

NATIONAL POWER SUPPLY PLC

No. 144/2022
25 August 2022

CORPORATES

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

Last Review Date: 19/04/22

Company Rating History:

Date	Rating	Outlook/Alert
20/08/21	BBB+	Stable
28/08/20	BBB	Stable
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+" with a "stable" outlook. The ratings continue to reflect NPS's reliable cash flows from long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT: rated "AAA/Stable" by TRIS Rating) under the small power producer (SPP) scheme and from long-term contracts with Double A (1991) PLC (DA: rated "BBB/Stable" by TRIS Rating). However, the ratings are pressured by the company's higher capital expenditures from its investment plan and ongoing group restructuring.

KEY RATING CONSIDERATIONS

Long-term PPAs secure revenues

About 75%-85% of NPS's revenue comes from the sale of power and steam. This revenue is secured under long-term PPAs with EGAT and industrial customers. NPS has 25-year PPAs with EGAT covering 296 megawatts (MW) of electricity, or 41% of its total capacity. NPS also sells 167.6 MW (23% of total capacity) to DA under power and steam sales agreements lasting from one to 19 years. Customers in the industrial estates in Prachinburi and Chachoengsao provinces take up the remaining power and steam generating capacity.

Under PPAs with EGAT, 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.

Lag adjustment of fuel cost hurt 2022 performance

Higher fuel prices have put pressure on NPS's performance. For 2021, the company's earnings before interest, taxes, depreciation and amortization (EBITDA) dropped by 18.5% to THB3.8 billion, mainly due to higher fuel costs, especially coal since the fourth quarter of 2021. In 2021, the Newcastle Coal Price Index increased by 127.4% to USD138 per tonne. Although NPS's electricity tariff structure contains a fuel price adjustment mechanism, there is a time lag for the adjustment and some mismatch between the type of fuel used for power generation and the type of fuel used in tariff structure.

The electricity tariff applicable to NPS is indexed to the coal price for about 30% of its salable capacity, linked with the Ft (fuel adjustment charge) announced by Energy Regulatory Commission (ERC) for about 50%, and 20% is indexed to inflation embedded in feed-in-tariff (FIT) of THB3.66 per kilowatt hour (kWh). NPS consumes coal for about 40% of total heating value, biomasses for about 40%, and black liquor for about 20%.

For the first six months of 2022, NPS's EBITDA dropped by 79% to THB509 million. The drop in EBITDA was mainly due to delays in adjustments for the coal index and Ft. For the first six months of 2022, EGAT delayed a release of the reference price for coal to be applied in tariff formula, which is normally announced in May-July of each year and is retroactive to April of that year. Therefore, NPS's performance for the first six months of 2022 based on the reference coal price of THB109.97 per tonne, effective since April 2021. The Ft, which mostly reflects changes in the natural gas prices was increased by THB0.0139 per kWh for the period of January to April 2022, resulting in a 7.2% year-on-year increase in the average electricity tariff for industrial users, while natural gas price rose by 120.5% during the same period.

Other than the impact of fuel costs, NPS's plants availability factor was 81.7% for the first six months of 2022. The low availability factor during the first six months of 2022 was due to incidents at three out of the 10 power plants. These three power plants resumed operations in May and June 2022. We expect NPS's availability factor to improve to an average of 83%-84% for the whole year 2022 and recover to the normal range of 84%-86% for 2023-2024.

Electricity tariffs expected to increase in 2H2022

We expect the company's applicable electricity tariff in the second half of 2022 (2H2022) to be adjusted to reflect the spike in fuel prices. On 17 August 2022, EGAT released the new Japanese Power Utilities (JPU) reference price for coal at USD375 per tonne, which will be set in electricity tariff formula for electricity output sold to EGAT during April 2022-March 2023. This reference price is retroactive to April 2022. In addition, the Ft increased to an average of THB0.7054 per kWh in 2H2022, from an average of THB0.0918 per kWh for 1H2022. The increase in electricity tariffs should help boost the company's revenue and EBITDA in 2H2022.

