

BANPU PLC

No. 216/2020
25 December 2020

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Hybrid	A-
Outlook:	Stable

Last Review Date: 27/02/20

Company Rating History:

Date	Rating	Outlook/Alert
26/12/14	A+	Stable
29/11/13	AA-	Negative
15/12/10	AA-	Stable
06/07/10	AA-	Alert Developing
26/06/08	AA-	Stable
07/11/05	A+	Stable
28/07/05	A	Positive
12/07/04	A	Stable
14/01/03	A	-
22/03/01	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Banpu PLC (BANPU) and the ratings on BANPU's senior unsecured debentures at "A+" with a "stable" rating outlook. At the same time, TRIS Rating affirms the rating on BANPU's proposed issues of up to THB4 billion in subordinated capital debentures (hybrid debentures) and the additional greenshoe portion of up to THB2 billion, announced on 27 February 2020, at "A-".

The ratings continue to reflect the company's leading position in the coal industry in the Asia-Pacific region, reliable stream of income from its power business, and strategic move to be an integrated energy company with an increase focus on greener energy. The ratings take into consideration coal price volatility and factor in the slowdown in demand for coal in the long term, driven in part by efforts to reduce emissions worldwide.

KEY RATING CONSIDERATIONS

Leading position in coal mining in Asia-Pacific region

BANPU is one of the leading coal mining companies in the Asia-Pacific region. The company has coal mining operations in Indonesia, Australia, China, and Mongolia. BANPU's coal reserves in Indonesia and Australia totaled 592 million tonnes as of September 2020. Reserves at its Indonesian mines indicate a reserve life of about 15 years and more than 20 years for the Australian mines. Coal sales volume from its Indonesian mines, Australian mines, and trading activities is expected to be around 33-35 million tonnes in 2020.

BANPU also has a diversified customer base. Of the total sales volume in the first nine months of 2020, 23% was sold to buyers in China, 22% in Japan, and 19% in Indonesia. The remaining volume was sold to customers in Australia, Korea, Taiwan, India, Thailand, and other Southeast Asian countries.

Expected recovery from the COVID-19 impact

Demand for coal is expected to recover, in tandem with the revival of economic activities. After the easing of lockdown measures in many countries starting in the third quarter of 2020, coal demand has recovered pushing up the coal price (Newcastle coal price index) to USD64.4 per tonne in November 2020 and hovering around USD70-USD75 per tonne in the first half of December 2020. The coal price has recovered from the lowest level of USD50.1 per tonne in August 2020. The decline in coal price during the second and third quarter of 2020 was mainly due to the lower demand for coal, as global economic activities slowed down substantially following the Coronavirus Disease 2019 (COVID-19) lockdown measures starting late in the first quarter of 2020.

For the first nine months of 2020, BANPU's coal sales volume (excluding China mines) declined by 6% year-on-year (y-o-y) to about 25 million tonnes from about 27 million tonnes in the first nine months of 2019. As demand for coal is expected to recover over the next few years, we project BANPU's coal sales volume to increase to about 34-35 million tonnes per year during 2021-2023.

Power business continues to provide predictable cash flow to BANPU

Power business continues to be a reliable source of cash flow for BANPU. BANPU has gradually enlarged its power portfolio through its subsidiary,

Banpu Power PLC (BPP). Currently, BPP has invested in many power projects in Thailand, the Lao People's Democratic Republic (Lao PDR), China, and Japan, with equity capacity of 3.0 gigawatts (GW), of which 2.4 GW are in operation. The power business has generated earnings before interest, taxes, depreciation, and amortization (EBITDA) of about 15%-20% of BANPU's total EBITDA. BANPU received dividends of about USD24 million from its investments in BCLP Power Co., Ltd. (BCLP) and Hongsa Power Co., Ltd. for the first nine months of 2020. We forecast that EBITDA from its power business will account for about 15%-20% of BANPU's total EBITDA during 2020-2023.

More contribution from US gas business

BANPU completed the acquisition of Barnett Shale's assets in the United States (US) on 1 October 2020, following the acquisition announcement in late 2019. The investment cost was revised downward by 26% to USD570 million from USD770 million, reflecting the low natural gas price in 2020. However, BANPU will have a financial obligation to pay the seller up to USD260 million over the next four years, if prices of natural gas and crude oil exceed the benchmark prices used in the revised valuation.

The acquisition of Barnett Shale has significantly increased BANPU's natural gas production volume by about 500 million cubic feet per day (MMCFD), on top of the 200 MMCFD from its Marcellus assets. It has also increased BANPU's gas reserves by 3.5 trillion cubic feet (TCF), from 1.0 TCF at the end of September 2019.

We forecast that this acquisition will bring about USD100-USD130 million in EBITDA per year during 2021-2023. Our forecast is based on the Henry Hub natural gas price (gas price) of around USD2.5-USD2.6 per million British thermal unit (MMBTU) during 2021-2023. The gas price recovered from the lowest level of about USD1.6 per MMBTU in June 2020 to remain around USD2.5 per MMBTU in November 2020.

