SPCG PLC

No. 43/2022
29 March 2022

CORPORATES

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

Last Review Date: 27/09/21

Company Rating History:

Date	Rating	Outlook/Alert
25/03/21	A-	Stable
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 the ratings on its outstanding debentures at “A-”, with a "stable" rating outlook. The ratings reflect reliability of solid cash flow stemming from SPCG’s solar farms. The ratings also embed expectation of successful development of SPCG’s new solar farm project being developed in Eastern Economic Corridor (EEC) Special Development Zone. However, the ratings are constrained by the expected rise in SPCG’s financial leverage to support the project and development risks, particularly further delay of the project. The ratings also recognize the ongoing phase-out of additional tariff (adder) which stands to lower future earnings.

KEY RATING CONSIDERATIONS

Reliability of solid cash flow

SPCG's core power assets, comprising 36 solar farms in Thailand, have generated solid revenues and earnings. Due to low operational risks and the power purchaser's high creditworthiness, the cash flow from solar farms is highly predictable. With total contracted capacity of 206 megawatts (MW), the solar farms are operated under non-firm long-term Power Purchase Agreements (PPAs) with the Provincial Electricity Authority (PEA). Under the PPAs, all solar farms have benefited from a THB8 per kilowatt-hour (kWh) adder on top of the base tariff for the first 10 years.

SPCG's solar farms have delivered satisfactory results on average. Most solar power plants consistently beat the predicted operating performance threshold of the P50 level (the 50% likelihood of energy production).

Lingering pressure from adder expiration

The ongoing phase-out of the tariff adder continues to pressure SPCG’s future earnings and necessitate the company to secure new power projects. At the end of 2021, five out of 36 solar farms no longer enjoyed the favorable adder and received only a base tariff for power sales. The expiration of adder received by the remaining solar farms will take effect during 2022-2024.

In effect, we expect to see the average tariff falling to THB4.4 per kWh in 2024, compared with THB10.4 per kWh in 2021. In our base-case forecast, SPCG’s earnings before interest, taxes, depreciation, and amortization (EBITDA) from the 36 solar farms will decline by about THB0.6-THB1 billion per year during 2022-2024. We project SPCG's earnings from these core assets to drop sharply in 2024 and 2025. The average tariff is expected to decline to around THB3.5 per kWh when the adder benefit entirely ends.

More challenging business environment

We view SPCG’s efforts in securing new projects to adequately offset the solid cash flows the company earned over the past several years will likely face huge challenges. We hold our view that the domestic power market has become more challenging. Competition has intensified in recent years. Private companies, ranging from very small entrepreneurs to large conglomerates, have branched into power generation business. While the domestic demand for power has tended to grow modestly due to the Coronavirus Disease 2019 (COVID-19) pandemic-induced economic slowdown, the country is currently saddled with a high level of excess reserve of capacity.

Due to the cancellation of incentive tariff, a highly competitive market, repeated delays in governmental projects, and a decreased return on investment, solar power investment opportunities in Thailand look to be rapidly dwindling. Thai power companies are increasingly leaning towards investment opportunities outside Thailand. However, some overseas expansions entail higher business risk stemming from lower transparency and consistency of regulations in the domiciled countries, lower credit profiles of off-takers, and environmental challenges.

Higher exposure in Japan

SPCG has invested in Ukujima Solar Project, a 480-MW solar farm located in Ukujima island, Japan. SPCG will spend a tally of THB2.6 billion for a 17.9% equity interest in the project. Given the construction delay brought on by the COVID-19 pandemic, the project is expected to commence operation in 2024 and SPCG will earn dividends from 2025 onwards. In 2021, the company also spent approximately THB96 million for a 10% equity interest in the Fukuoka Miyako Mega Solar Project. The project carries 67 MW in total installed capacity, including 23 MW for the North phase and 44 MW for the South phase. The North phase started its operation in 2021, while the South phase is under construction and expected to commence operation in 2023.

The EEC solar project development

SPCG is looking to sustain its future earnings with the 500-MW solar farm projects in the new city of EEC (the EEC solar project). With a total project cost of almost THB23 billion, this much-anticipated project is designed to meet the projected electricity demand in EEC and take part in establishing a low-carbon industrial zone. SPCG holds 80% interest in the project company, SET Energy Co., Ltd. (SET Energy), whereas PEA ENCOM International Co., Ltd. (PEA-ENCOM) holds the other 20% interest.

