

BANPU PLC

No. 239/2022
27 December 2022

CORPORATES

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

Last Review Date: 01/08/22

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 reflect the company's leading position in the Asia-Pacific coal industry, predictable cash flows from the power business, and its transition toward a greener energy portfolio under the "greener, smarter" strategy. The ratings take into consideration the volatility in coal and gas prices, and the declining coal price trend over the next three years, driven by China's coal import slowdown and global efforts to reduce carbon emissions.

KEY RATING CONSIDERATIONS

Leading coal miner in Asia-Pacific

BANPU is one of the leading coal mining companies in the Asia-Pacific region. The company has coal mining operations in Indonesia, Australia, and China. BANPU's coal reserves in Indonesia and Australia totaled 535 million tonnes as of September 2022. Reserves at its Indonesian mines indicate a reserve life of about 17 years, and over 25 years for the Australian mines. Its coal sales volume in 2022 from its Indonesian and Australian mines as well as trading activities, is expected at about 30 million tonnes.

BANPU has a diversified customer base. Of the total sales volume of its Indonesian coals in the first nine months of 2022, 34% was sold to buyers in China, 20% in Indonesia, and 13% in Japan. Buyers of BANPU's Australian mines are mainly domestic power producers. The remaining volume was sold to customers in the Philippines, India, Thailand, and other Southeast Asian countries.

Strong performance from surging coal prices

BANPU is poised to post a record-high operating performance in 2022. BANPU's earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 168% year-on-year (y-o-y) to USD2.18 billion for the first nine months of 2022. This dramatic increase was supported by the surge in coal and natural gas prices induced by the Russia-Ukraine conflict starting in February 2022. The Newcastle Coal Price Index (6,000 kcal) increased by 193% y-o-y to USD357 per tonne for the first nine months of 2022. BANPU's average selling price increased by 102% y-o-y to USD162 per tonne. The gross margin in its coal business for the first nine months of 2022 increased to 57%, compared to 39% in the same period of 2021.

BANPU's total coal production volume, however, declined in 2021-2022 due to wet weather in Indonesia and a labor shortage in its Australian operations. The company's coal sales volume declined by 6% (y-o-y) to 22.9 million tonnes for the first nine months of 2022. We expect the sales volume to recover in 2024 from the production of a new Indonesian coal mine, acquired during 2017-2018, and the mining improvement program for the Australian operations.

We forecast Newcastle coal prices to slow down to USD150 per tonne in 2023, before normalizing to USD100 per tonne in 2024. Our coal price forecast, which differs from BANPU's view, reflects our view on an economic slowdown in 2023 and China's policy to increase domestic coal production, which may reduce demand for seaborne coal. We also forecast BANPU's coal sales volume to be around 33-41 million tonnes per year over 2023-2024.

Strengthened presence in the US shale gas industry

BANPU's shale gas portfolio has been strengthened after acquiring the North Texas shale asset, worth USD750 million, in June 2022. The North Texas shale asset provides BANPU with net production capacity of around 225 million cubic feet per day (MMCFD), raising the group's total natural gas production capacity to around 900 MMCFD. The acquired asset is located close to BANPU's existing Barnett shale asset.

In the first nine months of 2022, BANPU's shale gas business continued to perform robustly, contributing about USD848 million in EBITDA to BANPU. The strong performance of the shale gas business was mainly driven by the skyrocketing prices of natural gas and the added production capacity of the North Texas shale asset from July 2022. The Henry Hub natural gas price (gas price) increased by 87% y-o-y to about USD6.75 per million British thermal unit (MMBTU) for the first nine months of 2022. The sales volume of shale gas also increased by 7% y-o-y to 197 billion cubic feet (bcf).

