TRIS RATING
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TPI POLENE POWER PLC

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CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Stable

Contacts:

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating on TPI Polene Power PLC (TPIPP) at "BBB+". At the same time, TRIS Rating assigns the rating on TPIPP's proposed issue of up to Bt4,000 million in senior unsecured debentures at "BBB+". Approximately 70% of the proceeds from the debentures will be reserved for potential investments, as the company will participate in bidding on municipal solid waste (MSW) power projects in the near future. The rest is for purchasing a spare boiler for its refuse-derived fuel (RDF) power plant.

The ratings reflect TPIPP's solid cash flow underpinned by power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT), rated "AAA" by TRIS Rating, as well as its high profitability from received tariff adders, a competitive fuel cost from the RDF and waste heat, and a currently strong balance sheet. However, the ratings are partially offset by the relatively high operational risks of RDF-fired power plants and the execution risks of new power plants.

KEY RATING CONSIDERATIONS

Credit profile reflects strong connection with the parent

TPIPP is a subsidiary of TPI Polene PLC (TPIPL; rated "BBB+/Stable"). On a stand-alone basis, TPIPP's company rating is assigned at "A", indicating a stronger credit profile than TPIPL. However, TPIPP's rating is capped by TPIPL's rating at "BBB+" under our group rating methodology.

The capped rating reflects the strong linkage between TPIPP and its parent company. TPIPL is TPIPP's ultimate shareholder, holding a 70.24% stake in the company. TPIPL's top managements are involved in TPIPP's board of directors and management team, indicating significant controlling power over the company's business strategies and financial policies.

We consider TPIPP to be a core subsidiary, as the company contributes about 70%-80% of earnings before interest, tax, depreciation, and amortization (EBITDA) to the Group and plays a crucial role in supporting the Group's rating.

The rating also takes into account the significant degree of integration between TPIPP and its parent company. The business dependence causes operational constrains on TPIPP and exposes the company to TPIPL's credit risk and the cyclicality of the cement business. Although EGAT is the most important off-taker, TPIPL is also another power buyer of the company and is also the sole supplier of waste heat. Adverse changes in operations such as low production or shut downs at TPIPL's cement plants will cause a downside effect on TPIPL's power demand and supply of waste heat, thus partially weakening the operations of TPIPP's power plants.

Robust cash flow and high profit margin

TPIPP's credit strength is supported by solid cash flow, propelled by the long-term PPAs with EGAT. The contractual conditions in the PPAs help mitigate demand risk. This means TPIPP can receive recurring cash flow as long as the power plants can generate electricity and sell to EGAT. The PPAs also provide a tariff adder rate of Bt3.5 per kilowatt hour (kWh) for seven years, markedly lifting the company's profit margin to a high level.

Competitive fuel cost of RDF and waste heat

The favorable fuel costs of the RDF and waste heat underpin TPIPP's strengths. The cost of RDF is relatively low as it can be produced from landfill waste and MSW. TPIPP procures most of its MSW for free. Waste heat supply is another competitive advantage exclusive to TPIPP due to the proximity of its power plants to its parent's cement plants. The waste heat is a by-product from the cement production. The PPAs allow the company to use waste heat as a secondary energy to support power generation up to 25% of total energy consumed. As a result, the power output generated from this low-cost waste heat renders the very high profit margin to the company. However, despite the low cost, the supply of waste heat is unstable and subject to operations of TPIPL's cements plants.

Relatively high operational risk of RDF power plants

TPIPP's competitive strengths are weighed down by operational difficulty of RDF-fired power plants. The RDF-fired power plants are more complex than conventional fossil-fueled plants due largely to the fact that the quality and heat value of the feedstock is less reliable. The quality of waste used to produce RDF can vary considerably. TPIPP's ability to control and screen out any contaminants is a key factor to determine the quality of RDF.

TRIS Rating's view is that the use of RDF will cause greater challenges in operations than other types of power plants with stable fuel quality, thus leading to a higher potential of lengthy outages. To stabilize operations, TPIPP is likely to incur additional capital spending for maintenance or plant modifications over the medium term.

Expected full operation in 2019 onwards

TPIPP's EBITDA grew continuously, particularly following the increasing outputs sold to EGAT. EBITDA grew to Bt3.09 billion in 2017 from Bt2.4 billion in 2016, up by 31.1%. EBITDA in the first half of 2018 surged to Bt2.05 billion, increasing by approximately 24.9%. With the benefit of the adder tariff, the operating margin (before depreciation and amortization) hovered above 50%, considered to be higher than average when compared with peers in the power generating segment.

In TRIS Rating's base-case, we expect the installed capacity will increase to 440 megawatts (MW) in 2019 from 290 MW in 2018 after the last coal-fired power plant with the capacity of 150 MW starts up. During 2019-2021, we forecast EBITDA will reach Bt6.5 billion per annum. TRIS Rating expects the company's operating margin to maintain at a high level of about 50%-60% over the next three years.

