

# PEA ENCOM INTERNATIONAL CO., LTD.

No. 80/2023  
9 May 2023

## CORPORATES

**Company Rating:** AAA  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns a company rating of “AAA” to PEA ENCOM International Co., Ltd. (PEA-Encom), with a “stable” outlook. The rating reflects the company’s status as a core subsidiary of Provincial Electricity Authority (PEA, rated “AAA/stable”) for its crucial role as the investment arm of PEA, and its high integration with PEA. The rating also considers the strong operational and financial support PEA-Encom receives from PEA. As PEA-Encom is 100% owned by PEA, it is a state-owned enterprise under the Thai Law.

## KEY RATING CONSIDERATIONS

### Core subsidiary of PEA

PEA-Encom’s credit profile reflects the credit profile of PEA as we assess PEA-Encom as a core subsidiary of PEA. The company was established by Cabinet resolution on 3 June 2009, with the key objective to be the investment arm of PEA. The company is wholly owned, and the sole subsidiary of PEA. PEA is a state-owned enterprise responsible for distributing electricity to end users in provincial areas, comprising the 74 provinces in Thailand.

PEA-Encom has a policy to invest in energy-related businesses in accordance with PEA’s business strategy to prepare for the transformation in the electricity market in Thailand, which may impact PEA’s core revenue in the future. PEA’s core business of buying and selling electricity continues to face the challenges of the growing trends of distributed generation (DG) and the increasing number of “prosumers” in the electricity market. To address the challenges, PEA-Encom focuses primarily on the DG and energy innovation businesses. The DG business includes solar farms, biomass power plants, solar rooftop, small power producer (SPP) cogeneration, and independent power supply (IPS) projects. Its energy innovation business includes charging technology for electric vehicles, battery energy storage system (BESS), and “Behind-the-Meter” business, which provides energy management for businesses and households.

### Highly integrated with PEA

PEA-Encom is highly integrated with PEA. Since PEA-Encom’s incorporation, PEA has seconded some senior management and experienced staff to PEA-Encom. PEA also appoints its senior executives and directors to the board of directors of PEA-Encom.

PEA closely involves itself in PEA-Encom’s investment decisions as the company relies heavily on equity injections from PEA. As a result, most of PEA-Encom’s investments will require approvals from the boards of directors of both the company and PEA. Any investments with a holding interest of over 25% interest will require the Cabinet approval.

As for the business support from the parent entity, many of PEA-Encom’s construction projects are allotted directly from PEA. The public training services, which PEA considers as non-core, are also delegated to PEA-Encom. These businesses help the company maintain its recurring incomes.

### Enlarged portfolio

PEA-Encom’s portfolio comprises investments in power generation projects and energy innovation businesses, as well as developing solar rooftop projects under the private power purchase agreement (private PPA) scheme. The

investments in power generation and solar rooftop are the main sources of the company's earnings before interest, taxes, depreciation, and amortization (EBITDA). As of March 2023, the company's power generating capacity in operation totaled 62.8 megawatts (MW), based on its ownership in each project. The company's power portfolio in operation comprises investments in four solar power projects, biomass power plants, SPP cogeneration power plants, and solar rooftop projects.

The company will expand its power generation portfolio by developing a biomass power plant, an IPS project, and a solar farm project. We expect these projects to add 136 MW of attributable generation capacity by 2024, and to commence operation during 2023-2024. PEA-Encom also explores opportunities to invest in SPP power plants, intending to strengthen its power generation portfolio.

PEA-Encom initially targeted to increase the capacity of its solar rooftop projects to 200 MW by 2021. Amid tough competition and the economic downturn in 2020-2021, the total capacity reached only 33.6 MW as of December 2022. We forecast the company to add a capacity of solar rooftop of about 15-25 MW annually over 2023-2024, reflecting the intense competition in this business.

PEA-Encom also aims to expand other power-innovation businesses, including energy management and energy solution services, charging stations for electric vehicles, as well as the BESS business. Currently, PEA-Encom is developing a BESS facility in Koh Samui, holding a long-term service contract with PEA. The project aims to stabilize the electricity load in Koh Samui, and to lower the electricity downtime in Koh Samui and the connecting islands.

### **Strong support from PEA**

PEA-Encom receives a high degree of support from PEA in both operational and financial aspects. About 38% of PEA-Encom's personnel take secondment from PEA. In addition, PEA has consistently injected equity into PEA-Encom to finance its investment growth plan. PEA-Encom's paid-up capital as of December 2022 reached THB4.0 billion, about 2-time growth from THB1.4 billion as of December 2018. The capital was used to fund the solar power projects and equity investments in power generation and energy-related innovations.

