

# BCPG PLC

No. 58/2021  
21 April 2021

## CORPORATES

**Company Rating:** A-  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns an “A-” company rating to BCPG PLC (BCPG) with a “stable” rating outlook. The rating reflects BCPG’s revenue reliability from power-generating assets and its well-diversified power portfolio. The rating also mirrors BCPG’s status as a core subsidiary of Bangchak Corporation PLC (BCP, rated “A-/Stable” by TRIS Rating). The rating is constrained by BCPG’s execution risks associated with projects under development, and rising country risk from its overseas investments. The rating also embeds our expectation that BCPG’s financial leverage will remain elevated over the course of ongoing expansions.

## KEY RATING CONSIDERATIONS

### A core subsidiary of BCP

BCPG was initially a department of BCP in charge of developing and operating the BCP Group’s renewable power business. BCPG was spun off from BCP in 2015 and listed on the Stock Exchange of Thailand (SET) in September 2016. BCP maintains its majority stake in BCPG, holding a 60.35% interest in the company as of March 2021. Despite the diluted equity interest, BCP maintains its dominant influence on BCPG’s business strategies and financial policies through the company’s board of directors, investment committee, and top management.

We assess BCPG as a core subsidiary of BCP, led by its strategically important role and meaningful earnings contribution to the Group. BCPG is the power business arm of BCP, supporting the Group’s strategies in strengthening its non-oil business as an eco-friendly conglomerate. BCPG currently represents about 30%-40% of the Group’s earnings before interest, taxes, depreciation and amortization (EBITDA). With its stable cash flow, the company considerably helps offset the high volatility in BCP’s refining business.

### A well-diversified power portfolio

BCPG has a well-diversified power portfolio, with a range of energy sources. The company has invested in more than 30 power projects, which help avert reliance on the performance of only one or a few projects. At present, BCPG’s operating power plants hold an aggregate contracted capacity, in proportion to BCPG’s ownership stakes, of about 473 megawatts (MW). This capacity comprises a mix of energy: solar (178 MW or 38%), geothermal (158 MW or 33%), hydropower (114 MW or 24%), and wind (23 MW or 5%).

BCPG’s power plants are located in five countries, comprising Japan (15 MW or 3%) and the countries in Southeast Asia, which are Thailand (173 MW or 36%), Indonesia (158 MW or 34%), the Lao People’s Democratic Republic (Lao PDR, 114 MW or 24%), and the Philippines (14 MW or 3%). We view BCPG’s diversification strategy will mitigate risks related to the invested countries and reliability of energy sources.

### Revenue reliability

The rating is mainly predicated on BCPG’s reliable revenue stream. Most of the company’s power plants (468 MW) hold multi-year power purchase agreements (PPAs) with state-owned power utilities or regional utilities in the respective countries. Solar power generation, which makes up about 75%-80% of the company’s revenue, has proven to yield a predictable output due to less varied energy sources and relatively low operation risks. BCPG’s solar

power projects have consistently performed at high efficiency.

Other power assets, such as wind and hydropower plants, have managed operational risks through the operation and maintenance agreements with suppliers or experienced contractors. As for the geothermal power plants, the operator of the projects has a proven track record of maintaining its capacity factor of above 90% since BCPG's investment in 2017.

### **Expiring solar adders offset by new capacities**

BCPG's pool of solar farms in Thailand (133 MW) has been the bedrock of the company's earnings, bringing in robust revenue of about THB3 billion a year. These solar farms receive an adder of THB8 per kilowatt-hour (kWh) on top of the base tariff. The revenue from solar adders is about THB2 billion per year. However, we expect to see a gradual decline in the earnings from 2022 onwards when a number of projects will no longer receive the adders. We project the company's earnings to plunge in 2024 and revenue from adders to dry out in 2025. To address the anticipated impact of adder expiry, BCPG has acquired two operating hydropower projects in the Lao PDR, with a combined capacity of 114 MW. Moreover, BCPG is currently constructing a number of solar farms in Japan that hold a contracted capacity of about 75 MW, of which 65 MW is expected to commence operation by 2021, and the rest 10 MW is targeted to commence operation in 2023. The expanded capacities in Japan and the Lao PDR are expected to bring in THB1.6-THB1.9 billion in EBITDA per year.