Strong balance sheet

Currently, the company has a strong financial profile, supported by enlarging cash flow and a debt-free balance sheet. TPIPP's balance sheet has had no financial debt since the company received Bt17.1 billion in proceeds from an initial public offering (IPO) in April 2017 and used it to repay all outstanding debts.

We forecast that TPIPP's debt level has the potential to increase in the future but it should remain in a low level. The company aims to participate in bidding for the MSW power projects in Bangkok and Nakhon Ratchasima province, with an initial budget of Bt4 billion. Given the planned investments, we expect the debt to capitalization ratio during development phase would stay below 20%.

TRIS Rating highlights that TPIPP is a core subsidiary of TPIPL, and all of TPIPP's debt will be consolidated to TPIPL. A large debt-financing investment by TPIPP will have a direct impact on TPIPL's financial profile and its group rating.

RATING OUTLOOK

The "stable" outlook reflects our expectation that operations at the power plants of TPIPP will continue to improve, contributing solid cash flows over the long term. TPIPP's status as a core subsidiary of TPIPL is likely to maintain and it will become more important to TPIPL. With the parent-subsidiary relationship, any change in TPIPL's credit ratings will affect TPIPP's ratings, accordingly.

RATING SENSITIVITIES

The ratings or outlook on TPIPP could be upgraded if TPIPP's performance materially improves, and thus helps strengthen the financial profile of the Group. The ratings or outlook could be revised downward if TRIS Rating downgrades TPIPL's rating. A downgrade would also occur if TPIPP's performance is significantly worse than TRIS Rating's expectation and cash flow drops for an extended period.

COMPANY OVERVIEW

Established in 1991, TPIPP is the largest waste-to-energy power producer in Thailand. The company started its first waste heat recovery power plant in 2009 to support TPIPL's cement production. TPIPP later opened two RDF-fired power plants, selling the electricity to EGAT in 2015. TPIPP was listed on the Stock Exchange of Thailand (SET) in April 2017. The company's business includes the generation and sale of electricity from the RDF-fired and waste heat recovery power plants as well as the petrol and gas service stations. In 2017, revenue was Bt4.86 billion. The power business accounted for 86% of total revenue. The petrol and gas service station segments contributed the rest. Revenues received from EGAT and TPIPL accounted for 86.2% and 13.8% of its total revenue in the power business segment, respectively.

As of August 2018, the company's total installed capacity was 440 MW, 290 MW is currently under operation and 150 MW is under construction. The company has seven power plants, mainly using RDF, waste heat, and coal as fuel. All power plants are located in Saraburi province, proximate to TPIPL's cement plants. The company distributes electricity to two utility off-takers, EGAT and TPIPL. TPIPP carries three PPAs with EGAT, permitting the company to sell a capacity of 163 MW with adder of Bt3.5 per kWh on top of the base tariff of approximately Bt3.0 per kWh.

TPIPP owns RDF production plants to facilitate its RDF-fired power plants. The RDF plants are able to manufacture 3,000 tonnes per day of RDF and process 6,000 tonnes of waste. The waste can be grouped into three main types: MSW, unsorted landfill waste, and pre-sorted landfill waste. TPIPP acquires waste from diverse sources. To ensure adequate feedstock, the company makes a large number of procurement agreements with many waste management companies and municipal governments and also sets up RDF production plants near potential landfills in provinces outside Saraburi.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------ Year Ended 31 December ------		
	Jan-Jun 2018	2017	2016	2015
Total operating revenues	3,378	4,922	4,407	2,692
Adjusted interest expense	9	110	209	220
Operating income	2,013	2,822	2,331	1,288
Earnings before interest and taxes (EBIT)	1,833	2,722	1,985	937
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,049	3,089	2,356	1,264
Funds from operations (FFO)	1,935	2,903	2,154	1,150
Capital expenditures	2,486	4,130	3,893	1,658
Total assets	27,583	27,567	18,169	12,674
Adjusted debt	0	0	7,145	1,558
Adjusted equity	24,757	24,214	8,321	9,045
Adjusted Ratios				
Operating income as % of total operating revenues (%)	59.6	57.3	52.9	47.9
Pretax return on permanent capital (%)	12.4 **	13.5	15.0	8.7
EBITDA interest coverage (X)	233.5	28.0	11.3	5.7
Debt to EBITDA (X)	0.0 **	0.0	3.0	1.2
FFO to debt (%)	n.m.**	n.m.	30.2	73.8
Debt to capitalization (%)	0.0	0.0	46.2	14.7

* *Consolidated financial statements*
** *Trailing with the last 12 months*
n.m. *Not meaningful*

TPI Polene Power PLC (TPIPP)

Company Rating:	BBB+
Issue Rating:	
Up to Bt4,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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