

# BANPU PLC

No. 226/2021  
27 December 2021

## CORPORATES

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

Last Review Date: 23/07/21

### 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" outlook. 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 the strategic move towards an integrated green energy company. The ratings take into consideration coal price volatility and factor in the prospect of declining coal demand over the long term, driven in part by global efforts to reduce carbon emissions.

## KEY RATING CONSIDERATIONS

### One of the leaders 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 560 million tonnes as of September 2021. Reserves at its Indonesian mines indicate a reserve life of about 16 years and more than 25 years for the Australian mines. Coal sales volume from its Indonesian and Australian mines, and trading activities is expected to reach around 31 million tonnes in 2021.

BANPU also has a diversified customer base. Of the total sales volume in the first nine months of 2021, 31% was sold to buyers in China, 14% in Japan, and 13% in Indonesia. The remaining volume was sold to customers in Australia, Korea, Taiwan, India, Thailand, and other Southeast Asian countries.

### Greener and smarter portfolio

BANPU has rebalanced its portfolio from focusing on coal mining to more environmentally friendly fuel, like natural gas and renewable energy. BANPU targets an increase in earnings before interest, taxes, depreciation and amortization (EBITDA) contribution from greener business (exploration and production of natural gas, gas-fired power plant, high-efficiency low-emission power plant, renewable energy power plant and energy technology) to over 50% of total EBITDA by 2025 from less than 20% in 2020. During 2016-2020, the company focused its investment on shale gas assets in the United States (US), renewable power generation assets, and energy technology companies. As a result, its coal-based business (coal mining and coal-fired power plants) accounted for about 60% of its total EBITDA, and EBITDA from its greener business was about 40% in the first nine months of 2021.

### Expanding power portfolio

BANPU has expanded its power portfolio by focusing on greener power plants. During January to November 2021, BANPU invested about USD595 million in pursuing the growth of its greener business. Acquisition comprised a 13.4% stake in a 543-MW (megawatts) integrated gasification combined cycle (IGCC) power plant in Japan (Nakoso IGCC), a 100% shareholding in a 768-MW gas-fired power plant in the US (Temple I), a 100% shareholding in 167-MW solar power plants in Australia (Beryl & Manildra), and other energy technology businesses. As a result, the company's installed capacity increased to about 3.9 GW (gigawatts) by November 2021 from about 2.8 GW in 2020. These acquisitions have helped strengthen BANPU's greener power portfolio as well as energy technology business.

The power business provides a predictable cash flow to BANPU, as about 80% of BANPU's power plants operate under long-term power purchase agreements (PPAs) with credit-worthy off-takers. TRIS Rating forecasts BANPU's power portfolio to contribute about USD150-USD180 million in EBITDA per year during 2022-2023. The increase in EBITDA reflects the full-year operations of the Temple I and Beryl & Manildra power plants in 2022 and dividend received from Nakoso IGCC and Shanxi Lu Guang power plants, starting from 2023 onwards.

### **Strong performance from US shale gas business**

BANPU's shale gas business performed strongly in the first nine months of 2021. It contributed about USD300 million in EBITDA to BANPU. For the first nine months of 2021, BANPU sold shale gas of around 184 billion cubic feet (bcf), increasing by over 250% year-on-year (y-o-y). An increase in sales volume reflected a full contribution from Barnett's shale gas assets, which BANPU acquired in October 2020. In addition, the US economic recovery has boosted demand for gas, as reflected in the increase in the Henry Hub natural gas price (gas price) by 90% to about USD3.6 per million British thermal unit (MMBTU) in the first nine months of 2021. BANPU's shale gas business recorded an EBITDA margin of 52% in the first nine months of 2021.

We forecast BANPU to increase its sales volume of shale gas to about 250-260 bcf in 2023 from about 230-240 bcf in 2021. The increase in sales volume is based on the assumption that BANPU will spend more on this business to increase production during the high-price environment. We forecast BANPU's shale gas business will contribute about USD250-USD300 million in EBITDA per year over 2022-2023. This contribution is forecast to account for around 25%-30% of BANPU's total EBITDA.

### **High energy price enlarging BANPU's EBITDA**

A surge in coal and gas price, together with fully realized earnings from Barnett's shale asset, helped enlarge BANPU's EBITDA. For the first nine months of 2021, BANPU's EBITDA increased by 87% to USD810 million. According to Bloomberg, the Newcastle coal price index (6,000 kcal) dramatically increased 111% y-o-y to about USD122.8 per tonne for the first nine months of 2021, mainly driven by a coal shortage in China. BANPU's average selling price increased by 46% y-o-y to about USD81 per tonne. BANPU's gross margin for the coal business showed a strong recovery at about 39% for the first nine months of 2021 from about 20% for the same period of the previous year.

