

BCPG PLC

No. 169/2023
31 August 2023

CORPORATES

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

Last Review Date: 09/06/23

Company Rating History:

Date	Rating	Outlook/Alert
19/01/23	A	Alert Negative
27/10/22	A	Stable
21/04/21	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on BCPG PLC (BCPG) and the ratings on its senior unsecured debentures at “A”, with a “stable” outlook.

At the same time, we remove the CreditAlert with a “negative” implication that was placed on all ratings on BCPG since 19 January 2023. This follows the announcement made by Bangchak Corporation PLC (BCP) on 31 August 2023 of the completed acquisition of 65.99% of the shares of ESSO (Thailand) PLC.

BCPG’s stand-alone credit profile (SACP) remains at “bbb+”. The “A” rating incorporates a two-notch uplift from the SACP as we expect BCPG to remain a core subsidiary of BCP (rated “A/stable”).

The SACP reflects BCPG’s reliability of earnings and its well-diversified power portfolio. However, the SACP is weighed down by BCPG’s heavier debt load due to accelerating investments, and execution risks related to projects under development.

KEY RATING CONSIDERATIONS

A series of large investments

From the beginning of 2023, BCPG has carried out a series of large investments. BCPG has acquired stakes in four combined-cycle gas turbine (CCGT) power plants in the U.S., and an oil storage in Thailand. These operating projects will provide immediate revenue streams to BCPG.

We expect BCPG will defray to the tune of THB33.3 billion towards the end of 2023. BCPG’s total installed capacity, in proportion of its ownership stakes, will leapfrog to 1,328 megawatts (MW).

Entry to the wholesale electric market in the U.S.

BCPG recently set its footprint in the wholesale electric market in the U.S. The company acquired four operating CCGT power plants, which sell electricity in the PJM Energy Market (PJM). On the demand side, PJM is the largest power pool in the world, covering 13 states including Ohio, Pennsylvania, New Jersey, and others. Power generation in PJM accounts for 20% of total generation in the U.S.

In total, BCPG will spend THB18.2 billion in acquiring stakes in the four CCGT power plants, adding up total equity capacity of 857 MW to BCPG’s power portfolio.

PJM is a well-established market. Since half of power generations in PJM is contributed by gas-fired power plants, electricity prices are highly influenced by gas fired power plants. Based on the available data, the efficiency of BCPG’s CCGT power plants indicates the plants’ competitiveness in PJM, which should enable them to gain power dispatch.

However, all four CCGT power plants must contend with other generators in PJM by offering competitive prices to gain dispatch orders. Hence, the plants are vulnerable to volatile power and capacity prices in PJM. Revenue streams are more fluctuating, compared with those generators holding long-term power purchase agreements (PPAs). In addition, we also view the return from the CCGT investments is likely to lower than green-field projects.

Sizable investment in non-power business

BCPG has spent THB9 billion in the takeover of Asia Link Terminal Co., Ltd. (ALT). ALT operates an oil terminal and seaport business in Phetchaburi Province. ALT has fuel storage tanks with capacity of 716 million liters and a jetty with five sea berths. Currently, all of ALT's storage tanks are fully occupied under rental agreements of 3 to 11 years, which half of occupied capacity is rent by BCP. In our view, BCPG will benefit from the predictability of earnings from a long-term fixed revenue scheme and a high barrier to entry. We expect ALT to render THB0.7-THB0.8 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) per year. In addition, the oil terminal business would make BCPG more integral to BCP's core refinery business. On the opposite end, we view the sizable amount of investment will curtail BCPG's financial capacity for the expansion in environmental-friendly power generation.

A well-diversified power portfolio

As of July 2023, BCPG owns 34 operating power projects and a cluster of solar rooftop projects, with a total installed capacity in proportion to BCPG's ownership stakes of 1,048 MW. This capacity comprises a mix of energy sources: solar (32%), hydropower (11%), wind (2%), and gas (55%). BCPG's operating power plants are located in five countries, comprising the U.S. (55%), Thailand (23%), Japan (10%), the Lao People's Democratic Republic (Lao PDR) (11%), and the Philippines (1%). We view BCPG's diversification strategy will mitigate risks related to the invested countries and reliability of energy sources.