We forecast BANPU to increase its sales volume of shale gas to about 310-340 bcf in 2023-2024, from about 275-285 bcf in 2022. The increase is mainly due to the first full-year contribution from the North Texas shale asset. In addition, BANPU plans to increase production in each of the existing shale assets within the high-price environment. We forecast BANPU's shale gas business will contribute about USD620-USD780 million in EBITDA per year over 2023-2024, contributing 45%-55% of the group EBITDA.

Greener power portfolio

BANPU's power portfolio focuses more on green power projects. Over the last twelve months, the company added about 300 megawatts (MW), which increased its committed power portfolio to about 4,300 MW as of September 2022. The additional power investments included the 58-MW Zhengding solar rooftop project, three solar projects (Ha Tinh, Chu Ngoc, and Nhon Hai) in Vietnam totaling 100 MW, plus other solar projects in Thailand and Indonesia. These acquisitions have helped strengthen BANPU's greener power portfolio as well as energy technology business.

The power business provides predictable cash flows to BANPU, as about 70% of BANPU's power plants operate under long-term power purchase agreements (PPAs) with credit-worthy off-takers. TRIS Rating forecasts BANPU's power portfolios to contribute about USD70-USD120 million in EBITDA per year during 2022-2024, compared to USD61 million in 2021. The anticipated increases in power EBITDA reflects the full-year operations of the Temple I and Beryl & Manildra power plants in Australia in 2022 and dividend received from the Nakoso IGCC power plant in Japan from 2022 onwards.

Strong performance supported "greener" expansions

The strong performance during 2021-2022 widened headroom for the company's investment over 2023-2024. BANPU is in a transitional period of shifting its focus from coal mining to more environmentally friendly businesses, like natural gas and renewable energy. The company aims to increase EBITDA from its non-coal businesses to about 50% of total EBITDA by 2025. To achieve the target, BANPU plans to invest mainly in shale gas assets, gas-fired power plants, renewable energy and other energy technology businesses. We forecast the company to invest about USD4.1 billion over 2022-2024, including the recent USD750 million acquisition of North Texas shale asset, USD70 million in the energy storage system business, two new solar power plants in Vietnam in early 2022 with a total capacity of 50 MW, maintenance and organic growth for the coal business, and other uncommitted investments in expanding its "greener" portfolio.

BANPU's equity was enlarged by about USD243 million in October 2022 through the successful BANPU-W4 warrant exercise, which supported its growth. In our base-case scenario, we expect BANPU's equity to further increase by USD365 million from the BANPU-W5 warrant exercise, the subscription price of which is THB7 per share. In case the planned exercise of warrants in 2023 does not materialize, we believe the company could opt to scale back its "greener" expansion investment to maintain its net interest-bearing debt to equity ratio within BANPU's internal guideline of 1.2 times.

In our base-case scenario, we forecast BANPU's EBITDA in 2022 to be at about USD2.8-USD2.9 billion. The company's debt to EBITDA ratio is projected to be around 1.8-1.9 times in 2022, which are unusually low due to the period of extraordinarily high energy prices. For 2023-2024, we expect both coal and gas prices to gradually soften to the normal range prior to 2021. The company's annual EBITDA is expected to stay within the range of USD1.5-USD1.9 billion in 2023-2024. In addition, we incorporate a total of USD1.6-USD1.7 billion uncommitted new "greener" investments over 2023-2024. As a result, its debt to EBITDA ratio will likely normalize to the range of 3.0-4.0 times over the forecast period. The company's debt to capitalization ratio is expected to improve to 48%-53% in 2022-2024, from about 63% in 2021.

Satisfactory liquidity profile

We view BANPU as having a satisfactory liquidity profile. As of September 2022, BANPU's sources of liquidity included cash on hand and cash equivalent of about USD1.9 billion, plus undrawn credit facilities—both committed and uncommitted—of about USD449 million. We expect BANPU's funds from operations (FFO) over the next 12 months to be about USD1.45-USD1.55 billion. Also, BANPU has successfully received an equivalent amount of USD243 million through warrant exercises

in October 2022. These sources of liquidity can cover the scheduled short- and long-term debt repayments, and debentures maturing over the next 12 months of about USD1.9 billion.

