# SAHACOGEN (CHONBURI) PLC

No. 96/2022
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## CORPORATES

**Company Rating:** A
**Outlook:** Stable

## RATIONALE

TRIS Rating assigns a company rating of "A" to Sahacogen (Chonburi) PLC (SCG) with a "stable" outlook. The rating reflects SCG's stable cash generation from long-term power purchase agreement (PPAs) with creditworthy offtakers -- the Electricity Generating Authority of Thailand (EGAT, rated "AAA" by TRIS Rating) and Saha Pathana Inter-Holding PCL (SPI, rated "AA" by TRIS Rating). The rating also reflects the company's diversified industrial customer base and the proven record of operating performance of its cogeneration power plant. However, the rating is constrained by the mismatch of the fuel price pass-through mechanism for industrial customers as well as a rising financial leverage during a period of capacity expansion.

The company rating on SCG also reflects our view of SCG as a strategic subsidiary of Ratch Group PLC (RATCH, rated "AA+" by TRIS Rating). The rating consequently incorporates a one-notch enhancement from SCG's stand-alone credit profile (SACP) of "a-".

## KEY RATING CONSIDERATIONS

### Earnings backed by PPAs with creditworthy off-takers

SCG's cash generation is backed by its PPAs with creditworthy off-takers. The company owns and operates a gas-fired cogeneration power plant with an installed capacity of 214-megawatt, located in Saha Group Industrial Park – Sriracha (Sriracha Industrial Park). SCG holds a 25-year PPA with EGAT for the supply of 90 MW of electricity under the Small Power Producer (SPP) scheme. The company also distributes about 80 MW of electricity and 70 tons per hour of steam to industrial customers in Sriracha Industrial Park, through SPI as a direct counterparty. In addition, SCG owns and operates two biomass power plants under the Very Small Power Producer (VSPP) scheme, holding PPAs with Provincial Electricity Authority (PEA, rated "AAA/stable" by TRIS Rating) for 15 MW in total.

Over the past three years, EGAT contributed about 45% of SCG's revenue, while industrial customers contributed about 43%. The balance was made up by revenues from PEA.

### PPA limits market and fuel price risks

The PPA with EGAT helps mitigate market risk. The embedded take-or-pay obligation requires EGAT to dispatch at least 80% of the contracted capacity, based on plant operating hours. The built-in pass-through mechanism of fuel costs and exchange rates specified in the PPA also stabilizes the earnings rendered under this PPA.

### Diversified industrial customer base

SCG's industrial customers are diversified across various industries, which helps mitigate demand risk. The top five industrial sectors comprise food & beverage sector (accounting for 28% of SCG's total sales to industrial customers), advanced textiles (e.g., hygiene fibers and yarns, 16%), electronics (12%), conventional textile (10%), and consumers products (8%).

### Reserve capacity stabilizes performance

SCG's cogeneration power plant has an installed capacity of 214 MW, which implies the reserve capacity of at least 32 MW in excess of the contracted capacity under the EGAT PPA and to industrial customers. In addition, the

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company's cogeneration power plant comprises five gas turbine units, and two steam turbine units. The multiple-unit operation benefits SCG in terms of operational stability as evidenced by historical availability performance, although the investment in such reserve capacity may have burdened SCG's capital efficiency.

During 2017 to March 2022, the SPP plant recorded a satisfactory operating performance. The availability factors were between 93% and 97% and unplanned outage factors averaged less than 0.5%, despite an incident with one of the gas turbine units in late-2020 which took more than six months to repair. The electricity and steam supplied to both EGAT and industrial customers remained intact. The total electricity supplied to EGAT and industrial customer in 2021 was 1,051 gigawatt-hour (GWh), staying at about the same level since 2017.

**Surging natural gas prices to pressure 2022 earnings**

The steep rise in gas prices will continue to impact SCG's earnings in 2022, especially from electricity sales to the industrial customers. The electricity pricing structures for industrial customers are based on the tariff structure of PEA, which includes a fuel adjustment charge—Ft. Although Ft is intended to reflect changes in fuel prices, Ft adjustments usually carry a time lag and is subject to the authority's discretion on the timing and magnitude of adjustment. As a result, SCG's earnings from electricity sales to the industrial customers—which constitute 30%-35% of SCG's total energy output—will be impacted during periods of surging gas prices and delays in Ft adjustments.