Reliable earnings backed by long-term PPAs

BCPG's stable earnings are supported by its long-term PPAs with credible power purchasers, and satisfactory performances of its power assets. Most of BCPG's power plants (455 MW) hold multi-year PPAs with state-owned power utilities or regional utilities in the host countries.

Solar power continues to contribute the bulk of BCPG's earnings, representing about 50%-60% of total EBITDA. Solar power has proven to yield a predictable output due to less varied energy sources and relatively low operation risks. BCPG's solar power projects have consistently performed at high efficiency. However, earnings from a large pool of Thailand-based solar farms (189 MW) have been on downtrend since 2022, due to the gradual phase-out of adders. In response, BCPG has been seeking opportunities in other markets.

We view that BCPG's efforts in securing new projects to offset the high earnings tends to be more challenging. Across the power industry, we view the intensified competition have put increasing downward pressure on earnings. The prospect of high-profit projects looks limited.

Capacity on a growth path

Apart from the recent large investments, BCPG has a number of developing projects in the pipeline for a combined additional capacity of 777 MW. These include a solar farm in Japan, a wind farm in the Philippines, a sizable wind farm in the Lao PDR, and several solar projects in Taiwan. BCPG is taking part in developing the "Monsoon Project", a 600-MW wind farm. The project is under construction and expect to sell electricity to the Vietnam Electricity (EVN) by the end of 2025. Proportionate to BCPG's 48.25% stake, the project will add about 290 MW to BCPG's power portfolio. Added to that, BCPG is developing several solar projects in Taiwan, which could add 469 MW in the years ahead. Of the planned capacity of 469 MW, 58 MW is in the process of securing PPA and construction stage while the remaining 411 MW is in the land procurement stage.

We hold our view that BCPG's future earnings largely depend on the successful execution of projects under development. A range of execution risks remain, including the risks of construction, delay in obtaining approval of necessary permits, project cost overrun, changes in regulations, etc.

Prospects of higher earnings

In our forecast, we assume that BCPG's power plants will continue to deliver satisfactory performance and to render returns as planned. We forecast BCPG's revenue to shrink to THB4.9 billion in 2023, from THB5.4 billion in 2022, resulting from the shutdown of its hydropower plants for the change of off-taker from Electricite du Laos (EDL) to EVN. BCPG's revenue will climb to range THB5.2-THB5.4 billion per year during 2024-2026. We project BCPG to arrive at THB3.8 billion in EBITDA in 2023. EBITDA is projected to steadily rise to reach THB5 billion per year by 2026.

Headwinds from surging debt

In total, we expect BCPG to spend THB39.2 billion for capital expenditures and investments during 2023-2026, with a large portion to be materialized in 2023. In our base-case projection, we assume BCPG to raise debt to support its growth strategy. Given BCPG's huge investment plan, we expect BCPG to drain its cash on hands and incur sizable additional debt. We estimate BCPG's adjusted net debt to soar from THB5.1 billion as of 2022 to hover around THB36-THB39 billion in 2023-2026. The debt to EBITDA ratio is projected to surge from 1.2 times in 2022 to peak at 9.6 times in 2023. The ratio will likely remain high at about 7-8 times during 2024-2026. The funds from operations (FFO) to debt ratio is projected to be in the

range 7%-10% and the debt to capitalization ratio to stay in the 51%-56% range over 2023-2026. We view BCPG's elevated financial leverage reduces its headroom to expand in new power projects. There is also possibility that that BCPG may consider divesting parts of its existing power assets as an option to reduce debt load over the course of enlarging its portfolio.

Adequate liquidity

We assess BCPG as having adequate liquidity over the next 12 months. As of June 2023, the company had a substantial amount of cash on hand of about THB17.7 billion, as well as unused credit facilities (committed and uncommitted) of about THB13.3 billion, granted by banks and related companies. We forecast BCPG to generate FFO of about THB2.8 billion over the next 12 months. Meanwhile, BCPG has long-term debts coming due of merely of THB2.6 billion. We expect BCPG's cash on hand will decline considerably as the company progresses with its investment plan. Given its accessibility to capital and credit markets, we expect BCPG will be able to properly manage its liquidity during the expansion phase.