In our view, the enlarged natural gas business should help offset to some extent, the impact from the potential decline in coal demand in the long term. We project the natural gas business to account for about 20%-25% of BANPU's total EBITDA during 2021-2023.

BANPU's EBITDA to improve in 2021

For the first nine months of 2020, BANPU's EBITDA declined by 38% y-o-y to USD434 million, mainly due to lower dividend income from BCLP. BCLP paid a special dividend of USD237 million for the first nine months of 2019, in contrast to a normal dividend of USD6 million for the first nine months of 2020. BANPU's EBITDA was also impacted by the lower coal price and lower sales volume in the first nine months of 2020. The Newcastle coal price index declined by 28% y-o-y to about USD58.2 per tonne for the first nine months of 2020, while BANPU's average selling price declined by 20% to about USD54 per tonne. However, the lower oil price together with the mining plan to lower the stripping ratio for the Indonesian mines help to some extent, offset the impact of the decline in coal price. BANPU's gross margin for the coal business decreased to around 20% for the first nine months of 2020, compared with about 26% for the same period of the previous year.

We forecast that BANPU's EBITDA to recover from 2021 onwards. We expect BANPU's EBITDA to be about USD450-USD500 million in 2020 and to improve to USD600-USD800 per year during 2021-2023. This improvement reflects our view on rising coal and gas prices in 2021.

For the coal business, the high calorific value (CV) coal from its Indonesian mines is expected to increase its contribution to total output, which should help increase the average selling price of BANPU's overall coal production. We also expect BANPU to continue its effort to improve its gross margin of coal sales to about 20%-25% during 2021-2023.

The revenue contribution from the gas business will increase in connection with the Barnett Shale acquisition in October 2020. Revenue impact from the acquired assets will be fully reflected by a full year EBITDA contribution to BANPU from 2021 onwards.

We forecast that the gas business will contribute about USD150-USD200 million per year to BANPU's EBITDA during 2021-2023. The dividend income from the investment in Chinese coal mines and power business is forecast to be USD75-USD100 million per year during 2020-2023.

Leverage to increase following Barnett Shale acquisition

We project BANPU's leverage to increase significantly in 2020 due to the Barnett Shale acquisition together with the effect of low coal and gas prices during the first nine months of 2020. Based on the planned capital expenditures and investment assumptions, the company's debt to capitalization ratio should stay at about 60%-65% in 2020 and improve to about 58%-63% during 2021-2023. We project a spike in the debt to EBITDA ratio to over 9 times in 2020, which we believe will be temporary due to the impact of the COVID-19 and a delay in revenue contribution from Barnett Shale. We expect the debt to EBITDA ratio to improve to around 6 times in 2022 and to stay at around 4-6 times in the medium to long term.

BASE-CASE ASSUMPTIONS

- Newcastle coal price index to be in the range of USD59-USD60 per tonne in 2020 and to improve to about USD60-USD65 per tonne in 2021-2023.
- Henry Hub natural gas price to be about USD1.9-USD2.0 per MMBTU in 2020 and to increase to about USD2.5-USD2.6 per MMBTU in 2021-2023.
- Sales volume from Indonesian and Australian mines to be about 34-35 million tonnes per year during 2021-2023.
- Capital expenditures and investment to be about USD1.5 billion over 2020-2023, including payment in Barnett Shale acquisition of about USD400 million in 2020.

RATING OUTLOOK

The “stable” outlook reflects the expectation of TRIS Rating that BANPU will maintain its leading position in the coal industry. Dividends from the steady power business and greater contribution from the gas business will provide some cushion for the company. Good liquidity, underpinned by BANPU’s financial discipline and prudent cash management, will help BANPU weather the volatility in market conditions.

RATING SENSITIVITIES

An upside for BANPU’s ratings is limited over the next 12-18 months, but could occur if the company improved its financial profile significantly or exhibited greater earnings stability. A rating downgrade would emerge if BANPU’s performance materially deviated from our forecast. This could occur if the coal prices and gas prices turn out to be significantly short of expected levels. Any additional debt-funded investments, which significantly weaken the capital structure and cash flow protection for an extended period, could be another factor leading to a downgrade.