### **Significant projects in pipeline**

BCPG is committed to several project developments in the years ahead. The company is in the process to shift the off-taker of the two hydropower plants from Electricite du Laos (EDL) to the state-run Vietnam Electricity (EVN), a move aimed at reducing counterparty risk. The hydropower assets, "Nam San 3A" and "Nam San 3B", are currently enduring delayed payments from EDL. BCPG will co-invest with its partner to construct a 230-kilovolt transmission line from the project sites to connect with EVN's grid such that the hydropower plants will start selling electricity to EVN in 2022.

Furthermore, BCPG is currently taking part in developing the "Monsoon" project, a 600-MW wind farm in the Lao PDR. The project will sell electricity to EVN, under a cross-border power trading arrangement between the Lao PDR and Vietnam. The Monsoon project is slated to start construction in 2022 and commence operation by the end of 2023. This will be the first-ever wind power project in the Lao PDR. Proportionate to BCPG's 45% stake, the project will add about 230 MW to BCPG's power portfolio.

In the nearer term, we expect BCPG will acquire more operating projects worth about THB20 billion in 2021. This sizable acquisition will help BCPG expedite its growth strategy as the targeted projects will promptly generate cash flows. On the whole, BCPG puts aside a THB11.6 billion budget in existing capital expenditures and other investments covering 2021-2023. The budget will be earmarked for the aforementioned project developments, plus efficiency improvement programs for existing solar farms and expansions of solar rooftop projects in Thailand.

### **Execution risks of projects under development**

BCPG is exposed to a range of execution risks associated with the projects under development, particularly delays in construction of the transmission line and the greenfield wind farm. A wind farm development typically entails relatively high construction risks. The construction period of a wind power project can be very long, given the high requirement of plant design and construction. A significant delay in the construction and cost overrun of projects could jeopardize the viability of projects and weigh negatively on BCPG's expected earnings and financial profile. The execution risks of the projects could also arise from delays in obtaining necessary approvals, changes in regulations, curtailment risks, inadequate infrastructure, etc.

In addition, BCPG's investments in hydropower and the large-scale wind farm will expose the company to higher resource risks than the solar power. Hydropower production depends primarily on water availability, which can vary significantly from year to year. A long period of drought could translate to a significant fall in electricity generation and result in a material drop-off in revenue. At the same time, wind power plants entail higher operational risks, particularly mechanical and electrical breakdowns. In addition, the success of a wind power project largely hinges on the availability and speed of wind. Small variations in average wind speed over time can result in significant deviation in power output.

### **Rising country risks**

At present, more than half of BCPG's capacity is subject to higher country risks relative to Thailand, such as Indonesia and the Lao PDR. BCPG aims to control its exposure in countries such as the Lao PDR and Vietnam, not to exceed one-fourth of its total capacity. The company plans to acquire more operating power assets in Thailand. However, we view the investment opportunities for renewable energy in Thailand to be less attractive, due to the fiercely competitive market, repeated delays in public project bidding, and high reserve of power generation capacity. Adding more capacities by acquiring assets already in operation generally yields low returns. The dearth of new opportunities in the domestic market could drive BCPG to seek opportunities outside Thailand. Acquisitions and divestiture of existing power projects have

become the trend.

### Growth in earnings and leverage

BCPG has a satisfactory financial profile. The company generated about THB2.5-THB2.8 billion in EBITDA per year over 2018-2019. The EBITDA jumped up to about THB4.5 billion in 2020 due in large part to a special dividend received from the investment in geothermal assets in Indonesia, plus contribution from hydropower assets in the Lao PDR. The debt to EBITDA ratio was in the range of 5-7 times during 2018-2019. The ratio improved to about 3.6 times in 2020.

BCPG raised new capital of about THB7.4 billion in November 2020, which should be sufficient for sizable investments during 2021-2023. BCPG also issues warrants, worth about THB2.8 billion, to be exercised during 2021-2023 to match its capital needs.

We forecast the company's EBITDA to increase to about THB4.5-THB6 billion per year during 2021-2023. The rise in EBITDA is largely based on our expectation that the company will manage to achieve the developments of projects and acquisition. The debt to EBITDA ratio is forecast to soar to about 8 times in 2021 but to drop to about 6-7 times during 2022-2023. We forecast the debt to capitalization ratio will stay in the 55%-60% range in 2021-2023, up from 41% as of 2020.

