

GLOBAL POWER SYNERGY PLC

No. 205/2022
3 November 2022

CORPORATES

Company Rating: AA+

Issue Ratings:

Senior unsecured AA+

Outlook: Stable

Last Review Date: 28/04/22

Rating History:

Date	Rating	Outlook/Alert
04/10/21	AA+	Stable
01/10/19	AA-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Global Power Synergy PLC (GPSC) and the ratings on GPSC’s existing senior unsecured debentures at “AA+” with a “stable” rating outlook.

The company rating on GPSC incorporates a two-notch uplift from GPSC’s stand-alone credit profile (SACP) of “aa-”, reflecting our view of GPSC’s status as a strategically important subsidiary of PTT PLC (PTT).

GPSC’s SACP continues to reflect the company’s position as the leading private power producer in Thailand, with highly predictable cash flows from its long-term power purchase agreements (PPA) with the Electricity Generating Authority of Thailand (EGAT) and the PTT Group. The SACP takes into consideration the increase in financial leverage during the expansion phase, and factors in the steep rise in fuel prices which will likely pressure company earnings.

KEY RATING CONSIDERATIONS

Leading private power producer in Thailand

As of June 2022, GPSC had net power-generation capacity of 6,001 megawatts (MW), when measured in proportion to its ownership. Gas-fired power plants accounted for the largest proportion of 3,703 MW, or 62% of total operating capacity, followed by renewable power plants with 1,758 MW (29%) and coal-fired power plants with a combined capacity of 514 MW (9%).

The operating power portfolio is expected to reach 7,236 MW by 2025. The increase will mainly come from the solar power projects under Avaada Energy Private Ltd. (Avaada) and the commencement of an Energy Recovery Unit (ERU) power plant. The proportion of renewable power will also increase, to around 38% of the total by the end of 2025.

Well-diversified power portfolio

GPSC has a well-diversified power portfolio with 36 power plants in Thailand and abroad. GPSC’s portfolio includes six power plants under the Independent Power Producer (IPP) scheme with a combined capacity of 2,439 MW, which accounts for 41% of GPSC’s total equity capacity. GPSC also has 20 cogeneration power plants under the Small Power Producer (SPP) scheme with a combined capacity of 2,196 MW, accounting for 37% of total equity capacity. The remaining equity capacity of 22% is spread among 10 renewable power plants.

Approximately 70% of GPSC’s capacity is in Thailand. The remaining 30% is spread across India and the Lao People’s Democratic Republic (Lao PDR).

Predictable cash flows backed by long-term PPA

The ratings are predominantly based on the highly predictable cash flows GPSC receives from its power plants. The predictability stems from the long-term PPA with EGAT (EGAT; rated “AAA/Stable” by TRIS Rating) and reputable industrial users under the PTT Group. In the first half of 2022, sales to EGAT made up 53% of its total revenues. Electricity and steam sold to industrial users accounted for 47%.

GPSC sells electricity to EGAT under the IPP and SPP schemes. A typical PPA with EGAT has a term of 21-25 years. For the IPP scheme, GPSC receives the

full amount of Availability Payment (AP) as long as the company has maintained the availability of the plants as agreed in the PPA, even if EGAT has not dispatched electricity from the plants. The PPAs in the SPP scheme differ slightly: EGAT agrees to dispatch not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP schemes also contain a fuel price pass-through mechanism. Besides, GPSC sells electricity to EGAT under the non-firm SPP scheme to help manage power plant loads at optimum efficiency with no obligation to dispatch. GPSC also has PPA and Steam Purchase Agreements (SPA) with many industrial users in the Map Ta Phut area. The PPA and SPA cover 5-15 years.

Scale up renewable energy

GPSC continues to expand its capacity in renewable energy with the company targeting renewable energy of 8,000 mw by 2030, from 1,758 MW in the first half of 2022. Avaada, the solar platform in India in which GPSC invested in 2021, will play a key part in fulfilling the company's growth strategy in renewable energy. As of June 2022, Avaada contributed operating capacity of 1,227 MW to GPSC's power portfolio. We expect Avaada will add further capacity of 762 MW to GPSC's power portfolio by 2024.