SET Energy will sell electricity to PEA via PEA-ENCOM under a 25-year PPA. The electricity sales volume to PEA shall not exceed the monthly consumption in the new city area and the five sub-districts in Bang Lamung district. The tariff is based on the wholesale tariff that the Electricity Generating Authority (EGAT) sells to PEA according to the actual connected voltage level. The project development is divided into phases whereby SPCG now aims to construct a total capacity of 316 MW for the first phase.

First phase of EEC solar project expected to commence commercial run in 2023

SPCG has procured lands for the first phase, which comprises 23 solar farms in three provinces. However, the construction that was set to begin in 2021, has been delayed. In our base-case forecast, we assume the project construction will be completed by 2022 and start commercial run in early 2023. We estimate the first phase of EEC solar project will bring in approximately THB1.4 billion of revenue each year. We believe the project will generate highly predictable cash flow, thanks to low operational risk and the reliable electricity buyer. However, we consider the project is exposed to significant execution risks, including (i) lower-than-expected electricity demand in the area, (ii) the actual tariff rate, which could be lower than our base-case assumption, and (iii) further project delay caused by relevant regulatory requirements.

Expected rise in debt load

According to our base-case forecast, SPCG's earnings from the EEC solar project will not be adequate to compensate for the revenue loss due to adder expirations. However, we view the cash flows from the EEC solar project will help alleviate the impact. A further delay of the project will result in a steeper decline in SPCG's earnings.

We forecast SPCG's EBITDA to total THB3 billion in 2022, a 20% drop from THB3.7 billion in 2021. In 2023, the EEC solar project is projected to raise the company's EBITDA to THB3.4 billion, while EBITDA from the existing 36 solar farms continue to decrease. We project EBITDA to decline to THB2.4 billion in 2024 and EBITDA margin (EBITDA as a percentage of revenue) to drop to 68% in 2024, in contrast to 81% in 2021.

TRIS Rating expects that the initial phase of the EEC solar project will cost over THB15 billion, which is a large amount relative to SPCG's asset size. The project will be financed primarily through debt. As a result, SPCG's consolidated debt is expected to rise to about THB13 billion in 2022, a significant increase from THB2.1 billion in 2021. We forecast the company's debt to EBITDA ratio will surge to 3.3-4.4 times in 2022-2024, up from 0.6 times in 2021. In addition, the debt to capitalization ratio is forecast to increase to about 33%-40% during 2022-2024, up from 10% in 2021.

Debt structure

At the end of 2021, SPCG had THB4.4 billion in total debt, primarily comprising clean long-term loans (THB0.9 billion) and senior unsecured debentures (THB3.4 billion). The priority debt ratio was 0.5% which suggested insignificant subordination risk for SPCG's unsecured creditor.

However, that may change in the next few years. As the debt at SET Energy, the operating subsidiary, is set to increase over the course of the EEC solar project development, we expect it will substantially increase the level of priority debt at the parent level with the potential of triggering a downward revision on SPCG's issue ratings to be one-notch below the company rating due to structural subordination.

Ample liquidity

We view SPCG has ample liquidity relative to its maturing obligations. As of December 2021, SPCG had debt obligations due in the next 12 months totaling THB1.7 billion, while the company had cash and cash equivalents of THB3 billion.

BASE-CASE ASSUMPTIONS

- The EEC solar project to be constructed in 2022 and start operation in the first quarter of 2023.
- During 2022-2024, annual power output to be in the range of 353-761 gigawatt-hour (GWh).
- Total revenues are projected to be THB3.9 billion in 2022, THB4.5 billion in 2023, and THB3.5 billion in 2024.
- EBITDA margin is forecast at 76% in 2022-2023, and 68% in 2024.
- Capital expenditures and investments to total THB13 billion during 2022-2024.
- Bond repayment of THB1.3 billion in 2022, THB0.65 billion in 2023, and THB1.5 billion in 2024.
- Dividend payout ratio at 43% during 2022-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SPCG's existing power portfolio will continue to perform well, and the first phase of EEC solar project will be completed and generate cash flow as planned, resulting in SPCG's operating performance and financial leverage to be in line with our forecast.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited, given the phase-out of adder. Furthermore, we expect SPCG's financial profile to deteriorate as a result of the debt-financed investment in the EEC solar project.

