PRIME ROAD POWER PLC

No. 99/2024
13 June 2024

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 08/06/23

Company Rating History:

Date	Rating	Outlook/Alert
08/06/23	BBB-	Negative
30/07/21	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Prime Road Power PLC (PRIME) to "BB+" from "BBB-". At the same time, we revise the rating outlook to "stable" from "negative". The rating downgrade reflects PRIME's weakening financial profile, with a material deterioration in its cash flows against debt obligations. This results from the company's hefty debt-funded expansion and ongoing underperformance of its non-power businesses.

The rating continues to mirror the reliable cash flows PRIME receives from its solar power portfolio, backed by long-term power purchase agreements (PPAs). Conversely, the rating is constrained by the company's small business scale and lingering risks associated with its non-power businesses. The rating also factors in our anticipation that PRIME's financial leverage will remain elevated.

KEY RATING CONSIDERATIONS

Eroding financial profile

PRIME's financial profile has substantially weakened. Apart from a sharp rise in debt load to support power project development, its operating performance has fallen far short of our forecast.

In 2023, the company suffered a large net loss of THB902 million as it recorded considerable impairments associated with the past corporate restructuring and set aside substantial bad debt provisions with respect to its overseas sales of solar panels. PRIME arrived at THB386 million in EBITDA, against our forecast of about THB600 million.

The company's cash flows against debt obligations deteriorated substantially. PRIME's debt to EBITDA ratio was 14.1 times in 2023, far above our forecast. The ratio had stayed in the 3-5 times range before 2022. The rating downgrade reflects our anticipation that the company's credit metrics will remain weak over the next three years, with a debt to EBITDA ratio of about 10 times.

Higher-risk, lower-margin non-power businesses

PRIME's non-power businesses will likely continue to drag down profitability, in our view. The company's solar-related equipment trading and solar rooftop installation businesses made up 50%-60% of total revenue, in aggregate, during 2022-2023.

These businesses carry higher risks while providing inferior and more volatile profit margins. The demand for solar-related equipment and rooftop systems is influenced by many variables including the government's efforts to push forward several power-related infrastructure projects. Pricing and profit margins are also subject to factors such as market competition, bargaining power, and operational management.

The trading of solar-related equipment and installation of solar rooftop systems have strained PRIME's cash generation. Both businesses have continued to incur losses and raised the company's working capital needs. In addition, the large provisions for bad debts from sales of solar panels have heavily pressured PRIME's operating performance and liquidity.

Our base-case forecast expects the gross margins of these businesses to improve but remain low at about 8% during 2024-2026. At this level, they will likely continue to drag down PRIME's overall earnings over the forecast period.

Reliable cash flows from the power business

The rating is chiefly predicated on the reliable cash flows the company receives from several solar power projects. PRIME's EBITDA has come almost entirely from its solar power projects. As one of the first movers in the renewable power business, PRIME has a record in developing and operating solar power projects in Thailand. The company keeps expanding its power portfolio, both in Thailand and overseas. As of March 2024, its aggregate contracted capacity, across all solar power assets, was 262 MW. This included solar power projects in Thailand (145 MW), Cambodia (60 MW), Taiwan (56 MW), and Indonesia (1 MW). Of the total, about 227 MW was operational.

Solar power has proven to generate highly predictable power outputs and cash flows, underpinned by low operational risk. During the past five years, the annual output of the solar power plants, in all, has reached satisfactory levels, with an EBITDA margin of 70%-80%. Most of PRIME's power projects have long-term PPAs with state-owned power utilities. These PPAs contain commercial terms of electricity sale for up to 25 years. The power generation business carries minimal demand risk and counterparty risk. The company has recently moved towards selling electricity to the private sector which entails higher counterparty risk. However, the capacity under private PPAs accounts for less than 10% of total capacity.

Sizable exposure in Cambodia

PRIME has successfully developed its first solar power project in Cambodia, starting operation in late 2022. The 60-MW National Solar Park is the company's largest single power project, representing 23% of the total contracted capacity.

Investments in Cambodia carry higher country and regulatory risks relative to Thailand-based power generation assets. The track record of solar power generation in Cambodia is limited as it remains in the early stages of development. Additionally, in our assessment, the credit profile of the state-run Electricity of Cambodia (EDC), the purchaser of electricity, is not as strong as the state-owned power buyers in Thailand. The involvement of the Asian Development Bank (ADB), as the project advisor and main financier, helps alleviate concerns over the investment risk to some extent. So far, the project has rendered satisfactory power output and earnings results despite a low feed-in-tariff (FiT).

