TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SPCG PLC

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CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
17/08/17	A	Stable
04/06/15	A-	Stable
02/05/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on SPCG PLC (SPCG) and its debenture ratings at "A". The ratings continue to reflect the company's reliable cash flows from its investment portfolio in solar power projects, its management experience as a pioneer in the solar power business, and the reliable performance of its solar power projects. However, the ratings are constrained by SPCG's risks in respect to overseas investments to replenish its earnings before interest, tax, depreciation, and amortization (EBITDA), which would elevate its gearing during the build-up phase.

KEY RATING CONSIDERATIONS

Reliable cash flows from investment portfolio

TRIS Rating expects SPCG's investments in solar power projects will continue to be the major sources of cash flow over 2018-2021. In 2017, solar power projects accounted for about 90% of EBITDA while the remaining 10% was generated from solar roof and other businesses.

SPCG, through its subsidiaries, owns 36 operational solar power plants mostly located in the Northeastern region of Thailand. All of the plants have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) and receive a tariff adder of Bt8 per kilowatt-hour (kWh) on top of the normal tariff for 10 years after commencing commercial operation.

The cash flows from the solar power projects are reliable and predictable, because of the tariffs in the contracts and the fact that the payment risk to the buyer is minimal.

Forecast-beating performance

SPCG's management experience in the solar power business underpins the company's strength. It was the first developer of commercial-scale solar power plants in the country.

SPCG's performance continues to beat our expectations. In 2017, the actual power generated of 385 gigawatts-hours (GWh) outreached our forecast by 12%. This trend continued in the first half of 2018, with the actual power output of 195 GWh making up for about 57% of our full-year forecast.

Going forward, TRIS Rating believes SPCG will stay on a roll, largely backed by technologically-proven and certified equipment, as well as operating efficiencies. SPCG's power plants are well-equipped, as the company sources the major equipment, i.e., photovoltaic (PV) modules and inverters, from reputable suppliers, namely Kyocera Corporation (Kyocera) and SMA Solar Technology AG (SMA). Both suppliers also provide SPCG with multi-year warranties covering the efficiency of their products.

TRIS Rating forecasts SPCG would generate about 360-380 GWh of power per year from 36 solar power plants during 2018-2021. This forecast is based on the expected plant performance ratio of around 78% and a 50% probability of energy production (P50). In all, the domestic solar power plants will bring in about Bt4 billion in yearly revenues.

Moreover, SPCG holds minority shares in a 30-megawatt (MW) solar power plant in Tottori, Japan. The project began commercial operation in late April 2018. SPCG should receive about Bt5-Bt6 million in dividend income per year.

SPCG on the need for further expansion

TRIS Rating views that the looming expiration of adder tariffs starting in 2020 through 2025 will induce SPCG to pursue growth. The expiration of the adder scheme will hurt the company's EBITDA, particularly in 2024-2025. As a result, SPCG inevitably needs to invest in new projects in efforts to entrench its earnings. SPCG is inclined to invest overseas in the wake of limited opportunities in Thailand.

SPCG has planned to further invest in more solar farms in Japan. The company is intent on holding a minority interest in Ukujima Mega Solar Project, a 480-MW power plant with project cost totaling about Bt58 billion. Given the massive scale of investment, the project is developed by 8 participants and scheduled to begin a 4-year construction in 2019. The project carries relatively higher construction risks. Moreover, SPCG is considering to invest in another 65-MW Japan-based solar power project, costing about Bt9.6 billion. TRIS Rating expects that the latter project will be majority-owned by SPCG.

In our view, the execution risks associated with the two projects are manageable, taking into account the low country risk and off-taker risk, as well as, creditability of SPCG's investing partners.

In our forecast, the two projects would bring in sizable earnings to SPCG from 2022 onwards, which would somewhat offset the declining revenues from domestic solar power plants. Due to higher development costs, the Japan-based projects are expected to yield lower return on investment, relative to SPCG's existing projects. Looking ahead, SPCG's pretax return on permanent capital may decline to below 10%.

Leverage likely to rise but considered acceptable

With steady debt repayment, SPCG's adjusted debt declined to Bt9.1 billion as of June 2018. The ratio of debt to capitalization improved from 52.3% as of 2016 to 41.1% at the end of June 2018. SPCG's equity base also increased by about Bt1.1 billion from new share issuance to Kyocera Corporation, its strategic partner.

