial interest burden, due in large part to the sponsor loans financing additional project costs for constructing fish passing facilities, sediment-flushing facilities, and earthquake resistant following the GOL's request. As of September 2023, its total debt was at THB96.8 billion, consisting of project loans of THB70.7 billion, debentures of THB8.4 billion, and the sum of sponsor loans and accrued interest of THB17.7 billion. The debt to capitalization ratio stood at 72.3%. The debt to EBITDA ratio was 7.2 times (annualized with trailing 12 months). The ratio of funds from operations (FFO) to debt was at 7.1%

In October 2023, XPCL issued debentures of THB3.5 billion to refinance its existing loans, a continued measure aimed at curbing its borrowing costs. We expect the company to continue the refinancing thorough debenture issuances in the years ahead.

In our base-case projection for 2023-2026, we forecast XPCL's revenue at a range of THB13.2-THB13.4 billion per year, translating into EBITDA of THB12.1-THB12.4 billion a year. We assume XPCL to issue debentures amounting to THB18.5 billion to partially replace project loans and sponsor loans over the forecast period, a bid to control its financial cost. However, we expect XPCL to remain under acute pressure from respectable interest burden of nearly THB6 billion a year during 2023-2024, given the run-up in interest rates. We expect the interest expenses will be easing in the years thereafter.

With that, we expect XPCL to arrive at FFO of THB6.2-THB7.1 billion per year over 2023-2026. We project the debt to EBITDA ratio will range 5-6 times and the FFO to debt ratio will gradually increase to exceed 10% in 2026. We assume XPCL will have only capital expenditures for planned maintenances. Hence, total debt is forecast to gradually decline to THB76.5 billion and the debt to capitalization ratio should steadily recede to 60% by 2026.

### Adequate liquidity

We assess XPCL as having adequate liquidity. The project loans have cash waterfall mechanism to reserve cash for planned maintenance expenses and debt repayment. The conditions of project loans require cash reserve for debt repayment and interest expenses for the next six months. Apart from the cash reserve requirement, XPCL also intends to maintain a minimum cash on hand of about THB1.5 billion for operating expenditures.

As of September 2023, XPCL had cash and restricted bank deposits of about THB10.8 billion, which is sufficient to meet its scheduled repayments in the next 12 months, totaling THB5.5 billion.

### Debt structure

As of September 2023, the company had debt (exclude lease liabilities) of THB96.7 billion, of which THB70.7 billion was secured debt. The secured debt to total debt ratio was 73%, far above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that XPCL's unsecured creditors are significantly disadvantaged to its secured debt holders with respect to claims against the company's assets.

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**BASE-CASE ASSUMPTIONS**

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These are the key assumptions in TRIS Rating's base-case forecast for XPCL's operations during 2023-2026:

- Annual electricity generation to be in the range of 6,715-6,841 GWh.
- Operating costs and expenses to increase by about 5% per annum.
- EBITDA margin to stay around 90%-93%.
- Capital spending of THB100 million per year for the planned maintenances.

**RATING OUTLOOK**

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The "stable" outlook embeds our expectation that XHPP will continue to perform well and render stable cash flow over the long term. As such, the company's high financial leverage will be consistently lessened.

**RATING SENSITIVITIES**

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Considering the high financial leverage of XPCL, we are unlikely to raise the ratings in the near term. However, we could revise the ratings upward in the longer horizon upon XPCL's strong cash generation that translates into significant improvement in the cash generation against leverage level. Conversely, we could take a negative rating action if XPCL's operating performance is consistently below our expectation, resulting in a material deterioration in cash generation against debt obligations.

**COMPANY OVERVIEW**

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XPCL is a limited company incorporated in June 2010 under the laws of the Lao PDR. XPCL's shareholders are CK Power PLC (CKP, 42.5%), Natee Synergy Co., Ltd. (NSC, 25%); a wholly owned subsidiary of Global Power Synergy PLC, The Electricity Generating PLC (EGCO, 12.5%), and EDL-Generation Public Company (EDL-GEN, 20%), a subsidiary of Electricite du Laos (EDL).

