

ENERGY ABSOLUTE PLC

No. 68/2023
24 April 2023

CORPORATES

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

Last Review Date: 14/12/22

Company Rating History:

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

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RATIONALE

TRIS Rating downgrades the company rating on Energy Absolute PLC (EA) to “A-” from “A”. At the same time, we maintain the ratings of “A-” on its senior unsecured debentures. The rating outlook is “stable”.

The rating action reflects EA’s weakened financial profile, caused by the large amount of debt financing for its battery and electric vehicle (EV) businesses, as well as its ongoing investments to develop an ecosystem for its EV business.

The “A-” ratings continue to reflect EA’s robust cash flows from its power generation assets with long-term Power Purchase Agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). The ratings also incorporate EA’s competitive advantage in the EA business from its first-mover position and business integration in the supply chain for EV in Thailand.

We maintain the ratings on EA’s senior unsecured debentures at “A-”, equal to the company rating. At the end of December 2022, EA’s priority debt proportion declined to 47%, lower than the 50% threshold of notching down for subordination risk, according to TRIS Rating’s methodology.

KEY RATING CONSIDERATIONS

Weakened financial profile

EA’s total debt increased significantly to THB52.6 billion at the end of 2022 from THB44.9 billion in the previous year. The credit metrics also worsened with a rise in the net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio to 5.0 times in 2022 from 4.5 times in 2021. The ratio of funds from operations (FFO) to net debt fell to 16.9% from 18.9% over the same period.

This was mainly attributed to the larger-than-expected working capital needs to facilitate battery and E-bus manufacturing, as well as the provision of hire purchase loans to its related company, Thai Smile Bus Co., Ltd. (TSB). EA sold 1,077 E-bus in 2022 with a total value of about THB5.23 billion. Also, the company provided 4-year hire-purchase loans to TSB and other customers, with a total value of THB4.8 billion in 2022. The large working capital spending has impacted EA’s cash inflow. The company’s cash flow from operation was THB782 million in 2022, significantly lower than the normal level of about THB6-THB7 billion per year during the period of 2018-2020.

Robust cash flows from power portfolio

Sizable and predictable cash flows from EA’s power portfolio continue to be the vital factor to support its credit strength. The healthy cash flow is backed by long-term PPAs with EGAT and PEA. The conditions of the PPAs completely mitigate demand risk, while the low operational risks of solar and wind farms also support the stability of cash flow generation. Also, the company benefits from 10-year adder tariffs, which lift cash flow and profitability until the adder expiration.

EA’s total power generating capacity is 664 megawatts (MW), consisting of four solar farms (278 MW) and two wind projects (386 MW). All of EA’s renewable power projects have been operating fully since 2019, providing average EBITDA of THB10 billion per annum during 2019-2022.

First mover in the battery and EV industry in Thailand

EA is the first commercial battery producer in Thailand with a lithium-ion battery factory. The factory began operation in December 2021. EA's battery factory with a production capacity of 1 gigawatt-hour (GWh) is the largest scale in Thailand at present. The company's operation is integrated vertically, spanning from the production of battery cells and packs to the manufacture of a range of vehicles, such as E-car, E-bus, E-truck, and E-mini truck. With a 70% ownership in Amita Technology Inc., EA has the capability to develop fast-charging battery technology and compatible charging infrastructures.

EA's entry into the EV industry with the strategic focus on commercial EVs, such as E-bus and E-truck, positions the company well for growth opportunities in public transportation and logistics operations. The company benefits from the still low market competition and government's policy to support EV transformation and domestic battery production in Thailand. For example, the EV board recently approved a THB24 billion budget to subsidize EV battery producers, offering THB400-THB600 per kilowatt-hour (kWh) to EV battery producers with a capacity of less than 8 GWh, and THB600-THB800 per kWh for a capacity of 8 GWh or more. This subsidy is distributed on a first-come first-served basis, which directly favours EA's first mover position in the battery manufacturing business.

Moving into Thailand's E-bus transition

EA has captured demands in Thailand's early adoption of E-buses via the acquisition of bus operators. EA's subsidiary, EA Mobility Holding Co., Ltd. (EMH), acquired the new issued shares of Beyond Securities PLC (BYD) in 2022. Currently, EMH is the largest shareholder, holding 23.63% shares in BYD. BYD indirectly owns TSB and SMB, two major bus operators, covering a total of 122 bus routes in Bangkok and its vicinities. EMH's acquisition of a major interest in BYD helps EA's group secure firm orders of E-buses as TSB has sizable purchasing plans for 2,400 units of E-buses to fulfill newly awarded operating licenses. We expect EA to greatly benefit from this procurement as all major components are supplied from EA's battery and EV assembly factory.

