

BETTER WORLD GREEN PLC

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CORPORATES

Company Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “BBB-” to Better World Green PLC (BWG) with a “stable” rating outlook. The rating reflects the company’s established presence in the waste management industry, as well as its stable cash generation in power business, backed by long-term power purchase agreements (PPAs) with the Provincial Electricity Authority of Thailand (PEA, rated “AAA/Stable” by TRIS Rating). However, the rating is held back its vulnerability to tough competition. The rating also considers the tendency of a hike in financial leverage, given BWG’s concerted plan for a hefty growth in the waste-to-energy (WTE) value chain.

KEY RATING CONSIDERATIONS

Well-established presence in waste management industry

BWG is a leading waste management company, with solid market recognition and longstanding history in the business. The company provides complete solution of waste management services ranging from landfill waste disposal, wastewater treatment, incineration for hazardous waste, as well as consultation and waste transportation.

BWG places emphasis in its waste disposal operating assets. Its landfill operation has the daily receiving capacities of up to 500 tonnes and 1,000 tonnes for hazardous and non-hazardous waste, respectively. The wastewater treatment facilities can treat up to 950 cubic meters per day. BWG’s waste-collecting fleets comprise around 250 trucks, allowing the company to serve its customers right at their locations. However, the overall utilization of the waste management facility has remained low in the range of 40%-60% in the past three years.

Diverse clientele on short-term contracts

BWG serves industrial customers across a wide variety of industries. The top industrial sectors comprise petrochemical industry, which contributes about one-third in terms of revenues, followed by auto and fast-moving consumer goods industries. There is no significant customer concentration risk as its top customer only contributes about 3%-4% of total revenues in waste management business.

Complete waste-to-energy value chain

BWG has strategically expanded into power business to take advantage of its access to the industrial waste collected from its waste management customers. The company is a pioneer in the industrial WTE industry, producing Solid Recovered Fuel (SRF), the feedstock used in WTE. In completing the WTE value chain, BWG has invested in three WTE power plants.

BWG’s power plants source the SRF feedstocks through intra-group long-term supply agreements. BWG has proven its capability to leverage its abundant raw material supplies for SRF. Its three SRF production facilities, with the total daily capacity of 1,000 tonnes, are also located in close proximities to the two largest WTE power plants in Saraburi and Ayutthaya provinces.

In our view, BWG group’s downstream integration along the WTE value chain helps stabilize its overall earnings. The downstream power generation business provides significant cushion against earnings volatility from the highly

competitive waste management business with limited growth prospects.

Growing power business helps stabilize earnings

BWG's power-generation business is operated through its core subsidiary, Earth Tech Environment PCL (ETC, rated "BBB-/Stable" by TRIS Rating). ETC is the group's flagship company for WTE power business. It owns and operates three WTE power plants under the very small power producer (VSPP) scheme, backed by PPAs with PEA for contracted power-generation capacity of 16.5 megawatt (MW).

The earnings contribution from power business has been increasing over the past five years. Revenues from power business grew from merely THB176 million to THB760 million over 2017-2021, following the commercial commencement of the first 8-MW plant in 2017 and additional 8.6 MW installed capacity of the latter two plants in late-2019. Earnings before interest, taxes, depreciation, and amortization (EBITDA) from power business reached THB370 million in 2021, representing about two-thirds of BWG's total EBITDA. Currently, BWG has decided to sell its indirect interest in ETC, which would reduce its shareholding in the company to 44%. Added to that, ETC is seeking to raise new capital through private placement of new shares, which could result in further dilution of BWG's interest in ETC. However, we expect BWG will after all maintain its majority control over ETC.

Earnings hit by economic slowdown and competitions

BWG's EBITDA from waste management business has been declining over the past four years. Based on our estimation, BWG arrived at THB216 million in EBITDA from waste management in 2021, compared to about THB645 million in 2018. Despite of its leading position, BWG still faces competition from smaller competitors who can provide cheaper services for compromised standards of services.

BWG's core business corresponds closely with domestic manufacturing activities. The economic slowdown which has lasted from 2019 to the first half of 2022 (from China-United States trade tensions, the pandemic, and the Russian-Ukrainian conflict in 2022) has forced most domestic manufacturers into a cost-saving mode. BWG was compelled to either reducing its service fees or losing market share as a result of customers switching to waste management operators with cheaper services.

