RATCH PATHANA ENERGY PLC

No. 78/2024
8 May 2024

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 26/05/23

Company Rating History:

Date	Rating	Outlook/Alert
17/06/22	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ratch Pathana Energy PLC (SCG, formerly Sahacogen (Chonburi) PLC) and the ratings on SCG's senior unsecured debentures at "A" with a "stable" outlook. The ratings continue to reflect SCG's reliable cash generation supported by long-term power purchase agreements (PPAs) with creditworthy off-takers—the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable") and Saha Pathana Inter-Holding PCL (SPI, rated "AA-/Stable"). The ratings also factor in the company's diversified industrial customer base and established track record of operating performance. However, the ratings are constrained by SCG's increasing reliance on industrial customers—which will increase SCG's exposure to potential mismatches between the electricity tariff and fuel cost—as well as heightened financial leverage due to investments.

In addition, the company rating on SCG reflects our view of SCG as a strategic subsidiary of RATCH Group PLC (RATCH, rated "AA+/Stable"), incorporating a one-notch enhancement from SCG's stand-alone credit profile (SACP) of "a-".

KEY RATING CONSIDERATIONS

Commencement of SPP Replacement Project

SCG successfully commenced commercial operation of its Small Power Producer (SPP) Replacement Project on 19 April 2024, with a total investment of THB2.8 billion. The company now owns and operates a 238-megawatt (MW) gas-fired cogeneration power plant located in Saha Group Industrial Park – Sriracha (Sriracha Industrial Park). The new cogeneration power plant has an installed capacity of 79.5 MW for electricity and 75 tonnes per hour for steam generation. It will be operated as a base load power plant to supply electricity and steam to both EGAT and industrial customers.

This project has a 30-MW PPA with EGAT for 25 years, replacing the 90-MW PPA with EGAT having expired on 18 April 2024. We expect contributions from sales to EGAT to decrease to about 20% of SCG's total revenue, down from the previous range of 40%-50%.

SCG's new power plant has higher efficiency, compared with the existing units. It consumes less natural gas fuel to generate the same amount of electricity. Therefore, the company's spark spread (the difference between the electricity tariff and the fuel cost needed to generate one kilowatt-hour (kWh) of electricity) is expected to widen from the current level. In our base-case scenario, we expect the new cogeneration power plant to operate with a heat rate of about 7,300 British thermal units per kWh (BTU/kWh) in 2024, compared with previous heat rates of about 8,400 to 8,500 BTU/kWh. We forecast SCG's earnings before interest, taxes, depreciation, and amortization (EBITDA) to recover to around THB800-THB900 million per year in 2025-2026, having fully benefited from the new plant.

Earnings backed by PPAs with creditworthy off-takers

SCG's cash generation is backed by its PPAs with creditworthy off-takers. For its cogeneration plant, SCG holds a recently commenced 25-year PPA with EGAT for 30 MW under the SPP Replacement scheme. The PPA with EGAT helps mitigate market risk as EGAT is required to dispatch at least 80% of the contracted capacity, based on plant operating hours. The pass-through mechanism of fuel costs and exchange rates specified in the PPA also stabilizes earnings under this agreement.

The company also distributes about 80 MW of electricity and 60 tonnes per hour of steam to industrial customers in Sriracha Industrial Park through SPI as a direct counterparty, with minimum offtake amounts. SCG's electricity pricing for industrial customers are based on the Provincial Electricity Authority's (PEA) tariff structure, which includes a fuel adjustment charge or Ft. While the Ft aims to reflect changes in fuel prices, adjustments usually carry a time lag and are subject to authority discretion on both timing and magnitude.

In addition to the cogeneration power plant, SCG owns and operates two biomass power plants under the Very Small Power Producer (VSPP) scheme, holding PPAs with PEA (rated "AAA/Stable") for 15 MW in total.

Recovery in earnings

SCG's EBITDA in 2023 increased by 91% year-on-year (y-o-y) to THB733 million, with the debt to EBITDA ratio improved to 5.8 times. This was mainly attributed to the widened spark spreads. In 2023, the fuel-cost pass-through mechanism through Ft adjustments for industrial electricity sales was resumed, following an easing of the high gas-cost environment. SCG's average gas cost decreased by 22% y-o-y to THB388 per MMBTU in 2023. Meanwhile, the average Ft increased by THB0.4342 per kWh to THB0.8328 per kWh, raising the average industrial electricity tariff by about 10% y-o-y.

On the flipside, electricity sales from SCG's cogeneration plant in 2023 continued to be affected by sluggish manufacturing and export activities. Electricity sales to industrial customers in 2023 dropped by 5.6% to 369 GWh. After April 2024, contributions from industrial customers will increase to about 65%-70%. This increased reliance on industrial customers will expose SCG to higher demand risk and macroeconomic factors affecting manufacturing activities and demand for electricity in the Sriracha Industrial Park. However, we anticipate a recovery in manufacturing activities and prospective demand from new factories in Sriracha Industrial Park. Therefore, we forecast a rise in electricity sales to industrial customers to 400 GWh by 2025.

