

ENERGY ABSOLUTE PLC

No. 82/2023
27 July 2023

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 24/04/23

Company Rating History:

Date	Rating	Outlook/Alert
24/04/23	A-	Stable
10/05/19	A	Stable
09/04/18	A-	Stable
02/06/16	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Energy Absolute PLC (EA) and the ratings on its existing senior unsecured debentures at "A-". Meanwhile, we revise the rating outlook to "negative" from "stable".

The "negative" outlook reflects the possibility of a rapid increase in EA's debt, which is likely to grow at a faster pace than previously expected, to support the company's battery and EV businesses.

At the same time, we assign the rating of "A-/negative" to EA's newly proposed issue of up to THB10 billion senior unsecured debentures. The company intends to use the proceeds from the new debentures to support installment sales of E-buses as well as for expansion of EV ecosystem.

EA's faster-than-expected rise in debt is mainly attributed to a surge in working capital needs to reinforce EV production as well as to accelerate sale of E-buses to its affiliate, Thai Smile Bus Co., Ltd. (TSB). The company's total debt increased to THB60.4 billion at the end of March 2023, up from THB52.6 billion at the end of 2022. The company has been able to deliver E-buses faster than we had forecasted. At the end of March 2023, EA had already delivered 1,540 units of E-buses to TSB and, at the same time, had extended hire purchase loans totaling THB 6.7 billion to TSB.

We anticipate that EA will need to take on additional debt as the company aims to supply up to 3,400 units of E-buses to TSB within 2024. Based on this target, the company will need debt funding of approximately THB18 billion to facilitate the installment sales to TSB. To finance this plan, the company has secured THB2 billion in loans from one financial institution. The company is requesting additional loans of THB6 billion and plans to issue new bonds worth THB10 billion in the second half of this year.

In our view, the substantial increase in hire purchase loans to TSB poses an increasing counterparty risk, making EA more vulnerable to TSB's payment ability. TSB is currently a loss-making bus operator. We believe that TSB will likely take several years before TSB is able to turn its performance around.

On the positive side, during the first three months of 2023, EA's power operation largely benefited from better wind speeds and a significant rise of the Ft. Profitability and earnings from the electric vehicle (EV) and battery businesses showed gradual improvements, driven by escalating EV sales. In the first quarter of 2023, EA's revenue was THB8.9 billion, an 84.9% year-on-year (y-o-y) increase, while earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB3.8 billion, up by 60.2% y-o-y. Nonetheless, cash flows from the power generation business were inadequate to fund the surging working capital requirements for the EV business, resulting in negative net cash flow from operations of THB2.3 billion in the first quarter of 2023.

We maintain our view that EA's financial leverage will continue to rise over the next 2-3 years. Cash inflows from the power portfolio will begin declining from 2024 onwards following the expiration of adders. EA's capital spending remains relatively substantial from the expansion of battery production capacity, installation of new charging stations, and development of a new wind farm project.

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RATING OUTLOOK

The “negative” outlook reflects a likelihood of EA’s debt rising to support its battery and EV businesses. The enlarged loan exposure to a single customer, coupled with the weak payment ability of TSB, is likely to constrain EA’s financial profile. EA’s reliable and sizable cash generation from its power business will continue to be the main source of cash flows for the group.

RATING SENSITIVITIES

We could lower the ratings if EA’s financial profile worsens substantially from the current level. This can result from a significant increase in working capital needs for the battery and EV businesses, aggressive debt-funded investments, or weak financial operations from the new businesses. A payment default by TSB on EA’s hire purchase loans would lead to a negative rating action.

The prospect of a rating upgrade is limited in the near term. However, a rating upside may occur if EA is able to reduce its debt and/or recover its financial strength significantly.

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Energy Absolute PLC (EA)

Company Rating:	A-
Issue Ratings:	
EA248A: THB1,500 million senior unsecured debentures due 2024	A-
EA257A: THB700 million senior unsecured debentures due 2025	A-
EA259A: THB1,250 million senior unsecured debentures due 2025	A-
EA261A: THB1,150 million senior unsecured debentures due 2026	A-
EA260A: THB3,000 million senior unsecured debentures due 2026	A-
EA279A: THB750 million senior unsecured debentures due 2027	A-
EA281A: THB2,000 million senior unsecured debentures due 2028	A-
EA297A: THB2,000 million senior unsecured debentures due 2029	A-
EA298A: THB2,000 million senior unsecured debentures due 2029	A-
EA299A: THB1,400 million senior unsecured debentures due 2029	A-
EA301A: THB1,000 million senior unsecured debentures due 2030	A-
EA329A: THB1,700 million senior unsecured debentures due 2032	A-
EA331A: THB2,850 million senior unsecured debentures due 2033	A-
Up to THB10,000 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Negative

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