

B.GRIMM BIP POWER 1 LTD.

No. 75/2023
28 April 2023

CORPORATES

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

Last Review Date: 29/04/22

Company Rating History:

Date	Rating	Outlook/Alert
25/04/18	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on B.Grimm BIP Power 1 Ltd. (BIP1) and the rating on its senior unsecured amortizing debentures at “A-” with a “stable” outlook.

The ratings reflect the predictable cash flows of BIP1, backed by a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT), and a solid record of operational efficiency. On the contrary, the ratings are constrained by the risk of reliance on single operating asset.

The company rating on BIP1 incorporates the company’s stand-alone credit profile (SACP) of “a-” and its status as a “strategic” subsidiary of B.Grimm Power PLC (BGRIM, rated “A/stable”).

KEY RATING CONSIDERATIONS

Reliability of earnings backed by PPA with EGAT

BIP1 owns and operates a gas-fired cogeneration power plant, which commenced operation in 2015. The company holds a 25-year PPA with EGAT under the small power producer (SPP) scheme, with a contracted capacity of 90 megawatts (MW).

The PPA, which is on take-or-pay basis, largely mitigates market risk. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. In addition, the PPA contains a formula for tariff adjustments corresponding to changes in fuel prices and exchange rates.

BIP1’s sales to EGAT constitutes about 86%-91% of total sales per annum. The credit quality of EGAT (rated “AAA/stable”) means minimal counterparty risk to BIP1.

Electricity sales to industrial customer

BIP1 also holds a PPA with an industrial customer in Bangkadi Industrial Park (BIP), with contracted capacity of 14 MW. The customer is obliged to purchase a minimum amount of electricity under the agreement.

In selling electricity to industrial users, BIP1 is exposed to fuel price risk in the event of surging gas prices. The company sells electricity at discounts on tariff rates charged by the Provincial Electricity Authority (PEA) to large general service customers. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in the fuel price. However, the Ft adjustment carries a time lag and is subject to the authorities’ discretion on the timing and magnitude of the adjustments. As such, a surge in fuel prices could adversely impact the company’s earnings. Moreover, the sale volume hinges on electricity demand of the customer.

Solid record of operational efficiency

BIP1’s combined-cycle cogeneration plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by GE Power (GE), a leading manufacturer and supplier for power generation in global market. BIP1 has its own operation and maintenance teams for day-to-day operations. BIP1 leverages the expertise of BGRIM. The parent company has extensive expertise in the operation and maintenance of cogeneration power plants. BIP1’s operation has met the targets specified in the PPA since the onset. In 2022, the plant availability factor was 98.9% while the heat rate

was 7,807 British thermal units per kilowatt-hour (BTU/kWh), well below the borderline of 8,000 BTU/kWh as required in the PPA.

In terms of energy efficiency, BIP1’s power plant achieved the primary energy saving (PES) expectation and received an additional tariff of THB0.36 per kilowatt-hour (kWh) from EGAT as a fuel-saving (FS) payment. We consider the risk of performance penalties and PPA termination is very low.

Strong cash generation

Despite the surge in gas prices in 2022, BIP1 delivered satisfactory performance in 2022. BIP1 arrived at THB507 million in earnings before interest, taxes, depreciation, and amortization (EBITDA), a slight 3.8% decrease from THB527 million in 2021. The debt to EBITDA ratio was at 4.1 times.

We expect BIP1’s strong cash generation to continue. In our base-case projection, we assume gas prices to remain high in 2023 and Ft to be adjusted to make up for the hefty subsidy of electricity charges incurred by EGAT. In anticipation of easing demand-supply imbalance, we expect gas prices to steadily normalize from 2024 onwards and Ft will be adjusted accordingly.

In effect, we forecast BIP1 will generate EBITDA of THB500 million in 2023. We project EBITDA will slightly decline to THB480 million in 2024 due to the scheduled major overhaul, before resuming to THB500 million in the following year. We project the debt to EBITDA ratio should steadily decline to below 3 times over the forecast period. Likewise, the ratio of debt to capitalization will further drop and stay below 50% in 2025.

Single operating asset

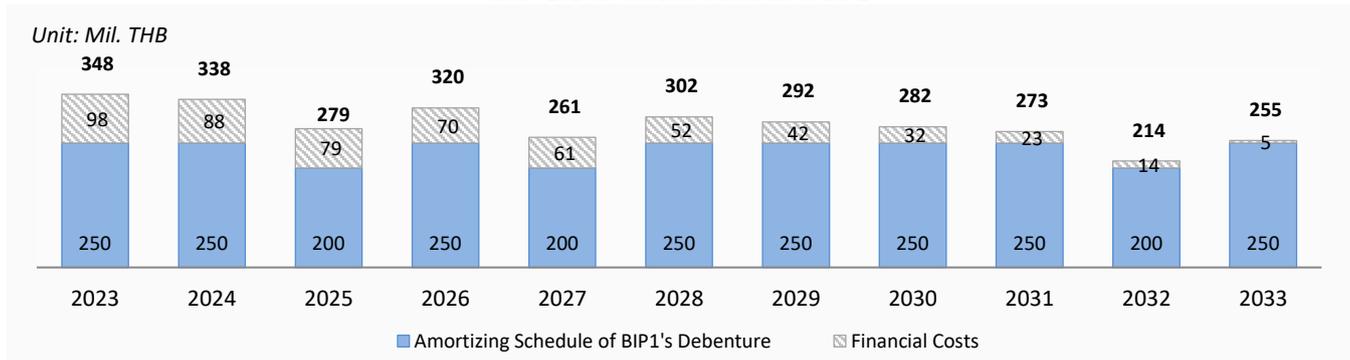
The ratings are constrained by BIP1's single operating asset. BIP1’s business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Given the absence of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. However, we view the likelihood of such scenario is remote, given its solid record of operation.