Debt structure

As of June 2023, BCPG's consolidated debt, excluding lease liabilities, totaled THB34.5 billion, of which THB10.7 billion was priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 31%.

A core subsidiary of BCP

We expect BCPG to remain a core subsidiary of BCP as we view the company is essentially integral to BCP's carbon neutrality target. We expect BCPG will continue its critical role in Bangkokchak Group's strategies in diversifying and expanding into steady-income business, as well as promoting sustainability. Added to that, we expect BCPG will contribute most stable EBITDA to BCP. With its stable cash flow, the company considerably helps offset the high volatility in BCP's refining business.

BASE-CASE ASSUMPTIONS

- In 2023-2026, capacity factor of power plants to be:
 - Thailand solar assets : 14%-16%
 - Japan solar assets : 13%-14%
 - Taiwan solar assets : 16%-17%
 - Hydropower plants in the Lao PDR : 50%.
- Revenues from tank terminal business to be in range of THB0.9-THB1 billion per year.
- Total capital expenditures and investments to be THB39.2 billion in 2023-2026.
- Gross installed capacity to reach 5,880 MW in 2026.
- EBITDA margin of about 78%-91% over 2023-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BCPG's power plants will continue to perform in line of expectations. We also expect BCPG to earn satisfactory returns from the new investments. In addition, we expect BCPG's financial leverage and cash generation against debt obligations will be at the levels in line with our forecasts over the course of its expansion. Moreover, we expect BCPG will remain a core subsidiary of BCP.

RATING SENSITIVITIES

According to TRIS Rating's "Group Rating Methodology", the company rating on BCPG will move in tandem with the company rating on BCP. Therefore, any change in the rating on BCP will result in the same change to the rating on BCPG. In addition, we could lower the company rating on BCPG if we view the company's status within the Bangkokchak Group as having diminished due to factors such as weakening earnings, or lessened role in supporting the group's green business objectives.

An upward revision to BCPG's SACP is limited in the next 12-18 months. However, we could raise the SACP if the company could generate sizable cash flow that materially reduces its financial leverage. Conversely, we could lower the SACP if BCPG's operating performance is considerably below our expectation, or if the company embarks on debt-funded investments that are more aggressive than we expect.

COMPANY OVERVIEW

BCPG was initially a department of BCP in charge of developing and operating the Bangkokchak Group's renewable power business. BCPG was spun off from BCP in 2015 and listed on the Stock Exchange of Thailand (SET) in September 2016. After that, BCPG diversified its portfolio from concentrating on solar power projects in Thailand to solar power projects in Japan, geothermal plants in Indonesia, wind farms in the Philippines and Thailand, and hydropower plants in the Lao PDR. BCPG successfully raised new capital of about THB7.4 billion and earned THB2.1 billion from warrant execution during 2020-2021 to support its investment plans over 2022-2025. In March 2022, BCPG sold all investment in geothermal plants in Indonesia.

In February 2023, BCPG invested in two CCGT power plants in Ohio state through BCPG USA Inc., a wholly-owned subsidiary of BCPG. BCPG spent around THB4 billion to purchase 7.6% shares in South Field Energy LLC (SFE) and 8.7% shares in Carroll County Energy LLC (CCE). Currently, BCPG is investing additional 40% in CCE, with the investment cost of THB5 billion. The transaction is expected to complete in 2023 and adding up capacity of 431 MW.

In April 2023, BCPG spent around THB8.9 billion to purchase 25% shares in Hamilton Holdings II LLC (Hamilton). Hamilton owns Hamilton Liberty LLC (Liberty), an 848 MW gas-fired power plant, and Hamilton Patriot LLC (Patriot), an 857 MW gas-fired power plant. This transaction added 426 MW into BCPG's power portfolio.

In May 2023, BCPG completed the acquisition of all shares in Asia Link Terminal Company Limited (ALT) with the investment cost of THB9 billion. BCPG also increased its stakes in the Monsoon Project to 48.25%, from 38.25%.

