SUPERBLOCK PLC

No. 1/2018

3 January 2018

Company Rating: BBB-

Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of Superblock PLC (SUPER) at “BBB-”. The rating reflects the predictable cash flows SUPER receives from its solar power projects and the encouraging prospects of the renewable energy sector. However, the rating is constrained by the company’s aggressive investment strategy and a potential rise in leverage. Significant investments are planned for the years ahead. The rating is also pressured by the execution risk and the country risk associated with the power projects SUPER is developing.

SUPER was founded as a producer of Autoclaved Aerated Concrete in 1994, and listed on the Stock Exchange of Thailand (SET) in 2005. The company discontinued the original business and sold it to Siam City Cement PLC in 2013. SUPER then began two new businesses: the information and communication technology (ICT) segment and the renewable energy segment. SUPER acquired a 76.25% stake in Open Technology PLC, an ICT system integrator in Thailand, in late 2012. Moreover, SUPER took over Rootfarm Co., Ltd., a solar power producer in late 2013. Currently, the power segment is the centerpiece of the company, accounting for nearly all of revenue. As of September 2017, the Lochaya group remained the major shareholder, holding approximately 28% interest in SUPER.

SUPER’s strength in the power segment is built on its successful record of developing and operating a number of solar power projects, spreading out geographically across Thailand. After a series of acquisitions of brownfield solar projects during 2013 and 2014, SUPER demonstrated explosive growth in 2015. The company aggressively snapped up several greenfield solar power projects which were scheduled to commence operations by the end of 2015. Although the company dealt with many projects at the same time, nearly all the projects started supplying energy by the scheduled date under the respective power purchase agreements (PPAs).

As of November 2017, SUPER’s aggregate capacity, spreading across all the solar projects, was about 680 megawatts (MW). Nearly all of the projects were operational. However, including the capacity of the solar projects for which SUPER has made on equity investment, the aggregate capacity would be about 770 MW. SUPER held the largest capacity among the solar power producers rated by TRIS Rating.

The rating is predominantly supported by the predictable cash flows SUPER receives from its solar power projects. The power plants which are operating have secured multi-year PPAs with state-owned electricity distributors, and each PPA contains a committed tariff. The payment risk of the power buyers is minimal.

The performances of SUPER’s solar power plants have been satisfactory. Since inception, the actual annual output of most solar power plants has reached the initial estimates based on a 75% probability (P75 level) of energy production. Despite the satisfactory results, the performances over the long haul have yet to be proven. Most of the solar power plants started commercial operations in 2016.

TRIS Rating maintains a broadly positive outlook for the renewable energy sector, considering steady increases in power consumption, the government’s concrete long-term plan to develop alternative energy sources, and the support renewable power producers receive from the government.

Contacts:

Rapeepol Mahapant
rapeepol@trisrating.com

Tulyawat Chatkam
tulyawat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

Conversely, the rating is constrained by SUPER's aggressive investment strategy. The company grew tremendously in 2015, when it had acquired several solar projects. Although solar projects carried low operational risks, a sudden deluge of power plants required a massive amount of manpower and a well-equipped monitoring system to ensure satisfactory outputs from the solar plants. TRIS Rating is of the view that SUPER would need to add more manpower, particularly in managerial positions, to support its extensive power projects. In addition, SUPER's ramping growth created a heavy debt burden. The company's aggressive investment plans will probably limit the amount of free cash flow.

SUPER is likely to invest more in renewable power projects, which carry higher execution risks. It plans to sink about Bt2.6 billion to develop two domestic waste-to-energy (WTE) projects, with a combined contracted capacity of 17 MW. A WTE plant generally carries high operational risks as it is more complex than a conventional fossil-fueled power plant or a solar power plant. SUPER has expertise with solar power plants. The calorific value (or the heat value) produced by waste feedstock may vary significantly. Moreover, a WTE plant also faces environmental issues.

SUPER is exposed to country risk as it has recently explored investment opportunities abroad. The first offshore project is the Tianjin project, a 20-MW solar power plant based in China. This project will cost SUPER about Bt800 million. In addition, SUPER is going to develop large-scale wind power projects in Vietnam with a local partner. The plants will have a combined capacity of 700 MW. The first phase of the project (100 MW) requires an investment of Bt7-Bt8 billion. A wind power project also carries higher execution risks than a solar power project because more sophisticated equipment is used and the construction risks are higher.

