

B. GRIMM BIP POWER 2 LTD.

No. 69/2022
29 April 2022

CORPORATES

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

Last Review Date: 12/04/21

Company Rating History:

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

Contacts:

Narongchai Ponsirichusopol
narongchai@trisrating.com

Tern Thitinuang, CFA
tern@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on B. Grimm BIP Power 2 Ltd. (BIP2) and the rating on its senior unsecured amortizing debentures at “A-” with a “stable” rating outlook. The ratings reflect the highly predictable earnings of BIP2’s, backed by a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT), the commercially proven technology of its cogeneration power plant, and a track record of solid operational performance. Conversely, the ratings are held back by the risk of reliance on single operating asset.

The company rating on BIP2 also takes into consideration its stand-alone credit profile (SACP) of “a-” and status as a “strategic” subsidiary of B. Grimm Power PLC (BGRIM, rated “A/Stable” by TRIS Rating).

KEY RATING CONSIDERATIONS

Reliability of earnings backed by PPA with EGAT

BIP2 owns and operates a gas-fired cogeneration power plant, which commenced commercial run in 2016. The company holds a 25-year PPA with EGAT, covering 90 megawatts (MW), under the Small Power Producer (SPP) scheme.

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. BIP2’s sales to EGAT constitutes about 82%-86% of total sales per annum. The credit quality of EGAT (rated “AAA/Stable” by TRIS Rating) means minimal counterparty risk to BIP2.

The highly predictable earnings are also supported by the capacity payments. In addition, the adverse impact from wild swings of fuel prices and exchange rates is mitigated through the index-based tariff adjustment.

Electricity sales to industrial customers

BIP2 also sells electricity to eight industrial customers in Bangkadi Industrial Park (BIP). The company holds multi-year off-take agreements, covering 24 MW of electricity with eight industrial customers. Each industrial customer is obliged to purchase minimum amount of electricity as agreed in its respective agreement.

BIP2 sells electricity to the industrial customers 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. Therefore, an upsurge in fuel prices could adversely impact the company’s earnings. Moreover, the sale volume hinges on electricity demand, which is driven by industrial activity levels.

Proven technology of cogeneration power plant

BIP2’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. GE has made and sold more than 1,000 turbines, logging more than

two million operating hours. BIP2’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.

Record of solid performance

BIP2 has its own operation and maintenance teams for day-to-day operations. BIP2 leverages the expertise of BGRIM. The parent company has extensive expertise in the operation and maintenance of cogeneration power plants. BIP2’s operation has met the targets specified in the PPA since the onset. In 2021, the plant availability factor was 98.3% while the heat rate was 7,785 British thermal units per kilowatt-hour (BTU/kWh), below the borderline of 7,950 BTU/kWh as required in the PPA.

In terms of energy efficiency, BIP2’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.

Pressure from soaring gas prices

BIP2 has delivered stable revenue and earnings over the past several years. However, we expect the steep rise in gas prices will cause significant impact on BIP2’s earnings in 2022. Driven by a strong revival of demand and the ongoing Russia-Ukraine conflict, gas prices continued to rise from the last quarter of 2021 to hit record high of above THB400 per metric million British thermal unit (MMBTU) in the first quarter of 2022. In our base-case projection, we assume gas prices to remain high in 2022 and gradually decline to ordinary levels from 2023 onwards. Although we expect an escalation of Ft in our forecast, the adjustment is unlikely to match the surge in gas prices.

We project BIP2’s earnings before interest, taxes, depreciation, and amortization (EBITDA) to tumble to THB430 million in 2022, from THB636 million in 2021. We forecast the company’s debt to EBITDA ratio to jump to about 5 times in 2022 from 3.5 times in the prior year. However, based on our assumption of a gradual normalization of gas prices, we forecast BIP2’s EBITDA will rebound to range at THB530-THB600 million per year during 2023-2025. The debt to EBITDA ratio will likely decline to stay at 3 times over the same period.