We forecast that coal price to cool down and remain in the range of USD80-USD100 per tonne in 2022-2023, as coal productions from inland China, Indonesia, and India are expected to increase. Therefore, BANPU's gross margin of coal sales is forecast to soften to about 30%-35% in 2022-2023. We also forecast BANPU's coal sales volume to be around 31-36 million tonnes per year over 2021-2023. In all, we forecast that BANPU's EBITDA to stay in a range of USD1.1-USD1.2 billion per year over 2021-2023.

### **Large investment ahead**

BANPU plans to invest about USD3.1 billion over 2021-2023, covering the acquisitions made in 2021, maintenance and organic growth for the coal business, and uncommitted investment in expanding its green portfolio. The company aims to raise capital of about USD916 million over 2021-2023 through rights offering and warrants. In September 2021, BANPU completed a right offering which raised fresh capital of USD255 million. We have incorporated projected capital increases of about USD661 million from exercises of warrants during 2022-2023, as the exercise price of THB5.0 and THB7.5 per share is currently in the money. In case the warrants are not exercised as planned, we believe the company has the flexibility to lower its capital expenditures to control its net interest-bearing debt to equity ratio to stay within its internal guideline of 1.2 times.

According to our base-case projection, the company's debt to capitalization ratio should improve to about 55%-60% in 2021-2023, from about 63% in 2020. The company's debt to EBITDA ratio should also improve to stay in the 4.0-5.0 times range over the forecast period, from about 8.7 times in 2020. This is due to strong recovery in the coal business, the full contribution from Barnett's assets, and the capital raising plan.

### **Satisfactory liquidity profile**

We view BANPU has a satisfactory liquidity profile. As of September 2021, BANPU had cash on hand and cash equivalent of about USD1.2 billion and undrawn credit facilities, both committed and uncommitted, of about USD282 million. BANPU's funds from operations (FFO) over the next 12 months are expected to be about USD800-USD900 million. These sources of liquidity can cover the scheduled short-term and long-term debt repayments, and debentures that mature over next 12 months of about USD1.7 billion.

## Debt structure

As of September 2021, BANPU's consolidated debt was about USD5.7 billion. BANPU's priority debt consisted of USD62 million in secured debts and USD1.1 billion in senior debts owed by BANPU's subsidiaries. The ratio of priority debt to total debt was about 20% at the end of September 2021.

## BASE-CASE ASSUMPTIONS

- Newcastle coal price index to be around USD137 per tonne in 2021 and about USD80-USD100 per tonne in 2022-2023.
- Henry Hub natural gas price to be about USD3.9 per MMBTU in 2021 and about USD3.0 per MMBTU in 2022-2023.
- Sales volume from Indonesian and Australian mines to be about 31-36 million tonnes per year during 2021-2023.
- Capital expenditures and investment to be about USD3.1 billion over 2021-2023, including uncommitted investment.
- New capital to be raised of about USD661 million via warrant exercising in 2022-2023.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation 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 against the volatility in the coal business. We also view that BANPU's financial discipline and prudent cash management to maintain adequate liquidity will help it weather the volatility in market conditions.

## RATING SENSITIVITIES

A rating upside could occur if the company improved its financial profile significantly or exhibited greater earnings stability. A rating downgrade could occur if BANPU's performance materially deviated from our forecast, possibly from coal prices and gas prices that fall significantly short of the 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