Despite the secured orders of EV buses, we assess EA's strength in the EV industry to still significantly weighed down by its limited track record in selling EVs outside its group. In 2022, the company sold a total of 1,160 EVs, of which around 990 units were E-buses delivered to TSB. EA's revenue concentration on TSB presents a significant counterparty risk, given TSB's currently weak financial performance. Nevertheless, we view that EA has attempted to diversify its revenue sources and explore new end-markets through the development of new products such as E-mini trucks and E-locomotive as well as establishing a joint venture to distribute E-buses, and an EV ecosystem in Malaysia.

Execution risks in battery manufacturing and EV businesses

In our view, EA's EV business continues to face business challenges and associated risks that constrain its credit profile. Intensified competition from global automakers and larger battery suppliers poses significant risk. However, the company's strategic focus on commercial EVs may help mitigate this risk as major EV makers may target the passenger segment first. The fast-evolving nature of the battery production and rising cost of raw materials such as lithium and nickel pose significant technology risks and threaten profit from battery production.

EA's limited track record for both operation and product quality are also constraining factors. The company still needs to establish its credibility in the EV market by building trust in its battery quality and securing sufficient orders to fully utilize its EV production capacity.

FT rise and EV sales help offset adder expiration

We view EA's power plants remains the primary cash flow contributor to the group. The cash flow from the power portfolio is expected to escalate in 2023, driven by an increase in fuel adjustment charge (Ft). Given its power output of approximately 1,300-1,400 GWh per year, a THB0.50 rise in Ft will generate THB650-THB700 million in EA's cash flow. Also, pressure from expiration of adders will begin in 2024 with an estimated reduction of EBITDA by THB1.1-THB1.3 billion per annum during 2024-2026.

Despite the positive prospect of demand for EVs, EA's limited record of sales outside the group continues to hinder a clear picture of future EV sales. We assume that EA can sell all commercial EVs with an average of 2,500 units per year during 2023-2025. We believe that EA will deliver for the remaining E-bus orders from TSB, at around 1,400 in 2023.

In our base-case, we forecast EA's EBITDA to increase to THB13 billion in 2023 and then decline to THB11 billion in 2025. The average EBITDA margin is also expected to decline to 30% in 2025 from 40% in 2022 due to the rising mix of the EV business. The upside of EV revenue may occur if the company decides to fulfill SMB's orders with the potential demand for around 1,000 E-buses according to the maximum number of E-buses required in the operating licenses.

Rising financial leverage

Moving forward, we anticipate EA's debt will continue to rise from its total debt of THB52.6 billion at the end of 2022, given the company's growth target in EVs and substantial investment plan. EA's capital spending is estimated to be around THB9.5 billion in 2023, allocated towards the expansion of battery production capacity, installation of new charging stations, and upgrading solar panels. The expansion of its battery production capacity from 1 GWh to 4 GWh is expected to commence operations in early 2024. Additionally, EA has been awarded a new PPA to develop a 90-MW wind farm project, which may pose an additional debt load in 2024.

Based on our projections, we anticipate the company's net debt to EBITDA ratio to hover close to 5 times during 2023-2025, and the FFO to net debt ratio to range within 10%-18%.

Manageable liquidity

EA's estimated uses of funds will total THB19 billion over the next 12 months, comprising bank loan and debenture repayments of THB8.4 billion, capital expenditures of THB9.5 billion and estimated dividend payments of THB1.1 billion. . On the other hand, the company's sources of funds are estimated to total THB13.7 billion, including cash and cash equivalent of THB3.3 billion at the end of December 2022 and an estimated FFO of about THB10.7 billion in 2023.

The company has recently issued THB7 billion debentures in January 2023 and has also received a new credit line of THB2 billion from financial institutions. We believe that these sources of funds can significantly help EA address its liquidity needs over the next 12 months.

Capital structure

At the end of December 2022, EA's total outstanding debt, excluding financial leases, was THB50.96 billion, of which about THB24.01 billion was priority debt. Since the priority debt ratio in 2022 was 47.1%, below the threshold of 50%, we view the unsecured debenture holders are not significantly disadvantaged to the company's priority debt holders. We thus remove the previously applied one-notch downward adjustment and assign the same rating to its unsecured debt obligations as the company rating. We expect the priority debt ratio will stay below 50% over the next few years.

BASE-CASE ASSUMPTIONS

- EA's revenue to grow to THB31-THB35 billion per annum during 2023-2025.
- EA's EBITDA to rise to THB13 billion in 2023 and reduce to THB11 billion in 2025.
- Capital expenditure (CAPEX) of THB9.5 billion in 2023 and about THB4.5-THB5.0 billion annually in 2024-2025.
- Dividend payment of THB1.1 billion each year.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EA's reliable and sizable cash generation from its power business will continue to be the main source of cash flows to the group. We expect EA's financial leverage will stay in line with our forecast. The EV business should deliver improving performance with a wider customer base over the next few years.

RATING SENSITIVITIES

A rating upgrade could happen if the company can lower its financial leverage and/or improve its earnings in the new businesses to maintain current cash flow levels. A net debt to EBITDA ratio below 3.5 times and an FFO to net debt ratio higher than 20% would be viewed as material improvements for a positive rating action.