BWG was heavily hit by the pandemic-induced slowdown, leading to significant markdowns during 2020-2021. The company considerably reduced its overall service prices by 13.2% in 2021, but managed to gain higher waste volume by 37.8% in the same year. In addition to the competition, BWG faced an operational incident at the Saraburi site which caused a disruption to the wastewater treatment operation. The damage plunged EBITDA margin to 15% in 2021, down from 26% in 2020.

Core business remains under pressure

The fragile economic recovery pressured by rising inflation and interest rates are clouding the growth prospect of domestic manufacturing activities and exports. Over 2022-2024, we expect the growth in waste management services to be restrained, both in terms of waste volumes and price increases. We forecast the waste management revenues to marginally increase to THB1.5 billion a year during 2022-2024, considering the lingering competition.

Earnings vulnerable to rising energy prices

BWG's earnings are highly vulnerable to rising energy costs. As for the waste management business, the cost of diesel used in waste transportation and the cost for natural gas used in its waste incinerators have been greatly escalated in the first half of 2022. However, the short-term nature of its service contracts allows BWG to pass through the rising fuel cost only partially in order to retain its market share.

In the power business, the increased costs of SRF production have been internally passed to the three WTE power plants. This will continue to strain EBITDA margins of its power plants, since the VSPP tariff structure only adjusts to the core inflation index, not changes in diesel prices.

Financial leverage to hike from business expansion

The rating on BWG is held back to a large degree by the group's tendency to load up debt in the foreseeable future. BWG has an ambitious plan to grow its power portfolio to a great extent. The company has recently participated in the new WTE bidding, with an ambitious number of proposed projects. In our base case, we assume the group will invest in four new WTE plants, each of which has 9.9 MW capacity. BWG would also need to invest in a new SRF facility to serve the additional demand expected from the prospective WTE plants.

We project BWG group to spend a tally of THB6.5 billion for business expansion, spreading over 2023-2025. Of that amount, THB3.6 billion will be concentrated in 2024. BWG has maintained most of its THB1.5 billion proceeds from the initial public offering (IPO) of ETC in 2020. That said, we expect the cash pile to gradually run out during the construction

phase of the new WTE plants. In our base case, we project BWG to arrive at THB660-THB700 million in overall EBITDA per year during 2022-2024. EBITDA will edge up from 2025 onwards, once the new WTE plants start operating.

With this pace of expansion, we forecast the debt to EBITDA ratio to soar to 6.4 times and the debt to capitalization ratio will climb to 45% in 2024. We project BWG's net debt to peak at THB5.6 billion in 2025. However, the leverage ratios will gradually decline after the commencements of commercial operation of the new WTE plants, which are subject to construction risk over a 2-year development phase.

Excessive liquidity before expansion

We assess that BWG's current liquidity outstrips its financial obligations in the near term before new investments start kicking in from mid-2023 onwards. The IPO of ETC in 2020 has provided the group with excessive liquidity.

The company's sources of liquidity at the end of June 2022 comprised cash on hand and short-term investments of THB1.9 billion and total undrawn bank credit facilities of THB327 million. In addition, we forecast BWG to generate funds from operations (FFO) over the following 12 months of THB490-THB520 million. These should be sufficient to cover maintenance capital expenditures and debts coming due over the same period, totaling THB1.0 billion.

Capital structure

At the end of June 2022, BWG's total debt, excluding lease liabilities, was THB1.91 billion. The priority debt totaled THB1.91 billion, comprising THB 1.88 billion of consolidated secured debts plus THB 0.03 billion of unsecured debts under its subsidiaries. The ratio of priority debt to total debt is 98.7%, suggesting that the company's unsecured creditors could be significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Operating revenues in waste management segment to be around THB1.5 billion per year over 2022-2024.
- The EBITDA margin of waste management segment to range 19%-24% over 2022-2024, recovering from 15% in 2021.
- Availability factors of the existing three power plants to average around 89% in 2022-2024.
- BWG group to invest up to four new 9.9-MW WTE power plants, plus a new SRF plant with a manufacturing capacity of up to 1,000 tonnes per day.
- Capital expenditures for maintenance and the group's expansion in waste-to-energy value chain to total about THB7.2 billion over 2022-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the group's power plants will continue to perform at satisfactory levels. Equally important, we also expect the earnings from waste management to gradually recover over 2022-2024 to counterweigh the rising leverage from its expansion in the WTE value chain. We also expect BWG to maintain its majority control over ETC, despite its decision to divest its indirect interest in ETC. In addition, we expect the group's total capital expenditures to be in line with our projection.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term, considering the prospect of significant rises in financial leverage in the foreseeable future. A credit upside still could emerge from material increases in earnings, which could occur from larger and more stable cash flows from enlarged power business and/or significant improvement in profitability of waste management.

