

NATIONAL POWER SUPPLY PLC

No. 117/2018
10 August 2018

CORPORATES

Company Rating:	BBB-
Issue Ratings: Senior unsecured	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
16/11/17	BBB-	Stable
28/11/16	BBB	Negative
08/01/10	BBB	Stable
21/07/05	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating and the ratings on the senior unsecured debentures of National Power Supply PLC (NPS) at “BBB-”. The ratings reflect the reliable cash flows from the long-term Power Purchase Agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme and the long-term contracts with Double A (1991) PLC (DA). The ratings are partially offset by NPS’s high level of leverage and related-party transactions. NPS’s ratings are influenced by the company rating of DA, which has the same ultimate shareholder, according to TRIS Rating’s group rating methodology.

KEY RATING CONSIDERATIONS

Long-term PPAs secure revenues

Approximately 75% of NPS’s revenue comes from the sales of power and steam. This revenue is secured under the long-term PPAs with EGAT and industrial customers. NPS has a 21-year and 25-year PPAs with EGAT covering 304 megawatts (MW) of electricity or 42% of total capacity. In addition, NPS sells 167.6 MW (23% of capacity) to DA under power sales agreements lasting from one to 19 years. Customers in the industrial estates in Prachinburi and Chachoengsao provinces buy the remaining amounts of power and steam.

The PPAs with EGAT comprise monthly capacity payment (CP) and energy payment (EP). The CP covers the investment costs and is linked to the US dollar exchange rate. The EPs primarily cover the variable costs of producing actual electricity. EGAT is obliged to dispatch at least 80% of the contracted capacity based on operating hours, while other off-takers also have minimum off-take obligations.

Mismatching of fuel indexation hurts margin

NPS’s gross margin continues to be affected by the mismatches between the electricity tariff and the cost of fuel. Out of total capacity of 726.05 MW, 18.6% of its tariffs are linked with a coal price index announced by EGAT, linked with Japanese Power Utility Index (JPU). The rest is indexed to the price for fuel oil, natural gas, and the electricity tariff that the Provincial Electricity Authority (PEA) charges large industrial users.

Coal contributes about 40% of all the fuel used (based on heating value); the rest (60%) is bio-mass. The price of bio-mass has no direct correlation with the prices of fossil fuels. A mismatch arises because the different indices are used for the tariff and for the fuel cost.

Looking forward, NPS’s gross margin is likely to widen. The prices of fuel oil and natural gas are rising, which in turn lead to an upward adjustment of Ft. As a result, the average price for power sold to EGAT and industrial customers have risen as well. This trend will help relieve pressure on the company’s margin over the coming years.

Ethanol recorded net loss

For the first three months of 2018, the ethanol segment recorded a net loss of Bt78 million. The price of cassava, a key raw material cost, climbed. The company decided to upgrade one of the production lines to use both cassava and molasses as raw materials. The upgrade is targeted to be completed in 2019.

Improving operating performance

NPS's operating performance has for 2018 improved. During 2016-2017, technical issues at multiple plants hurt its performance. The plant availability factor was about 82%-83%, while the forced outage factor was high at 7%-10% during that period.

NPS has implemented programs designed to improve operating performance. The results have been satisfactory. For the first three months of 2018, forced outages improved to about 2%, while the plant availability factor increased to about 91%. TRIS Rating expects this trend will continue through 2020. The plant availability factor is forecast above 85% based on the company's track record for a normal year.

The company's operating margin (operating income before depreciation and amortization as percentage of sales) climbed to 26.1% for the first three months of 2018 from about 19% in 2016 and 2017. Better plant performance plus a wider margin were the reason for the jump. TRIS Rating forecasts that the company's operating margin will range 20%-25% during 2018-2020, despite the ongoing underperformance of the ethanol business.

High-leveraged balance sheet

At the end of March 2018, the company's total debt increased to Bt22,119 million. The ratio of debt to capitalization was 72.6%. However, TRIS Rating expects the company's capital structure will gradually improve because the company has no sizable investments planned during 2018-2020. TRIS Rating expects that the company's debt to capitalization ratio will range around 65%-70% during 2018-2020.

Manageable liquidity

TRIS Rating believes NPS will manage its liquidity prudently. The company issued Bt3,013 million in senior unsecured debentures in March 2018 to refinance the Bt2,003 million unsecured debentures due in April and October 2018. The excess will be used to refinance part of its bank loans.

NPS's funds from operations (FFO) are forecast at Bt2,000-Bt2,500 million per year during 2018-2019. FFO should cover the maintenance and plant improvement expenditures of about Bt700-Bt900 million per year. However, NPS's cash flow might not be sufficient to pay the debentures worth Bt4,000 million coming due in October 2019. TRIS Rating believes NPS is likely to refinance parts of the matured debentures. TRIS Rating also expects the company to comply with all financial covenants contained in bonds and bank loans.

At the end of March 2018, the company has Bt2,824 million in cash on hand and over Bt2,000 million in an undrawn working capital facility.

Large deposits with related companies

As of March 2018, NPS's had deposits of Bt1,768 million with related companies, for land purchases to develop an independent power producer (IPP) project. The land purchase prices in these transactions are well above the appraised value of Bt678 million set by an independent appraiser. However, the land purchase agreements have a condition that the area purchased and the prices for the land will be finalized after required permits for IPP project are approved. The final price will be partly based on the latest appraised values by independent appraiser, according to the agreements.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the operating performance of NPS's plants will improve gradually. We expect the company will properly comply with the bond covenants and be able to refinance the maturing debts.

