TRIS RATING
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GULF ENERGY DEVELOPMENT PLC

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CORPORATES

Company Rating:	A
Issue Rating:	
Senior unsecured	A-
Outlook:	Stable

Contacts:

Sermwit Sriyotha

sermwit@trisrating.com

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating on Gulf Energy Development PLC (GULF) at "A". At the same time, TRIS Rating assigns the rating on GULF's senior unsecured debentures up to Bt10,000 million at "A-". The assigned issue rating is one notch below the company rating, reflecting the structural subordination of the proposed debentures compared with the debt obligations at the operating subsidiaries. The proceeds from the proposed debentures will be used to refinance existing debts, and to fund new investments.

The ratings reflect the company's position as one of the leading power producers in Thailand, its well-diversified portfolio, predictable cash flows from long-term power purchase agreement (PPA) with Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable" by TRIS Rating) and proven record of developing and operating power plants. The ratings also incorporate completion risk of the two Independent Power Producer (IPP) projects and the company's rising financial leverage during the development of the projects.

KEY RATING CONSIDERATIONS

Largest producer with PPA contracted with EGAT

At the end of September 2018, GULF's PPA contracts with EGAT totaled 9,931 megawatts (MW). GULF's total portfolio consists of four gas-fired power plants under the IPP scheme (8,200 MW, 83% of total) and 19 cogeneration power plants under the Small Power Producer (SPP) scheme (1,710 MW, 17% of total), plus one bio-mass power plant (21 MW). Currently, the power plants for an aggregate capacity of 4,770 MW are in operational phase while the new plants in developing phase will add new capacity of 6,329 MW. GULF expects to complete all the power projects it is currently developing in Thailand in late 2024. It will then become the largest private power producer connected to the power grid operated by EGAT.

GULF's equity capacity (power-generating capacity based on the percentage ownership of each power plant) will rise to 6,534 MW by 2024, up from 2,187 MW as of September 2018. Approximately 90% of its power portfolio has long-term PAAs with EGAT.

Well-diversified portfolio of assets

GULF has a well-diversified portfolio of power generation assets. As of September 2018, GULF has invested in 31 power projects in Thailand and abroad. The equity capacity of the 31 projects amounted to 6,534 MW. Twenty power plants, with an equity capacity of 2,187 MW, are in operation; the rest are under development and construction.

Gas-fired power plants make up nearly all (99% or 6,450 MW) of equity capacity. The balances of 84 MW are solar power and bio-mass fired power plants in Thailand and Vietnam.

Most of the gas-fired power plants are in the central and eastern regions of Thailand. The gas-fired power plants in Thailand comprise 19 co-generation power plants (1,231 MW of equity capacity), operated under the SPP scheme, and four combined-cycle power plants (5,072 MW of equity capacity), operated under the IPP scheme. The co-generation power plants are spread across seven industrial estates in the central and Eastern Economic Corridor

(EEC) areas. The IPP power plants are located in Saraburi, Ayudhya, and Rayong provinces.

Predictable cash flows from PPA with EGAT

GULF sells about 90% of its equity capacity to EGAT under the SPP and IPP schemes. Each contract is effective for 25 years after a power plant commences commercial operation. For the IPP projects, EGAT has to pay the full amount of the availability payment (AP) as long as GULF has maintained the availability of the plant as agreed in the PPA. Even if EGAT has not dispatched electricity from GULF's IPP power plants, EGAT has to pay the AP. A PPA under SPP scheme is slightly different. Under the terms of PPA for an SPP plant, EGAT is obliged to buy not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP power plants contain gas price pass-through mechanisms.

Long-term service agreement mitigates operational risk

GULF's power plants employ proven technology from reputable suppliers such as Siemens, GE and Mitsubishi. In addition, GULF also holds long-term service agreements (LTSA) and long-term parts agreements (LTPA) with the original equipment suppliers. The service agreements cover the life of the PPA agreements. The service agreements ensure reliable maintenance service for major pieces of equipment and mitigate fluctuations in the prices of spare parts. Having large power portfolio, GULF benefits largely from economies of scale and usually has favorable terms with suppliers. The identical plants for the SPP portfolio and the pooling of spare parts help ensure parts availability and cost efficiency.

Proven record of operating IPP/SPP plants

The company's management and operating teams have over 20-year experience of developing and operating power plants in Thailand. The management team demonstrates its capability of project management. All power projects currently in operation were completed on time and within budget. This track record helps build confidence that projects currently under development and construction can be completed on time. Additionally, GULF's power plants, both SPP and IPP plants, consistently exceed the plant availability targets.