A downward pressure on the rating could arise in case of deteriorating earnings from waste management and/or significant underperformances of power plants. A more aggressive investment plan which results in an even higher-than-expected leverage could also trigger a rating downgrade.

COMPANY OVERVIEW

BWG began its waste management business in 1997 with waste sorting and landfill services for industrial customers. After over 20 years in business, BWG has become the leader in the industrial waste management industry. The company provides a broad range of waste management services, including landfill disposal system, wastewater treatment, incineration for hazardous disposals, consultation, and transportation for all the waste services. In addition, its major locations for waste disposal are in Saraburi and Ayutthaya provinces, allowing the company to serve its clientele in the prime industrial areas of Central and Eastern Thailand.

BWG also leverages its strength in waste management to creating values in WTE chain. Through ETC, a 48% directly and indirectly owned subsidiary, BWG group owns and operates three industrial WTE power plants with total contracted capacity of 16.5 MW, backed by the VSPP scheme with PEA. The fuel supplies for the group's power plant are secured internally by BWG own SRF manufacturing facilities and abundant supply of industrial waste feedstocks.

Currently, the group is participating in the bidding for PPAs in the current industrial WTE scheme with total available capacity of 100 MW.

BWG's Power Portfolio as of 30 Jun 2022

Projects in operation	Plant type	Installed capacity (MW)	Contracted capacity (MW)	ETC holding (%)	PPA term (Year)	Expiry year
1. ETC PP	Industrial WTE	9.4	8.0	100.0	20	2037
2. RH PP	Industrial WTE	7.0	5.5	94.9	20	2039
3. AVA PP	Industrial WTE	4.0	3.0	97.0	20	2039
Total		20.4	16.5			

Source: ETC

KEY OPERATING PERFORMANCE

BWG's Consolidated EBITDA Breakdown by Segments (2017 to 6M/2022)

BWG's consolidated EBITDA		2017	2018	2019	2020	2021	6M/2022
Waste management	EBITDA (THB mil.)	733	645	313	323	216	119
	%- contribution	91%	78%	62%	61%	37%	36%
	EBITDA margin	40%	34%	22%	26%	15%	23%
Electricity	EBITDA (THB mil.)	73	177	190	388	370	206
	%- contribution	9%	21%	38%	73%	63%	61%
	EBITDA margin	42%	54%	52%	58%	51%	44%
Construction	EBITDA (THB mil.)	1	9	3	(180)	0	10
	%- contribution	0%	1%	1%	(34%)	0%	3%
	EBITDA margin	4%	4%	3%	(793%)	0%	7%
BWG's Total	EBITDA (THB mil.)	807	831	506	531	586	335
	Overall EBITDA margin	39%	34%	27%	28%	26%	15%

Sources: BWG, and TRIS Rating's estimation

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,320	2,213	1,928	1,905	2,470
Earnings before interest and taxes (EBIT)	113	116	105	134	445
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	335	586	531	506	831
Funds from operations (FFO)	272	439	357	339	662
Adjusted interest expense	58	135	164	144	96
Capital expenditures	53	119	400	1,532	883
Total assets	8,169	8,322	8,847	7,352	6,814
Adjusted debt	291	329	1,043	2,615	1,322
Adjusted equity	5,476	5,436	5,176	3,597	3,877
Adjusted Ratios					
EBITDA margin (%)	25.39	26.50	27.51	26.56	33.65
Pretax return on permanent capital (%)	1.37 **	1.45	1.39	2.04	7.54
EBITDA interest coverage (times)	5.74	4.34	3.23	3.51	8.62
Debt to EBITDA (times)	0.51 **	0.56	1.97	5.17	1.59
FFO to debt (%)	150.32 **	133.69	34.23	12.97	50.11
Debt to capitalization (%)	5.04	5.70	16.77	42.09	25.42

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Better World Green PLC (BWG)

Company Rating:	BBB-
Rating Outlook:	Stable

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