

# ETERNITY POWER PLC

No. 148/2023  
9 August 2023

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Negative

**Last Review Date:** 07/12/22

### Company Rating History:

Date	Rating	Outlook/Alert
07/12/22	BBB-	Negative
07/12/18	BBB-	Stable
01/12/15	BBB	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Eternity Power PLC (ETP) to “BB+” from “BBB-”, with a “negative” outlook. This follows the downward revision of the company rating on Eastern Power Group PLC (EP), its parent company, to “BB+/-negative” from “BBB-/-negative” on 9 August 2023.

The company rating on ETP is equal to the company rating on EP as we assess ETP to be a “core subsidiary” of EP. At the same time, we also downgrade ETP’s stand-alone credit profile (SACP) to “bb+” from “bbb-”.

The downgrade comes after the further delays in the commencement of operations of ETP’s wind power projects in Vietnam, which result in its weakened cash flow and tightening liquidity. The “negative” outlook embeds the ongoing uncertainties related to the projects, particularly the commencement date and unsettled tariff.

The SACP reflects the expected reliability of ETP’s earnings to be derived from the wind power projects. Conversely, it recognizes significant regulatory risks related to ETP’s investments in Vietnam and the execution risks of the projects.

## KEY RATING CONSIDERATIONS

### A core subsidiary of EP

We consider ETP to be a core subsidiary of its parent company, based on its important role and significant earnings contribution. ETP is a power business arm of the group, supporting the group’s strategies to expand in the power business. In our forecast, ETP will contribute around 85%-90% of the group’s earnings before interest, taxes, depreciation, and amortization (EBITDA). With its status as a core subsidiary, the company rating on ETP is equal to the company rating on EP, or “BB+”.

### Further delays for commercial operations of the wind power projects

The rating downgrade mainly reflects ETP’s weakened cash flow caused by the ongoing delays in the commencement of commercial operations of ETP’s wind power projects in Vietnam. ETP has four wind farms in Vietnam that have long awaited commencing operations, with net capacity of 155 megawatts (MW) when measured in proportion to ETP’s equity stakes in the projects. Previously, we expected all ETP’s wind power projects would have a conclusion on the final tariff with Vietnam Electricity (EVN) and commence operation by the second quarter of 2023. As a result of ongoing delay, we expect ETP to generate a low level of EBITDA in 2023, derived from a small group of solar rooftop projects and solar rooftop construction works. The EBITDA interest coverage ratio will likely remain below 1 time while the funds from operations (FFO) to remain in deficit. These mirror weak cash generation and tightening liquidity.

### Significant exposure in Vietnam

ETP had shaken-up its power portfolio during 2019-2021 by divesting several power projects and utilizing the proceeds from the divestiture to invest in the wind power projects in Vietnam, which currently make up about 95% of the company’s total capacity.

This has made ETP’s future earnings largely hinge on the successful execution of the projects. However, the company’s wind farms do not proceed as planned due to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. The projects faced several hindrances, including supply-chain

bottlenecks for major components and labor mobility difficulties. Hence, the project timeline and construction costs deviate from initial expectation. More importantly, the projects failed to complete construction ahead of the expiry of the feed-in tariff (FIT) in November 2021.

### **Tariff remains undetermined**

ETP remains highly exposed to respective regulatory risks. Apparently, the company's financial performance has been undermined by the prolonged indecision of the Vietnamese Government on the new FIT, impeding ETP's wind power projects to start commercial operations.

In October 2022, the Ministry of Industry and Trade (MOIT) of Vietnam issued a circular, which sets out formulae for EVN to calculate the new FIT for the solar and wind power projects that failed to meet the operational deadlines. In January 2023, MOIT announced the tariff brackets. The ceiling price for onshore wind power projects are VND1,587 per kilowatt-hour (kWh), or about US\$6.6 cents per kWh, which is far lower than the original tariff of US\$8.5 cents per kWh. EVN and the developers of the solar and wind power projects need to negotiate and agree on the tariffs and ensure that they do not exceed the promulgated bracket. However, the tariff brackets are lower than the expectations of project developers, causing delays in price negotiation and wastage of resources. We view the tariff cut and the project cost overrun will have material impacts on the cash flow and return of ETP's wind farms.