TRIS Rating believes PEA will continue its full support to PEA-Encom, given the subsidiary's importance in PEA's long-term strategy. PEA will also outsource some non-core businesses to PEA-Encom. These non-core businesses—including training services, and power transmission-related construction contracts—will provide recurring incomes to PEA-Encom.

### **BASE-CASE ASSUMPTIONS**

- Revenues of THB250-THB270 million in 2023, increasing to about THB500 million in 2025.
- The commencement of the BESS project in 2024.
- Additional solar rooftop capacity by 15-25 MW per year during 2023-2025.
- Investment of about THB6.0-THB6.5 billion spending over 2023-2025 mainly for solar rooftop business, BESS business, and uncommitted investment in power generation business.
- Dividend income of THB40-THB45 million in 2023, increasing to THB100-THB150 million in 2025 from the contribution of its major power investments.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that PEA-Encom will maintain its status as a core subsidiary of PEA and continue its important role as an investment arm and its strategic alignment with PEA.

### **RATING SENSITIVITIES**

A rating downside could occur if PEA's credit profile deteriorates materially. Any material changes in PEA-Encom's role and linkage to PEA, as well as significant weakening of the support from PEA could lead to a downward pressure on the rating.

### **COMPANY OVERVIEW**

PEA-Encom was founded by Cabinet resolution, dated 3 June 2009, with the objective to serve PEA as an investment arm to invest in power projects and other energy-related businesses both domestic and international. The company was formally established in October 2009, with registered capital of THB100 million. As PEA-Encom is 100% owned by PEA, it is a state-owned enterprise under the Thai Law. During 2018-2022, PEA injected additional equity totaling THB3.2 billion to finance PEA-Encom's capital expenditures and investment plan. As of 31 December 2022, PEA-Encom's paid-up capital was THB4.0 billion.

PEA-Encom's current businesses and investments are mostly set out by PEA. These include selling electricity through solar rooftop private PPAs, contracting in power transmission-related construction, as well as providing engineering and training services and, investing in the power generation and energy-related businesses.

PEA-Encom's power portfolio of eight power projects in operation and three projects under development are aggregated to 161.9 MW, based on its equity interest in the projects. As for its solar rooftop business, PEA-Encom has a total installed capacity of 33.6 MW, compared with the initial target capacity of 200 MW.

**Table 1: PEA-Encom's Power Portfolio**

Project Name	Plant Type	Project Capacity (MW)	PEA-Encom's Holding (%)	PEA-Encom's Capacity (MW)	PPA Terms (Years)	(S) COD	Status
1. SPC (Surin 1)	Solar	7.50	25	1.88	30	Jun-14	Operating
2. SPC (Surin 2)	Solar	7.50	25	1.88	30	Jun-14	Operating
3. SPC (Khonkaen 10)	Solar	7.50	25	1.88	30	May-14	Operating
4. SPC (Loei 2)	Solar	7.50	25	1.88	30	Apr-14	Operating
5. Bacho Biogas	Biogas	2.00	25	0.50	20	Jul-19	Operating
6. BPAM	Natural gas	280.00	5	14.00	25	Mar-23	Operating
7. Bannangsata Biomass	Biomass	3.00	40	1.20	20	Mar-23	Operating
8. TDED	Solar	12.00	25	3.00	20	2021-22	Operating
9. Mea Lan Biomass	Biomass	3.00	40	1.20	20	by 2023	Developing
10. R E N Korat	Natural gas	38.00	25	9.50	-Not applicable-	by 2024	Developing
11. SET Energy	Solar	500.00	25	125.00	20	by 2024	Developing
<b>Total</b>		<b>868.00</b>		<b>161.90</b>			

Source: PEA-Encom

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

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2022	2021	2020	2019	2018
Total operating revenues	527	811	277	148	209
Earnings before interest and taxes (EBIT)	76	84	63	69	67
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	76	78	41	38	39
Funds from operations (FFO)	52	65	38	36	37
Adjusted interest expense	24	12	3	0	0
Capital expenditures	648	606	430	216	272
Total assets	5,930	5,409	3,511	2,374	1,804
Adjusted debt	0	0	0	0	0
Adjusted equity	4,400	3,673	2,824	2,234	1,703
<b>Adjusted Ratios</b>					
EBITDA margin (%)	14.35	9.67	14.66	26.05	18.45
Pretax return on permanent capital (%)	1.49	2.12	2.31	3.51	5.01
EBITDA interest coverage (times)	3.17	6.66	14.84	356.31	559.41
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

\* Equity-method

n.m. Not meaningful

#### RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**PEA ENCOM International Co., Ltd. (PEA-Encom)**

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<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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