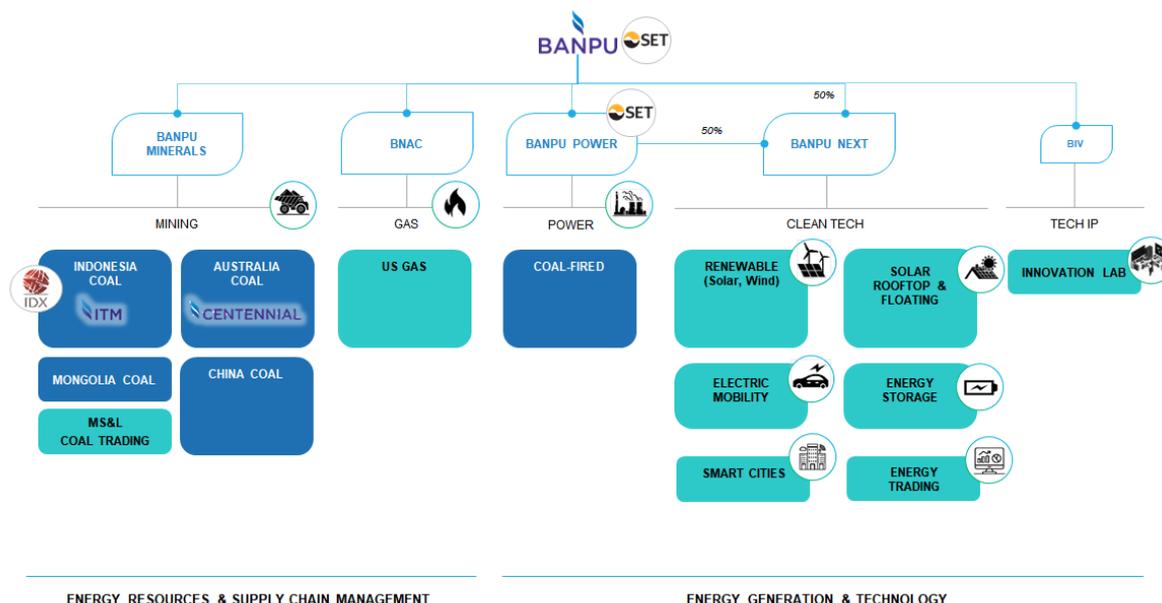
COMPANY OVERVIEW

BANPU is one of the major energy companies in Asia. It was established in 1983 to mine coal in Thailand. Currently, BANPU has coal operations in Indonesia, Australia, China, and Mongolia. BANPU has expanded its business to power generation. It also entered into the gas business in the US in 2016.

BANPU has restructured its energy portfolio to pursue greener and smarter strategies. The company has set up a new entity, Banpu NEXT Co., Ltd. (BANPU NEXT), to focus investment on renewable energy and energy technologies such as energy storage, energy trading platforms, and other energy solutions. BANPU NEXT also invests in energy technology companies, such as Sunseap Group Pte Ltd and Durapower Holdings Pte Ltd in Singapore.

In 2019, the coal operation accounted for 69% of BANPU’s EBITDA. The rest came from power businesses (21%), and its gas business in the US (10%). By 2025, BANPU’s coal business is expected to contribute not more than 50% of BANPU’s EBITDA, while the rest of will be contributed from power business, gas business, renewable and energy technology solution business.

Chart 1: BANPU's Group Structure



Source: BANPU

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. USD

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	1,665	2,885	3,537	2,916	2,286
Earnings before interest and taxes (EBIT)	191	307	767	618	297
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	434	866	982	713	431
Funds from operations (FFO)	261	601	616	438	231
Adjusted interest expense	136	189	177	141	131
Capital expenditures	87	297	273	241	176
Total assets	8,747	8,542	8,454	8,223	6,973
Adjusted debt	4,420	4,094	3,571	3,340	2,872
Adjusted equity	2,515	3,001	3,175	3,211	2,738
Adjusted Ratios					
EBITDA margin (%)	26.09	30.01	27.76	24.46	18.85
Pretax return on permanent capital (%)	2.72 **	4.09	10.50	9.28	5.11
EBITDA interest coverage (times)	3.20	4.57	5.56	5.05	3.29
Debt to EBITDA (times)	7.41 **	4.73	3.64	4.68	6.67
FFO to debt (%)	8.14 **	14.67	17.25	13.12	8.04
Debt to capitalization (%)	63.73	57.70	52.94	50.99	51.19

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Banpu PLC (BANPU)

Company Rating:	A+
Issue Ratings:	
BANPU214A: THB4,000 million senior unsecured debentures due 2021	A+
BANPU225A: THB3,000 million senior unsecured debentures due 2022	A+
BANPU234A: THB3,500 million senior unsecured debentures due 2023	A+
BANPU247A: THB5,000 million senior unsecured debentures due 2024	A+
BANPU257A: THB2,100 million senior unsecured debentures due 2025	A+
BANPU264A: THB2,000 million senior unsecured debentures due 2026	A+
BANPU274A: THB10,000 million senior unsecured debentures due 2027	A+
BANPU295A: THB10,000 million senior unsecured debentures due 2029	A+
BANPU234B: USD150 million senior unsecured debentures due 2023	A+
BANPU288A: USD50 million senior unsecured debentures due 2028	A+
Up to THB4,000 million subordinated capital debentures (hybrid debentures) and additional greenshoe portion of up to THB2,000 million	A-
Rating Outlook:	Stable

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