Single operating asset

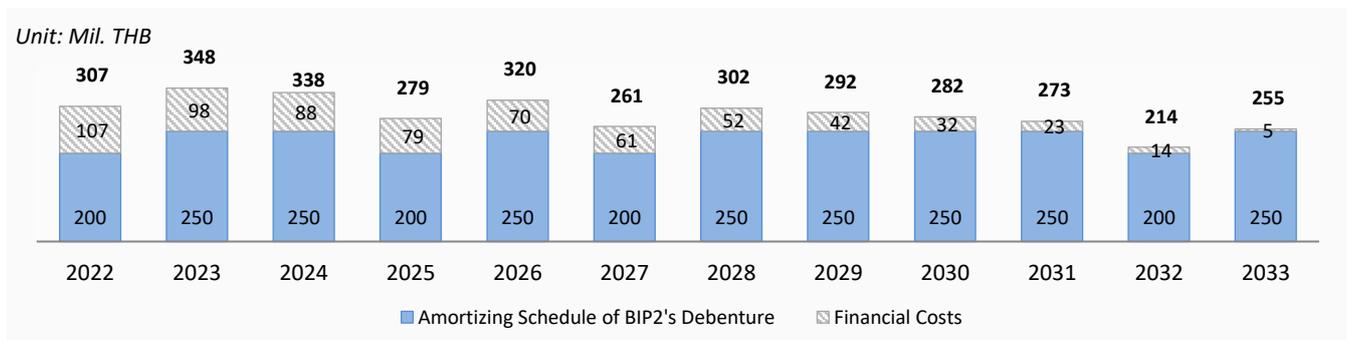
The rating is constrained by BIP2's single operating asset. BIP2’s business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Due to the lack of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damages to key parts of machinery. That said, we view the likelihood of such scenario is remote, given its proven track record of operation.

Adequate debt service capability

We project BIP2 to generate sufficient cash flow to service its debt obligations. In May 2018, BIP2 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 2021, BIP2 had cash on hand and cash equivalents of THB638 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 in 2022-2025.

Chart 1: Debt Service Schedule of BIP2



Source: TRIS Rating’s estimate

A strategic subsidiary under BGRIM Group

BIP2 is among 21 cogeneration power plants under BGRIM Group. As of December 2021, BIP2's installed capacity accounted for 5% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, BIP2's EBITDA represents approximately 5% of the group's total EBITDA. Despite its small revenue contribution, we view BIP2 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the key assets of BGRIM's power portfolio, representing nearly 70% of BGRIM's total power generation capacity.

BGRIM has two cogeneration power plants in BIP, including BIP2. We view BIP2 is important to BGRIM in managing overall operating efficiency of the group's power plants in BIP. Hence, we expect BIP2 will receive strong parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS

- During 2022-2025, the plant availability factor to be in the range of 92%-99%.
- PPA with EGAT to be 90 MW and PPAs with industrial customers to be 24 MW.
- Annual electricity sales to be 693-745 gigawatts-hour (GWh).
- Capital expenditure to be THB4-THB24 million per year.
- The repayment of amortized debentures to be made according to repayment schedule.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that BIP2 will sustain its strong operational efficiency, while the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The credit upside for BIP2 is limited over the next 12-18 months. Contrarily, a negative rating pressure could develop if BIP2's operating performance significantly falls short of our forecast. Downward revision to the ratings may also occur in the event of 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 BIP2 and BGRIM could also impact the ratings on BIP2.

COMPANY OVERVIEW

BIP2 was established in 2010 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. BIP2 started commercial operation in January 2016. As of December 2021, BIP2's shareholders were BGRIM (74%), BIP (12%), and Nikornkij & Son (BIP Group) (14%).

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of BIP2

Plant Performance	Unit	2018	2019	2020	2021
Net output energy *	GWhe *	711.7	742.7	717.7	722.1
Plant heat rate	BTU/kWh	7,697	7,731	7,769	7,785
Primary energy saving factor	%	12.3	11.4	11.0	11.1
Availability	%	96.6	99.2	99.0	98.3
Unplanned outage	%	0.4	0.0	0.1	0.2
Planned outage	%	2.9	0.8	0.9	1.5

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

Source: BIP2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	2,437	2,252	2,466	2,307	2,231
Earnings before interest and taxes (EBIT)	442	428	426	432	472
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	636	623	622	627	664
Funds from operations (FFO)	500	452	454	366	456
Adjusted interest expense	134	171	168	261	208
Capital expenditures	14	8	7	13	12
Total assets	4,725	4,827	5,141	5,247	5,606
Adjusted debt	2,222	2,384	2,546	2,782	2,660
Adjusted equity	1,638	1,611	1,710	1,549	1,597
Adjusted Ratios					
EBITDA margin (%)	26.12	27.66	25.21	27.18	29.77
Pretax return on permanent capital (%)	9.64	8.88	8.59	8.59	8.97
EBITDA interest coverage (times)	4.74	3.65	3.71	2.40	3.19
Debt to EBITDA (times)	3.49	3.83	4.09	4.44	4.00
FFO to debt (%)	22.49	18.94	17.84	13.15	17.14
Debt to capitalization (%)	57.56	59.67	59.82	64.24	62.49

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

B. Grimm BIP Power 2 Ltd. (BIP2)

Company Rating:	A-
Issue Rating:	
BIPB335A: THB3,350 million senior unsecured amortizing debentures due in 2033	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria