

# SERMSANG POWER CORPORATION PLC

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## CORPORATES

**Company Rating:** BBB  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns the company rating of “BBB” with a “stable” outlook to Sermsang Power Corporation PLC (SSP). The rating reflects the predictable cash flows from the company’s solar power portfolio, backed by long-term power purchase agreements (PPA), and the low operational risk of solar power plants. The rating also recognizes the satisfactory performance of SSP’s power plants. Conversely, the rating is partly weighed down by the execution risks of its offshore wind power project in Vietnam and heightening leverage.

## KEY RATING CONSIDERATIONS

### Predictable cash flow from solar power portfolio

The rating is built on the predictable cash flow SSP generates from its power business. SSP’s operating power plants are now entirely made up of solar power. The cash flow from solar power generation is largely predictable, backed by the committed tariff and low operational risks.

SSP’s power plants operate under long-term PPAs, mainly with the Electricity Generating Authority of Thailand (EGAT), reliable power buyers in Japan, and Vietnam Electricity (EVN). The PPAs are on a non-firm basis.

As of June 2020, SSP owned 14 operating solar power plants, with a gross capacity of 193.4 megawatts (MW). In terms of power generation capacity proportionate to SSP’s stakes in the power generation assets, SSP’s net capacity totals 173 megawatts equity (MWe). SSP is currently developing two solar farms in Japan, one offshore wind farm in Vietnam, and a solar rooftop project in Indonesia. Total net capacity will increase to 263.8 MW from 173 MW by 2023.

In the first half of 2020, SSP gained THB903 million in revenues, up from THB715 million in the same period of 2019. The 26% increase came from the new solar projects launched in 2019 and 2020, including four solar rooftop projects in Thailand and three solar farms in Japan, Vietnam, and Mongolia. Earnings before interest, tax, depreciation, and amortization (EBITDA) came in at THB742 million, up from THB547 million in the same period last year.

In our base-case forecast, we assume that SSP will complete projects in the pipeline as planned. As a result, EBITDA should grow to THB1.3-THB2 billion per year during 2020-2023, up from the record-high of THB888 million in 2019.

### Satisfactory performance of power portfolio

On average, SSP’s power portfolio has rendered satisfactory performance. The annual output of most solar power plants exceeded the P50 level (the 50% probability of energy production), the threshold of expected operating performance. As SSP continued to launch new projects during 2016-2019, the company’s power output grew to 190 gigawatt-hours (GWh) in 2019 from 85 GWh in 2015.

Among SSP’s power plants, Sermsang Palang Ngan Co., Ltd. (SPN), has established a long track record while other power plants have been in operation for less than three years. SPN generates 85-90 GWh of power per annum, or 15% above the P50 level. In the first half of 2020, SPN contributed around 36% of SSP’s total power output. SSP’s other power plants in Thailand generated around 6% of its output. The remaining 58% was produced by

overseas power plants.

### Execution risks of wind power project

The rating is partly weighed down by execution risks associated with SSP's first wind power project. SSP is now developing a 48-MW offshore wind farm in Vietnam, which is scheduled to commence commercial operation by October 2021. TRIS Rating is of the view that wind farm development entails relatively higher construction risks due in large part to the complexity of technology selection and plant design. Installation difficulties with the key components and higher construction risk can lead to cost overruns. Furthermore, delays in construction would jeopardize the viability of the project. However, the construction risk is partly mitigated by the terms of the Engineering Procurement and Construction (EPC) contracts. In the post-construction phase, wind farms also generally carry higher operation risks than solar projects.

### Growing exposure to high country risks

SSP's power plants in Mongolia and Vietnam will make up around one-fourth of SSP's power-generating assets by 2021. TRIS Rating views that investments in both countries carry relatively higher risks than the projects in Thailand and Japan. The perceived higher risk is related to the consistency of regulations, difficulties in contract enforcement, the tendency of delays in obtaining approvals of necessary permits, infrastructure constraints, and more. Furthermore, SSP is also exposed to exchange rate risk and higher risk of payments from power buyers (off-takers).

### Lower tariffs and interest burden strain profitability

Lower tariffs of new projects and high interest expenses are putting a strain on SSP's profitability. SSP had an average tariff of higher than THB9 per kilowatt-hour (kWh) during 2015-2018. The average tariff dropped to THB7.7 per kWh in 2019. In our base-case forecast for 2020-2023, the average tariff will stay at the level of THB7-THB8 per kWh, following the commencement of the new solar farms in Japan and a wind farm in Vietnam.

Over the same period, we expect SSP's debt to increase successively while the average cost of debt is forecast to rise from projects in countries with high project risks. SSP's average cost of debt was at 3.4% in 2019. We forecast the average cost of debt will rise to 3.6%-4% during 2020-2023. As a result of the higher interest burden, funds from operations (FFO) should hover in the range of THB0.9-THB1.4 billion per year during 2020-2023, up from THB0.8 billion in 2019.

### Heightening leverage during growth phase

SSP has borrowed heavily to fund its investments. On top of project loans for each power plant, SSP has long-term loans at the holding company to support equity investments in the project companies. Looking ahead, we expect SSP to remain highly leveraged over the next few years due to the funding needs of new projects in the pipeline.

As of June 2020, adjusted debt stood at THB8.3 billion, with a debt to capitalization ratio of 65.6%. We project that SSP will spend THB9.3 billion for expansion during 2020-2023. As such, adjusted debt is projected to rise to a peak of THB13.9 billion in 2022. The debt to capitalization ratio will likely increase to 68%-72%. This is based on our assumption that SSP will obtain financing from an EPC contractor for the construction of the offshore wind farm in Vietnam, whereby SSP will pay most of the construction costs after the project is operational. The ratio of FFO to debt is projected at 9.6%-10.3% during 2020-2023.

### Adequate liquidity

Most of SSP's power projects have already secured long-term project loans. SSP has also utilized both short-term and long-term banking facilities to support its subsidiaries. SSP and its subsidiaries have complied with respective financial covenants on their bank loans.

We assess SSP's liquidity as adequate. As of June 2020, the company had THB1.2 billion in short-term debts and long-term debts coming due in the next 12 months. At the same time, it had cash on hand of THB1.2 billion while we expect FFO of about THB900 million.

### BASE-CASE ASSUMPTIONS

- Offshore wind farm to start operation in the fourth quarter of 2021.
- Gross capacity to reach 295 MW in 2022.
- During 2020-2023, power plants to generate combined power output 219-419 GWh per year.
- Revenues to lie in the THB1.6-THB2.7 billion per year range.
- EBITDA margin to stay in the 76%-79% range.
- Capital expenditure and investments of THB9.3 billion during 2020-2023.
- SSP to obtain financing from the EPC contractor for construction of the wind project.

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## RATING OUTLOOK

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The “stable” outlook embeds our expectations that SSP’s power plants will perform well and generate cash as forecast, with no material project delays or cost overruns for the projects under development, while its leverage ratio also remains in line with the forecast.

## RATING SENSITIVITIES

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A rating upgrade could occur if SSP’s power plants generate cash flow in excess of forecasts or if SSP strengthens its capital structure significantly. Conversely, a rating downgrade could occur if SSP’s financial profile deteriorates materially due to excessive debt-fund investments or the performance of the power plants undershoots estimates resulting in a significant drop in cash flow.

## COMPANY OVERVIEW

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SSP was founded in 2015 as a holding company. SSP invests in companies that generate and sell electricity produced from renewable resources. The company was listed on the Market for Alternative Investment (MAI) in September 2017. SSP’s shares were moved to trade on the Stock Exchange of Thailand (SET) in March 2019. As of June 2020, SSP’s major shareholder was the Kraipisitkul family, which owns 56% of the company’s shares. Public shareholders owned the rest.

SSP’s first power plant was SPN, a solar power plant in Lopburi, with an installed capacity of 52 MW. SPN has a long-term PPA with EGAT for 40 MW of power supply. The term of the PPA with EGAT spans five years with an option to renew every five years. The electricity tariff has three components: the time of use (TOU) tariff, the fuel tariff (Ft) charge, and an adder of THB6.5 per kWh for the first 10 years after the commercial operation date (COD). SPN has been the main source of revenue and profit for SSP.

The company later expanded into solar rooftop projects and solar farms in overseas markets. In Thailand, SSP owns a 5-MW solar farm, which it co-developed with the War Veterans Organization of Thailand (WVO). The project receives a fixed feed-in-tariff of THB4.12 per kWh. The term of the PPA is 25 years. Apart from solar farms, SSP also has solar rooftop projects with many industrial users under private PPAs. The electricity tariffs charged to industrial users are based on the TOU tariff minus a discount, as specified in the PPAs.

SSP also has several solar farms overseas. The company has three solar farms in Japan, with total gross capacity of 63.5 MW. These three projects receive a fixed feed-in-tariff of JPY36-JPY40 per kWh under 20-year PPAs with reputable off-takers in Japan, such as Hokkaido Electric Power Co., Inc. (HEPCO) and Kyushu Electric Power Co., Inc. (KYUDEN). SSP also owns the Khunsight Kundi solar farm project, a 16-MW solar farm in Mongolia. This project has a 12-year PPA with National Dispatch Center LLC. The tariff is a fixed feed-in-tariff basis of US cent16.2 per kWh. In 2019, SSP developed a 50-MW solar farm in Vietnam. Electricity of Vietnam (EVN) is the off-taker for this project under a 20-year PPA. The tariff is a fixed feed-in-tariff basis at US cent9.35 per kWh.