Debt structure

As of September 2022, BANPU's consolidated debt was about USD6.4 billion. BANPU's priority debt consisted of USD46 million in secured debts and USD1.7 billion in senior debts owed by BANPU's subsidiaries. The ratio of priority debt to total debt was about 28% at the end of September 2022.

BASE-CASE ASSUMPTIONS

- Newcastle Coal Price Index to be around USD355 per tonne in 2022, softening to USD150 and USD100 per tonne in 2023 and 2024, respectively.
- Henry Hub natural gas price to be around USD6.33 per MMBTU in 2022, softening to USD4.5-USD5.3 per MMBTU in 2023-2024.
- Annual sales volume from the Indonesian and Australian operations of about 30-31 million tonnes in 2022, and 33-41 million tonnes in 2023-2024.
- Capital expenditures and investment over 2022-2024 to total USD4.1 billion, including uncommitted investment.
- New capital equivalent to USD365 million from the warrant exercising in 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 volatility in the coal business. We also view that BANPU's financial discipline and prudent cash management will help it weather the volatility in market conditions.

RATING SENSITIVITIES

A rating upside could occur if the company's debt to EBITDA ratio stays below 2 times on a sustained basis. A rating downgrade could occur if BANPU's performance materially deviates 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

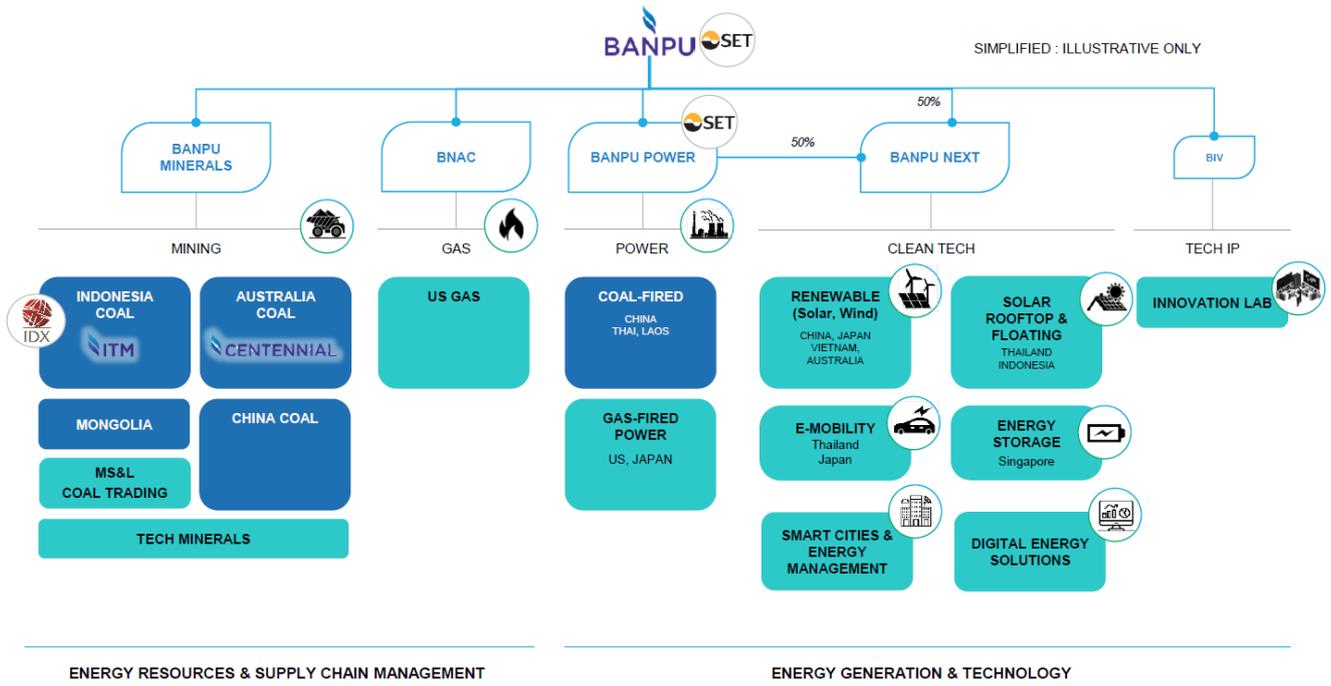
BANPU is one of the major energy companies in Asia. The BANPU Group consists of three cores business groups: energy resources, energy generation, and energy technology. The company was established in 1983 to mine coal in Thailand. Currently, BANPU has coal businesses in Indonesia, Australia, China, and Mongolia. BANPU has been expanding its business to power generation. It also entered the gas business in the United States (US) in 2016.