In September 2022, GPSC has notified the completion of the conditions precedent of the share purchase agreement of CI Changfang Ltd. (CF) and CI Xidao Ltd. (XD). This transaction will add capacity of 149 MW of wind power to GPSC's portfolio when all phases commence operations.

Leverage rise from growth plan

We expect GPSC's leverage level to increase during the expansion phase. Large spending is slated for offshore wind projects in Taiwan, gas-fired cogeneration power plants under the replacement program, and ERU power plants in Thailand. In our base-case projection, we assume GPSC will spend approximately THB59.5 billion for capital expenditures and investments during 2022-2025. GPSC's adjusted net debt is projected to hover around THB109-THB126 billion in 2022-2025, up from THB96.7 billion in 2021. The ratio of debt to capitalization will likely increase to around 50% in 2022-2025, from 45% at the end of 2021.

Earnings pressured by soaring gas prices

The steep rise in gas prices put pressure on GPSC's earnings in the first half of 2022. This was mainly due to the delay of fuel price adjustments of electricity sold to industrial customers. The selling prices of electricity sold to industrial customers are linked with the tariff rates of the Provincial Electricity Authority (PEA) charged to large electricity users. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in fuel prices. However, the Ft adjustment carries a time lag and is subject to the authorities' discretion on the timing and magnitude of adjustments.

Gas prices started to rise from the second half of 2021 and hit the record high of above THB550 per metric million British thermal unit (MMBTU) in the third quarter of 2022. The Ft, however, just started adjusting upward in early 2022. During the first half of 2022, fuel cost increased by an average of 97% year-on-year while power tariff increased by an average of 31%. The mismatching is expected to improve during the second half of 2022 when the Ft rate for the period of September 2022-December 2022 starts to catch up with rising fuel costs. In our base-case projection, we assume gas prices will remain high in 2022 and gradually decline to normal levels from 2023 onwards while Ft will remain high in 2023 before declining from 2024 onwards.

In our base-case forecast, we project GPSC's earnings before interest, taxes, depreciation, and amortization (EBITDA) to shrink to THB16.5 billion in 2022, from THB20.2 billion in 2021. Consequently, the debt to EBITDA ratio is expected to peak at about 7.4 times in 2022. However, based on our assumption of gradual normalization of gas prices in 2023, the ratio could revert to below 6 times in 2023. The funds from operations (FFO) to debt ratio will likely decrease to below 10% in 2022 and improve to 12%-16% in 2023-2025.

Strategically important subsidiary of PTT Group

We hold the view that GPSC is a strategically important subsidiary of PTT Group. According to PTT's vision of "Powering life with future energy and beyond", the PTT Group aims to increase its renewable power capacity to 12,000 MW by 2030 and to reduce greenhouse gas emissions by 15% from the 2020 level.

GPSC is the flagship subsidiary in spearheading future energy expansion, including renewable power, energy storage & energy management systems, battery value chain for electric vehicles (EVs), and other forms of clean energy such as power from hydrogen. Added to this, GPSC will also be instrumental in materializing the PTT group's commitment to reduce greenhouse gas emissions.

Strong support from PTT Group

As GPSC is a flagship company in the power and future energy businesses of the PTT Group, we believe that the group will continue to provide strong support to GPSC. In February 2022, PTT Group has restructured the shareholding structure of

its power business. PTT and its wholly owned subsidiary, Siam Management Holding Co., Ltd. (SMH), purchased 10.8% of GPSC's shares from Thai Oil PLC (TOP). As of August 2022, PTT holds 47.3% equity interest in GPSC. PTT's level of direct shareholding in GPSC is close to that of its interest in other flagship companies in the PTT Group, such as PTT Global Chemical PLC (GC), TOP, and IRPC PLC (IRPC).

