

BCPG PLC

No. 59/2022
19 April 2022

CORPORATES

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

Last Review Date: 08/09/21

Company Rating History:

Date	Rating	Outlook/Alert
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 outstanding senior unsecured debentures at “A-” with a “stable” outlook. The ratings are reflective of BCPG’s stable earnings and its well-diversified power portfolio. Contrarily, the ratings are held back by execution risks associated with projects under development and expected surge in financial leverage in supporting its growth strategies.

KEY RATING CONSIDERATIONS

A core subsidiary of BCP

We hold our view that BCPG is a core subsidiary of Bangchak Corporation PLC (BCP), led by its strategically important role and meaningful earnings contribution to the Bangchak Group. The company rating on BCPG incorporates a one-notch uplift from BCPG’s stand-alone credit profile (“bbb+”) to the same level as the rating on BCP.

BCP currently holds 57.5% shares in BCPG, having control over BCPG’s business strategies and financial policies through the company’s board of directors, investment committee, and top management.

BCPG is the renewable energy business arm of BCP. We expect BCPG will continue its critical role in Bangchak Group’s strategies in strengthening non-oil businesses. We expect BCPG will contribute about 25%-30% of the group’s earnings before interest, taxes, depreciation, and amortization (EBITDA). With its stable cash flow, the company considerably helps offset the high volatility in BCP’s refining business. Furthermore, we view BCPG will be instrumental in materializing the group’s net-zero commitments.

A well-diversified power portfolio

Currently, BCPG owns more than 30 operating renewable projects, with a combined capacity in proportion to BCPG’s ownership stakes of 390 megawatts (MW). This capacity comprises a mix of energy sources: solar (65%), hydropower (29%), and wind (6%).

BCPG’s operating power plants are located in four countries, comprising Thailand (47%), Japan (20%), the Lao PDR (29%), and the Philippines (4%). We view BCPG’s diversification strategy will mitigate risks related to the invested countries and reliability of energy sources.

Reliability of earnings

BCPG’s stable earnings are supported by its long-term power purchase agreements (PPAs) with reputable power purchasers, and satisfactory performances of its power assets. Most of BCPG’s power plants (228 MW) hold multi-year PPAs with the state-owned power utilities or regional utilities in the host countries.

Solar power remains the centerpiece of BCPG’s earnings, making up about 70% of total EBITDA. Solar power has proven to yield a predictable output due to less varied energy sources and relatively low operation risks. On the whole, BCPG’s solar power projects have consistently performed at high efficiency since the onset.

Pressure from adder expiration mitigated

Among BCPG's operating projects, a pool of solar power in Thailand (133 MW) has contributed significant earnings. These solar farms receive adder of THB8 per kilowatt-hour (kWh) for the first 10 years. Revenue from adder is about THB2 billion a year. We expect a gradual decline in the earnings from 2022 onwards when adder is phasing out. Revenue from adder will tumble in 2024 and completely end in 2025. In response, BCPG has acquired two hydropower projects in the Lao PDR (114 MW) and commenced operation of three solar farms (65 MW) in Japan. We expect these projects will bring in THB1.6-THB1.8 billion in EBITDA per year when fully onstream.

Growth strategy continued

BCPG is adding new capacity of 719 MW in the years ahead, including sizable wind farms in the Lao PDR and solar projects in Taiwan. BCPG is currently taking part in developing the "Monsoon" project, the first-ever wind power project in the Lao PDR. The project carries 600-MW capacity and will sell electricity to the Vietnam Electricity (EVN). The Monsoon project is slated to start construction in 2022 and commence operation by the end of 2025. Proportionate to BCPG's 38% stake, the project will add about 230 MW to BCPG's power portfolio. Furthermore, BCPG is developing several solar projects in Taiwan, which gradually add 469 MW during 2022-2025.

Rising exposures in overseas

We hold our view that the domestic power market has become more challenging. Competition has mounted in recent years. While demand for power has tended to grow modestly due to the pandemic-induced slowdown, the country is currently saddled with excessive capacity reserve. We expect BCPG will continue to look for growth in overseas. With BCPG's committed projects that are predominantly overseas, total operating capacity will gradually increase to 1,108 MW in the years ahead. Of the total, power projects in Thailand will represent less than 20%.