On the other hand, a downward revision to the ratings could occur if SPCG's cash flow weakens considerably. The downgrade might happen if the plant performance significantly falls short of our forecast or SPCG's efforts to alleviate the weakening cash flow fail to produce the expected results. Negative rating pressure could also arise if SPCG's financial risk is increased further due to excessive debt use to fund new investments.

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 renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET). As of March 2021, the Khunchornyakong family held a 34% interest in SPCG. SPCG is a holding company, investing in 36 solar farms with a total installed capacity of 260.35 MW.

SPCG's strong business profile is buoyed by the reliable cash flows it earns from investing in solar power projects. SPCG, through its operating subsidiaries, owns 36 operational solar power plants. All of the plants have PPAs with PEA and will receive a tariff adder of THB8 per kWh on top of the normal tariff for 10 years. The company's solar farms are located in nine provinces in the Northeastern region of Thailand and in Lopburi province. The Northeastern region is best suited for solar power production, based on the statistics for solar irradiation levels in the area.

SPCG has strived to seek new project investments to replenish its dwindling earnings. The company has invested in Ukujima Solar Project, a 480-MW solar farm located in Ukujima island, Japan. In total, SPCG will spend THB2.6 billion for 17.9% shares in the project, along with reputable partners, such as, Kyudenko Corporation, and Kyocera Corporation. Given a multi-year period of project construction, the project is expected to commence operation in 2024. We expect SPCG will earn dividend from 2025 onwards.

Apart from the Ukujima project, SPCG also invested in Fukuoka Miyako Solar Project, a 67-MW solar farm located in Miyako town, Fukuoka (Kyushu island), Japan. The project has 67 MW total installed capacity, including 23 MW for the North phase and 44 MW for the South phase. SPCG spent around THB96 million for 10% shares in the project. The project will fully operate in 2023, while the earnings will start in 2026.

SPCG is now bent on developing the solar farm project in the EEC area. SPCG holds 80% shares in the project through its subsidiary, SET Energy. PEA-ENCOM, a subsidiary of PEA, holds the rest of 20%. The project will produce and distribute the electricity to PEA under the electricity charged rate sold to EGAT to PEA and deduct THB0.01 per each kWh. In November 2020, SET Energy entered into a power purchase agreement with PEA-ENCOM. The PPA has a term of 25 years with option to extend for five years in each time.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----------------------Year Ended 31 December --------------------				
	2021	**2020**	**2019**	**2018**	**2017**
Total operating revenues	4,568	4,941	5,260	5,997	6,015
Earnings before interest and taxes (EBIT)	3,023	3,374	3,365	3,479	3,437
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,688	4,053	4,036	4,170	4,081
Funds from operations (FFO)	3,390	3,704	3,639	3,605	3,398
Adjusted interest expense	155	266	361	504	618
Capital expenditures	2,725	38	31	17	90
Total assets	24,048	21,718	21,903	22,798	23,027
Adjusted debt	2,096	2,134	3,417	6,776	9,220
Adjusted equity	19,347	17,156	15,604	13,881	11,208
Adjusted Ratios					
EBITDA margin (%)	80.73	82.03	76.73	69.54	67.85
Pretax return on permanent capital (%)	13.41	15.76	15.42	15.80	15.29
EBITDA interest coverage (times)	23.77	15.23	11.19	8.28	6.60
Debt to EBITDA (times)	0.57	0.53	0.85	1.62	2.26
FFO to debt (%)	161.72	173.59	106.50	53.21	36.86
Debt to capitalization (%)	9.78	11.06	17.96	32.80	45.13

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

SPCG PLC (SPCG)

Company Rating:	A-
Issue Ratings:	
SPCG22DA: THB1,250 million senior unsecured debentures due 2022	A-
SPCG23DA: THB650 million senior unsecured debentures due 2023	A-
SPCG24OA: THB1,500 million senior unsecured debentures due 2024	A-
Rating Outlook:	Stable

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