

NAM NGUM 2 POWER CO., LTD.

No. 69/2020
11 September 2020

CORPORATES

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|------------------------|--------|
| Company Rating: | A |
| Issue Ratings: | |
| Senior unsecured | A |
| Outlook: | Stable |

Last Review Date: 21/02/20

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 26/07/17 | A | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Nam Ngum 2 Power Co., Ltd. (NN2PC) and the ratings on its outstanding senior unsecured debentures at “A” with a “stable” rating outlook. At the same time, TRIS Rating assigns the rating of “A” to NN2PC’s proposed issue of up to THB1 billion in senior unsecured debentures. The proceeds from the proposed debenture issuance will be used to refinance the NNPC200A debenture, due in October 2020.

The ratings reflect NN2PC’s solid contractual framework, reliable cash flows received from a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT; rated “AAA” by TRIS Rating), the company’s track record of efficient plant operations. However, the ratings are constrained by the uncertain flow of water from the Nam Ngum River.

NN2PC’s holds 25-year PPA with EGAT, which mitigates market risk. The company also has a concession agreement with the government of Laos (GOL), which mitigate the risks of money transferability and currency convertibility. The concession agreement states that NN2PC has the right to receive and hold its revenue accounts outside the Lao PDR. As a result, the revenue received from EGAT is paid to NN2PC’s account in Thailand.

For the first half of 2020, NN2PC’s revenue came in THB987 million, a substantial 52% decrease year-on-year (y-o-y). Earnings before interest, tax, depreciation, and amortization (EBITDA) were THB631 million, down by 60% y-o-y. The underperformance is a result of severe drought in 2019, which led to the lowest water resources seen in years. We forecast NN2PC’s EBITDA will be in the THB2.0-2.5 billion range, subject to the projected volume of water flows into the reservoir for the remainder of 2020. Based on statistical data over the past 10 years, water inflows during the second half of each year represent about 80% of the full-year volume of water inflows.

NN2PC has declared that 2020 is a drought year for its operations. The drought year declaration will temporarily exempt NN2PC from its obligation to maintain minimum availability throughout the year 2020. As such, it allows NN2PC to replenish its reservoir for operation in 2021. We expect NN2PC’s revenue and EBITDA to recover in 2021, based on its current operating plan. NN2PC plans to build up water reserves in its reservoir to a level of 369 meters above sea level (masl.) by the end of 2020. This volume of water is expected to be sufficient to generate electricity throughout the dry season in 2021. In effect, we expect the company’s EBITDA to arrive at the normal level of about THB3.0-3.5 billion in 2021 onwards. We forecast the debt to EBITDA ratio to increase to over 5 times in 2020, but then declining to 3-4 times in 2021.

RATING OUTLOOK

The “stable” outlook reflects our expectation that NN2PC will continue to receive stable cash flows from its power plant provided the volume water inflows remains close to the historical average level over long periods. We expect the power units and water flows into the reservoir to be well managed, enabling NN2PC to achieve the Annual Supply Targets throughout the duration of the PPA.

RATING SENSITIVITIES

A credit upside could develop if NN2PC delivers stronger performance on a sustainable basis. Downward rating pressure could emerge if cash flow deteriorates or if NN2PC makes any large investments which result in substantial deterioration in the company's financial profile.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Nam Ngum 2 Power Co., Ltd. (NN2PC)

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|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| NNPC200A: THB1,000 million senior unsecured debentures due 2020 | A |
| NNPC223A: THB3,200 million senior unsecured debentures due 2022 | A |
| NNPC233A: THB800 million senior unsecured debentures due 2023 | A |
| NNPC240A: THB1,400 million senior unsecured debentures due 2024 | A |
| NNPC253A: THB600 million senior unsecured debentures due 2025 | A |
| NNPC273A: THB2,000 million senior unsecured debentures due 2027 | A |
| NNPC270A: THB3,600 million senior unsecured debentures due 2027 | A |
| NNPC303A: THB3,000 million senior unsecured debentures due 2030 | A |
| Up to THB1,000 million senior unsecured debentures due within 5 years | A |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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