Small business scale, with high growth ambition

PRIME's earnings base and power portfolio are relatively small among the power producers rated by TRIS Rating. The small scale of business implies a limited cushion against unforeseen headwinds.

We expect the company to further enlarge its power portfolio. It recently secured new solar power projects under the state 5.2-gigawatt renewable power scheme, with a combined contracted capacity of 88 MW. That said, these projects are scheduled to be up and running in 2030. In the medium term, we expect PRIME to grow its overseas presence, with an eye on large-scale solar projects in Taiwan. The company is also developing a small solar rooftop in Indonesia, selling electricity to a multinational private firm. We expect PRIME to adopt a prudent growth strategy.

Our base-case projection forecasts both the core power business and non-power businesses to boost growth, pushing up total operating revenue to THB1.8-THB1.9 billion per year during 2024-2026. Revenue from the power business will likely reach THB850-THB950 million per annum, based on our assumption that the company will add 10 MW of power capacity annually, on top of the power capacity in the pipeline. We exclude the construction phase of the massive Taiwan-based solar power projects (299 MW) in our base-case estimate as they are in the early stages of development. Their project costs are also beyond PRIME's current financing capability, in our view. Revenues from the solar-related equipment trading and solar rooftop installation businesses will likely stay in the THB0.9-THB1 billion per annum range over the forecast period.

Earnings to improve, but below previously expected range

We expect PRIME's EBITDA to stay at about THB650 million per annum during 2024-2026, up from THB386 million in 2023. Additional income from new power projects is anticipated to offset the contracted earnings of the existing 72-MW power projects, resulting from the adder expiry in 2024. The company owns a 30% stake in these power projects.

Still, PRIME's annual EBITDA during 2024-2026 will likely fall short of our previous expected range of THB750-THB850 million per year. Development of power projects, particularly in Taiwan, is taking more time than previously estimated. Additionally, the greater contribution of the trading and installation businesses is projected to lower the company's EBITDA margin to 35% on average over the forecast period, compared with about 40% in our previous forecast.

Weak credit metrics

Our base-case forecast assumes PRIME's capital expenditures (CAPEX) will add up to THB1.3 billion in 2024, of which the largest portion will go into adding capacity in Taiwan and private solar PPAs. CAPEX for 2025-2026 will amount to THB0.5 billion per year.

We expect the key credit metrics of PRIME to remain weak. Without a capital increase, we forecast the debt to EBITDA ratio should stay at about 10 times during 2024-2026. The funds from operations (FFO) to debt ratio should remain low at about

5%. The EBITDA interest coverage ratio should stay at about 2 times. As of March 2024, the company's debt to capitalization ratio was high at nearly 70%. We project the ratio will remain over 70% during 2024-2026.

Adding the large-scale solar power projects in Taiwan will further strain PRIME's capital structure, probably pressuring the company to increase its capital and/or divest some of its power-generating assets.

Escalating refinancing risk

PRIME's liquidity management will depend to a large degree on its ability to refinance its maturing debt obligations. At the end of March 2024, sources of cash totaled THB629 million, comprising cash of THB269 million and estimated FFO over the next 12 months of THB360 million. It had THB1.9 billion of debt obligations coming due in the next 12 months, including THB1 billion in debentures due in March 2025. We assess PRIME would need to rollover most of its debt obligations, which could be challenging given the current bond market conditions. We expect the company to properly manage its liquidity.

A financial covenant on the debentures requires PRIME to maintain its net interest-bearing debt to equity ratio below 3 times. The ratio stood at 2.4 times as of March 2024, suggesting a smaller headroom to meet the covenant. Additionally, its subsidiaries are required to maintain debt service coverage and interest-bearing debt to equity ratios. We expect that PRIME and its subsidiaries will remain compliant with the debt covenants for the next 12-18 months.

Debt structure

As of March 2024, PRIME's consolidated debt, excluding lease liabilities, was THB5.9 billion. The priority debt totaled THB3.8 billion, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 63%, suggesting that PRIME's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for 2024-2026 are as follows:

- PRIME to add 10 MW of power capacity annually.
- Total operating revenue to range from THB1.8-THB1.9 billion per annum.
- EBITDA margin to range from 30%-40%.
- Capital spending to be about THB1.3 billion in 2024, and THB0.5 billion per year during 2025-2026.
- No capital increases.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the power business will remain the core contributor to PRIME's operating performance and that its power plants will continue to perform satisfactorily and generate reliable cash flows. The projects under development will be executed as planned, rendering satisfactory returns. As such, the company's operating performance and leverage level should align with our expectations. Also, we expect PRIME will properly manage its liquidity.