MOIT recently employs temporary mobilization of power generation. This scheme would allow all pending renewable projects to commence operations and receive temporary tariff which is 50% of the announced ceiling tariff brackets, provided that they have completed construction and legal requirements. In the meantime, EVN will continue the tariff negotiations.

### **Wind power projects to gradually restore cash flow**

ETP has applied for the temporary mobilization scheme. The company expects all wind farms to have a test and commissioning program in the third quarter and commence operations by the end of 2023. In our base case, we assume all projects to commence operation in January 2024 while continuing negotiations for the final tariffs. We assume ETP will finalize the tariff negotiation within one year thereafter. Once the official electricity prices are finalized and approved by the authority, we assume the projects will be compensated according to the official price from the date of power supply to the grid. We also assume the final tariff would be equal to the ceiling price, or VND1,587 per kWh. As such, we assume ETP will recognize the revenue from the wind farms in full amount, based on the ceiling price. Meanwhile, ETP will accrue 50% of revenue as accounts receivable. We assume ETP's wind farms to receive the accrued amount in early 2025.

With these assumptions, we forecast ETP's revenue to recover to THB1 billion per year in 2024-2026. Over the period, we forecast EBITDA to be THB0.8-THB0.9 billion per year, resulting in the debt to EBITDA ratio declining to 3-5 times over the forecast period. At the same time, we project FFO of THB0.5-THB0.6 billion per year, raising the FFO to debt ratio to over 10% in 2024 onwards. We also expect the debt to capitalization ratio to gradually decline to below 40% in 2026. However, we note that ETP's net cash flow from operations would stay negative in 2023, before turning to positive from 2024 onwards.

### **Lingering uncertainties of wind power projects**

We maintain a "negative" outlook as the company's forecast earnings from the wind farms remain susceptible to several uncertainties. Notwithstanding the Vietnamese Government's ongoing efforts to resolve the FIT issues, further delays on the resolution or the commencement of operations remain possible and would pose a serious threat to ETP's earnings recovery. Moreover, cash flow from the projects could be curtailed if the final tariff is lower than our base assumption or the payment of accrued revenue is stretched out to a further date.

In addition, wind power generation generally carries significant operational risks, such as mechanical and electrical breakdowns. The success of a wind power project largely hinges on the availability and speed of wind. The performances of ETP's wind farms will need to be proven.

### **Tight liquidity**

As of March 2023, the company had cash and cash equivalent of THB16 million, while we forecast the company to have deficit cash flow from operations. On the other hand, ETP will have short-term and long-term debts coming due in the next 12 months, totaling THB3.3 billion, almost all of which are loans from its parent company. Therefore, ETP would likely need to request an extension of the loans from its parent company. To ease the tight liquidity, we expect ETP would seek long-term project loans for its wind farms, with repayment schedules matching the project cash flows.

## Debt structure

At the end of March 2023, ETP had consolidated debt of THB3.4 billion. Most of the debt were loans from shareholders at the company level. The ratio of priority debt to total debt was about 1%. However, the ratio may exceed 50% once the wind farm project loans materialize.

## BASE-CASE ASSUMPTIONS

- Solar rooftop projects to produce power yield with a capacity factor of about 8%-16%.
- Energy yield of Vietnam wind farms to reach P90 (the 90% probability level of energy production).
- Revenue to be around THB1 billion per year in 2024-2026.
- EBITDA margin of 55% in 2023, then increasing to above 80% from 2024 onwards.
- Total capital expenditure of THB0.8 billion during 2023-2026.
- ETP to obtain project finance loans of THB3.2 billion in 2024 for all its wind power projects in Vietnam.

## RATING OUTLOOK

The “negative” outlook follows the rating outlook on EP, which reflects the ongoing uncertainties related to the wind power projects including the project commencement date, the potential tariff cut, and unclear settlement of accrued electricity charge.

## RATING SENSITIVITIES

Based on TRIS Rating’s “Group Rating Methodology”, the rating on ETP will move in tandem with the rating on its parent company, EP. Any change in the rating and/or outlook on EP will affect the rating and/or outlook on ETP accordingly.

We could consider revising the outlook to “stable” if ETP’s wind power projects start commercial operation as planned. Moreover, the plant performances, the timeline of tariff finalization, and settlement of accrued revenue are in line with our expectations.

