TRIS RATING
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NATION POWER SUPPLY PLC

No. 120/2019
5 August 2019

CORPORATES

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

Last Review Date: 10/08/17

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 on National Power Supply PLC (NPS) and the ratings on NPS's senior unsecured debentures 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 debt to capitalization ratio, refinancing risk to redeem debentures coming due in 2019, and the ongoing group restructure. NPS's ratings are influenced by the company rating on DA, which has the same ultimate shareholder, according to TRIS Rating's group rating methodology.

KEY RATING CONSIDERATIONS

Long-term PPAs secure revenues

About 80%-90% of NPS's revenue comes from the sale of power and steam. This revenue is secured under the long-term PPAs with EGAT and industrial customers. NPS has 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 total capacity) to DA under power sales agreements lasting from one to 19 years. Customers in the industrial estates in Prachinburi and Chachoengsao provinces take up the remaining capacity of power and steam generating.

The PPAs with EGAT comprise monthly capacity payments (CP) and energy payments (EP). The CPs cover the investment costs and are 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.

An improvement in operating performance

NPS's operating performance has continued to improve since 2018, after implementation of a performance improvement program. Plant availability improved to about 87%-88% during 2018 through the first three months of 2019, while forced outages reduced to about 2.0%-2.5%. This is better than the operating performance during 2016-2017 when NPS faced technical issues at multiple plants, hurting its performance.

The improvements include installing a new operating software, centralizing operations, maintenance, and a fuel receiving team. The new operating software helps improve reliability. Centralization will shorten the decision making process, leverage know-how and experience from each plant, and gather data for predictive maintenance. TRIS Rating expects this trend will continue over the forecast period. Plant availability 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 a percentage of sales) climbed to 33.3% for the first three months of 2019, from about 19% in 2016 and 2017. Better plant performance and a wider margin were the reasons for the improvement. TRIS Rating forecasts that the company's operating margin will range 20%-25% during 2019-2021.

Spread between tariff and fuel cost influence profit margin

NPS's profit margin is influenced by the spread between electricity tariff and fuel cost, a major cost of production. About 43% of energy generated is electricity sold to EGAT, 47% is electricity sold to industrial users and the rest (10%) is a steam sold to industrial users. The electricity tariff under PPAs with EGAT is indexation with the prices of coal, natural gas and fuel oil, while the electricity tariff charge to industrial customer, including DA, is referred to the electricity tariff that the Provincial Electricity Authority (PEA) charge to large industrial users. The steam is pricing base on natural gas and coal price. NPS's power plant use coal, black liquor and biomass as primary fuels. The black liquor and some biomass that have contracts with DA are pricing based on natural gas price.

NPS's margin will likely be widened if natural gas, fuel oil, and the fuel adjustment charge (or the Ft) increase while biomass price stay steady or lower, and vice versa, the profit margin deteriorated when all reference price declined, as evidenced during 2015-2017. The company has strategy to stabilize its fuel cost through fuel supply management such as sourcing coal in the domestic market, sourcing biomass and black liquor from DA, sourcing wood chip from nearby plants and using new type of biomass fuel to avoid direct competition from other biomass power plant.

Ethanol business is expected to turn around

In 2018, the ethanol business recorded a net loss of Bt318 million due to an increase in the price of cassava, a key raw material for ethanol production. NPS had lowered its ethanol production to upgrade its production process using both cassava and molasses as raw materials. The upgrade was completed in late 2018. For the first three months of 2019, NPS used molasses as a raw material, helping reduce its production cost. The utilization rate of the ethanol plant increased to about 31% for the first three months of 2019 from 17% in 2018. The utilization rate is expected to gradually increase and the ethanol business is expected to turn around in 2019-2020.

Deposits for land purchases was resolved

In 2007, NPS was awarded to develop independent power producers (IPP) project by using coal as primary fuel. During 2008-2010 and 2014, NPS entered into two land sale and purchase agreement with related parties with the aim to develop the awarded project. NPS made an deposit payment of Bt1,768 million for those two agreements. The development of projects was delayed due mainly to environmental health impact assessment (EHIA) process. However, the National Energy Policy Council approves the power development plan 2018, which allows NPS to change a primary fuel type from coal to natural gas for its IPP earlier awarded in 2007.

