TRIS RATING
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TPI POLENE POWER PLC

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CORPORATES

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

Last Review Date: 23/07/20

Company Rating History:

Date	Rating	Outlook/Alert
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
17/09/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene Power PLC (TPIPP) and the ratings on TPIPP's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook.

At the same time, TRIS Rating assigns the rating of "BBB+" to TPIPP's newly proposed issue of up to THB3 billion in senior unsecured debentures. The company will use the proceeds from the new debentures to refinance the bond which will mature in November 2021.

The ratings continue to reflect TPIPP's reliable and robust cash flows underpinned by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and its competitive advantage with respect to fuel costs. However, the ratings are weighed down by the operational risks of refuse-derived fuel (RDF) power plants and the imminent expiration of the tariff adder. The ratings are also tempered by the rise in financial leverage during investment periods and investment risks associated with the Special Economic Zone (SEZ) development project.

KEY RATING CONSIDERATIONS

Rating capped by the parent company's rating

The ratings on TPIPP are capped by the ratings on TPI Polene PLC (TPIPL) at "BBB+" as TPIPP is a core subsidiary of TPIPL (rated "BBB+/Stable" by TRIS Rating). TPIPP's stand-alone company rating is affirmed at "A", reflecting its stronger credit profile than TPIPL.

The capped ratings reflect a strong parent-subsidiary relationship between the two entities. TPIPL continues to be TPIPP's ultimate shareholder, holding a stake of 70.24% in TPIPP. TPIPL's top management continues to have a dominant influence over TPIPP's business strategies and financial policies.

We expect TPIPP will remain the top earner in the business group under TPIPL, making up 60%-70% of TPIPL's consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA). TPIPP's solid profitability is a key underlying factor supporting the rating on the group.

The ratings also mirror a high level of business integration between TPIPP and its parent company. The operational interdependence between the two companies exposes TPIPP to TPIPL's business risk in the highly cyclical cement business. As TPIPL buys power from, and supplies waste heat to TPIPP, interruptions in TPIPL's cement plant operations may affect its power demand and supply of waste heat, and thus the operations of TPIPP's power plants.

Robust cash flow from WTE power plants

TPIPP owns and operates eight power plants, mainly using RDF, waste heat, and coal as fuels. The company is the largest waste-to-energy (WTE) producer in Thailand by capacity. Its total installed capacity is about 440 megawatts (MW), of which 180 MW is allocated for supply to EGAT and the rest for TPIPL.

The ratings recognize TPIPP's reliable cash flow, backed by multi-year PPAs with EGAT (rated "AAA/Stable" by TRIS Rating). Currently, TPIPP holds three PPAs, totaling 163 MW. The PPAs largely mitigate demand risk and grant a tariff adder of THB3.50 per kilowatt-hour (kWh) on top of the base tariff rate of approximately THB3 per kWh for seven years. The favorable adder has translated into a high profit margin for TPIPP. Overall, TPIPP's EBITDA margin has ranged from 50%-55%.

Competitive fuel costs

We assess that TPIPP's operational advantages are underpinned by the low costs of the RDF and waste heat. The cost of RDF is relatively low as it can be sourced from landfill waste and municipal solid waste (MSW). Waste heat, a by-product from cement production, is another advantage exclusive to TPIPP due to its power plants being near to its parent's cement plants. However, the waste heat supply is unstable and moves in tandem with the utilization rate of TPIPL's cement plants.

Operational risks lessened by continuous improvement programs

TPIPP's competitive strengths are tempered by the complexity of RDF-fired power plants and the varying quality of feedstocks. RDF-fired power plants are more complex than conventional fossil-fuel plants, and subject to greater risks for operational outages than power plants with stable quality of fuels. However, operational risk is alleviated by TPIPP's extensive experiences and its plant improvement programs run over several years. In addition, the company has installed two spared boilers in its power plants to avert interruptions in electricity generation. The installation of the third boiler will be completed in the first quarter of 2021. We still believe that large and continuous maintenance capital expenditures will still be required to sustain plant efficiency and smoother operations.

In 2020, TPIPP's operating performance continued to improve from the previous year, with total power output increasing by 5.4% to 2,063 gigawatt hours (GWh). Following full installation of the first two boilers, the power plants selling power to EGAT continued to perform well at a higher and more stable utilization rate. Conversely, the power plants supplying power to TPIPL were affected by the planned shutdowns of TPIPL's cement factories during the period of Coronavirus Disease 2019 (COVID-19) fallout. With the low loading demands from cement plants, the 150-MW coal-fired power plant remains underutilized.

Seeking new PPAs to offset impact from adder expiration

The expiration of the tariff adder will have an impact on TPIPP's profitability and cash generation. The adders of the first two PPAs, totaling 73 MW, will expire in January and August 2022. The expiration of the adder will take full effect in 2023, reducing TPIPP's EBITDA by approximately THB2 billion. Looking further ahead, TPIPP's earnings will still be at risk of contraction as the adder of the largest PPA (90 MW) will expire in April 2025.