Adequate debt service capability

We project BIP1 to generate sufficient cash flow to service its debt obligations. In May 2018, BIP1 issued THB3.35 billion worth of senior unsecured amortizing debentures. The proceeds were used to refinance all its outstanding project loans from banks. The debenture amortization schedule is designed to match the expected cash flows according to the PPA.

As of December 2022, BIP1 had cash on hand and cash equivalents of THB609 million. The available cash and cash equivalents combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB279-THB348 million per year during 2023-2025.

Chart 1: Debt Service Schedule of BIP1



Source: TRIS Rating’s estimate

A strategic subsidiary under BGRIM Group

BIP1 is among 20 cogeneration power plants under BGRIM Group. As of December 2022, BIP1’s installed capacity accounted for 5% of total capacity of BGRIM’s gas-fired cogeneration power plants. In terms of cash flow contribution, BIP1’s EBITDA represents approximately 5% of the group’s total EBITDA. Despite its small revenue contribution, we view BIP1 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM’s power portfolio, representing nearly 75% of BGRIM’s total power generation capacity.

BGRIM has two cogeneration power plants in the BIP, including BIP1. We view BIP1 is important to BGRIM in managing overall operating efficiency of the group’s power plants in the BIP. Hence, we expect BIP1 will receive strong parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for BIP1's operations during 2023-2025:

- The plant availability factor to be in the range of 95%-99%.
- PPA with EGAT to be 90 MW and PPA with industrial customer to be 14 MW.
- Annual electricity sales to be 697-708 gigawatts-hour (GWh).
- Capital expenditure to be THB4-THB11 million per year.
- The repayment of amortized debentures to be made according to repayment schedule.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that BIP1 will sustain its strong operational efficiency, while the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The prospect of credit upside for BIP1 is limited. Contrarily, downward revision to the ratings could develop if BIP1's operating performance considerably falls short of our forecast. Negative pressure on the ratings may also arise from a significant deterioration of debt service capability.

According to TRIS Rating's "Group Rating Methodology", any material changes in BGRIM's credit profile or any material change in the linkage between BIP1 and BGRIM could also impact the ratings on BIP1.

COMPANY OVERVIEW

BIP1 was established in 2008 to own and operate a gas-fired combined-cycle cogeneration power plant under the SPP scheme. The plant is located in BIP, Pathum Thani province. The power plant has an installed capacity of 114.6 MW plus 20 tonnes of steam per hour. BIP1 started commercial operation in April 2015. As of December 2022, BIP1's shareholders were BGRIM (74%) and Nikornkij & Son (BIP Group) (26%).

BIP1's combined-cycle cogeneration plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by GE Power (GE), a leading manufacturer and supplier for power generation in global market. The GE-LM6000PD gas turbine made by GE has a proven track record. BIP1's plant is composed of two gas turbine units, two heat recovery steam generators (HRSGs) and one steam turbine. The steam turbine is made by Siemens.

KEY OPERATING PERFORMANCE
Table 1: Plant Performance Statistics of BIP1

Plant Performance	Unit	2018	2019	2020	2021	2022
Net output energy *	GWhe *	693.4	700.6	714.5	718.8	702.1
Plant heat rate	BTU/kWh	7,741	7,771	7,816	7,783	7,807
Primary energy saving factor	%	12.0	11.7	11.4	11.9	11.5
Availability	%	94.6	97.7	98.7	96.8	98.9
Unplanned outage	%	1.7	0.0	0.3	0.0	0.1
Planned outage	%	3.8	2.3	1.0	3.1	1.0

* Net output of electricity and steam (GWh equivalent – GWhe)

Source: BIP1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,344	2,267	2,128	2,241	2,129
Earnings before interest and taxes (EBIT)	321	342	347	355	324
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	507	527	531	537	505
Funds from operations (FFO)	386	404	388	377	278
Adjusted interest expense	120	121	142	158	226
Capital expenditures	21	15	8	6	1
Total assets	4,405	4,596	4,685	4,905	4,976
Adjusted debt	2,056	2,187	2,332	2,566	2,828
Adjusted equity	1,489	1,510	1,470	1,471	1,333
Adjusted Ratios					
EBITDA margin (%)	15.16	23.23	24.94	23.95	23.70
Pretax return on permanent capital (%)	7.52	7.68	7.50	7.49	6.81
EBITDA interest coverage (times)	4.23	4.34	3.75	3.39	2.24
Debt to EBITDA (times)	4.05	4.15	4.39	4.78	5.60
FFO to debt (%)	18.80	18.48	16.65	14.69	9.84
Debt to capitalization (%)	57.99	59.16	61.33	63.57	67.97

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

B.Grimm BIP Power 1 Ltd. (BIP1)

Company Rating:	A-
Issue Rating:	
BIPA335A: THB3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

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