TRIS Rating forecasts SPCG will have a strong capital structure towards the end of 2019, with the debt to capitalization ratio declining to below 25%. However, the ratio could rise again to above 35% in 2021, based on our expectation that SPCG will spend about Bt11.9 billion in capital expenditures to complete the new projects. Such leverage level is deemed acceptable in consideration of the invested projects.

TRIS Rating views that new investments would not deteriorate the company's capital structure significantly. This is because the company holds cash and cash equivalents of about Bt2.5 billion and securities available for sale of about Bt1.3 billion, which would be one source of funds to invest in new projects. However, the leverage ratio could rise to about 40% should there be any further investments other than the projects in the pipeline during the next three years.

TRIS Rating forecasts the company's EBITDA to fall in the range of Bt3.5 – Bt4.0 billion per year during 2018-2021. Those EBITDA levels could satisfy the upcoming debt due. In the second half of 2018, about Bt2.4 billion of debentures will be due. Meanwhile, SPCG has Bt2.4 billion in debentures coming due in 2019, Bt1.7 billion in 2020, and Bt2.2 billion in 2021.

RATING OUTLOOK

The "stable" outlook embeds the expectation that SPCG will be capable of maintaining the plant performance ratio at a satisfactory level above 75% over the next three years, leaving the company with EBITDA of at least Bt3.5-Bt4.0 billion per year. SPCG's financial policy is expected to remain prudent, such that the forthcoming expansions would not markedly hurt its financial flexibility.

RATING SENSITIVITIES

A rating upgrade could occur if SPCG could generate more EBITDA on a sustained basis, which could result from building sound and profit-making assets or earning solid returns from the investments, while SPCG maintains leverage at a manageable level.

On the contrary, a downward rating pressure could develop if solar plant performances drop drastically, which would then considerably weaken SPCG's cash flow. A negative rating pressure could also come from SPCG's excessive use of debt to fund the expansion plans.

COMPANY OVERVIEW

SPCG was founded in 1996 as Solar Power Co., Ltd. (SPC) to develop solar power projects in Thailand. In 2011, the company was listed on the Market for Alternative Investment (MAI), through a reverse listing process, and was renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET).

As of March 2018, the Khunchornyakong family held a 46% interest in SPCG. SPCG is a holding company, investing in 36 solar farms with a combined contracted capacity of 205.92 megawatts (MW). In 2017, solar farms continued to account for the vast majority (71%) of its revenue. About 25% of revenue came from the solar rooftop segment and the rest (4%) came from a sheet metal roofing factory and other businesses.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

			----------------Year Ended 31 December ----------			
	Jan-Jun 2018		2017	2016	2015	2014
Total operating revenues	3,064		6,015	5,460	5,006	4,363
Operating income	2,069		4,042	3,941	3,885	3,384
Earnings before interest and taxes (EBIT)	1,767		3,437	3,301	3,265	2,851
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,090		4,081	3,954	3,910	3,422
Funds from operations (FFO)	1,791		3,398	3,199	3,083	2,453
Adjusted interest expense	261		618	746	898	979
Capital expenditures	8		90	91	220	1,377
Total assets	24,973		23,027	24,232	24,736	25,571
Adjusted debt	9,116		9,220	10,700	13,023	14,426
Adjusted equity	13,089		11,208	9,766	8,470	7,100
Adjusted Ratios						
Operating income as % of total operating revenues (%)	67.54		67.20	72.18	77.59	77.55
Pretax return on permanent capital (%)	14.72	**	15.29	13.93	13.22	12.59
EBITDA interest coverage (X)	8.02		6.60	5.30	4.35	3.50
Debt to EBITDA (X)	2.20	**	2.26	2.71	3.33	4.22
FFO to debt (%)	38.40	**	36.86	29.89	23.67	17.00
Debt to capitalization (%)	41.05		45.13	52.28	60.59	67.01

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

SPCG PLC (SPCG)

Company Rating:	A
Issue Ratings:	
SPCG196A: Bt4,000 million guaranteed and amortizing debentures due within 2019	A
SPCG18DA: Bt1,800 million senior unsecured debentures due 2018	A
SPCG19DA: Bt1,800 million senior unsecured debentures due 2019	A
SPCG20DA: Bt1,700 million senior unsecured debentures due 2020	A
SPCG21DA: Bt1,700 million senior unsecured debentures due 2021	A
SPCG22DA: Bt1,250 million senior unsecured debentures due 2022	A
SPCG23DA: Bt650 million senior unsecured debentures due 2023	A
Rating Outlook:	Stable

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