The gas prices charged by PTT have been heightened by the ongoing Russia-Ukraine conflict. The price of liquified natural gas (LNG), which represents an increasing contribution to PTT's natural gas supply mix, has surged astronomically. The gas cost charged by PTT in the first quarter of 2022 hit a record high of over THB400 per metric million British thermal unit (MMBTU). A surge in natural gas price coupling with the time-lag Ft adjustments caused SCG's EBITDA in the first quarter of 2022 to drop by 59% (year-on-year) to THB105 million.

In our base-case projection, we assume gas prices to remain high in 2022, before gradually decline to normal levels from 2023 onwards. We expect Ft to continuously increase in late 2022 corresponding to the rises in gas costs in 2021 and 2022.

**Satisfactory performance of two biomass power plants**

SCG owns and operates two biomass power plants, through its two subsidiaries, under the VSPP scheme. These two power plants hold PPAs with PEA totaling to 15 MW, under a Feed-in-Tariff (FiT) price structure. These two plants contribute 13%-15% of SCG's total revenue.

The first biomass plant, located in Lamphun, is owned and operated by Sahacogen Green Company Limited (SGN). It holds a PPA with PEA for 8 MW and supplies steam to industrial users in Saha Group industrial Park in Lamphun. This plant underwent an incident on the steam turbine generator in September 2021, which took almost 3 months to repair. The repair cost was partially covered by insurance. The availability factor in 2021 consequently dropped to 75% from the normal level of over 94%. The steam turbine generator resumed operations in December 2021.

The other biomass power plant, located in in Kamphaeng Phet, is operated by Sahagreen Forest Company Limited (SGF). It sells 7 MW of electricity to PEA under a PPA, with an availability factor of 94%-97% over the past five years.

Biomass feedstock for the two plants is considered secure, due to abundant agricultural activities and limited competition from other biomass power plants in the surrounding regions.

**SPP Replacement is on track**

In late November 2021, SCG signed a new 25-year PPA with EGAT for 30 MW under the SPP replacement scheme. The company also signed a new gas supply agreement with PTT PLC, to secure natural gas for its new power plant, covering the terms of the PPA. SCG appointed Jurong Engineering Group as the engineering, procurement, and construction (EPC) contractor for the project. The SPP replacement project will have an installed electricity generation capacity of 76 MW and steam generation capacity of 75 tons of per hour. We expect the SPP Replacement project to commence commercial operation in April 2024 as scheduled, upon the expiration of the existing PPA.

Our forecast projects the volume of electricity sales to EGAT to drop from April 2024 onward, to reflect the contracted capacity declining to 30 MW from 90 MW. We expect that SCG will and operate the new plant as a base load power plant to supply electricity and steam to both EGAT and industrial customers. The new plant will be more energy-efficient than the existing one, consuming less natural gas to generate electricity. The new plant is designed to operate with a heat rate of about 7,400-7,500 Btu/kWh, while the existing power plant has been operating with a heat rate of about 8,500 Btu/kWh. The estimated investment cost for the project is about THB2.7 billion, of which THB2.0 billion is planned to be funded by new debt. SCG is also planning to reduce the operation and maintenance (O&M) cost due to a lessened scope of O&M work.

### Satisfactory financial profile with headroom for expansion

In December 2021, the company received a capital injection of THB 1.2 billion from RATCH, its new major shareholder. As a result, the company's net debt fell to THB2.0 billion due to the added cash and the net debt repayment in 2021. Its Debt to Capitalization ratio at the end of 2021 was improved to 33.54%. This has provided headroom for the investment in the SPP Replacement project and other investments to achieve its target of a 400-MW portfolio by 2027.

SCG's Debt to EBITDA ratio for 2021 improved to 2.91 times, from 4.29 times in 2020. However, the company's EBITDA for 2021 declined to THB690 million, from THB821 million in 2020. This was due to the time-lag of the fuel cost pass-through mechanism for electricity sales to the industrial customers amidst surging natural gas prices in the fourth quarter of 2021. In addition, the company realized a one-off transaction cost of about THB60 million in 2021 in relation to the shareholder reorganization.

