

TPC POWER HOLDING PLC

No. 195/2021

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CORPORATES

Company Rating: **BBB-**
 Outlook: **Stable**

Last Review Date: 30/10/20

Company Rating History:

Date	Rating	Outlook/Alert
09/10/18	BBB	Stable

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RATIONALE

TRIS Rating downgrades the company rating on TPC Power Holding PLC (TPCH) to “BBB-” from “BBB”, with a “stable” outlook. The downgrade follows our same rating action on the company rating on Thai Polycons PLC (TPOLY), TPCH’s parent company. As a core subsidiary of TPOLY, the rating on TPCH is equal to the company rating we assign to TPOLY.

The stand-alone credit profile of TPCH, assessed at the “bbb” level, continues to reflect the reliability of TPCH’s cash flows, backed by long-term power purchase agreements (PPAs) with state-owned utilities and the sound operating performance of its power plants. Conversely, the credit profile is weighed down by a feedstock supply risk and volatile prices, heightening challenges in the renewable power industry, and a recent rise in TPCH’s financial leverage.

KEY RATING CONSIDERATIONS

Core subsidiary of TPOLY

We believe TPCH will remain the core subsidiary of TPOLY. TPOLY owns the majority of TPCH (41%) and has direct control over TPCH’s business and financial policies. This reflects the strong linkage between the two companies. TPOLY’s earnings are almost entirely derived from the solid cash flows of TPCH. TPCH’s power business considerably helps cushion the cyclicity and susceptibility of TPOLY’s construction business.

Reliability of cash flow stream

TPCH’s stand-alone credit profile reflects the reliability of cash flows generated by TPCH’s power plants, supported by long-term PPAs and sound plant performances. Currently, TPCH has ten operating biomass power plants, nine of which are majority-owned by the company. In total, the contracted capacity of the operating power plants is 98.5 megawatts (MW). All power plants have multi-year PPAs with the state-owned producers and distributors of electricity, namely Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). Both are rated “AAA” by TRIS Rating. The payment risk of the power buyers is minimal. Under PPAs, TPCH earns most of the feed-in-tariff (FiT) with a premium for the first eight years. This tariff scheme strengthens the viability of the projects.

Impact from pandemic

TPCH will add a total of 13.7 MW in contracted capacity from new power projects in the pipeline, comprising two biomass power plants (5.7 MW) and one waste-to-energy plant (8 MW). These projects have experienced construction delays caused by the Coronavirus Disease 2019 (COVID-19) outbreak. However, the investment budgets remain under control. These projects are scheduled to commence operations in the year ahead, lifting the aggregate contracted capacity in operation to 112.2 MW.

The COVID-19 outbreak also took a toll on the production efficacies of the company’s latest four operating plants, including the largest project which carries 21-MW capacity. The outputs of these plants came in below our estimates.

Sound operating performance

Overall, TPCH has delivered sound operating performance, with earnings before interest, taxes, depreciation, and amortization as percentage of revenues (EBITDA margin) of 40%-50%. However, its EBITDA margin slumped to 34% in the first half of 2021 as the newly added power generating units at the four new power plants need fine-tuning during an early stage of operations and experienced operating difficulties induced by the COVID-19 outbreak. As the added operating capacity totaled 45.7 MW, accounting for 46% of the total existing operating capacity, the unsmooth operations at the new plants put significant pressure on the company's overall performance.

We believe TPCH will be able to achieve an earnings recovery over the next three years. However, we slightly reduce our earnings estimates on the company in response to longer-than-expected periods of fine-tuning for the new plants. In our base-case forecast, we project TPCH's EBITDA margin to reach a low of about 34% in 2021, recovering to 35%-36% in 2022-2023. Despite being lower than the historical record, the level of EBITDA margin remains high.

In the base-case forecast, we also assume TPCH will add another 6 MW in new capacity during the next three years in pursuit of business growth. In effect, TPCH's total operating revenues should grow steadily to THB3.6 billion in 2023, as the projects under construction will be fully operational. TPCH's EBITDA will likely climb to THB1.3 billion and funds from operations (FFO) should rise to about THB1 billion in 2023.

