

# SPCG PLC

No. 25/2023  
1 March 2023

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 29/03/22

### 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" outlook. The ratings reflect the high reliability of SPCG's cash flow from its solar power generation and strong financial position. However, the ratings are weighed down by the expectation of softening financial performance due to the phase-out of additional tariff (adder). Also, the ratings take into consideration the likelihood of heightening debt burden arising from future projects, particularly the new solar farm project to be developed in the Eastern Economic Corridor (EEC) Special Development Zone.

## KEY RATING CONSIDERATIONS

### Highly reliable cash flow from existing solar projects

SPCG's 36 solar farms in Thailand generated almost all the company's cash flow in 2022. They have secured contracts with high creditworthy power purchasers and their performances are highly predictable. With total contracted capacity of 206 megawatts (MW), the solar farms operate under non-firm long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA). Under the PPAs, all solar farms have THB8 per kilowatt-hour (kWh) adder for the first 10 years on top of the base tariff.

SPCG's solar farms had an energy output of 374 gigawatt-hours (GWh) in 2022. Despite the heavier-than-historical average rainfall in the Northeast region, the total energy output was satisfyingly above the P50 operating performance threshold (a statistical level of confidence suggesting the predicted solar energy yield that could be achieved with 50% probability). The energy outputs of all 36 solar power plants have consistently beaten the P50 level in the past four years. We expect them to continue to generate energy outputs above the P50 level with degradation of 0.5% per year at most. That is, the outputs would range between 367-371 GWh per year during 2023-2025.

### Significant impact from phase-out of adders

At the end of 2022, nine of SPCG's 36 solar farms no longer enjoyed the adder. The adder received by the remaining solar farms will expire during 2023 through June 2024. We forecast the earnings before interest, taxes, depreciation, and amortization (EBITDA) from the 36 solar farms to drastically decline by about THB0.6-THB1.3 billion per year during 2023-2024 due in large part to the expiring adders. We project SPCG's core solar farms will generate EBITDA of THB2.8 billion in 2023, before plunging to THB1.5 billion in 2024, and to THB1.1 billion in 2025, reflecting the full impact of adder expiration.

### Long-delayed EEC solar project

SPCG has endeavored to develop the new 500-MW solar farm project in EEC, a move aimed at making up its diminishing EBITDA. The project would generate highly predictable cash flow, due to low operational risk and the credible electricity off-taker. The project is 75% owned by SPCG through SET Energy Co., Ltd. (SET Energy), whereas PEA ENCOM International Co., Ltd. (PEA-ENCOM) holds the other 25% interest. The project structure calls for SET Energy to sell electricity to PEA via PEA-ENCOM under a long-term PPA until 2045. The tariff is based on the wholesale tariff that the Electricity Generating Authority (EGAT) sells to PEA. The investment cost for the first phase of the project (316

MW) is estimated at around THB 15 billion. We estimate the first phase would bring in approximately THB1.2 billion in EBITDA per year.

SPCG has thus far spent about THB3 billion for land procurement and improvements for the first phase, which consists of 23 sites of solar farms. However, construction has been delayed for nearly two years due to long-pending regulatory approvals. SPCG expects to obtain all relevant approvals and permits in the second quarter of 2023. In our base-case forecast, we assume SPCG to begin construction of the first phase in the last quarter of 2023.

We view SPCG's future earnings to largely hinge on the success of the EEC solar project. Any further delay of the project could materially affect the company's financial strengths as SPCG will have incurred substantial capital expenditures while its core EBITDA is projected to decline toward the lowest level.

#### **Further investments in Japan**

The company acquired a 10% equity interest in the 67-MW Fukuoka Miyako Mega Solar Project, of which 23 MW started operation in 2021 with the remaining 44 MW starting commercial run in February 2023. SPCG has also invested in the 480 MW Ukujima Solar farm project. SPCG would spend a total of around THB2.6 billion for a 17.9% equity interest in the project. The Ukujima project is slated to start operation in 2024 and SPCG will earn dividends from 2025 onwards. We expect SPCG's exposure in Japan will further increase, with SPCG being a passive investor in the projects.

#### **New business model of private PPA with residential users**

We hold the view that SPCG's efforts in securing new projects to adequately offset the solid cash flows the company has earned over the past several years will likely face huge challenges, considering the mounting competition in recent years. SPCG is currently researching investments in solar roof power supply for residential users. The company aims to sell electricity to residential users, offering 20-year PPAs with 20% discount on effective electricity charge. The capacity of power supply per household would be less than 10 kilowatts. Several memorandums of understanding have been made with strategic partners for this business model study. As this new business is still in the studying stages and no deal has yet been agreed, it is not built into our base forecast. However, if the company heavily invests in this residential solar roof project in addition to the EEC solar project investment, its financial leverage could be above our forecast.