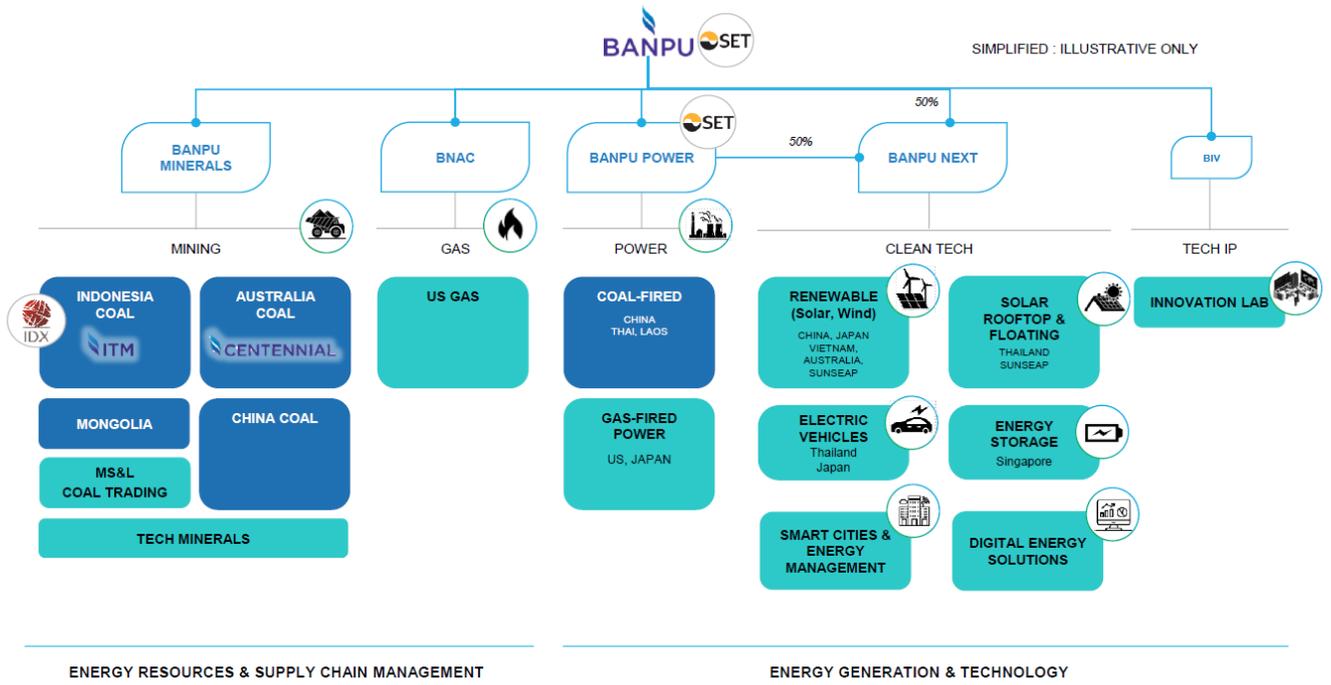
BANPU is one of the major energy companies in Asia. It was established in 1983 to mine coal in Thailand. Currently, BANPU has coal operations in Indonesia, Australia, China, and Mongolia. BANPU has expanded its business to power generation. It also entered the gas business in the US in 2016.

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 Durapower Holdings Pte Ltd in Singapore.

In 2020, coal operations accounted for 75% of BANPU's EBITDA. The rest came from power businesses (15%) and its gas business in the US (10%). By 2025, BANPU's coal business is not expected to contribute more than 50% of its EBITDA, with the rest from its power business, gas business, and renewable and energy technology solution business.

KEY OPERATING STATISTICS

Chart 1: BANPU's Group Structure



Source: BANPU

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. USD

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,720	2,322	2,885	3,537	2,916
Earnings before interest and taxes (EBIT)	581	202	314	767	618
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	810	560	866	982	713
Funds from operations (FFO)	537	372	598	616	438
Adjusted interest expense	134	180	189	177	141
Capital expenditures	161	633	297	273	241
Total assets	10,468	9,377	8,069	8,454	8,223
Adjusted debt	4,968	4,862	4,094	3,571	3,340
Adjusted equity	2,793	2,815	2,635	3,175	3,211
<b>Adjusted Ratios</b>					
EBITDA margin (%)	29.80	24.10	30.01	27.76	24.46
Pretax return on permanent capital (%)	6.98 **	2.58	4.29	10.50	9.28
EBITDA interest coverage (times)	6.05	3.12	4.57	5.56	5.05
Debt to EBITDA (times)	5.31 **	8.69	4.73	3.64	4.68
FFO to debt (%)	13.04 **	7.64	14.62	17.25	13.12
Debt to capitalization (%)	64.01	63.33	60.84	52.94	50.99

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Banpu PLC (BANPU)**

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
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+
BANPU248A: THB2,000 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+
BANPU268A: THB3,945 million senior unsecured debentures due 2026	A+
BANPU274A: THB10,000 million senior unsecured debentures due 2027	A+
BANPU282A: THB2,000 million senior unsecured debentures due 2028	A+
BANPU288B: THB4,010 million senior unsecured debentures due 2028	A+
BANPU295A: THB10,000 million senior unsecured debentures due 2029	A+
BANPU312A: THB3,670 million senior unsecured debentures due 2031	A+
BANPU318A: THB6,045 million senior unsecured debentures due 2031	A+
BANPU234B: USD150 million senior unsecured debentures due 2023	A+
BANPU288A: USD50 million senior unsecured debentures due 2028	A+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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