PTT's strong support to GPSC is evidenced by its subscription of all GPSC's remaining shares of the new equity right offerings to support the acquisition of GLOW Energy PLC (GLOW) in 2019 to ensure that GPSC receives the full amount of THB74 billion from the equity issue. PTT also provided a shareholder loan of THB20 billion for GPSC to invest in renewable energy abroad. We believe that PTT will continue to provide extraordinary support to GPSC when needed.

Adequate liquidity position

We assess GPSC has an adequate liquidity position. As of June 2022, the company had cash on hand of about THB21 billion and unused credit facilities (committed and uncommitted) of about THB12 billion. We forecast GPSC to generate funds from operations (FFO) of about THB12 billion in 2022. The cash on hand, unused credit facilities and expected FFO are sufficient to cover long-term debt coming due of about THB10.7 billion in the next 12 months.

Debt structure

As of June 2022, GPSC's consolidated debt totaled THB114.4 billion, of which THB14 billion was priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 12.2%.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for GPSC's performance during 2022-2025 are as follows:

- Total electricity sale to range between 18,600-20,800 gigawatts-hour (GWh) per year.
- Steam sale to be around 14-15 million tonnes per year.
- EBITDA to range between THB16.5-THB23.9 billion per year.
- Net capital expenditures and investments to be THB59.5 billion.
- Dividend payouts ratio of 56%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GPSC's power plants will continue to run smoothly and deliver stable cash flows as forecast. We also expect the company to maintain financial discipline while pursuing its growth strategy in renewables and future energy.

RATING SENSITIVITIES

A downward revision on SACP could occur if GPSC's operating performance significantly falls short of our expectation, or the financial profile deteriorates considerably due to excessive debt-funded investments. An upward revision on SACP would develop if the company could materially reduce its financial leverage on a sustained basis.

Any change in credit profile of PTT or any change in the linkage between GPSC and PTT could also impact the ratings on GPSC.

COMPANY OVERVIEW

GPSC was founded on 20 January 2013 through the amalgamation of PTT Utility Co., Ltd. (PTTUT) and Independent Power (Thailand) Co., Ltd. (IPT) as the flagship power company of the PTT Group. Following its establishment, GPSC gradually bought shares in power plants from other companies in the PTT Group.

GPSC was listed on the Stock Exchange of Thailand (SET) in 2015. As of August 2022, the PTT Group held around 75.2% of the company's total shares while the remainder was held by the public. Shareholdings under the PTT Group consist of 47.3% held by PTT, 10% held by GC, 10% held by TOP, and held by SMH 7.9%.

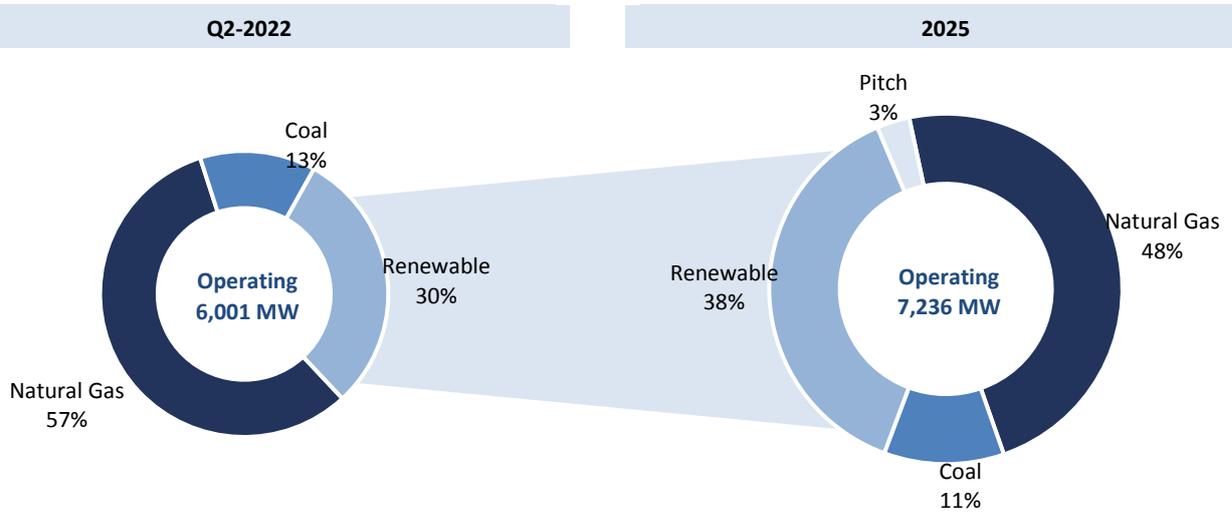
On 14 March 2019, GPSC acquired a 69.11% stake in GLOW from ENGIE Global Developments B.V. (ENGIE). Currently, GPSC holds a 99.8% stake in GLOW. After the acquisition, GLOW's power portfolio of 2,771 MW was added to GPSC's pre-acquisition power portfolio of 2,256 MW, bringing the combined capacity to 5,026 MW.