We could revise downward the SACP as a result of continued weak cash generation. This could occur if ETP’s wind power projects encounter further delays in the commencement of operations, or they deliver weaker-than-expected cash flow due to a low final tariff, underperformance, or delayed settlement of accrued revenue. We may also lower the SACP if the company is unable to extend its debts coming due.

## COMPANY OVERVIEW

Incorporated in 2010 under the name “BorPloi Solar Co., Ltd.”, ETP is a renewable power subsidiary of EP, which was formerly known as Eastern Printing PLC (EPCO). The company later changed its legal status to a public company and changed its name from “BorPloi Solar Co., Ltd.” to “Eastern Power Group PLC”.

In April 2020, it was renamed “Eternity Power PLC” (ETP). At the same time, EPCO was renamed “Eastern Power Group PLC”, the former name of ETP.

Currently, EP is the major shareholder of ETP with an 81.4% ownership. Based upon its sizable contributions to EP and the promising prospects for renewable power, ETP is considered a core subsidiary of EP.

ETP launched its two pilot solar farms, with a total capacity of 11 MW in 2012. The company later expanded with solar power projects in Thailand, Japan, and Vietnam. The company also invested in two cogeneration power companies, generating and selling electricity under the small power producer (SPP) scheme, through 25-year power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and long-term contracts with industrial users.

In 2018, ETP invested in two solar farms in Vietnam, “Xuan Tho 1” and “Xuan Tho 2”. In effect, ETP owned four solar farms in Thailand, five in Japan, two in Vietnam, and a cluster of solar rooftop power plants in Thailand. In total, ETP’s capacity measured in proportion to its ownership was 296 MW.

In late 2019, ETP sold off the two solar farms in Vietnam after they commenced operation. In 2020, ETP sold all operating solar farms from its portfolio. Instead, ETP invested in four wind farms in Vietnam, namely “Huong Linh 3” (HL3), “Huong Linh 4” (HL4), “Che Bien Tay Nguyen” (TN), and “Phat Trien Mien Nui” (MN). The four wind farms were initially slated to commence operation by the end of October 2021.

In 2021, ETP sold its investments in three cogeneration power plants and small solar farms in Japan. Currently, ETP’s power portfolio has a total installed capacity of 164.5 MW.

**KEY OPERATING PERFORMANCE**
**Table 1: Power Project Portfolio (End of Mar 2023)**

Project	Plant Type	Held by EP (%)	Installed (MW)	Equity (MWe)	SCOD/COD
<b>Operating</b>			<b>7.9</b>	<b>7.9</b>	
Solar rooftop	Solar rooftop	81.4	1.5	1.5	2014-2015
Commercial rooftop	Solar rooftop	81.4	6.4	6.4	2019-2020
<b>Constructing &amp; developing</b>			<b>156.6</b>	<b>155.0</b>	
HL3	Wind farm	81.4	28.8	28.5	2023
HL4	Wind farm	81.4	28.8	28.5	2023
TN	Wind farm	81.4	49.5	49.0	2023
MN	Wind farm	81.4	49.5	49.0	2023
<b>Total portfolio</b>			<b>164.5</b>	<b>163.0</b>	

SCOD = Scheduled commercial operation date

COD = Commercial operation date

Source: ETP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	39	201	86	707	967
Earnings before interest and taxes (EBIT)	(5)	(15)	120	467	799
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(1)	0	(90)	412	603
Funds from operations (FFO)	(56)	(156)	(985)	64	162
Adjusted interest expense	55	147	330	273	368
Capital expenditures	32	1,256	4,777	430	647
Total assets	8,414	8,554	7,665	7,031	9,687
Adjusted debt	3,438	3,407	1,589	1,922	5,919
Adjusted equity	4,610	4,673	5,012	3,934	2,946
<b>Adjusted Ratios</b>					
EBITDA margin (%)	(1.91)	(0.20)	(105.35)	58.28	62.33
Pretax return on permanent capital (%)	(0.15) **	(0.21)	1.76	5.79	8.84
EBITDA interest coverage (times)	(0.01)	0.00	(0.27)	1.51	1.64
Debt to EBITDA (times)	911.43 **	(8,539.39)	(17.60)	4.67	9.81
FFO to debt (%)	(5.24) **	(4.57)	(62.02)	3.31	2.74
Debt to capitalization (%)	42.72	42.17	24.07	32.83	66.77

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**Eternity Power PLC (ETP)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Negative

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