In our base-case scenario, we expect the Debt to EBITDA ratio to increase to 4.0-5.0 times in 2022-2024. We believe that SCG's earnings in 2022 will continue under pressure from the surge in natural gas prices. We forecast SCG's EBITDA to drop to THB500-THB600 million in 2022, and recover to THB750-THB850 million during 2023-2024, reflecting our view that the heightened gas prices will gradually normalize from 2023 onwards.

At the end of March 2022, SCG's priority debt totaled THB327 million, representing about 11% of total debt. The priority debt consisted of THB120 million secured debt and THB207 million senior unsecured debt owed by its operating subsidiaries.

### Adequate liquidity

SCG has an adequate liquidity profile. The company's sources of liquidity at the end of March 2022 comprised cash on hand of THB965 million and total undrawn bank credit facilities of THB779 million. In addition, we forecast SCG to generate funds from operations (FFO) over the following 12 month of THB450-THB500 million. The company's cash on hand, plus FFO should be sufficient to cover maintenance capital expenditures and debt repayments. Over the following 12 month, SCG has scheduled debt repayments of about THB438 million.

The company plans to spend about THB400-THB500 million to invest in the SPP Replacement project in 2022. SCG is likely to finance this investment mostly with debt, for which the company has obtained a THB2,500 million short-term bridging facility.

### A strategic subsidiary of RATCH

In December 2021, RATCH injected fresh capital of THB1.2 billion to SCG in addition to its acquisition of the company's shares from SPI and related parties in Saha Group worth THB2.2 billion. RATCH has become the majority shareholder with a 52% stake in SCG since December 2021.

We view SCG as a strategic subsidiary of RATCH. SCG is positioned as the flagship company of RATCH to invest in small- and medium-sized power plants, especially in renewable energy. RATCH also appoints its senior executives—including Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Chief Business Development Officer—to the board of directors of SCG. The current managing director of SCG is also appointed by RATCH. RATCH places emphasis on the growth prospect of SCG and has established a new business development department with secondment of RATCH's business development team to SCG. The growth objective is to double SCG's equity capacity to 400 MW by 2027.

SCG will adopt a financial policy which is in-line with RATCH's policy. RATCH has also expressed its intention to provide financial support to SCG, if needed.

## BASE-CASE ASSUMPTIONS

- EGAT's PPA at the Sriracha plant to decline to 30 MW from April 2024, from 90 MW currently.
- For the SPP power plant, a dispatch factor of about 80% for EGAT and 60% for industrial customers.
- Availability factors between 90% and 97% for the two biomass power plants.
- Demand from industrial customers in Sriracha Industrial Park to increase to 87 MW by 2024.
- Capital expenditure for SPP Replacement totaling THB2.7 billion over 2022-2024.
- Annual maintenance capital expenditure of about THB150- THB160 million over 2022-2024.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that SCG will maintain its satisfactory operating performance, and that the transition to the new EGAT PPA with lower contracted capacity will have limited impact on its cash generation.

## RATING SENSITIVITIES

The credit upside for SCG is limited over the next 12-18 months. A downward pressure on the rating could arise if SCG's financial performance significantly deteriorate from our expectation. Any major debt-funded investments, which considerably weaken the company's capital structure, could also lead to a rating downgrade.

Any material changes in the credit profile of RATCH or changing linkage between SCG and RATCH could also impact SCG's company rating.

## COMPANY OVERVIEW

SCG was established in 1999 to own and operate a cogeneration power plant under the Small Power Producer ("SPP") scheme. The company was listed on the Stock Exchange of Thailand in 2004. SCG's main objective is to produce and supply electricity to EGAT under a 25-year 90-MW PPA, as well as to supply electricity and steam to industrial customers in Saha Group Industrial Park–Sriracha.