### Ample liquidity

BCPG has ample liquidity. As of December 2020, the company held cash on hand of about THB11.1 billion and unused credit facilities (committed and uncommitted) of about THB3.2 billion. We forecast BCPG to generate funds from operations (FFO) of about THB3.6 billion in 2021. The cash on hand, unused credit facilities plus expected FFO has ample headroom to cover long-term debt coming due of about THB1.7 billion in 2021 and short-term debt of THB1.8 billion.

### BASE-CASE ASSUMPTIONS

- Capacity factor of power plants to be:
  - Thai solar assets : 15%-16%
  - Japan solar farms : 11%-12%
  - Hydropower plants in the Lao PDR : 49%-50%.
- Dividend income from investment in geothermal power plants in Indonesia and wind farm in the Philippines of about THB300-THB400 million per year over 2021-2023.
- Total capital expenditures and investments to be THB26.3 billion in 2021 and THB5.3 billion in 2022-2023.
- Estimated enterprise value to EBITDA ratio of about 9-11 times for potential assets to be acquired in 2021.
- EBITDA margin of about 50%-60% over 2021-2023.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that BCPG will be able to maintain its satisfactory operating performance. The construction and development of projects are expected to be completed as planned. In addition, we also expect BCPG's financial leverage and cash flow against debt obligations will be at the levels in line with our forecasts over the course of its expansion investments.

### RATING SENSITIVITIES

A credit upside would develop if the company could generate sizeable cash flow that materially reduces its financial leverage. On the contrary, the rating and/or outlook could be revised downward if BCPG's operating performance significantly falls short of our expectation, or the financial profile deteriorates considerably due to weakened operating performance or a huge increase of debt to finance its growth strategy.

According to TRIS Rating's "Group Rating Methodology", BCPG's rating will move in tandem with BCP's rating. Hence, any change in BCP's rating will result in the same change to the rating on BCPG.

### COMPANY OVERVIEW

BCPG was initially a department of BCP in charge of developing and operating the BCP Group's renewable power business. BCPG was spun off from BCP in 2015 and listed on the SET in September 2016. After that, BCPG diversified its portfolio from concentrating on solar power projects in Thailand to solar power projects in Japan, geothermal plants in Indonesia, wind farms in the Philippines and Thailand, and hydropower plants in the Lao PDR. Currently, BCPG is expanding into solar power projects in Japan and developing a wind farm in the Lao PDR which will export electricity to Vietnam.

As of March 2021, BCP held a 60.35% shareholding in BCPG. BCPG has investments in five countries in Asia. BCPG's power portfolio holds a total contracted capacity of about 473 MW, comprising solar power generation (178 MW or 38%), wind

farms (23 MW or 5%), geothermal power plants (158 MW or 33%), and hydro power plants (114 MW or 24%).

In November 2020, BCPG successfully raised new capital of about THB7.4 billion to support its investment plans over 2021-2023. BCPG has an acquisition deal in the pipeline, which is expected within 2021. This acquisition is expected to reduce BCPG's exposure on higher country risks compared with Thailand, as the company aims to acquire operating assets in Thailand or in a country with the same country risk level.

#### FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	4,241	3,441	3,432	3,484	3,127
Earnings before interest and taxes (EBIT)	2,777	2,372	2,059	2,176	1,646
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,490	2,782	2,549	2,371	2,248
Funds from operations (FFO)	3,638	2,211	1,916	1,927	1,917
Adjusted interest expense	820	579	527	439	350
Capital expenditures	1,141	1,307	1,499	899	3,231
Total assets	51,220	37,137	31,558	31,857	25,489
Adjusted debt	16,005	18,698	13,352	15,151	2,326
Adjusted equity	22,549	15,555	15,142	14,127	13,517
<b>Adjusted Ratios</b>					
EBITDA margin (%)	105.86	80.86	74.26	68.06	71.89
Pretax return on permanent capital (%)	6.51	7.12	6.62	7.91	9.34
EBITDA interest coverage (times)	5.48	4.80	4.83	5.40	6.42
Debt to EBITDA (times)	3.56	6.72	5.24	6.39	1.03
FFO to debt (%)	22.73	11.83	14.35	12.72	82.41
Debt to capitalization (%)	41.51	54.59	46.86	51.75	14.68

\* 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

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**BCPG PLC (BCPG)**

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<b>Company Rating:</b>	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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