Completion risk is mitigated by reputable EPC contractors

GULF currently has a number of projects under development. GULF has mitigated construction risk by signing engineering procurement and construction (EPC) contracts with reputable EPC contractors. GULF selected Toyo Engineering Corporation as the EPC contractor for five new SPP power plants. Toyo Engineering Corporation already built seven SPP power plants for GULF. The plants were completed on time and within budget.

Mitsubishi Hitachi Power System (MHPS) is also another EPC contractor for GULF's two new IPP power plants. MHPS also has a solid track record. It built two IPP plants for GULF on time and within budget.

Surge in leverage to fund ambitious expansion

Over the projected period of 2018-2024, the company's capital expenditures and investments are forecast to total approximately Bt128 billion. About Bt113 billion will be used to complete the SPP and IPP projects, about Bt7.2 billion will go to the power project in Oman, and the rest (Bt8.1 billion) will be used for solar and wind power projects in Vietnam and a bio-mass power plant in Thailand.

Seven SPP plants have commenced operation from mid-2017 to September 2018. Five SPP power plants will commence operation from late 2018 through mid-2019. In addition, GULF is developing two large IPP projects with a total installed capacity of 5,000 MW. Total investment for the IPPs is worth about Bt100 billion. The company expects the construction to begin in late 2018. The first unit is expected to commence operation in mid-2021, while the last unit to start operating by the end of 2024.

Given the number of projects under construction and the plans for new projects, TRIS Rating forecasts GULF's leverage to rise steeply. TRIS Rating projects GULF's debt to capitalization ratio will increase to around 70% during the period of 2020 to 2023. The debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio has peaked at about 10 times, but is projected to improve materially starting in 2023, and reach a much comfortable level of 3-4 times by 2025, when all the power projects are operating.

Harvesting period from 2025 onwards

GULF is expected to realize the full return of all SPP and IPP projects from 2025 onwards. The company's total EBITDA is forecast to almost quadruple to Bt10 billion in 2020 from Bt2.7 billion in 2017 after all SPP projects coming on stream. The company's EBITDA is expected to surge again to around Bt25 billion in 2025 when its two IPP projects record the first full-year operation.

RATING OUTLOOK

The "stable" outlook reflects the expectation that the plants in operation will run smoothly and generate cash as planned, while the plants under construction are assumed to commence operations as scheduled.

RATING SENSITIVITIES

GULF's rating upside has limited over the next 12-18 months. A rating downside may occur if the developing projects materially delay from the schedule, which will have impacts on the forecast stream of cash flow. Any huge debt-funded investment, which materially deteriorates the company's capital structure, is another factor that will put pressure on the company's ratings.

COMPANY OVERVIEW

GULF was established in 2011 as a holding company to invest in the power and other energy-related projects. The company had been transferred the power portfolio from Gulf Holding Co., Ltd., founded by Mr. Sarath Ratanavadi, in 2012. Currently, GULF invests in 31 power projects in Thailand and abroad with equity capacity of 6,534 MW based on the percentage ownership of each power plant. As of September 2018, 20 power plants, with an equity capacity of 2,187 MW, were in operation; the rests were under development and construction. GULF's power plants under development and construction comprise 471 MW of SPP power plants, 3,710 MW of IPP power plants, and 230 MW of solar farms in Vietnam and gas-fired power plant in Oman.

GULF was listed on the Stock Exchange of Thailand (SET) in late 2017. As of May 2018, Mr. Sarath and the concert parties held a 64.97% interest in the company.

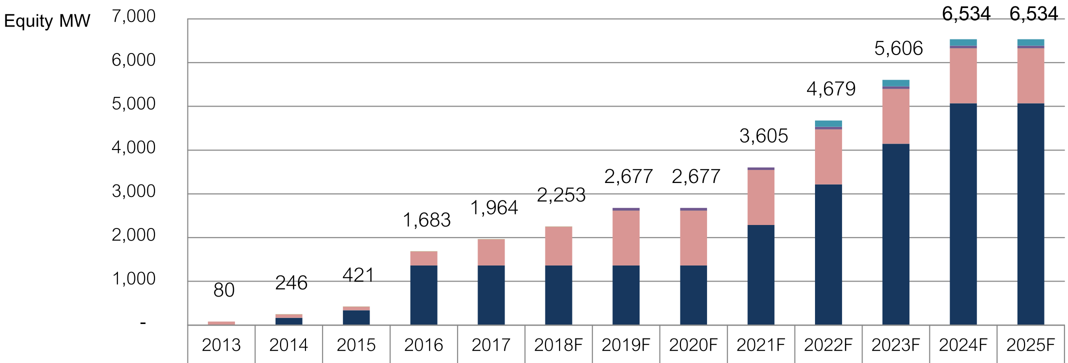
KEY OPERATING PERFORMANCE

Table 1: GULF's Power Portfolio (as of Sep 2018)