During 2024-2026, we expect natural gas costs to fall. The Ft could be adjusted to reflect the cost, continuing to compensate the hefty subsidy on fuel costs during 2021-2022. In our base-case forecast, we assume that the compensation component of the Ft will spread over 2024-2026, supporting spark spread from electricity sales to industrial customers. Nonetheless, we forecast the company's EBITDA in 2024 to be lower than THB700 million—pushing up the debt to EBITDA ratio to exceed 6 times. This arises from a decrease in electricity sales to EGAT, coupled with additional expenses incurred during the commissioning of the new plant—which will cause a delay in SCG's ability to fully benefit from the new plant's increased energy efficiency. We expect the company's EBITDA to improve to the range of THB800-THB900 million per year during 2025-2026, as the new plant records full-year operations, causing the debt to EBITDA ratio to improve to a figure below 5 times by 2026.

SCG's capital structure is moderately leveraged. At the end of 2023, the company's debt to capitalization ratio increased to 53.5%, largely due to capital expenditure for the SPP Replacement Project. During 2024-2026, we expect SCG's capital expenditure of about THB1.7 billion in total, including THB1.1 billion for expansion in renewable energy. The company's debt to capitalization ratio is likely to stay in the 53%-57% range over the forecast period.

Growing renewable portfolio

SCG has two VSPP biomass power plants holding 15-MW PPAs, under the Feed-in-Tariff (FiT) scheme. In 2023, biomass power plants contributed about THB107 million in EBITDA to SCG. The biomass power plant operations were satisfactory with plant availability factors between 91% and 95%.

SCG, as RATCH's investment arm in renewables, is actively expanding its solar power generation portfolio. Its subsidiary, Solarist Thungfai Co., Ltd., has secured a 27-MW solar PPA with EGAT, with a scheduled commercial operation date (SCOD) within 2030.

SCG is also fostering its distributed solar generation business through private PPAs. The company has 11 solar rooftop projects with installed capacity of 10 MW in total, primarily targeting industrial customers in Sriracha Industrial Park, with most reaching completion in 2024. In addition, SCG and Principal Capital PLC (PRINC) signed a memorandum of understanding (MOU) to develop solar rooftops for hospitals in the PRINC Group.

Adequate liquidity

We assess SCG having an adequate liquidity profile. At the end of 2023, the company's sources of liquidity comprised cash on hand of THB965 million and total undrawn bank credit facilities of THB808 million. We forecast funds from operations (FFO) over the following 12 months of THB430-THB460 million. The company's cash on hand plus FFO should be sufficient to cover capital expenditures and debt repayments. Over the following 12 months, SCG will have debt repayment obligations, excluding short-term borrowings, of about THB367 million plus capital expenditures of about THB692 million. Based on SCG's past record, the company should be able to roll over short-term debts of THB1.6 billion at the end of 2023.

Debt structure

At the end of 2023, SCG's priority debts totaled THB207 million, representing about 4.1% of total debt. The priority debts consisted of THB65 million in secured debts and THB142 million in senior unsecured debts owed by its operating subsidiaries.

A strategic subsidiary of RATCH

We view SCG as a strategic subsidiary of RATCH. SCG became a subsidiary of RATCH in December 2021. RATCH currently holds a 51.7% interest in SCG. Since 2022, SCG has received support from financial institutions in RATCH's network and business matching with the PRINC Group. In addition, SCG has adopted a financial policy which is aligned with RATCH's policy. RATCH has also expressed its intention to provide continued financial support to SCG, if needed.

RATCH has positioned SCG as a flagship company to invest in small- and medium-sized power projects, especially in renewable energy. RATCH's top executives—Chief Executive Officer, Chief Financial Officer, and Chief Business Development Officer—are members of SCG's board of directors. The managing director of SCG is appointed by RATCH. RATCH places emphasis on the growth prospects of SCG and has established a new business development department with secondment from RATCH's business development team to SCG. The growth objective is to double SCG's attributable capacity to 400 MW by 2027.

BASE-CASE ASSUMPTIONS

- A heat rate of 7,300-7,350 BTU/kWh for the SPP Replacement cogeneration plant during 2024-2026.
- Demand from industrial customers in Sriracha Industrial Park to increase to 87 MW by 2026.
- Dispatch factors for the SPP power plant of about 80% for EGAT and about 60% for industrial customers.
- Availability factors between 91% and 96% for the two biomass power plants.
- Capital expenditures for 2024-2026 totaling about THB1.7 billion, including about THB1.1 billion for expansion investment in renewable energy.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SCG will maintain satisfactory operating performance, with energy-efficiency gains from the commencement of the new cogeneration unit. The transition to a new EGAT PPA with lower contracted capacity of 30 MW should have a limited impact on the company's cash generation. We also expect the pass-through mechanism of fuel costs to remain in place for electricity sales to industrial customers during 2024-2026, reflected in Ft adjustments.