In our view, TPIPP's earnings sustainability will depend on the number of new PPAs the company can obtain from now on. The company is striving to seek new project investments nationwide to replenish its dwindling earnings. Recently, TPIPP won the bidding for a 9.9-MW WTE power plant in Songkhla province and secured a 20-year PPA with the contracted capacity of 7.92 MW. The tariff rate is THB5.78 per kWh for the first eight years and THB5.08 per kWh after that. The project renders tipping fees of THB400 per ton. The company is preparing to participate in bidding for 11 new WTE power plants, which will open for bidding during 2021-2022. The contracted capacities are in the range of 8-9.9 MW per project. Additionally, the company is proposing to sell electricity produced by its RDF-fired power plant to the state-owned utility off-taker, with a contracted capacity of 40 MW.

We believe that the company has a potential to attain several new power projects, underpinned by its expertise in operating WTE. TPIPP's key management preliminarily estimates that each WTE new project can provide revenue of THB400-THB500 million per year and EBITDA of THB300-THB400 million per year. In addition, we view that success in obtaining a new 40-MW PPA will be a positive factor since the RDF-fired plant is ready to generate electricity. For the downside risk, TPIPP's efforts to secure additional contracts will be very challenging, given the intense bidding competition.

Risks associated with the SEZ project

We view that TPIPP's early investment in the SEZ project in Songkhla province will expose the company to a range of risks. The project could take much time due to slow-moving bureaucracy. The Prime Minister recently reaffirmed the government's commitments to the project and approved the Southern Border Provinces Administrative Centre (SBPAC) to proceed in accordance with the respective cabinet resolutions. So far TPIPP plans to acquire a total 17,500 rai of land in potential areas where the project will be developed. The company has to date spent nearly THB10 billion and will spend about THB4.4 billion in the acquisition of remaining land. TPIPP's land acquisitions have resulted in heavier debt load and higher interest burden. TPIPP's management expects the core assets, such as sizable power plants and industrial estate, will commence its operation within five years. However, we view the delay risk remains possible. In our forecast, we believe TPIPP will not make any additional investments in the SEZ project unless the company obtains official agreements from the authorities, such as new PPAs.

If the SEZ project is materialized, the company will need to spend of over THB100 billion for the project development. This amount of capital spending is material to TPIPP's balance sheet. In return for this large investment risk, TPIPL's management expects to make additional EBITDA of THB20 billion per year when the SEZ project is fully completed. We believe TPIPP would need to seek capable partners or come up with a suitable financing scheme to avoid an overleveraged structure.

Potential investments to sustain earnings

In our base-case forecast, we expect TPIPP's earnings and cash flow to peak in 2021 before curtailing during 2022-2023 due mainly to the partial expiry of the adder. Power output is expected to grow further since the third additional boiler will be completely installed in the first quarter of this year. The new 9.9-MW WTE project TPIPP recently secured is expected to commence operations in late 2023. We assume that TPIPP will be able to secure a number of WTE projects, with a combined capacity of about 60 MW. However, we do not incorporate the new 40-MW PPA from its RDF-fired power plant. With respect to the SEZ project, we do not assume any additional investments, except for the purchase of the remaining land.

We forecast TPIPP's revenue will reach THB11 billion in 2021, before declining to around THB10 billion a year in 2022 and 2023. However, we expect revenue will rebound to THB12 billion in 2024 once all new power plants are in operation. At the same direction, we expect EBITDA will be around THB6 billion in 2021 and drop to THB4.5-THB5.0 billion a year in 2022-2023. EBITDA will recover to nearly THB6 billion in 2024. Downside risks will stem from the uncertainty of bid results, delays of bid openings, and the prolonged weak performance of its coal-fired power plants.

Rising financial leverage

During 2021-2023, we expect TPIPP's debt will increase following potential investments. The company's leverage will gradually rise over the course of development of new power projects. The leverage should decline substantially after all projects begin commercial operations. We project total investment will amount to THB19.5 billion over the next three years, with about THB4.4 billion earmarked for the remaining land procurements and THB12.6 billion for construction of new WTE power plants.

As a result, the debt to capitalization ratio is projected to surge to about 40% during 2021-2023 from 26.6% as of 2020 and reduce to around 30% in 2024 when new WTE power plants start operations. The ratio of net debt to EBITDA will increase towards 5 times over the same period from 1.8 times in 2020. However, we forecast the ratio will improve, steeply declining to 3 times in 2024.

BASE CASE ASSUMPTIONS

- Total power output to gradually increase to 2.35 GWh per annum in 2023 from 2.1 GWh in 2021.
- Total operating revenues to decrease to THB10 billion per annum in 2022-2023 from THB11 billion in 2021.
- EBITDA margin to decrease to 45% in 2023 from 55% 2021
- Total capital spending to be about THB19.5 billion over the forecast period in 2022-2023.
- Dividend payout ratio to be at 50% each year.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TPIPP's power plant operations will continue to provide solid cash flows over the long term. We also expect the company will successfully secure new power projects to partially counterbalance the drop-off in cash flow after the adder expiration, and that its operating performance and financial leverage will be in line with our forecast. We expect TPIPP's status as a core subsidiary of TPIPL will remain unchanged.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term since we expect the company to enter a large investment cycle, particularly with the new WTE power projects and the development of the SEZ project. However, a credit upside could develop if TPIPP considerably enhances its cash flow against debt obligations. This could occur if TPIPP has proven to materialize its efficiency enhancement measures and secured new power purchase agreements.