At the commencement of operations in 1999, SCG's total installed capacity was 122 MW of electricity plus 41 tons of steam per hour, using natural gas as the primary fuel under a long-term gas supply contract with PTT PLC. The company subsequently underwent several expansions to serve growing demand from industrial users in Saha Group Industrial Park–Sriracha. As of December 2021, the total installed capacity of the Sriracha power plant was 214 MW of electricity plus 96 tons of steam per hour.

The existing 90-MW PPA with EGAT will expires in April 2024 and will be replaced at the same time by a new 30-MW PPA under the SPP Replacement program. The new PPA was signed with EGAT in November 2021.

SCG also operates two VSPP biomass power plants in Lamphun and Kamphaeng Phet with total installed capacity of 17.1 MW and total contracted capacity of 15 MW with PEA under the Feed-in-Tariff (Fit) structure.

## KEY OPERATING PERFORMANCE

**Table 1: Plant Performance Statistics**

| | Unit | Jan-Mar 2022 | ------------- Year Ended 31 December ------------- 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|---|
| **Gas-fired SPP power plant** | % | | | | | |
| Net output energy [1] | GWhe | 273 | 1,107 | 1,071 | 1,112 | 1,082 |
| Proportion of energy supplied to industrial customers | % | 45 | 43.7 | 42.7 | 42.9 | 44.6 |
| Plant heat rate [2] | Btu/kWh | 8,428 | 8,500 | 8,517 | 8,454 | 8,529 |
| Availability factor | % | 92.9 | 96.5 | 96.4 | 93.3 | 96.5 |
| Planned outage | % | 7.1 | 3.4 | 3.5 | 6.4 | 3.5 |
| Unplanned outage | % | 0.0 | 0.1 | 0.1 | 0.3 | 0.0 |
| **Biomass VSPP power plants** | | | | | | |
| SGN – Net output energy [1] | GWhe | 20 | 67 | 80 | 77 | 72 |
| SGN – Availability factor | % | 91.1 | 74.9 | 97.0 | 95.2 | 94.4 |
| SGF – Net output energy [1] | GWh | 15 | 57 | 57 | 55 | 57 |
| SGF – Availability factor | % | 99.9 | 97.1 | 95.0 | 94.2 | 97.4 |

*Remarks:* [1] *Net output of electricity and steam in the unit of gigawatt-hour equivalent (GWhe)*
[2] *as compared to the EGAT contract heat rate of 8,600 Btu/kWh*

*Source:* *SCG*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | | -------------Year Ended 31 December ----------- | | | |
|---|---|---|---|---|---|
| | Jan-Mar 2022 | 2021 | 2020 | 2019 | 2018 |
| Total operating revenues | 1,308 | 4,233 | 3,978 | 4,326 | 4,208 |
| Earnings before interest and taxes (EBIT) | (41) | 81 | 246 | 316 | 415 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 105 | 690 | 821 | 845 | 949 |
| Funds from operations (FFO) | 94 | 575 | 692 | 669 | 759 |
| Adjusted interest expense | 23 | 109 | 129 | 155 | 183 |
| Capital expenditures | 376 | 279 | 306 | 241 | 207 |
| Total assets | 7,644 | 7,592 | 6,626 | 6,745 | 6,982 |
| Adjusted debt | 2,160 | 2,008 | 3,523 | 3,765 | 3,885 |
| Adjusted equity | 3,937 | 3,980 | 2,739 | 2,723 | 2,686 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 8.03 | 16.30 | 20.64 | 19.53 | 22.55 |
| Pretax return on permanent capital (%) | (0.89) ** | 1.22 | 3.79 | 4.77 | 6.20 |
| EBITDA interest coverage (times) | 4.57 | 6.32 | 6.34 | 5.45 | 5.19 |
| Debt to EBITDA (times) | 3.99 ** | 2.91 | 4.29 | 4.46 | 4.10 |
| FFO to debt (%) | 20.73 ** | 28.61 | 19.63 | 17.76 | 19.53 |
| Debt to capitalization (%) | 35.43 | 33.54 | 56.27 | 58.04 | 59.13 |

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

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

## Sahacogen (Chonburi) PLC (SCG)

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|---|---|
| **Company Rating:** | A |
| **Rating Outlook:** | Stable |

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