Ethanol business underperforms

NPS's ethanol business performed below our expectations. In the fourth quarter of 2021, the ethanol plant was shut down due to an incident during the conversion of raw material from molasses to cassava. Operations were restored in the late of the first quarter of 2022. As a result, the plant's utilization rate decreased to 44% in 2021 from 72% in 2020 and EBITDA generated by the ethanol plant dropped to THB24 million in 2021, from THB251 million in 2020. For the first three months of 2022, the ethanol plant's utilization rate was 36%, resulting in a loss of THB52 million in EBITDA. We expect the plant utilization rate to recover to around 65% of the normal rate for the rest of 2022, as all related issues have been resolved.

Investments ahead

NPS has increased its budget for capital expenditures and investment to about THB9.0 billion for the 2022-2024 period. The budget includes the acquisition of Biomasse Energie d'Alizay (BEA) worth THB1.9 billion, an investment in floating solar power for THB3.2 billion, expansion of the industrial water supply network of about THB365 million, an equity injection for the 560-MW "Burapa Power Project" of THB426 million, improvements of coal power plants of about THB1.0 billion, and maintenance and expansion of a transmission line and substation in "304 Industrial Park" of about THB2.1 billion.

NPS acquired BEA in April 2022 from DA Alizay SAS, a related party. BEA is a 35-MW biomass power plant located in France. BEA holds a PPA with Electricite de France (EDF) for up to 50 MW and currently sells 35 MW of electricity to EDF. BEA commenced operations in January 2021, generating about EUR6 million (about THB217 million) in EBITDA in 2021.

NPS plans to invest in a floating solar power project in the 304 Industrial Park with total capacity of about 150 MW. Currently, the first phase of 60 MW is under construction with the initial 10 MW expected to come on stream in October 2022. NPS expects to realize EBITDA of about THB700-THB800 million per year from savings on power purchases from the Provincial Electricity Authority (PEA) and reduce consumption of coal and biomass fuels to generate electricity. The full benefit of the project should be realized from 2024 onwards when the 150-MW full capacity of the plant comes on stream.

Financial profile to improve in 2023

The spike in energy prices during the second half of 2021 and the first half of 2022 put pressure on NPS's financial profile. At the end of June 2022, the company's adjusted debt stood at THB18.0 billion with a debt to capitalization ratio of 63%. The debt to EBITDA ratio increased to 9.5 times (annualized based on the trailing 12 months).

We forecast the company's EBITDA to be around THB2.5-THB3.0 billion for 2022, as we expect NPS's electricity tariff to increase in the second half of 2022. The debt to EBITDA ratio, therefore, will likely temporarily stay high at around 5-6 times for 2022. We expect NPS's EBITDA to recover to around THB4.5-THB5.0 billion per year during 2023-2024, as we believe that the coal price and other energy prices will decline to the normal ranges and NPS's margin will likely widen from the time-lag adjustment during a period of declining fuel costs. We project NPS's debt to EBITDA ratio to improve to about 3.0-4.0 times during 2023-2024, and the company's debt to capitalization ratio to hover at around 50%-60% during the same period.

Manageable liquidity

NPS should be able to adequately manage its liquidity during the forecast period. In May 2022, NPS prepaid debentures due in 2023 worth THB2.97 billion by exercising a call option. As a result, NPS does not have any debentures due in 2023.

We view that NPS has sufficient financial liquidity. NPS's cash and cash equivalents of about THB1.7 billion as of June 2022 plus expected its funds from operations (FFO) of about THB2.8-THB3.2 billion over the next 12 months should be sufficient to cover bills of exchange due in September and October 2022 totaling THB1.35 billion.

Currently, NPS is in negotiations with banks and financial institutions for credit lines to support its working capital needs.

Debt structure

As of June 2022, NPS's reported total debt of THB19.2 billion, made up of senior unsecured debentures worth THB18.5 million and unsecured loans worth THB677 million. All outstanding debts were owed by NPS. Therefore, the company does not have any priority debt.