As fuel type change, the required land has minimized. In June 2019, NPS decided to purchase part of the land under first agreement and return remaining part for refunding a deposit. NPS paid Bt146 million for the land purchase and refund the deposit worth Bt1,131 million. This land plot was appraised at Bt173 million as of 27 May 2019.

For future business expansion, NPS purchase land under the second agreement worth Bt616 million. This land plot was appraised at Bt616 million, as of 28 June 2019.

High-leveraged balance sheet

NPS's adjusted debt declined to Bt18,466 million at the end of March 2019, from its peak at Bt21,798 million at the end of 2015. Although, the adjusted debt declined by 15.2%, the ratio of debt to capitalization continued to be high at 66.78% at the end of March 2019. However, TRIS Rating expects the company's capital structure will gradually improve, because the company has no sizable investments planned during 2019-2021. TRIS Rating expects that the company's debt to capitalization ratio will range around 60%-70% during 2019-2021.

Plan to refinance bonds due

NPS's funds from operations (FFO) are forecast to range Bt2,500-Bt3,000 million per year during 2019-2021. FFO should cover the maintenance and plant improvement expenditures of about Bt500-Bt1,000 million per year. NPS's internal cash flow may not be sufficient to pay the debentures, worth Bt4,000 million, coming due in October 2019. NPS plans to repay most parts of the matured debentures by a combination of new bank loans, new debentures, non-core assets divestment and cash flow from operation. Currently, NPS is under the process of requesting for a new loans with its main bank. The company expects that the new loan will be approved within August 2019. The divestment of non-core assets are under valuation and negotiation process with prospect investor.

Ratings are influenced by DA

NPS is 25.5% held by DA (rated "BBB-/Stable" by TRIS Rating). Both DA and NPS have the same ultimate shareholder. The ratings on NPS are influenced by the rating on DA, reflecting a close relationship between DA and NPS through its ultimate shareholder. Mr. Yothin Dumnernchanvanit and other related parties currently hold 90% of NPS's shares and 98.9% of DA's shares.

The ratings also take into account a significant degree of integration between NPS and DA. DA purchases power and steam 23% of NPS's total installed capacity, while supplying biofuel from processing paper to NPS. The biofuel comprises of black liquor 20% of total NPS's fuel consumption and bark 10%.

TRIS RATING'S BASE-CASE ASSUMPTIONS

- NPS's plant availability factor is forecast to be above 85% during 2019-2021.
- NPS's earnings before interest, tax, depreciation, and amortization (EBITDA) is expected to be in the range of Bt4,000-Bt4,500 million during 2019-2021.
- Total capital expenditures is expected at approximately Bt500-Bt1,000 million per year during 2019-2021.
- Debt to EBITDA ratio is expected to be in the range of 4-5 times during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NPS's power plants can maintain their operating performance and generate reliable cash flow after implementing an improvement program.

RATING SENSITIVITIES

The reliability of the power plants and operating cash flow are positive factors for the ratings. In contrast, the negative credit factors could be deterioration in operating performance or a weaker capital structure. NPS's ratings are also influenced by the company rating on DA, which has the same ultimate shareholder.

