

# TPI POLENE PLC

No. 63/2020  
20 August 2020

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 14/05/20

### Company Rating History:

Date	Rating	Outlook/Alert
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
02/10/12	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on TPI Polene PLC (TPIPL) and the ratings on TPIPL's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "BBB+" to TPIPL's newly proposed issue of up to THB11 billion in senior unsecured debentures. The company intends to earmark the proceeds of the new debentures issuance mainly for the redemption of debentures totaling THB9.6 billion that will mature in April 2021. The balance will be used for efficiency improvement in its cement production factories. The company plans to issue a series of new debentures between September 2020 and March 2021 in an anticipation of the large redemption of the outstanding debentures.

The ratings continue to reflect TPIPL's strong market position in the domestic cement industry, the diversification benefit from the power business, and solid cash flow from power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT). However, these strengths are offset by the cyclical nature of the cement and plastics industries and the operational risks inherent in refuse-derived fuel (RDF) power plants. The ratings are also constrained by the expected debt arising from investments in new projects, concentrated sources of borrowings, and the refinancing risk of the aforesaid debentures.

TPIPL's credit strength is underpinned by the solid business profile of its power business supported by its PPAs with EGAT. We expect steady cash flows from TPIPL's power business to contribute a large earnings proportion to the group. The main performance risk in the medium term stems from the impact of the Coronavirus Disease 2019 (COVID-19) fallout on its cement business. However, we believe the reliable earnings from the power business will enable the company to hold up well during this challenging time.

TPI Polene Power PLC (TPIPP), a core power subsidiary of TPIPL, has already submitted a proposal to be the project developer in the government's Special Economic Zone (SEZ) project. The government is intent on developing the SEZ project in the Songkhla province as it will enhance national security for the southern part of Thailand through the promotion of industries, export earnings, employments, and public well-beings in the region. The SEZ will include deep-sea ports, industrial estates, and power plants of 3,700 megawatts (MW) using natural gas, biomass or other renewable energy sources. To increase a chance of being a project developer, TPIPP has acquired an accumulated 16,700 rai of land plots in Jana district of Songkhla province. Total land acquisition is estimated to cost approximately THB12-THB13 billion.

In our view, the land procurements are likely to increase the consolidated debt of TPIPL for a long period. Although the Cabinet has agreed in principle to establish the SEZ in Songkhla province, we believe that the timeframe for project development could be lengthy due to the slow-moving bureaucratic procedures. The project still requires further approvals from the relevant government authorities before development can commence. In case TPIPP is officially granted the right to develop the project, TPIPP will require considerable capital spending for such developments but we expect the company will prudently manage its project structure and financing to avoid any substantial deterioration in its balance sheet and debt serviceability. However,

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Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

if the project development is successfully completed, the project will be a new growth driver of cash flow and enhance its profitability for a lengthy period.

TPIPL's financial leverage is likely to rise but remain at a tolerable level. This is due to an anticipated earnings drop in its power business, coupled with additional debts from land procurements and possible investments in new waste-to-energy power projects. The earning drop is due to the expiration of TPIPP's tariff adder in 2022 for 73 MW contracted capacity out of 163 MW. Thereafter, TPIPP still can sell electricity to EGAT at the base tariff. We forecast TPIPL's overall earnings before interest tax, depreciation, and amortization (EBITDA) to remain stable at around THB8.0-THB8.3 billion during 2020-2021 before declining to THB7.5 billion in 2022. Based on its planned investment, we expect TPIPL's net debt to EBITDA ratio to stay in the range of 7.0-7.5 times. The ratio of funds from operations (FFO) to net debt is likely to fall below 10%. The upside of cash flows over the near term may emerge if sales of cement and construction materials stage a significant turnaround following the end of the COVID-19 fallout. Long-term earning enhancement will hinge on the success of the much-anticipated developments of new power projects and the SEZ project.

TPIPL has a large sum of debentures totaling THB9.6 billion due in April 2021. The company aims to alleviate the refinancing risk through a series of new debenture issuances. Given its track record in accessing the domestic bond market, we believe the company will be able to manage this refinancing risk. The company is also in a process of securing back-up loan facilities in the event that the bonds are undersubscribed.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that TPIPL's competitive positions in the cement and plastic markets will be maintained, whilst its power business will continue to exhibit steady performance and support the company's earnings profile. We also expect the company's financial leverage to remain within the range of our forecast. The company is expected to prudently maintain funding structure and debt serviceability once the company has been officially designated to be a project developer of the SEZ project.

### **RATING SENSITIVITIES**

The possibility of a rating upgrade is limited in the near term but it could occur if the net debt to EBITDA ratio falls below 6 times for a sustained period and TPIPL diversifies its sources of borrowings. Financial deleveraging remains the most likely scenario for a rating upgrade.

The ratings and/or outlook could be revised downward if TPIPL's net debt to EBITDA ratio stays above 8 times for a sustained period. A rating downgrade could stem from deterioration of the cement business, weaker-than-expected performance of the power plants, as well as a deluge of debt-fueled investments. A large equity loss from pending legal claims could also trigger a negative rating action.

### **RELATED CRITERIA**

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

**TPI Polene PLC (TPIPL)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TPIPL214A: THB1,600 million senior unsecured debentures due 2021	BBB+
TPIPL214B: THB8,000 million senior unsecured debentures due 2021	BBB+
TPIPL218A: THB3,600 million senior unsecured debentures due 2021	BBB+
TPIPL221A: THB3,530 million senior unsecured debentures due 2022	BBB+
TPIPL224A: THB1,200 million senior unsecured debentures due 2022	BBB+
TPIPL228A: THB4,000 million senior unsecured debentures due 2022	BBB+
TPIPL231A: THB3,000 million senior unsecured debentures due 2023	BBB+
TPIPL231B: THB4,400 million senior unsecured debentures due 2023	BBB+
TPIPL234A: THB2,645 million senior unsecured debentures due 2023	BBB+
TPIPL244A: THB4,200 million senior unsecured debentures due 2024	BBB+
TPIPL251A: THB3,000 million senior unsecured debentures due 2025	BBB+
Up to THB11,000 million senior unsecured debentures due within 5 years	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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