

B.GRIMM BIP POWER 2 LTD.

No. 74/2024
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

Contacts:

Narongchai Ponsirichusopol
narongchai@trisrating.com

Rapeepol Mahapant
rapeepol@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) at “A-”. At the same time, TRIS Rating also affirms the rating on BIP2’s senior unsecured amortizing debentures at “A-”. The rating outlook remains “stable”. The company rating on BIP2 incorporates our assessment of BIP2 as a “strategic” subsidiary of B.Grimm Power PLC (BGRIM, rated “A/Stable”). BIP2’s stand-alone credit profile (SACP) remains at “a-”.

The SACP reflects the company’s predictable cash flows from a 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. However, the SACP is constrained by the company’s single asset operation.

KEY RATING CONSIDERATIONS

Predictable earnings underpinned by PPA with EGAT

BIP2 owns and operates a gas-fired cogeneration power plant, which commenced operation in January 2016. 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 considerably 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 ranges between 82%-86% of total sales per annum. The credit quality of EGAT means minimal counterparty risk to BIP2.

The predictable cash flows are also supported by the capacity payments. In addition, the adverse impact from fluctuation in 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. The company holds multi-year off-take agreements, covering 24 MW of electricity with eight industrial customers. Each industrial customer is obliged to purchase a minimum amount of electricity under the respective agreements.

BIP2 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. As a result, a hike in fuel prices could drag the company’s earnings. Moreover, the sale volume is reliant on electricity demand of the customers, which is driven by industrial activity levels.

Sound record of operational efficiency

BIP2’s combined-cycle cogeneration plant employs 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 company has its own operation and maintenance teams for day-to-day operations. The teams leverage BGRIM’s expertise in the operation and maintenance of cogeneration power plants. BIP2’s operation

has met the targets specified in the PPA with EGAT since the onset. In 2023, the plant availability factor was 95.5% while the heat rate was 7,725 British thermal units per kilowatt-hour (BTU/kWh), better than 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.

Revival of earnings

In 2023, total electricity sales were 744 gigawatt-hours (GWh), a slight 1% decline year-on-year (y-o-y). Earnings before interest, taxes, depreciation, and amortization (EBITDA) soared to THB725 million, marking a 22% increase from THB592 million a year earlier. The debt to EBITDA ratio fell to 2.7 times, from 3.5 times in 2022.

The substantially improved EBITDA in 2023 was partly attributed to the ease of high gas prices. In addition, the gap between lagged tariff adjustment and fuel cost increase was lessened. In 2023, 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, from THB0.4 per kWh in 2022.

Strong cash generation

Looking forward, we expect BIP2’s strong cash generation to continue, given our assumption that Ft adjustment will align with changes in gas prices. As a result, BIP2 should maintain its profit margin from electricity sales to industrial customers. We also expect BIP2’s plant availability factor to stay at around 91%-98%, incorporating the company’s scheduled maintenance.

We forecast BIP2’s EBITDA to range THB555-THB608 million per year during 2024-2026. The debt to EBITDA ratio is forecast to hover around 2.5-3 times over the forecast period. The debt to capitalization ratio should reduce to below 50% by 2026.

Single asset operation

BIP2’s single asset operation continues to constrain the SACP. BIP2’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