RATING SENSITIVITIES

The credit upside for SCG is limited over the next 12-18 months. Downward pressure on the ratings could arise if SCG's financial profile deviates significantly from our expectations, such that the debt to EBITDA ratio exceeds 6 times on a sustained basis, or if there is a material deterioration in the company's operating cash flow. Any major debt-funded investments, which considerably weaken the company's capital structure, could also lead to a rating downgrade.

Any material changes in the credit profile of RATCH or a change in the relationship between SCG and RATCH could also impact the ratings on SCG.

COMPANY OVERVIEW

SCG was established in 1999 to own and operate a cogeneration power plant under the SPP scheme. The company was listed on the Stock Exchange of Thailand (SET) in 2004. As of May 2024, RATCH held a 51.7% interest in SCG, followed by SPI (12.2%), S&J International Enterprises PLC (9.6%), and Saha Pathanapibul PLC (5.7%).

At the commencement of operations in 1999, SCG's total installed capacity was 122 MW of electricity plus 41 tonnes of steam per hour, using natural gas as the primary fuel under a long-term gas supply contract with PTT PLC. The company subsequently underwent four expansions to serve growing demand from industrial users in Saha Group Industrial Park–Sriracha, including the SPP Replacement Project.

SCG commenced operations of a new cogeneration plant on 19 April 2024, supplying electricity to EGAT under a 25-year, 30-MW PPA. It also supplies electricity and steam to industrial customers in Saha Group Industrial Park–Sriracha. SCG's total installed capacity at the Sriracha power plant is currently 238 MW of electricity plus 171 tonnes of steam per hour.

As for the renewable business, SCG operates two VSPP biomass power plants in Lamphun and Kamphaeng Phet with total installed capacity of 17.1 MW and total contracted capacity of 15 MW with PEA under the FiT structure. SCG is also expanding into the solar power generation business through a 27-MW solar PPA with EGAT and solar rooftop PPAs with private customers.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics

	Unit	Year Ended 31 December 2023	2022	2021	2020	2019
Gas-fired SPP plant						
Net output energy [1]	GWhe	1,002	1,050	1,107	1,071	1,112
Proportion of energy supplied to industrial customers	%	41.7	42.1	43.7	42.7	42.9
Plant heat rate [2]	BTU/kWh	8,389	8,311	8,500	8,517	8,454
Availability factor	%	93.2	94.2	96.5	96.4	93.3
Planned outage	%	6.6	3.9	3.4	3.5	6.5
Unplanned outage	%	0.1	1.8	0.1	0.1	0.3
Biomass VSPP plants						
SGN – Net output energy [1]	GWhe	83	82	67	80	77
SGN – Availability factor	%	95.1	94.6	74.9	97.0	95.2
SGF – Net output energy [1]	GWh	54	58	57	57	55
SGF – Availability factor	%	91.1	94.5	93.7	89.6	86.5

Remarks: [1] *Net output of electricity and steam in the unit of gigawatt-hour equivalent (GWhe)*
[2] *As compared with the EGAT contract heat rate of 8,600 Btu/kWh*

Source: *SCG*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	---Year Ended 31 December---				
	2023	2022	2021	2020	2019
Total operating revenues	5,111	5,763	4,233	3,978	4,326
Earnings before interest and taxes (EBIT)	204	(190)	81	246	316
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	733	383	690	821	845
Funds from operations (FFO)	553	271	575	692	669
Adjusted interest expense	179	110	109	129	155
Capital expenditures	2,009	1,350	279	306	241
Total assets	9,941	8,521	7,592	6,626	6,745
Adjusted debt	4,289	3,028	2,008	3,523	3,765
Adjusted equity	3,734	3,693	3,980	2,739	2,723
Adjusted Ratios					
EBITDA margin (%)	14.35	6.65	16.30	20.64	19.53
Pretax return on permanent capital (%)	2.43	(2.57)	1.22	3.79	4.77
EBITDA interest coverage (times)	4.10	3.50	6.32	6.34	5.45
Debt to EBITDA (times)	5.85	7.90	2.91	4.29	4.46
FFO to debt (%)	12.89	8.96	28.61	19.63	17.76
Debt to capitalization (%)	53.46	45.05	33.54	56.27	58.04

* *Consolidated financial statements*

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

Ratch Pathana Energy PLC (SCG)

Company Rating:	A
Issue Ratings:	
SCG259A: THB700 million senior unsecured debentures due 2025	A
SCG299A: THB550 million senior unsecured debentures due 2029	A
SCG329A: THB1,400 million senior unsecured debentures due 2032	A
Rating Outlook:	Stable

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