Company/Project	Type	Fuel	Installed Capacity (MW)	Ultimate Holding (%)	Equity Capacity (MW)	PPA with EGAT (MW)
In operation						
1. Under GMP						
1. GVTP	SPP	NG	137	52.5	72	90
2. GTS1	SPP	NG	134	52.5	70	90
3. GTS2	SPP	NG	134	52.5	70	90
4. GTS3	SPP	NG	130	52.5	68	90
5. GTS4	SPP	NG	130	52.5	68	90
6. GNC	SPP	NG	127	70.0	89	90
7. GBL	SPP	NG	127	52.5	67	90
Sub total			***918***		***504***	***630***
2. Under GJP						
1. GNS	IPP	NG	1,653	40.0	661	1,600
2. GUT	IPP	NG	1,752	40.0	701	1,600
3. GKP1	SPP	NG	114	40.0	46	90
4. GKP2	SPP	NG	114	40.0	46	90
5. GTLC	SPP	NG	114	40.0	46	90
6. GNNK	SPP	NG	114	40.0	46	90
7. GNLL	SPP	NG	123	30.0	37	90
8. GCRN	SPP	NG	119	40.0	48	90
9. GNK2	SPP	NG	133	40.0	53	90
Sub total			***4,237***		***1,682***	***3,830***
3. Under Gulf Solar						
1. BV	Rooftop	Solar	0	75.0	0	-
2. TS1	Rooftop	Solar	0	75.0	0	-
3. KKS	Rooftop	Solar	0	75.0	0	-
4. TS2	Rooftop	Solar	0	75.0	0	-
Sub total			***1***		***0***	-
Total in operation			***5,115***		***2,187***	***4,461***
Under Construction/Development						
1. Under GMP						
1. GBP	SPP	NG	127	52.5	67	90
2. GNLL2	SPP	NG	127	52.5	67	90
3. GNPM	SPP	NG	135	70.0	95	90
4. GNRV1	SPP	NG	128	70.0	90	90
5. GNRV2	SPP	NG	128	70.0	90	90
Sub Total			***645***		***407***	***450***
2. Others						
1. GSRC	IPP	NG	2,650	70.0	1,855	2,500
2. GPD	IPP	NG	2,650	70.0	1,855	2,500
3. GCG	SPP	Woodchip	25	100.0	25	21
4. TTCIZ-01	Solar farm	Solar	69	49.0	34	-
5. TTCIZ-02	Solar farm	Solar	50	49.0	25	-
6. Oman	Power&Water	NG	325	45.0	146	
Sub total			***5,769***		***3,939***	***5,021***
Total under construction/development			***6,414***		***4,347***	***5,471***
Total portfolio			11,569		6,534	9,931

Source: GULF

Chart 1: GULF's Power Portfolio (Equity MW)



	2013	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Oman										146	146	146	146
Solar -Vietnam	-	-	-	-	-	-	58	58	58	58	58	58	58
VSPP	-	0	0	0	0	0	0	0	0	0	0	0	0
SPP	80	80	80	320	601	891	1,256	1,256	1,256	1,256	1,256	1,256	1,256
IPP	-	165	341	1,362	1,362	1,362	1,362	1,362	2,290	3,217	4,145	5,072	5,072
Total	80	246	421	1,683	1,964	2,253	2,677	2,677	3,605	4,679	5,606	6,534	6,534

Source: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December -----------			
	Jan-Sep 2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	11,921	4,370	257	692	782
Operating income	3,033	511	(556)	(505)	(342)
Earnings before interest and taxes (EBIT)	4,461	4,267	999	(337)	(218)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,219	2,724	(426)	(411)	(291)
Funds from operations (FFO)	2,962	(171)	(2,041)	(1,225)	(586)
Adjusted interest expense	2,267	2,950	1,663	774	328
Capital expenditures	11,666	19,016	19,831	8,135	387
Total assets	107,771	100,652	59,816	20,822	10,254
Adjusted debt	44,688	36,308	49,821	15,593	4,643
Adjusted equity	44,138	39,348	3,782	2,495	3,661
Adjusted Ratios					
Operating income as % of total operating revenues (%)	25.44	11.70	n.m.	n.m.	n.m.
Pretax return on permanent capital (%)	6.36 **	5.54	n.m.	n.m.	n.m.
EBITDA interest coverage (times)	2.30	0.92	n.m.	n.m.	n.m.
Debt to EBITDA (times)	6.18 **	13.33	n.m.	n.m.	n.m.
FFO to debt (%)	9.45 **	(0.47)	n.m.	n.m.	n.m.
Debt to capitalization (%)	50.31	47.99	92.94	86.21	55.91

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
n.m *Not meaningful*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Gulf Energy Development PLC (GULF)

Company Rating:	A
Issue Rating:	
Up to Bt10,000 million senior unsecured debentures due within 10 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000