BANPU POWER PLC

No. 202/2021
9 November 2021

CORPORATES

Company Rating:	A+
Outlook:	Stable

RATIONALE

TRIS Rating assigns the company rating to Banpu Power PLC (BPP) at "A+" with a "stable" rating outlook. The rating reflects the company's status as a core subsidiary of Banpu PLC (BANPU), rated "A+/stable" by TRIS Rating. The rating also reflects the predictable cash flow the company receives from its diversified power portfolio, the quality of its power assets, and the proven record of operating performance of its power plants. In contrast, the rating is partly constrained by the increasing in leverage during the company expansion phase.

The company rating on BPP incorporates a two-notch uplift from BPP's stand-alone credit profile (SACP) of "a-".

KEY RATING CONSIDERATIONS

A core subsidiary of BANPU

We consider BPP as a core subsidiary of BANPU. BANPU has three core businesses: energy resources, energy generation, and energy technology. BPP is BANPU's flagship subsidiary responsible for the power generation business.

BPP has a high degree of integration with BANPU in terms of operations, business, and financial strategies. BPP is also an important link in completing BANPU's energy resources supply chain. In terms of contribution, BPP has generated reliable cash flow for BANPU, helping offset revenue fluctuations in BANPU's coal business to some extent. Currently, BANPU has adjusted its strategy toward growth in the greener and smarter business segments, in which BPP is expected to play an important part.

In terms of support, we believe BANPU will provide necessary support to ensure that BPP can operate in accordance with BANPU's strategy.

Diversified power portfolio

BPP has a long track record in developing and operating power plants, beginning with the development of cogeneration power plants in the Map Ta Phut Industrial Estate to BLCP Power Ltd. (BLCP), the combined heat and power (CHP) plants in China and Hongsa Power Co., Ltd. (HPC).

As of June 2021, BPP's power portfolio was spread across 12 countries with a net capacity of 2,840 megawatts (MW) when measured in proportion to BPP's ownership of the plants (net capacity). Power plants in China accounted for 36% of net capacity while 52% of net capacity was located in Thailand and the Lao People's Democratic Republic (Lao PDR). The remaining 12% was spread across Asia and Australia.

Conventional coal-fired power plants made up 71% of total net capacity including two coal-fired power plants under the Independent Power Producer (IPP) scheme and three CHP plants in China. High Efficiency, Low Emission (HELE) power plants accounted for 17% of total net capacity while the remaining 12% was from renewable power plants.

Predictable cash flow from power portfolio

BPP's cash flows are predictable as half of its power portfolio operates under long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT). BPP holds 50% and 40% stakes in BLCP and HPC, respectively. BLCP and HPC have 25-year PPAs with EGAT under the IPP

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scheme. Typical PPAs under this scheme are pay-if-available agreements that protect the power plant from fluctuations in the supply and demand for power. The agreement provides that the power plant will receive a stable cash flow as long as the plant is maintained in accordance with the PPA and is ready for EGAT's dispatch instructions.

Two CHP plants in China, namely Zhengding (ZD) and Luannan (LN) sell power to local branches of the State Grids, while steam and hot water are sold directly or via local government agencies to industrial, and residential users. PPAs in China are normally annual contracts with state grid companies. Annual PPAs determine the electricity volume to be sold each year while the power tariff is a fixed price per kilowatt-hour (kWh) announced by provincial pricing bureaus in line with the instructions from The National Development and Reform Commission of the People's Republic of China (NDRC). The annual power tariff can be adjusted according to the coal price. Steam and hot water are priced through commercial agreements under government guidelines (local pricing bureau). The steam price is periodically adjusted to reflect changes in the coal price. Another CHP plant in China, Zouping (ZP), has a 28-year PPA and steam purchase agreement (SPA) with an industrial user. The power and steam prices are fixed per kWh and per ton, respectively, and are adjusted monthly to reflect changes in the coal price and operating expenses.

BPP also holds a renewable power portfolio through its 50% stake in Banpu Next Co. Ltd. (BANPUNEXT). More than 90% of BPP's renewable portfolio is made up of solar projects. The cash flow from solar power generation is highly predictable, supported by committed tariffs and low operational risks.

Strategic move to green energy

BPP aims to expand its power portfolio to 5,300 MW by 2025, up from 2,750 MW in 2020. The additional 2,550 MW will come from HELE power plants and renewable power plants under BPP's greener growth strategy, which is aligned with BANPU's strategy toward cleaner energy.