XPCL engages in the generation and sale of electricity from the XHPP. The company holds a 29-year PPA with EGAT (1,220 MW) and a 31-year PPA with EDL (60 MW). XPCL holds concession agreement with the GOL on Build-Own-Operate and Transfer basis. Under the concession agreement, XPCL is obliged to pay royalties and corporate income tax. Besides, the company has a commitment to implement a community development program to support the economic and social development of the nearby communities.

XHPP consists of eight generators, seven of 175-MW and one of 60-MW generators. The power generated from seven generators is sold to EGAT via the 500 kilovolt (kV) transmission line from Xayaburi Substation to Tha Li Substation in Loei Province, Thailand. At the same time, the power generated from 60-MW generator is sold to EDL.

Apart from power generators, the project contains navigation lock which is designed to allow boat passing from down-to upstream and vice versa, with free of charge to all users. The fish passing facilities was constructed to let fish safely pass from upstream to downstream and downstream to upstream.

XPCL applied community development program to ensure villagers around the project are proper recovering from relocation in terms of economic and others. Water quality, sediment, and fish are periodically monitored to ensure the environment surrounding the project is well-managed. For day-to-day operations, XPCL has its own operation and maintenance teams. XPCL could leverage the strengths of major shareholder, CKP. CKP has proven experience and expertise in running hydroelectric power plant.

## KEY OPERATING PERFORMANCE

**Table 1: Performance Statistics of Xayaburi Hydroelectric Power Plant**

Plant Performance	9M/23	2022	2021	2020	2019 *
Electricity generation (GWh)	4,997	8,123	7,305	6,301	798
Average plant availability (%)	81.7	90.4	92.9	96.0	99.8
Average monthly water inflow (cms)	2,992	3,773	3,039	2,534	1,707
Average upstream water level (masl)	275	275	275	275	275
Average downstream water level (masl)	241	242	241	240	239

\* Based on performance statistic in November and December 2019

Notes: Electricity generation = PE + SE + EE + Test Energy

GWh = gigawatt-hours

cms = cubic meters per second

masl = meter above sea level

Source: XPCL

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	9,951	16,090	13,949	12,074	1,567
Earnings before interest and taxes (EBIT)	6,100	10,339	8,808	6,924	2,144
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,303	14,615	13,002	11,095	2,878
Funds from operations (FFO)	4,725	9,352	7,977	5,140	(2,447)
Adjusted interest expense	4,577	5,264	5,025	5,955	5,325
Capital expenditures	26	80	1,227	45	9,767
Total assets	131,775	134,578	134,480	131,465	129,943
Adjusted debt	86,082	88,561	96,926	97,034	101,697
Adjusted equity	33,032	33,305	28,878	27,915	26,772
<b>Adjusted Ratios</b>					
EBITDA margin (%)	93.49	90.84	93.21	91.89	183.72
Pretax return on permanent capital (%)	5.87 *	7.75	6.66	5.31	1.70
EBITDA interest coverage (times)	2.03	2.78	2.59	1.86	0.54
Debt to EBITDA (times)	7.15 *	6.06	7.45	8.75	35.33
FFO to debt (%)	7.06 *	10.56	8.23	5.30	(2.41)
Debt to capitalization (%)	72.27	72.67	77.05	77.66	79.16

\* Annualized 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

**Xayaburi Power Co., Ltd. (XPCL)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
XPCL257A: THB4,031 million senior unsecured debentures due 2025	BBB+
XPCL267A: THB1,258 million senior unsecured debentures due 2026	BBB+
XPCL260A: THB1,500 million senior unsecured debentures due 2026	BBB+
XPCL277A: THB3,106 million senior unsecured debentures due 2027	BBB+
XPCL270A: THB384 million senior unsecured debentures due 2027	BBB+
XPCL280A: THB1,616 million senior unsecured debentures due 2028	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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