Currently, SSP has four projects under development and construction including two solar farms in Japan, one wind farm in Vietnam, and one solar rooftop project in Indonesia.

**Table 1: Portfolio of SSP**

Project Name	Off-taker	Location	SCOD/ COD	Ownership %	Capacity (MW)		
					Installed	Contracted	Equity
<b>Operating</b>					<b>193</b>	<b>160</b>	<b>173</b>
1 SPN <sup>(a)</sup>	EGAT	Lopburi	Feb-15	100	52	40	52
2 Hidaka <sup>(a)</sup>	HEPCO <sup>(d)</sup>	Hokkaido	Mar-18	87	21	17	18
3 SNNP1 <sup>(b)</sup>	Srinanaporn Group	Samutsakorn	Mar-18	100	0.4	0.4	0.4
4 SNNP2 <sup>(b)</sup>	Srinanaporn Group	Ratchaburi	Mar-18	100	1	1	1
5 Do-Home <sup>(b)</sup>	Do Home Group	Bangbuatong, Rama II, Korat, Khonkhan, Chiang Mai	Jul-18	100	3	3	3
6 Zouen <sup>(a)</sup>	KYUDEN <sup>(e)</sup>	Kumamoto	Aug-18	100	8	6	8
7 WVO <sup>(a)</sup>	PEA	Ratchaburi	Nov-18	100	5	5	5
8 Binh Nguyen <sup>(a)</sup>	EVN <sup>(h)</sup>	Vietnam	May-19	80	50	40	40
9 Mongolia <sup>(a)</sup>	NDC LLC <sup>(g)</sup>	Mongolia	Jul-19	75	16	15	12
10 SNNP3 <sup>(b)</sup>	Srinanaporn Group	Thailand	Apr-19	100	0.4	0.4	0.4
11 SNNP4 <sup>(b)</sup>	Srinanaporn Group	Thailand	Mar-20	100	0.3	0.3	0.3
12 Yamaga <sup>(a)</sup>	KYUDEN <sup>(e)</sup>	Kumamoto	May-20	90	35	30	31
13 TAPACO <sup>(b)</sup>	TAPACO	Chonburi, Prachinburi	Apr-20	100	0.9	0.9	0.9
14 PRC <sup>(b)</sup>	PRC	Nonthaburi	Apr-20	100	1	1	1
<b>Constructing and Developing</b>					<b>101</b>	<b>90</b>	<b>91</b>
15 Leo Phase1 <sup>(a)</sup>	TEPCO <sup>(f)</sup>	Shizuoka	Q3/21	100	26	20	26
16 Leo Phase2 <sup>(a)</sup>	TEPCO <sup>(f)</sup>	Shizuoka	Q1/23	100	22	17	14
17 Wind Farm VN <sup>(c)</sup>	EVN <sup>(h)</sup>	Vietnam	Q4/21	80	48	48	38
18 Platinum Ceramic <sup>(b)</sup>	Platinum Ceramic	Indonesia	Q1/21	84	5	5	4
<b>Total</b>					<b>295</b>	<b>250</b>	<b>264</b>

Source: SSP

Remark: (a) Solar farm power plant

(b) Solar rooftop power plant

(c) Wind farm power plant

(d) Hokkaido Electric Power Co., Inc.

(e) Kyushu Electric Power Co., Inc.

(f) Tokyo Electric Power Company

(g) National Dispatching Center LLC

(h) Electricity of Vietnam

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	903	1,486	1,137	877	877
Earnings before interest and taxes (EBIT)	524	788	663	524	610
Earnings before interest, tax, depreciation, and amortization (EBITDA)	742	1,133	888	648	730
Funds from operations (FFO)	561	828	648	409	567
Adjusted interest expense	173	293	238	231	163
Capital expenditures	635	2,255	3,369	1,961	1,341
Total assets	15,206	13,045	11,893	8,270	4,963
Adjusted debt	8,343	7,370	6,218	3,460	3,729
Adjusted equity	4,376	3,997	3,858	3,422	1,297
<b>Adjusted Ratios</b>					
EBITDA margin (%)	82.12	76.30	78.07	73.92	83.24
Pretax return on permanent capital (%)	6.87	6.44	6.56	7.55	13.59
EBITDA interest coverage (times)	4.29	3.86	3.73	2.81	4.48
Debt to EBITDA (times)	6.28	6.50	7.00	5.34	5.11
FFO to debt (%)	11.89	11.23	10.42	11.83	15.20
Debt to capitalization (%)	65.60	64.84	61.71	50.28	74.20

**RELATED CRITERIA**

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

**Sermsang Power Corporation PLC (SSP)**
**Company Rating:**
**BBB**
**Rating Outlook:**
**Stable**
**TRIS Rating Co., Ltd.**

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