The company aims to increase HELE capacity to 2,493 MW by 2025, up from 396 MW in 2020. In the first half of 2021, BPP spent about THB2.5 billion to buy a 13.4% equity interest in the Nakoso power plant (Nakoso). Nakoso is a 543-MW Integrated Gasification Combined Cycle power plant in Fukushima, Japan. This transaction added net capacity of 72.8 MW to BPP's portfolio. Currently, BPP has successfully completed the acquisition of Temple Generation I LLC (Temple I), a 768-MW operating cogeneration power plant in Texas, USA. BPP will invest through a joint-ventures set up between its subsidiary, BKV-BPP Power LLC, and BANPU's subsidiary. In this acquisition, BPP spent about USD215 million and add capacity of 384 MW to its portfolio in 2021.

During 2021-2025, almost all the company's investments will be made in cleaner energy including gas-fired power projects, HELE projects, renewable projects, and energy technology. By 2025, BANPU expects earnings before interest, taxes, depreciation, and amortization (EBITDA) from the greener and smarter businesses to account for more than half of total EBITDA. BPP, as a core subsidiary in the power generation business, is mandated to add a greener power generation capacity of 2,550 MW.

Entry to the merchant market

BPP is entering the merchant market in Texas, The Electric Reliability Council of Texas (ERCOT), through its investment in the Temple I power plant. The generator has to compete with others by offering attractive prices in order to gain dispatch instructions. Revenue streams may consequently fluctuate, compared with those generators holding long-term PPAs. Based on the available data, the heat rate of Temple I's power plant is quite competitive in the ERCOT market, which should enable the plant to be fully utilized during the summer high season. Utilization rates during the low season may range at an intermediate level.

Rising leverage

As of June 2021, BPP's adjusted debt was THB6.7 billion, with a debt to capitalization ratio of 13%. We project a sharp rise in the company's debt level in 2021. We expect BPP to spend a total of THB16.2 billion on expansion during 2021-2024, including new investments of THB2.5 billion for Nakoso and THB13.7 billion for Temple I, and maintenance expenses of THB1.4 billion. Adjusted debt is forecast to hover around THB13-THB14 billion, causing a rise in the debt to capitalization ratio to 18%-22%. We forecast BPP's EBITDA to hover around THB1.4-THB3.6 billion per annum in 2021-2024. Dividends received from affiliates are forecast to account for 32%-56% of annual EBITDA.

The debt to EBITDA ratio is projected to peak at around 9-11 times in 2021.The high debt to EBITDA ratio reflects the high coal price environment in 2021, which has put pressure on the CHP plants. However, we believe the coal price will normalize by 2022, following the Chinese government's measures to ease the coal price issue, such as re-opening coal mines in Inner Mongolia. In addition, some provinces in China increased electricity tariffs by 10% in September 2021 to relieve the pressure on power producers. We forecast BPP's debt to EBITDA ratio to decline to 3-5 times once the company has recognized a full-year's operations of Temple I in 2022 and received dividend income from the Nakoso project and the

Shanxi Lu Guang power plant, starting from 2023 onwards.

Satisfactory liquidity

BPP has a satisfactory level of liquidity. As of June 2021, the company had cash on hand of about THB1.4 billion and unused uncommitted credit facilities of THB6.1 billion. We forecast BPP to generate funds from operations (FFO) of about THB1.0-THB2.5 billion over the next 12 months. The cash on hand plus unused uncommitted credit facilities is assessed to be sufficient to cover maturing debts of THB5.2 billion over the next 12 months.

Debt Structure

At the end of June 2021, BPP's consolidated debt was THB8.2 billion. BPP's priority debt was THB0.9 billion, consisting of THB0.6 billion in secured debt and THB0.3 billion in senior unsecured debt owed by BPP's subsidiaries. Therefore, BPP's priority debt to total debt ratio was about 11% at the end of June 2021.

BASE-CASE ASSUMPTIONS

- During 2021-2024, revenue to range THB6.1-THB10.5 billion per annum. Dividend received from affiliates to hover around 0.8-THB1.6 billion per annum.
- EBITDA to range from THB1.4-THB3.6 billion per annum.
- Total capital spending and investment of THB17.6 billion during 2021-2024.
- Annual dividend payment of THB1.5-THB1.9 billion

RATING OUTLOOK

The "stable" outlook reflects our expectations that BPP will maintain its status as a core subsidiary of BANPU and continue its important role as a flagship subsidiary of BANPU in power generation business.

RATING SENSITIVITIES

As a core subsidiary of BANPU, the rating on BPP will move in tandem with the rating of BANPU. Any change in BANPU's rating will result in a same change on BPP's rating. In addition, any change in the group status of BPP will also affect BPP's rating accordingly.

