

B.GRIMM BIP POWER 1 LTD.

No. 73/2024
30 April 2024

CORPORATES

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

Last Review Date: 28/04/23

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) at “A-”. At the same time, TRIS Rating also affirms the rating on BIP1’s senior unsecured amortizing debentures at “A-”. The rating outlook remains “stable”. The company rating on BIP1 incorporates our view of BIP1 as a “strategic” subsidiary of B.Grimm Power PLC (BGRIM, rated “A/Stable”). BIP1’s stand-alone credit profile (SACP) remains at “a-”.

The SACP reflects the reliable earnings, supported by BIP1’s long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable”) and its sound record in the operation of its gas-fired combined-cycle cogeneration power plant. On the other hand, the SACP is primarily constrained by the company’s single asset operation.

KEY RATING CONSIDERATIONS

Reliability of earnings supported by PPA with EGAT

BIP1 owns and operates a gas-fired cogeneration power plant, which started operation in April 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 is on take-or-pay basis, which substantially mitigates market risk. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. BIP1’s sales to EGAT make up around 90% of total sales per annum. The credit quality of EGAT means minimal counterparty risk to BIP1.

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

Electricity sales to industrial customer

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

BIP1 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 extent of the adjustments. Therefore, a hike in fuel prices could take a toll on the company’s earnings. Moreover, the sale volume counts on electricity demand of the customer.

Sound record of operational efficiency

BIP1’s combined-cycle cogeneration plant employs proven technology. The GE-LM6000PD gas turbine made by GE Power (GE) has a proven track record.

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 with EGAT since the onset. In 2023, the plant availability factor was 98.7% while the heat rate was

7,768 British thermal units per kilowatt-hour (BTU/kWh), 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

In 2023, total electricity sales were 701 gigawatt-hours (GWh), a slight 1% decline year-on-year (y-o-y). Earnings before interest, taxes, depreciation, and amortization (EBITDA) came in at THB553 million, a 9% increase from THB507 million a year earlier. The debt to EBITDA ratio fell to 3.4 times, from 4.1 times in 2022.

The improved EBITDA in 2023 was partly attributed to the ease of high gas prices. Additionally, the gap between lagged tariff adjustment and fuel cost increase was lessened. In 2023, the average gas prices decreased to about THB370-THB380 per metric million British thermal unit (MMBTU) from about THB470-THB480 per MMBTU in 2022. Meanwhile, the average Ft was raised to THB0.89 per kWh, up from THB0.4 per kWh in 2022.

In our base-case projection, we assume Ft adjustment to align with changes in gas prices, enabling BIP1 to maintain its profit margin from electricity sales to industrial customers. We also expect BIP1’s plant availability factor to stay between 89%-98%, incorporating its maintenance schedule. We forecast BIP1’s EBITDA to range THB430-THB470 million per year during 2024-2026 and the debt to EBITDA ratio to stay around 3-4 times over the forecast period. The debt to capitalization ratio should gradually reduce to 51% in 2026.

Single asset operation

BIP1's single asset operation continues to constrain the SACP. BIP1’s business risk profile is relatively higher than those of large-scale power companies with numerous power-generating assets. With the lack 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. That said, we view the likelihood of such scenario is remote, given its sound record of operation.