#### **Financial position is very strong, but potential investment would heighten leverage**

SPCG has not substantially invested in any large project since 2014. As a result, SPCG's debt has consistently declined, and its balance sheet became very strong with net cash position at the end of 2022. However, we assume the EEC solar project investment will continue in the fourth quarter of 2023. The project investment cost is a large amount relative to SPCG's asset size and will be financed primarily through debt. In effect, SPCG's consolidated debt is expected to rise to about THB8 billion in 2023 and THB12 billion in 2024.

We forecast SPCG's EBITDA to decline to around THB2.7 billion in 2023, from THB3.5 billion in 2022. Despite cash flow from the EEC solar project, we estimate EBITDA to further decline to 2.4 billion in 2024. We project the company's net debt to EBITDA ratio to surge to 2.7-4.5 times over the period. Also, the debt to capitalization ratio is forecast to increase to about 34% in 2024.

#### **Debt structure**

At the end of 2022, SPCG had THB2.2 billion in total debt, primarily comprising senior unsecured debentures (THB2.15 billion). There is no 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. That could potentially trigger a one-notch downward revision on the issue ratings assigned to the company's debt issues due to the risk of structural subordination.

#### **Ample liquidity**

We view SPCG as having ample liquidity relative to its maturing obligations. As of December 2022, SPCG had debt obligations due in the next 12 months totaling THB670 million, while the company had cash and cash equivalents of THB 3.2 billion.

#### **BASE-CASE ASSUMPTIONS**

- The EEC solar project to be constructed in the fourth quarter of 2023 and start operation in March 2024.
- During 2023-2025, annual power output to range between 371-830 GWh.
- Total revenues are projected to be THB3.7 billion in 2023, THB3.6 billion in 2024, and THB3.4 billion in 2025.
- Capital expenditures and investments to total THB13.9 billion during 2023-2025.
- Dividend payment of about THB960 million per year during 2023-2025.

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## RATING OUTLOOK

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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 we project, resulting in SPCG’s operating performance and financial leverage to be in line with our forecast.

## RATING SENSITIVITIES

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A rating upgrade is unlikely in the medium term, given that SPCG’s cash flows are entering a contraction period resulting from the expiring adders. Furthermore, we expect SPCG’s financial profile to deteriorate to some extent as a result of the debt-financed investment in the EEC solar project.

Conversely, downward pressure on the ratings would emerge if SPCG’s capital structure becomes weaker than expected due to the high debt-funded projects, including the EEC solar farms which may be delayed further while SPCG’s core EBITDA tapers off. Negative pressure on the ratings might also occur if power plant performance significantly falls short of our forecast.

## COMPANY OVERVIEW

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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 February 2022, 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 MW.

SPCG’s strong business profile is underpinned 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 plants have PPAs with PEA and have schemes receiving 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.

SPCG has endeavored 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 would spend around THB2.7 billion for 17.92% 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 would 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 has fully operated in February 2023.

SPCG is now bent on developing the solar farm project in the EEC area. SPCG holds 75% shares in the project through its subsidiary, SET Energy. PEA-ENCOM, a subsidiary of PEA, holds the rest of 25%. 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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	4,466	4,568	4,976	5,260	5,997
Earnings before interest and taxes (EBIT)	2,821	3,023	3,339	3,365	3,479
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,479	3,688	4,019	4,036	4,170
Funds from operations (FFO)	3,131	3,390	3,737	3,632	3,602
Adjusted interest expense	104	155	207	361	504
Capital expenditures	116	2,725	38	31	17
Total assets	23,718	24,048	21,718	21,903	22,798
Adjusted debt	0	2,096	2,122	3,417	6,776
Adjusted equity	20,974	19,347	17,156	15,604	13,881
<b>Adjusted Ratios</b>					
EBITDA margin (%)	77.89	80.73	80.76	76.73	69.54
Pretax return on permanent capital (%)	12.03	13.41	15.60	15.42	15.80
EBITDA interest coverage (times)	33.47	23.77	19.40	11.19	8.28
Debt to EBITDA (times)	0.00	0.57	0.53	0.85	1.62
FFO to debt (%)	n.m.	161.72	176.10	106.32	53.16
Debt to capitalization (%)	0.00	9.78	11.01	17.96	32.80

n.m.= Not meaningful

## RELATED CRITERIA

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

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**SPCG PLC (SPCG)**

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<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
SPCG23DA: THB650 million senior unsecured debentures due 2023	A-
SPCG24OA: THB1,500 million senior unsecured debentures due 2024	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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