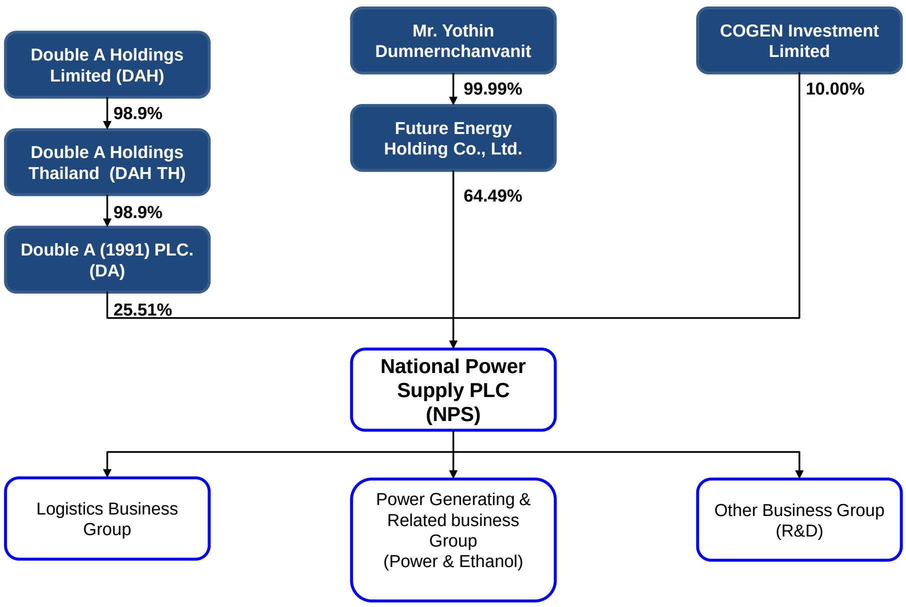
COMPANY OVERVIEW

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 31 March 2019. NPS and DA have the same ultimate shareholder. Mr. Yothin Dumnernchanvanit and other related parties currently hold 90% of NPS's shares and 98.9% 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 EBITDA came from the power segment; the balance, or 15%-20%, came from other businesses.

NPS's Group Structure



Source: NPS

KEY OPERATING PERFORMANCE

Table 1: EBITDA Breakdown

Unit: %

Segment	2015	2016	2017	2018	Jan-Mar 2019
Power and steam	81.7	81.3	70.3	87.2	83.2
Industrial water	9.0	11.1	11.2	7.7	6.2
Ethanol	4.1	6.1	13.2	(1.2)	2.0
Others	5.2	0.6	4.7	6.3	8.6
Total	100.0	100.0	100.0	100.0	100.0
Total EBITDA (Bt mil.)	**3,176**	**2,490**	**2,703**	**3,969**	**1,251**

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2015*	2016	2017	2018	Jan-Mar 2019
Net output**	GWhe	2,995	3,419	3,590	4,097	992
Plant heat rate	BTU/kWhe	13,464	12,783	12,490	12,710	12,201
Availability	%	84.79	82.46	83.16	88.49	87.02
Forced outage	%	6.43	9.55	6.85	1.94	2.54
Schedule & maintenance outage	%	8.78	7.99	9.99	9.57	10.44

* *Nine power plants*
** *Net output of power and steam*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		----------------Year Ended 31 December ----------			
	Jan-Mar 2019	2018	2017	2016	2015
Total operating revenues	3,714	14,816	13,976	12,451	12,646
Operating income	1,235	3,946	2,630	2,547	3,015
Earnings before interest and taxes (EBIT)	825	2,328	1,114	723	1,584
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,251	3,969	2,703	2,490	3,176
Funds from operations (FFO)	929	2,989	1,484	1,259	1,842
Adjusted interest expense	260	1,136	1,228	1,231	1,224
Capital expenditures	148	288	426	771	2,732
Total assets	29,945	30,401	31,420	33,734	33,928
Adjusted debt	18,466	19,087	19,367	21,564	21,798
Adjusted equity	9,186	8,660	8,056	9,045	9,993
Adjusted Ratios					
Operating income as % of total operating revenues (%)	33.26	26.64	18.82	20.46	23.84
Pretax return on permanent capital (%)	8.55 **	8.17	3.70	2.26	4.97
EBITDA interest coverage (times)	4.80	3.49	2.20	2.02	2.59
Debt to EBITDA (times)	4.41 **	4.81	7.17	8.66	6.86
FFO to debt (%)	17.20 **	15.66	7.66	5.84	8.45
Debt to capitalization (%)	66.78	68.79	70.62	70.45	68.57

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

National Power Supply PLC (NPS)

Company Rating:	BBB-
Issue Ratings:	
NPS19OA: 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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