Conversely, a rating downgrade could occur if TPIPP's operating performance is significantly worse than our forecast or if the company engages in sizable debt-financed investments, which result in a significant deterioration in the group's financial profile. The ratings or outlook could also be revised downward if we downgrade TPIPL's ratings.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest WTE power producer in Thailand. The company commenced operation of its first waste heat recovery power plant in 2009 to support TPIPL's cement production. TPIPP later opened two RDF-fired power plants, selling the electricity to EGAT in 2015. TPIPP was listed on the Stock Exchange of Thailand (SET) in April 2017. The company's business includes the generation and sale of electricity from the RDF and waste heat recovery power plants as well as the petrol and gas service stations.

The company currently owns and operates eight power plants, mainly using RDF, waste heat, and coal as fuels. The total installed capacity is 440 MW. All power plants are located in Saraburi province, proximate to TPIPL's cement plants. The company distributes electricity to two utility off-takers, EGAT and TPIPL. TPIPP carries three PPAs with EGAT, permitting the company to sell a capacity of 163 MW with an adder of THB3.5 per kWh on top of the base tariff of approximately THB3 per kWh.

TPIPP plans to invest in the SEZ project in Songkhla provice. The SEZ, a mega industrial project initiated by the government to develop the economy in the Southern part of Thailand. The project, which covers approximately 17,000 rai of land in Chana district, Songkhla province, will comprise deep-sea ports, industrial estates, and large power plants. TPIPP aims to tender for the development of the SEZ project with an eye on sizable gas-fired power plants. In preparation for the tender, TPIPP has acquired a total 17,500 rai of land in those targeted areas.

In 2020, total sales of TPIPP came in at THB11.1 billion. The power business accounted for over 95% of total sales. Revenue received from EGAT and TPIPL accounted for 75%-80% and 15%-20% of its total revenue from the power business, respectively.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio as of Dec 2020

Project/Country	Hold (%)	Status	Installed Capacity (MW)	Contracted Capacity with EGAT (MW)	Off-taker	Tariff Scheme	Commercial Operating date
Thailand							
WH-40 MW	100	Operating	40		TPIPL		Jun 2009
RDF-20 MW	100	Operating	20	18	EGAT	Adder THB3.5	Jan 2015
RDF-60 MW	100	Operating	60	55	EGAT	Adder THB3.5	Aug 2015
WH-30 MW	100	Operating	30	90*	EGAT	Adder THB3.5	Jan 2016
RDF-70 MW	100	Operating	70	90*	EGAT	Adder THB3.5	Apr 2018
Coal/RDF-70 MW	100	Operating	70**		TPIPL		Aug 2018
Coal-150 MW	100	Operating	150		TPIPL		Jan 2019
			440	**163**			

Source: TPIPP
* *WH-30 MW and RDF-70 MW started selling power output to EGAT in Apr 2018 under the same PPA of 90 MW.*
** *Approved capacity of 40 MW*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total operating revenues	11,302	10,692	7,704	4,894	4,407
Earnings before interest and taxes (EBIT)	4,818	4,759	3,736	2,500	1,960
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,694	5,566	4,217	2,867	2,331
Funds from operations (FFO)	5,172	5,218	4,018	2,681	2,129
Adjusted interest expense	399	246	39	110	209
Capital expenditures	6,068	6,877	4,940	4,982	3,893
Total assets	43,775	37,853	31,541	27,567	18,169
Adjusted debt	10,458	6,123	1,225	0	7,145
Adjusted equity	28,928	27,110	25,048	24,214	8,321
Adjusted Ratios					
EBITDA margin (%)	50.4	52.1	54.7	58.6	52.9
Pretax return on permanent capital (%)	12.3	14.5	13.8	12.4	14.8
EBITDA interest coverage (times)	14.3	22.6	108.0	26.0	11.2
Debt to EBITDA (times)	1.8	1.1	0.3	0.0	3.1
FFO to debt (%)	49.5	85.2	328.1	N.M.	29.8
Debt to capitalization (%)	26.6	18.4	4.7	0.0	46.2

* *Consolidated financial statements*

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TPI Polene Power PLC (TPIPP)

Company Rating:	BBB+
Issue Ratings:	
TPIPP21NA: THB4,000 million senior unsecured debentures due 2021	BBB+
TPIPP22NA: THB4,000 million senior unsecured debentures due 2022	BBB+
TPIPP247A: THB4,000 million senior unsecured debentures due 2024	BBB+
Up to THB3,000 million senior unsecured debentures due within 5 year	BBB+
Rating Outlook:	Stable

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