Hefty investments ahead

In addition to the committed projects, BCPG sets aside budget totaling THB17 billion for acquisitions of operating renewable projects in 2022. This will help BCPG expedite its growth strategy as the targeted projects will have immediate impacts on cash generation.

BCPG is also expanding into power transmission and substation business. The company has recently invested in a cross-border transmission line by acquiring a 25% interest in Nam Tai Hydropower Sole Co., Ltd. BCPG will pay for this transaction by transferring its account receivable with Electricite du Laos (EDL) to the seller, for a total amount of USD34 million. In return, BCPG will receive 50% of economic rights in the transmission system which will facilitate sales of electricity from the Lao PDR to Vietnam. The transaction will also facilitate BCPG's plan to shift the off-taker of the two hydropower plants, "Nam San 3A" and "Nam San 3B", from EDL to EVN.

In all, we project BCPG to spend about THB60 billion for capital expenditures and other investments covering 2022-2025. To avert overleveraging, BCPG recently sold its entire interest in geothermal projects in Indonesia. BCPG received THB14.5 billion in cash and would recognize profit from the divestment for THB1.6 billion. The divestment enhances BCPG's investment capacity for the projects in pipeline.

Execution risks of projects under development

BCPG's future earnings largely hinge on the success of the project executions. The company is exposed to a range of execution risks associated with the projects under development, particularly delays in construction of the transmission line and the greenfield wind farm. A wind farm development typically entails relatively high construction risks, given the high requirement of plant design and construction. A significant delay in the construction and cost overrun could cause serious impact on project viability.

In addition, BCPG's investments in hydropower and the large-scale wind farm will expose the company to higher resource risks than the solar power. Hydropower production depends primarily on water availability, which can vary significantly from year to year. At the same time, wind power plants entail higher operational risks, particularly mechanical and electrical breakdowns. In addition, the success of a wind power project depends on the availability and speed of wind.

Earnings and leverage on uptrend

In our base-case projection, we assume that BCPG could achieve the developments of projects and acquisition as planned. BCPG's power plants will likely continue to deliver satisfactory performance. We forecast BCPG's revenue to jump to the range of THB5.9-THB9.3 billion per year during 2022-2025, up from THB4.7 billion in 2021. EBITDA will likely increase to be around THB4.6-THB7.1 billion per year over the same period. The debt to EBITDA ratio is forecast to rise above 8 times in 2023-2024 and drop to about 7.5 times in 2025. We forecast the debt to capitalization ratio will stay in the 51%-62% range in 2022-2025, up from 41% as of 2021.

Sufficient liquidity

As of December 2021, the company had cash on hand of about THB11.2 billion and unused credit facilities (committed and uncommitted) of about THB1.2 billion. We forecast BCPG to generate funds from operations (FFO) of about THB3 billion in 2022. The cash on hand, unused credit facilities and expected FFO have ample headroom to cover long-term debt coming due of about THB4.4 billion in 2022.

Debt structure

As of December 2021, BCPG's consolidated debt totaled THB29.6 billion, of which THB7.7 billion was priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 26%.

BASE-CASE ASSUMPTIONS

- Capacity factor of power plants to be:
 - Thai solar assets : 16%-17%
 - Japan solar farms : 12%-13%
 - Hydropower plants in the Lao PDR : 48%-50%.
- Dividend income from investment in wind farm in the Philippines of about THB38-THB116 million per year over 2022-2025.
- Total capital expenditures and investments to be THB27.5 billion in 2022 and THB32.7 billion in 2023-2025.
- Estimated enterprise value to EBITDA ratio of about 9-11 times for potential assets to be acquired in 2022.
- EBITDA margin of about 76%-78% over 2022-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BCPG will maintain its satisfactory operating performance. We also expect BCPG will complete the construction and development of projects as planned. In addition, we expect BCPG's financial leverage and cash flow against debt obligations will be at the levels in line with our forecasts over the course of its expansion.

RATING SENSITIVITIES

A credit upside would develop if the company could raise its cash generation that materially reduces its financial leverage. Conversely, the rating and/or outlook could be revised downward if BCPG's operating performance significantly falls short of our expectation, or the financial profile deteriorates considerably due to a deluge of debt-funded investments.