SUPER will face the evolving regulatory risks and the credit risks of offtakers in the countries in which its projects operate. In the absence of sufficient risk management systems, SUPER may make some missteps. With the sizable investments, a misstep could undermine its business profile.

The rating is also weighed down by a debt-heavy capital structure. Total assets and total debt have skyrocketed since 2014 as SUPER expanded aggressively. The total debt to capitalization ratio stood at 64.5% as of September 2017. In addition to high leverage, SUPER's costs of debt are higher than other domestic solar power producers rated by TRIS Rating. The high funding costs cut SUPER's return on assets, in spite of high operating efficiency. Net profit is largely sensitive to the performances of the power plants. To keep the bottom line at a satisfactory level, SUPER needs to keep the performances of the power plants high.

Leverage has tended to rise as investments rise. SUPER plans to create an infrastructure fund and then sell some of its operational solar power projects to the fund. The sale will unburden the balance sheet. TRIS Rating expects the net proceeds, after making a reinvestment in the infrastructure fund, will be about Bt8 billion. Leverage should remain high over the next few years, considering the company's aggressive investment plans. Under TRIS Rating's base case forecast, which excludes the net proceeds from the sale of the operational solar power projects to the infrastructure fund but incorporates the offshore investments, the total debt to capitalization ratio will rise to nearly 70% over the next three years. SUPER's heavy debt load, plus its aggressive investment strategy, keep a lid on the rating.

SUPER's operating performance has improved after its several solar power plants are operational. Revenue rose significantly to about Bt3.6 billion in 2016 and Bt4.3 billion in the first nine months of 2017, up from less than Bt400 million during 2012-2015. TRIS Rating forecasts revenue will increase further, ranging between Bt5.5-Bt6.5 billion over the next three years. Profitability has rebounded recently after slipping during the periods of investments. The operating margin (operating income before depreciation and amortization as a percentage of sales) soared to 80% in 2016 and to 85.3% in the first nine months of 2017, compared with negative values in 2014 and 2015.

TRIS Rating forecasts the operating margin will stay above 75% over the next three years. Earnings before interest, tax, depreciation, and amortization (EBITDA) are projected to reach Bt5 billion by 2019. Despite an increase in EBITDA, operating cash flows in relation to debt obligations or cash flow protection will drop. The heavy debt burden will reduce operating cashflows after interest charges. Over the next three years, the EBITDA interest coverage ratio is expected to slide to about 2-3 times, from 3.5 times in the first nine months of 2017. The ratio of funds from operations (FFO) to total debt will range from 7%-8%, compared with 11.6% in the first nine months of 2017.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that SUPER's solar power plants will perform satisfactorily and generate the sizable cash flows as planned. SUPER is also expected to successfully execute the projects under development and earn satisfactory returns. Despite a rise in leverage, the total debt to capitalization ratio should stay below 70%.

A rating upgrade could occur if SUPER's operating performance exceeds expectations, which would enhance cash flow protection. In contrast, the rating could be lower if the performances of the power projects fall short of the initial estimates or respective guidances. The rating could also be lower if the capital structure deteriorates significantly, possibly due to a failure to generate sufficient cash flows, excessive debt-funded investments, or project cost overruns.

Superblock PLC (SUPER)

Company Rating:	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

			---------------- Year Ended 31 December	-------------	
	Jan-Sep 2017	2016	2015	2014	2013
Revenues	4,263	3,612	398	205	91
Gross interest expense	1,080	1,201	236	36	0
Net income from operations	1,051	272	(548)	(89)	(2)
Funds from operations (FFO)	2,782	2,056	(562)	(26)	(44)
Earnings before interest, tax, depreciation, and amortization (EBITDA)	3,752	2,989	(279)	13	13
Capital expenditures	3,684	16,924	16,609	848	3
Total assets	47,922	48,060	39,179	5,115	747
Total debts	29,371	28,252	16,107	751	3
Shareholders' equity	16,140	14,696	11,987	4,230	724
Operating income before depreciation and amortization as % of sales	85.30	79.99	(71.84)	(2.40)	14.08
Pretax return on permanent capital (%)	6.57 **	4.55	(2.52)	(1.74)	(0.06)
EBITDA interest coverage(times)	3.47	2.49	(1.18)	0.37	49.65
FFO/total debt (%)	11.62 **	7.28	(3.49)	(3.44)	(1,553.88)
Total debt/capitalization (%)	64.54	65.78	57.33	15.08	0.39

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

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