Debt structure

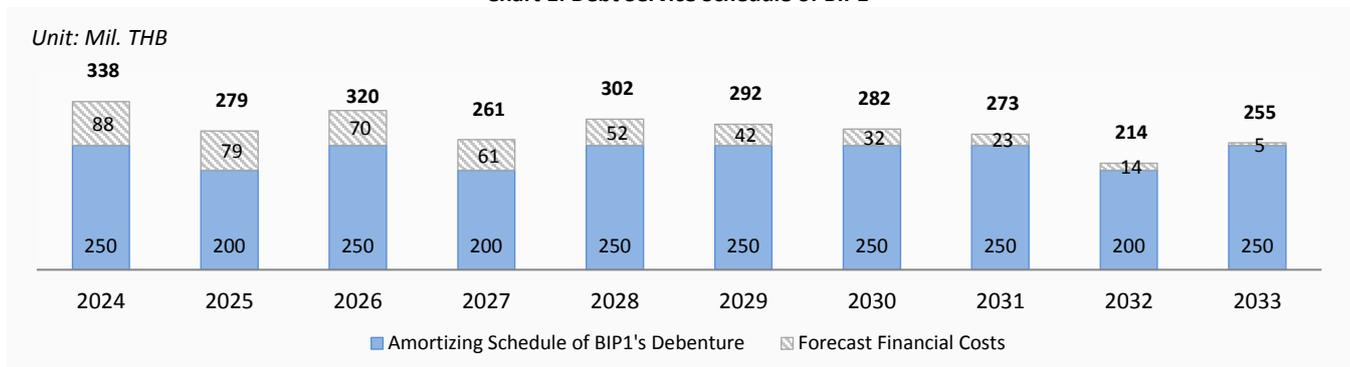
At the end of 2023, BIP1’s total debt was THB2.3 billion, with an absence of priority debt. BIP1’s debt comprised senior unsecured amortizing debentures.

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 2023, BIP1 had THB508 million in cash. The available cash combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB279-THB338 million per year during 2024-2026.

Chart 1: Debt Service Schedule of BIP1



Source: TRIS Rating’s estimate

A strategic subsidiary under BGRIM Group

BIP1 is among 21 cogeneration power plants under BGRIM Group. As of December 2023, BIP1’s installed capacity accounted for 4% of total capacity of BGRIM’s gas-fired cogeneration power plants. In terms of cash flow contribution, BIP1’s EBITDA represents approximately 4% 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 around 73% of BGRIM's total power generation capacity.

BGRIM has two cogeneration power plants in Bangkadi Industrial Park, including BIP1. We view BIP1 is important to BGRIM in managing overall operating efficiency of the group's power plants in the area. With that, we expect BIP1 will obtain parental support in times of distress.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for BIP1's operations during 2024-2026:

- The plant availability factor to be in the range of 89%-98%.
- PPA with EGAT to be 90 MW and PPA with industrial customer to be 14 MW.
- Annual electricity sales to be 634-695 GWh.
- Capital expenditure to be THB20 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 level of the company's earnings against debt will be in line with our forecast. In addition, we expect the linkage between BIP1 and BGRIM to remain intact.

RATING SENSITIVITIES

Any material changes in the credit profile of BGRIM, or the linkage between BIP1 and BGRIM, or the SACP could impact the ratings on BIP 1.

We are unlikely to raise the SACP. On the other hand, downward revision to the SACP could develop if BIP1's operating performance materially falls short of our forecast or we see a significant deterioration in debt service capability.

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 2023, 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	2023	2022	2021	2020	2019
Net output energy *	GWhe *	691.6	702.1	718.8	714.5	700.6
Plant heat rate	BTU/kWh	7,768	7,807	7,783	7,816	7,771
Primary energy saving factor	%	12.0	11.5	11.9	11.4	11.7
Availability	%	98.7	98.9	96.8	98.7	97.7
Unplanned outage	%	0.3	0.1	0.0	0.3	0.0
Planned outage	%	0.9	1.0	3.1	1.0	2.3

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

Source: BIP1

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	2,846	3,344	2,267	2,128	2,241
Earnings before interest and taxes (EBIT)	367	321	342	347	355
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	553	507	527	531	537
Funds from operations (FFO)	403	386	404	388	377
Adjusted interest expense	112	120	121	142	158
Capital expenditures	2	21	15	8	6
Total assets	4,047	4,405	4,596	4,685	4,905
Adjusted debt	1,907	2,056	2,187	2,332	2,566
Adjusted equity	1,391	1,489	1,510	1,470	1,471
Adjusted Ratios					
EBITDA margin (%)	19.4	15.2	23.2	24.9	23.9
Pretax return on permanent capital (%)	9.2	7.5	7.7	7.5	7.5
EBITDA interest coverage (times)	4.9	4.2	4.3	3.7	3.4
Debt to EBITDA (times)	3.4	4.1	4.2	4.4	4.8
FFO to debt (%)	21.1	18.8	18.5	16.6	14.7
Debt to capitalization (%)	57.8	58.0	59.2	61.3	63.6

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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