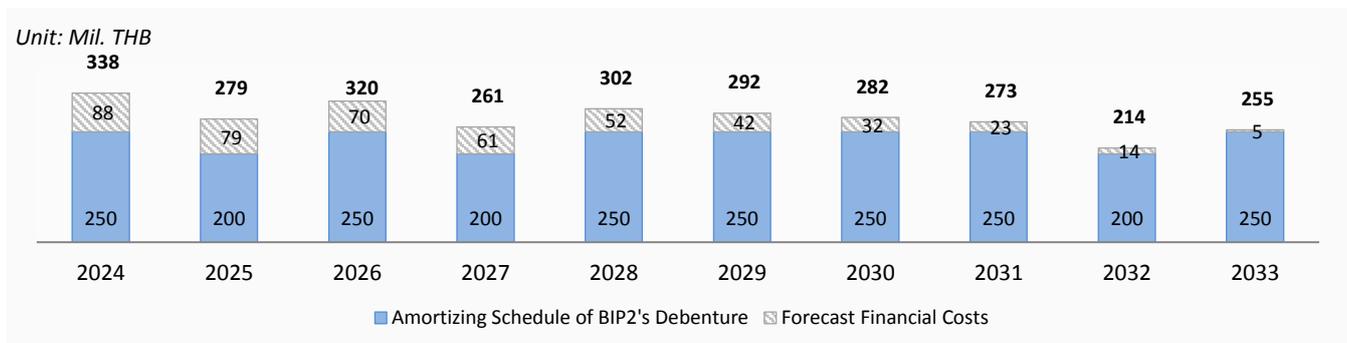
At the end of 2023, BIP2’s total debt was THB2.3 billion, with an absence of priority debt. BIP2’s debt comprised senior unsecured amortizing debentures.

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 2023, BIP2 had cash of THB443 million. The available cash combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB279-THB338 million per year in 2024-2026.

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 2023, BIP2's installed capacity accounted for 4% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash contribution, BIP2's EBITDA represents approximately 4% of the group's total EBITDA. Despite its slight revenue contribution, we view BIP2 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the core of BGRIM's power portfolio, representing about 73% of BGRIM's total power generation capacity.

BGRIM has two cogeneration power plants in Bangkadi Industrial Park, including BIP2. We view BIP2 is important to BGRIM in managing overall operating efficiency of the group's power plants in the area. Hence, we expect BIP2 will obtain parental support in times of distress.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for BIP2's operations during 2024-2026:

- The plant availability factor to be in the range of 91%-98%.
- PPA with EGAT to be 90 MW and PPAs with industrial customers to be 24 MW.
- Annual electricity sales to be 708-763 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 BIP2 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 BIP2 and BGRIM to remain intact.

RATING SENSITIVITIES

Any material changes in the credit profile of BGRIM, or the linkage between BIP2 and BGRIM, or the SACP could impact the ratings on BIP2.

We are unlikely to revise the SACP upward. Contrarily, we could lower the SACP if BIP2's operating performance materially falls short of our forecast or we see a significant deterioration in debt service capability.

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 2023, BIP2's shareholders were BGRIM (74%) and Nikornkij & Son (BIP Group) (26%).

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. 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.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of BIP2

Plant Performance	Unit	2023	2022	2021	2020	2019
Net output energy *	GWhe *	731.0	733.9	722.1	717.7	742.7
Plant heat rate	BTU/kWh	7,725	7,686	7,785	7,769	7,731
Primary energy saving factor	%	11.4	11.9	11.1	11.0	11.4
Availability	%	95.5	95.9	98.3	99.0	99.2
Unplanned outage	%	3.3	1.2	0.2	0.1	0.0
Planned outage	%	1.2	2.9	1.5	0.9	0.8

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

Source: BIP2

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	3,086	3,545	2,437	2,252	2,466
Earnings before interest and taxes (EBIT)	529	397	442	428	426
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	725	592	636	623	622
Funds from operations (FFO)	600	469	500	452	454
Adjusted interest expense	116	124	134	171	168
Capital expenditures	15	9	14	8	7
Total assets	4,184	4,600	4,725	4,827	5,141
Adjusted debt	1,966	2,074	2,222	2,384	2,546
Adjusted equity	1,539	1,672	1,638	1,611	1,710
Adjusted Ratios					
EBITDA margin (%)	23.5	16.7	26.1	27.7	25.2
Pretax return on permanent capital (%)	12.8	9.0	9.6	8.9	8.6
EBITDA interest coverage (times)	6.2	4.8	4.7	3.7	3.7
Debt to EBITDA (times)	2.7	3.5	3.5	3.8	4.1
FFO to debt (%)	30.5	22.6	22.5	18.9	17.8
Debt to capitalization (%)	56.1	55.4	57.6	59.7	59.8

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 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 2024, 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