As of July 2023, BCP held a 57.2% shareholding in BCPG. BCP has control over BCPG's business strategies and financial policies through the company's board of directors, investment committee, and top management.

KEY OPERATING PERFORMANCE

Table 1: BCPG's Portfolio (As of July 2023)

Project	Country	Installed Capacity (MW)	Equity Capacity (MW)	PPAs Tenor (Years)	Tariff Scheme
Operating Projects		4,082.3	1,047.9		
1. Solar farms	Thailand	187.0	187.0	5 years and automatic renew 5 years	Base tariff (Plus adder in first 10 years)
2. Solar farms	Thailand	25.9	25.9	25 years	Fixed feed-in tariff
3. Solar (Private PPA)	Thailand	18.5	15.7	Up to 25 years	Base tariff (with discount)
4. Wind farm	Thailand	10.0	10.0	5 years and automatic renew 5 years	Base tariff (Plus adder in first 10 years)
5. Solar farms	Japan	103.8	103.8	20 years	Fixed feed-in tariff
6. Hydropower	Lao PDR	114.0	114.0	27 years	Fixed feed-in tariff
7. Wind farm	Philippines	36.0	14.4	20 years	Fixed feed-in tariff
8. CCGT	U.S.	3,587.0	577.0	n.a.	Day-ahead bidding
Developing Projects		1,797.9	1,059.5		
1. Solar (Private PPA)	Thailand	2.6	2.2	Up to 25 years	Base tariff (with discount)
2. Solar farm	Japan	13.0	13.0	20 years	Fixed feed-in tariff
3. Wind farm	Lao PDR	600.0	290.0	25 years	Fixed feed-in tariff
4. Solar farms/rooftop	Taiwan	469.0	469.0	25 years	Fixed feed-in tariff
5. Wind farm	Philippines	13.3	5.3	20 years	Fixed feed-in tariff
6. CCGT	U.S.	700.0	280.0	n.a.	Day-ahead bidding
Total		5,880.1	2,107.4		

Source: BCPG

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

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,156	5,421	4,692	4,241	3,441
Earnings before interest and taxes (EBIT)	1,106	2,704	3,110	2,777	2,372
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,901	4,079	3,791	4,490	2,782
Funds from operations (FFO)	1,259	2,548	2,801	3,644	2,201
Adjusted interest expense	477	882	895	820	579
Capital expenditures	419	1,912	3,349	1,141	1,307
Total assets	67,309	56,160	58,721	51,220	37,137
Adjusted debt	17,899	5,055	18,513	16,005	18,698
Adjusted equity	30,008	29,276	27,228	22,549	15,555
Adjusted Ratios					
EBITDA margin (%)	88.20	75.24	80.80	105.86	80.86
Pretax return on permanent capital (%)	4.36 **	4.84	5.83	6.51	7.12
EBITDA interest coverage (times)	3.98	4.63	4.23	5.48	4.80
Debt to EBITDA (times)	4.24 **	1.24	4.88	3.56	6.72
FFO to debt (%)	16.35 **	50.40	15.13	22.77	11.77
Debt to capitalization (%)	37.36	14.73	40.47	41.51	54.59

* Consolidated financial statements

** Annualized 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

BCPG PLC (BCPG)

Company Rating:	A
Issue Ratings:	
BCPG249A: THB2,000 million senior unsecured debentures due 2024	A
BCPG256A: THB1,146.70 million senior unsecured debentures due 2025	A
BCPG266A: THB1,612.50 million senior unsecured debentures due 2026	A
BCPG269A: THB1,000 million senior unsecured debentures due 2026	A
BCPG276A: THB2,253.40 million senior unsecured debentures due 2027	A
BCPG289A: THB1,000 million senior unsecured debentures due 2028	A
BCPG319A: THB4,000 million senior unsecured debentures due 2031	A
BCPG326A: THB353.60 million senior unsecured debentures due 2032	A
BCPG339A: THB4,000 million senior unsecured debentures due 2033	A
BCPG356A: THB2,825 million senior unsecured debentures due 2035	A
Rating Outlook:	Stable

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