Apart from the energy resource and conventional power business, BANPU pursues its "greener and smarter" strategies through Banpu NEXT Co., Ltd. (BANPU NEXT). The subsidiary focuses its investments 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, including Durapower Holdings Pte Ltd in Singapore.

During 2016-2022, the company focused its investments on shale gas assets in the US, renewable power generation assets, and energy technology companies. In 2021, BANPU's coal operations and its growing shale assets contribute 47% and 46% of the group's EBITDA, respectively. The rest came from power businesses. By 2025, BANPU plans to increase the EBITDA contribution from non-coal businesses to over 50%, by expanding from its power generation, gas, renewable, and energy technology solution businesses.

GROUP STRUCTURE

Chart 1: BANPU's Group Structure



Source: BANPU

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. USD

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	5,478	4,162	2,322	2,885	3,537
Earnings before interest and taxes (EBIT)	1,857	874	202	314	767
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,176	1,199	560	866	982
Funds from operations (FFO)	1,716	843	337	569	656
Adjusted interest expense	183	184	180	189	177
Capital expenditures	374	447	816	297	273
Total assets	12,617	10,946	9,377	8,069	8,454
Adjusted debt	4,848	5,351	5,163	4,094	3,571
Adjusted equity	3,903	3,103	2,815	2,635	3,175
Adjusted Ratios					
EBITDA margin (%)	39.71	28.80	24.10	30.01	27.76
Pretax return on permanent capital (%)	21.82 **	9.52	2.53	4.29	10.50
EBITDA interest coverage (times)	11.91	6.53	3.12	4.57	5.56
Debt to EBITDA (times)	1.89 **	4.46	9.22	4.73	3.64
FFO to debt (%)	39.89 **	15.75	6.52	13.90	18.36
Debt to capitalization (%)	55.40	63.33	64.71	60.84	52.94

* Consolidated financial statements

** 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

Banpu PLC (BANPU)

Company Rating:	A+
Issue Ratings:	
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+
BANPU251A: THB2,000 million senior unsecured debentures due 2025	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+
BANPU269A: THB4,000 million senior unsecured debentures due 2026	A+
BANPU274A: THB10,000 million senior unsecured debentures due 2027	A+
BANPU281A: THB1,000 million senior unsecured debentures due 2028	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+
BANPU299A: THB1,860 million senior unsecured debentures due 2029	A+
BANPU301A: THB2,000 million senior unsecured debentures due 2030	A+
BANPU312A: THB3,670 million senior unsecured debentures due 2031	A+
BANPU318A: THB6,045 million senior unsecured debentures due 2031	A+
BANPU321A: THB3,000 million senior unsecured debentures due 2032	A+
BANPU329A: THB3,240 million senior unsecured debentures due 2032	A+
BANPU341A: THB4,000 million senior unsecured debentures due 2034	A+
BANPU234B: USD150 million senior unsecured debentures due 2023	A+
BANPU288A: USD50 million senior unsecured debentures due 2028	A+
Rating Outlook:	Stable

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