RATING SENSITIVITIES

We could take a negative action on the rating and/or outlook if PRIME's financial profile deteriorates further. This could occur if its non-power businesses incur deeper losses or the company fails to manages working capital efficiently. Aggressive debt-funded investments, improper liquidity management, or heightened refinancing risk could also lead to negative rating actions.

In contrast, a rating upgrade could materialize if PRIME materially enhances its earnings base and strengthens its capital structure, which could stem from a significant improvement in its non-power businesses and a capital increase. This should lead to the company's debt to EBITDA ratio remaining below 8 times.

COMPANY OVERVIEW

PRIME is a renewable power producer in Thailand. Formerly named Food Capital PLC, the company started transforming from its legacy property and restaurant businesses to renewable power generation after being taken over by the Prime Road Group. As a result, the company was renamed Prime Road Power PLC in July 2019 and became a listed company on the Stock Exchange of Thailand (SET) in October 2019. Mr. Somprasong Panjalak, the founder of the Prime Road Group, held a majority 48.4% stake in PRIME as of March 2024.

The Prime Road Group started to develop 72-MW solar power projects in Thailand in 2011. After the entire business transfer (EBT) was completed in July 2019, power generation has been the core business of PRIME, contributing 40%-60% of revenue and more than 90% of EBITDA.

PRIME has expanded internationally. In addition to a target country like Taiwan, the company has successfully developed its first solar power project in Cambodia, starting operations in late 2022. As of March 2024, its aggregate capacity was 262 MW, across 61 solar power projects. About 227 MW of this was operational. The company recently expanded into new ventures including solar-related equipment trading and solar rooftop installation. However, the power business remains the key profit generator.

In 2023, PRIME suffered a large net loss of THB902 million, as it set aside considerable sums for provisions including a THB524-million impairment associated with the past corporate restructuring. Also, the company set aside bad debt provisions amounting to THB258 million with respect to sales of solar panels.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: Mil. THB

Sources of Revenue	2020	2021	2022	2023	Jan-Mar 2024
Power	347	368	437	728	195
Solar rooftop installation	126	146	254	580	66
Solar-related equipment trading	22	54	425	302	36
Total revenue	**495**	**568**	**1,115**	**1,611**	**297**

Source: PRIME

Table 2: Solar Power Project Portfolio (as of March 2024)

Country	No. Of Project	Gross Contracted Capacity (MW)	Equity Contracted Capacity (MWe)	Tariff
Solar Projects				
Thailand	11	73.0	22.6	Adder: THB8
Thailand	8	40.6	36.7	FiT: THB4.12-THB5.66
Thailand	2	15.7	15.7	FiT: THB2.1679
Thailand	24	15.8	14.5	Agreed Prices
Taiwan	14	55.9	55.9	FiT: NTD4.3591-NTD4.552
Cambodia	1	60.0	60.0	FiT: 3.877 US cents
Indonesia	1	0.9	0.9	Agreed Prices
Grand total	**61**	**261.9**	**206.3**	

Source: PRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ---------			
	Jan-Mar 2024	2023	2022	2021	2020
Total operating revenues	303	1,648	1,129	573	495
Earnings before interest and taxes (EBIT)	140	196	348	348	403
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	175	386	345	577	487
Funds from operations (FFO)	82	23	149	459	385
Adjusted interest expense	81	338	188	114	99
Capital expenditures	143	1,049	1,700	962	108
Total assets	9,491	9,238	10,491	6,450	5,838
Adjusted debt	5,589	5,461	4,759	2,485	1,665
Adjusted equity	2,453	2,348	3,252	3,086	2,817
Adjusted Ratios					
EBITDA margin (%)	57.8	23.4	30.6	100.7	98.3
Pretax return on permanent capital (%)	2.4 **	2.2	4.5	6.3	8.4
EBITDA interest coverage (times)	2.2	1.1	1.8	5.1	4.9
Debt to EBITDA (times)	14.8 **	14.1	13.8	4.3	3.4
FFO to debt (%)	0.2 **	0.4	3.1	18.5	23.1
Debt to capitalization (%)	69.5	69.9	59.4	44.6	37.2

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

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

Prime Road Power PLC (PRIME)

Company Rating:	BB+
Rating Outlook:	Stable

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