An SACP rating upgrade could occur if BPP is able to enlarge its cash generation while improving its cash flow to leverage level on a sustained basis. An SACP rating downgrade may occur if BPP's cash flow weakens considerably. This could occur if power plant performance falls significantly short of our forecast. Negative rating pressure could also arise if the capital structure weakens significantly, resulting from excessive growth of debt-funded investment.

COMPANY OVERVIEW

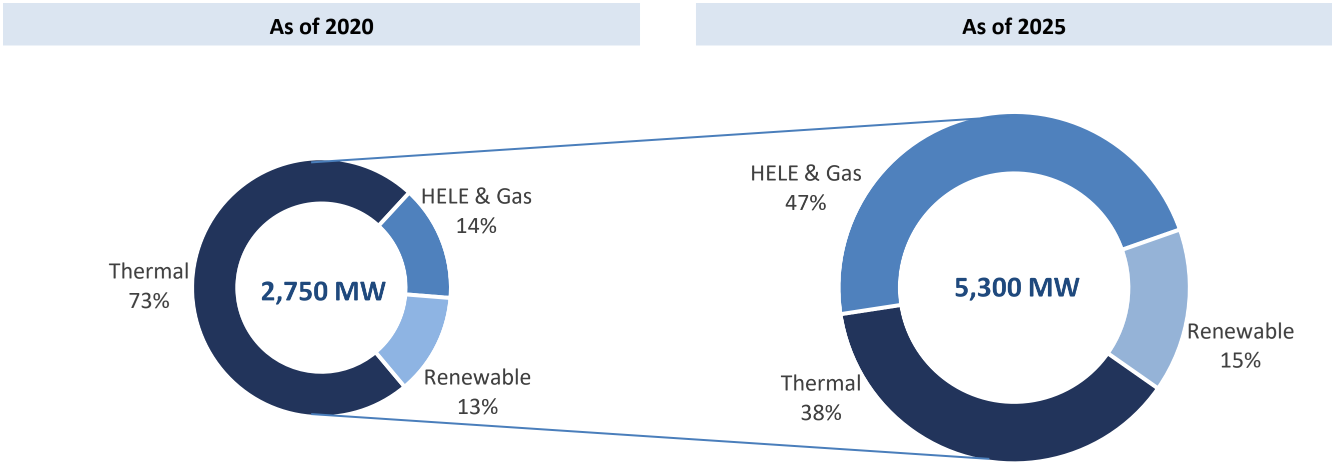
BPP was established in December 1996 as a holding company for companies that generate and sell electricity and related businesses. BPP was listed on the Stock Exchange of Thailand (SET) in October 2016. As of June 2021, BANPU held around 79% of the company's total shares while the rest were held by the public.

As of June 2021, BPP owned a power portfolio of 2,840 MW through its operating subsidiaries and affiliates. Its subsidiaries own three CHP plants in China, with a total capacity of 539 MW.

BPP holds equity interests of 50% and 40% in BLCP and HPC, respectively, as well as a 30% share in Shanxi Lu Guang, a 396-MW coal-fired power plant in China, and a 13% share in Nakoso. BPP also holds a renewable portfolio through its investment in a 50% stake in BANPUNEXT.

KEY OPERATING STATISTIC

Chart 1: BPP's Operating Power Portfolio (Equity Capacity)



Source: BPP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021		--------------Year Ended 31 December -------------- 2020	2019	2018	2017
Total operating revenues	2,903		6,152	6,243	6,694	7,091
Earnings before interest and taxes (EBIT)	2,301		4,904	3,512	5,288	4,717
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,315		2,716	11,408	4,270	4,216
Funds from operations (FFO)	1,166		2,172	10,900	3,735	3,741
Adjusted interest expense	75		243	305	242	113
Capital expenditures	82		588	1,049	1,298	3,456
Total assets	55,095		49,563	48,808	51,566	47,698
Adjusted debt	6,658		3,513	1,520	6,391	4,139
Adjusted equity	45,358		41,978	39,816	41,181	39,785
Adjusted Ratios						
EBITDA margin (%)	45.30		44.14	182.74	63.79	59.45
Pretax return on permanent capital (%)	8.84	**	10.31	7.29	11.21	11.00
EBITDA interest coverage (times)	17.61		11.18	37.44	17.64	37.17
Debt to EBITDA (times)	2.58	**	1.29	0.13	1.50	0.98
FFO to debt (%)	32.80	**	61.84	717.03	58.45	90.36
Debt to capitalization (%)	12.80		7.72	3.68	13.43	9.42

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Banpu Power PLC (BPP)

Company Rating:	A+
Rating Outlook:	Stable

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