According to TRIS Rating's "Group Rating Methodology", BCPG's rating will move in tandem with BCP's rating. Hence, any change in BCP's rating will result in the same change to the rating on BCPG. In addition, BCPG's rating could change if in our view, there is change in BCPG's status to the Bangchak Group to a weaker level.

COMPANY OVERVIEW

BCPG was initially a department of BCP in charge of developing and operating the BCP Group's renewable power business. BCPG was spun off from BCP in 2015 and listed on the Stock Exchange of Thailand 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. In November 2020, BCPG successfully raised new capital of about THB7.4 billion and THB2.1 billion from warrant execution in 2021 to support its investment plans over 2022-2025. In March 2022, BCPG sold all investment in geothermal plants in Indonesia.

As of March 2022, BCP held a 57.45% shareholding in BCPG. BCPG has investments in four countries in Asia. BCPG's power portfolio holds a total contracted capacity of about 344.6 MW. Currently, BCPG is developing a wind farm in the Lao PDR which will export electricity to Vietnam. BCPG also plan to expand into solar power projects in Taiwan.

KEY OPERATING PERFORMANCE

Table 1: BCPG's Portfolio (As of 18 April 2022)

Project	Country	Installed Capacity (MW)	Contracted Capacity (MW)	PPAs Tenor (Years)	Tariff Scheme
Operating Projects		471.1	389.6		
1. Solar Farms	Thailand	188.9	133.0	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 Floating and Rooftop	Thailand	13.6	13.6	Up to 25 years and automatic renew 5 years	Base Tariff (With discount)
4. Wind Farm	Thailand	10.0	9.0	5 years and automatic renew 5 years	Base Tariff (Plus Adder in first 10 years)
5. Solar Farms	Japan	104.3	79.7	20 years	Fixed Feed-in-Tariff
6. Hydro Power	Lao	114.0	114.0	27 years	Fixed Feed-in-Tariff
7. Wind Farm	Philippines	14.4	14.4	20 years	Fixed Feed-in-Tariff
Developing Projects		721.8	718.8		
1. Solar Rooftop	Thailand	4.2	4.2	Up to 25 years and automatic renew 5 years	Base Tariff (With discount)
2. Solar Farms	Japan	13.0	10.0	20 years	Fixed Feed-in-Tariff
3. Wind Farms	Lao	230.0	230.0	25 years	Fixed Feed-in-Tariff
4. Solar Farms/Rooftop	Taiwan	469.0	469.0	25 years	Fixed Feed-in-Tariff
5. Wind Farms	Philippines	5.6	5.6	20 years	Fixed Feed-in-Tariff
Total		1,192.9	1,108.4		

Source: BCPG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	Year Ended 31 December				
	2021	2020	2019	2018	2017
Total operating revenues	4,692	4,241	3,441	3,432	3,484
Earnings before interest and taxes (EBIT)	3,019	2,764	2,372	2,059	2,176
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,700	4,477	2,782	2,549	2,371
Funds from operations (FFO)	2,710	3,631	2,201	1,922	1,919
Adjusted interest expense	895	820	579	527	439
Capital expenditures	3,349	1,141	1,307	1,499	899
Total assets	58,721	51,220	37,137	31,558	31,857
Adjusted debt	18,513	16,005	18,698	13,352	15,151
Adjusted equity	27,228	22,549	15,555	15,142	14,127
Adjusted Ratios					
EBITDA margin (%)	78.86	105.55	80.86	74.26	68.06
Pretax return on permanent capital (%)	5.66	6.47	7.12	6.62	7.91
EBITDA interest coverage (times)	4.13	5.46	4.80	4.83	5.40
Debt to EBITDA (times)	5.00	3.57	6.72	5.24	6.39
FFO to debt (%)	14.64	22.69	11.77	14.40	12.67
Debt to capitalization (%)	40.47	41.51	54.59	46.86	51.75

* Consolidated Financial Statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

BCPG PLC (BCPG)

Company Rating:	A-
Issue Ratings:	
BCPG249A: THB2,000 million senior unsecured debentures due 2024	A-
BCPG269A: THB1,000 million senior unsecured debentures due 2026	A-
BCPG289A: THB1,000 million senior unsecured debentures due 2028	A-
BCPG319A: THB4,000 million senior unsecured debentures due 2031	A-
BCPG339A: THB4,000 million senior unsecured debentures due 2033	A-
Rating Outlook:	Stable

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