However, we could lower EA's credit rating if the company's financial profile is significantly weaker than expected, which could result from rapid debt loading and aggressive debt-funded investments. Poor performance in the EV and battery business could also contribute to a lower credit rating.

COMPANY OVERVIEW

EA is a holding company, primarily investing in solar and wind power plants. Established in 2006, the company was previously known as Suntech Palm Oil Ltd., a biodiesel manufacturer, before changing its name to Energy Absolute PLC in 2008. In late 2012, EA expanded into the renewable energy business through the development of solar and wind power projects. The company was listed on the Market for Alternative Investment (MAI) in 2013 and was moved to the Stock Exchange of Thailand (SET) in January 2017. The company's major shareholder is the Ahunai family, holding about 43.5% of total shares as of December 2022.

EA's power business has a total contracted capacity of 664 MW, comprising four solar power projects (278 MW) and two wind power projects (386 MW). All of the power plants are in commercial operation. The company is expanding its scope of

investment into the energy storage business and developing a framework to support its emerging EV business. EA's EV business includes manufacturing of battery, production and distribution of E-cars and E-buses, E-ferry transport services, and EV charging stations.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Business

Business	Revenue (THB mil)			Revenue Mix (%)		
	2020	2021	2022	2020	2021	2022
Biodiesel	8,165	8,225	7,422	47%	40%	27%
Power	10,933	10,933	11,181	64%	53%	41%
EV and Mass Transportation	-	1,782	8,626	0%	9%	31%
Battery	-	568	2,748	0%	3%	10%
Other Business	215*	200	304	1%	1%	1%
Less: Inter-segment revenue	0	(1,537)	(3,091)	0%	(7%)	(11%)
Sales Revenue	17,079	20,173	27,192	99%	98%	99%
Other Revenue	119	384	354	1%	2%	1%
Total Revenue	17,199	20,558	27,546	100%	100%	100%

Source: EA

* Included revenue from the battery and EV business of about THB86.7 million

Table 2: Core Power Portfolio as of Dec 2022

Project	Type	Hold (%)	Status	Contracted Capacity (MW)	Tariff Scheme	Commercial Operating Date
Thailand						
ESLO	Solar	100	Operating	8	THB8 adder	Oct-12
ESN	Solar	100	Operating	90	THB6.5 adder	Dec-13
ESL	Solar	100	Operating	90	THB6.5 adder	Feb-15
ESP	Solar	100	Operating	90	THB6.5 adder	Apr-16
Hadkanghan	Wind	100	Operating	126	THB3.5 adder	Jun-17
Hanuman	Wind	100	Operating	260	THB3.5 adder	Apr-19
				664		

Source: EA

Table 3: EA's Power Outputs from Core Projects

Project	2018	2019	2020	2021	2022
Revenue (THB mil)					
Solar Power	5,866	6,158	6,050	6,070	6,732
Wind Power	1,815	4,816	4,543	4,863	4,432
Total	7,681	10,974	10,593	10,933	11,164
Power Output (Million kWh)					
Solar Power	602	627	621	629	660
Wind Power	289	762	733	794	660
Total	891	1,389	1,354	1,423	1,319
Average Tariff (THB/kWh)					
Solar Power	9.75	9.82	9.74	9.65	10.21
Wind Power	6.27	6.32	6.20	6.08	6.72

Source: EA

Table 4: EA's EV Sales

Types of EV	Units	
	2021	2022
E-bus	112	1,077
Other EVs	0	83
Total	112	1,160

Source: EA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	25,416	20,197	17,109	14,913	11,578
Earnings before interest and taxes (EBIT)	6,869	6,992	6,606	7,423	5,302
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,336	9,748	9,397	9,970	7,168
Funds from operations (FFO)	8,733	8,288	7,730	8,526	6,030
Adjusted interest expense	1,426	1,421	1,646	1,433	1,106
Capital expenditures	2,587	6,025	7,247	14,726	5,779
Total assets	103,364	85,476	78,484	70,220	59,208
Adjusted debt	51,670	43,902	44,104	34,372	24,803
Adjusted equity	41,304	35,102	29,627	24,866	19,518
Adjusted Ratios					
EBITDA margin (%)	40.7	48.3	54.9	66.9	61.9
Pretax return on permanent capital (%)	7.7	8.8	9.0	12.4	11.3
EBITDA interest coverage (times)	7.2	6.9	5.7	7.0	6.5
Debt to EBITDA (times)	5.0	4.5	4.7	3.4	3.5
FFO to debt (%)	16.9	18.9	17.5	24.8	24.3
Debt to capitalization (%)	55.6	55.6	59.8	58.0	56.0

* Consolidated financial statement

RELATED CRITERIA

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

Energy Absolute PLC (EA)

Company Rating:	A-
Issue Ratings:	
EA237A: THB1,000 million senior unsecured debentures due 2023	A-
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-
Rating Outlook:	Stable

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