BASE-CASE ASSUMPTIONS

- NPS's plant availability factor to be in the range of 83%-84% in 2022 and 84%-86% during 2023-2024.
- NPS's EBITDA to be in the range of THB2.5-THB3.0 billion in 2022, increasing to THB4.5-THB5.0 billion per year during 2023-2024.
- Total capital expenditure to be about THB9.0 billion during 2022-2024.
- Debt to EBITDA ratio to increase to about 5-6 times in 2022, then improve to around 3.0-4.0 times during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NPS's power plants can maintain their performances and generate reliable cash flows as planned. TRIS Rating also expects NPS will be able to replace the expiring EGAT PPAs with PPAs signed with industrial users in the medium to long term.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited over the next 12-18 months. In contrast, rating downgrade pressure could develop if there is a material deterioration in the company's financial and operating performance, as well as any large debt-funded investment that brings about a weaker-than-expected financial profile.

COMPANY OVERVIEW

NPS was established in July 1995. The company is the leading operator of biomass power plants in Thailand. NPS's ultimate shareholder is Mr. Yothin Dumnernchanvanit and other related parties, indirectly holding 90% of NPS's shares.

As of June 2022, NPS owned and operated a total of nine biomass-fired and coal-fired power plants under the SPP scheme. The nine plants, located in industrial parks in Prachinburi and Chachoengsao provinces, have a total capacity of 716 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 2019-2021, approximately 75%-85% of NPS's EBITDA came from the power segment; the balance, or 15%-25%, came from the industrial water and ethanol businesses.

KEY OPERATING PERFORMANCE

Table 1: EBITDA Breakdown

Unit: %

Segment	2018	2019	2020	2021	Jan-Jun 2022
Power and steam	87.2	85.7	86.3	90.4	11.1
Industrial water	7.7	8.0	8.0	10.4	44.0
Ethanol	(1.2)	4.1	5.4	(2.7)	(2.9)
Others	6.3	2.2	0.3	1.9	47.8
Total	100.0	100.0	100.0	100.0	100.0
Total EBITDA (mil. THB)	3,969	4,472	4,668	3,804	509

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2018	2019	2020	2021	Jan-Jun 2022
Net output*	GWhe	4,097	3,946	3,857	3,954	1,829
Plant heat rate	BTU/kWhe	12,710	12,425	12,450	13,230	13,440
Availability	%	88.49	84.97	85.46	85.04	81.66
Forced outage	%	1.94	5.08	5.16	6.70	10.51
Schedule & maintenance outage	%	9.57	9.95	9.39	8.26	7.83

* Net output of power and steam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	8,932	15,654	15,719	15,231	14,816
Earnings before interest and taxes (EBIT)	(338)	2,224	3,118	2,863	2,328
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	509	3,804	4,668	4,472	3,969
Funds from operations (FFO)	13	2,931	3,740	3,425	2,804
Adjusted interest expense	487	851	917	1,042	1,136
Capital expenditures	1,325	737	871	883	288
Total assets	32,571	30,851	27,835	28,826	30,401
Adjusted debt	18,013	13,280	14,036	16,911	19,087
Adjusted equity	10,571	11,245	11,324	9,707	8,660
Adjusted Ratios					
EBITDA margin (%)	5.69	24.30	29.70	29.36	26.79
Pretax return on permanent capital (%)	0.82 *	8.15	11.69	10.33	8.17
EBITDA interest coverage (times)	1.05	4.47	5.09	4.29	3.49
Debt to EBITDA (times)	9.48 *	3.49	3.01	3.78	4.81
FFO to debt (%)	5.34 *	22.07	26.65	20.25	14.69
Debt to capitalization (%)	63.02	54.15	55.35	63.53	68.79

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

National Power Supply PLC (NPS)

Company Rating:	BBB+
Issue Ratings:	
NPS242A: THB1,383.7 million senior unsecured debentures due 2024	BBB+
NPS24NA: THB1,250 million senior unsecured debentures due 2024	BBB+
NPS258A: THB2,298.2 million senior unsecured debentures due 2025	BBB+
NPS265A: THB2,000 million senior unsecured debentures due 2026	BBB+
NPS265B: THB1,000 million senior unsecured debentures due 2026	BBB+
NPS273A: THB2,250 million senior unsecured debentures due 2027	BBB+
NPS27NA: THB1,500 million senior unsecured debentures due 2027	BBB+
NPS28NA: THB2,800 million senior unsecured debentures due 2028	BBB+
NPS295A: THB2,500 million senior unsecured debentures due 2029	BBB+
Rating Outlook:	Stable

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