RATING SENSITIVITIES

The reliability improvement of the power plants, which will improve its financial profile on a sustainable basis, is a positive factor for the ratings. In contrast, the negative credit factors could be a further deterioration in operating performance or a weaker capital structure. NPS's ratings are also influenced by the company rating of DA, which has the same ultimate shareholder.

COMPANY OVERVIEW

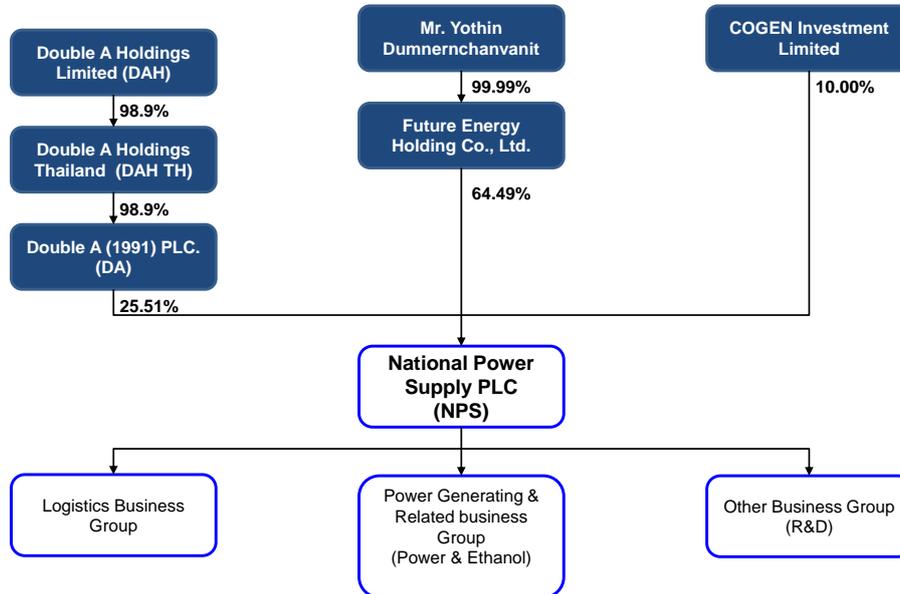
NPS was established in July 1995. The company is the leading operator of biomass power plants in Thailand. DA held a 25.5% stake in NPS as of March 2018. NPS and DA have the same ultimate shareholder. Mr. Yothin Dumnernchanvanit and other related parties currently hold 86.9% of NPS's shares and 87.8% of DA's shares.

NPS owns and operates a total of 10 biomass-fired and coal-fired power plants under the SPP scheme. The 10 plants, located in industrial parks in Prachinburi and Chachoengsao provinces, have a total capacity of 726 MW of electricity and

1,017 tonnes per hour of steam.

In addition to producing electricity, NPS has diversified into energy-related businesses and supporting businesses. During 2016-2018, approximately 85% of NPS's earnings before interest, tax, depreciation and amortization (EBITDA) came from the power segment; the balance or 15%-20% came from other businesses.

THE NPS's GROUP STRUCTURE



KEY OPERATING PERFORMANCE

Table 1: EBITDA Breakdown

Unit: %

Segment	2014	2015	2016	2017	Jan-Mar 2018
Power and steam	85.1	81.7	82.2	70.9	90.3
Industrial water	6.2	9.0	11.1	11.2	7.2
Ethanol	3.1	4.1	6.1	13.2	(1.2)
Others	5.6	5.2	0.6	4.7	3.7
Total	100.0	100.0	100.0	100.0	100.0
Total EBITDA (Bt mil.)	4,448	3,024	2,380	2,496	939

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2014	2015	2016*	2017*	Jan-Mar 2018*
Net output**	GWhe	3,202	2,995	3,419	3,590	1,006
Plant heat rate	BTU/kWhe	12,886	13,464	12,783	12,490	12,569
Availability	%	88.52	84.79	82.46	83.16	91.37
Forced outage	%	3.63	6.43	9.55	6.85	2.13
Schedule & maintenance outage	%	7.85	8.78	7.99	9.99	6.50

* Including 10 power plants

** Net output of power and steam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	3,606	13,886	12,330	12,570	15,377
Gross interest expense	286	1,215	1,221	1,218	1,112
Net income from operations	304	(242)	(242)	319	1,660
Funds from operations (FFO)	717	1,547	1,447	2,009	3,413
Total capital expenditures	82	426	803	2,981	4,830
Total assets	33,033	31,421	33,735	33,927	32,432
Total debts	22,119	20,280	21,990	22,424	19,921
Shareholders' equity	8,361	8,056	9,045	9,993	10,844
Operating income before depreciation and amortization as % of sales	26.10	18.11	19.25	23.09	28.14
Pretax return on permanent capital (%)	2.15 **	3.21	2.49	4.57	10.06
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.52	2.09	2.08	2.43	3.88
FFO/total debt (%)	3.24 **	7.63	6.58	8.96	17.13
Total debt/capitalization (%)	72.57	71.57	70.85	69.17	64.75

* Consolidated financial statements

** Adjusted with trailing 12 months

National Power Supply PLC (NPS)

Company Rating:	BBB-
Issue Ratings:	
NPS190A: Bt4,000 million senior unsecured debentures due 2019	BBB-
NPS209A: Bt3,013.4 million senior unsecured debentures due 2020	BBB-
NPS218A: Bt5,000 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Stable

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