In the third quarter of 2021, GPSC acquired 41.6% stake in Avaada. In January 2022, GPSC increased its equity interests in Avaada to 42.9%.

At the end of June 2022, GPSC had an operating capacity of 6,001 MW. The operating capacity is expected to reach 7,236 MW by 2025.

KEY OPERATING STATISTICS

Chart 1: GPSC's net operating capacity (Net operating capacity in proportion to GPSC's ownership)



Source: GPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	57,171	76,798	71,788	67,951	25,771
Earnings before interest and taxes (EBIT)	3,225	10,958	13,506	11,437	4,666
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,178	20,235	23,009	18,980	7,088
Funds from operations (FFO)	5,616	14,760	17,608	12,936	6,285
Adjusted interest expense	2,029	3,927	4,087	5,221	554
Capital expenditures	3,118	4,442	5,482	3,180	2,961
Total assets	270,791	270,379	256,656	252,017	64,439
Adjusted debt	96,615	96,744	85,993	88,247	11,933
Adjusted equity	116,467	117,748	111,867	110,176	42,349
Adjusted Ratios					
EBITDA margin (%)	14.31	26.35	32.05	27.93	27.50
Pretax return on permanent capital (%)	3.08 **	4.85	6.16	8.21	7.98
EBITDA interest coverage (times)	4.03	5.15	5.63	3.64	12.79
Debt to EBITDA (times)	5.78 **	4.78	3.74	4.65	1.68
FFO to debt (%)	11.94 **	15.26	20.48	14.66	52.67
Debt to capitalization (%)	45.34	45.10	43.46	44.47	21.98

* Consolidated financial statements

** Annualized with trailing 12 months

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

Global Power Synergy PLC (GPSC)

Company Rating:	AA+
Issue Ratings:	
GPSC22NA: THB2,000 million senior unsecured debentures due 2022	AA+
GPSC24NA: THB5,000 million senior unsecured debentures due 2024	AA+
GPSC258A: THB1,500 million senior unsecured debentures due 2025	AA+
GPSC26NA: THB6,000 million senior unsecured debentures due 2026	AA+
GPSC29NA: THB8,000 million senior unsecured debentures due 2029	AA+
GPSC308A: THB1,000 million senior unsecured debentures due 2030	AA+
GPSC31NA: THB7,500 million senior unsecured debentures due 2031	AA+
GPSC34NA: THB6,500 million senior unsecured debentures due 2034	AA+
GPSC358A: THB2,500 million senior unsecured debentures due 2035	AA+
GPSC256A: THB1,000 million senior unsecured debentures due 2025	AA+
GPSC276A: THB3,000 million senior unsecured debentures due 2027	AA+
GPSC306A: THB1,000 million senior unsecured debentures due 2030	AA+
GPSC326A: THB3,000 million senior unsecured debentures due 2032	AA+
GPSC376A: THB4,000 million senior unsecured debentures due 2037	AA+
Rating Outlook:	Stable

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