Increasingly challenging market

We hold the view that investments for renewable power in the domestic market have become increasingly challenging, taking into account the cut-off of the incentive tariff and intensified bidding competition. The recent bid on community power projects ended with a fiercely competitive tariff rate of THB2.7972 per kilowatt-hour (kWh), on average, for biomass power. Moreover, the country's high reserves of generation capacity and the pandemic-induced decline in power demand are downside factors for the prospects of the renewable power business. Given a dearth of new opportunities, acquisitions and divestiture of existing power projects have become the industry trend.

We expect TPCH to face lower rates of return in its power business over the long term. Some of its plants including TPCH 1, TPCH 2, and TPCH 5 are under a competitive bidding system, which provides lower tariff rates. This requires the company to double down on production cost control. Investment in additional green-field or brown-field projects could offer inferior returns due to low tariff rates or high acquisition costs.

Feedstock supply risk and volatile prices

TPCH remains highly vulnerable to the risk of shortages and the volatile prices of biomass feedstock. The key feedstocks for biomass power generation are derived from agricultural waste, such as woodchip, rice husk, coconut shells, and other fast-growing plants. The availability of feedstock relies on several factors, such as seasonality, the use of biomass in other industries, and the increasing number of biomass power plants. Biomass power producers who do not have their own farm waste need to compete with others in securing feedstock. Biomass fuel prices could also swing wildly while the feedstock varies in terms of humidity and calorific value.

For most of its operating power plants, TPCH engages operation and maintenance (O&M) contractors for plant operation whereas the company procures the supply of biomass feedstock itself. This makes the company exposed to supply risk. Given the lack of its own farm waste, TPCH has secured long-term supply agreements with local suppliers to ensure the availability of feedstock. Nevertheless, contract enforcement remains a significant risk. To mitigate the risk, TPCH takes in suppliers as partners in the company's power plants. Moreover, TPCH is striving to develop its own bio-fuel plantation.

Leverage raised from prior estimates

TPCH guarantees the debts of the incorporated joint ventures (JVs) in proportion to its stakes in the JVs. In assessing the financial profile and performance, we include the assets, liabilities, and respective financial performances of the JVs in TPCH's consolidated accounts, in proportion to the ownership stake of TPCH in each venture.

Compared to our previous forecast, TPCH's financial profile is slightly weakened due to the significant delay in construction of the 8-MW waste-to-energy plant and the lower-than-expected revenues from the troubled biomass plants. In our base-case forecast, we do not expect TPCH to expand aggressively over the forecast period. The cash flows from the operating power plants will support the company's expansion. With an expected annual capital spending of THB1-THB1.5 billion, the debt to EBITDA ratio should stay between 4.5-5.5 times during 2021-2023, down from a peak of 6 times in the first half of 2021. The FFO to debt ratio is projected to be 14%-18%. The debt to capitalization ratio will likely hover around 55% over the next three years, compared to 50% in our previous estimates.

Debt structure

In assessing the level of priority debt in TPCH's borrowings, we exclude the debt incurred by the JVs which are guaranteed by TPCH. As such, TPCH's consolidated debt was THB4.1 billion as of June 2021, of which THB3.8 billion is considered priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio is 92%, suggesting that the company's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Manageable liquidity

As of June 2021, the company had debt coming due in the next 12 months of THB1.2 billion. We forecast FFO to arrive at around THB800 million. Its undrawn credit facilities, plus cash and marketable securities, were THB266 million. Moreover, the company recently issued new debentures worth THB1.5 billion in September 2021. In recognition of this, we believe TPCH's liquidity remains manageable.

There are no financial covenants imposed on TPCH's bank loans. However, its new debentures require the company to maintain an interest-bearing debt to equity ratio below 2.5 times. In addition, the company's subsidiaries and JVs are required to maintain a debt service coverage ratio above 1.1 times or 1.2 times and keep the debt-to-equity ratio below 1.2 times, 1.5 times, or 2.5 times. We expect TPCH and each of its subsidiaries and JVs to meet financial covenants set forth under their respective loans for the next 12-18 months.

BASE-CASE ASSUMPTIONS

- Aggregate contracted capacity of TPCH's operating power plants to increase to about 118 MW in the next three years.
- EBITDA margin to range from 34%-36% during 2021-2023.
- Total capital spending to range between THB1-THB1.5 billion per annum during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TPCH's power plants will recover gradually and bring in sizable cash flows. In addition, TPCH will remain the core subsidiary of TPOLY. Given the parent-subsidiary relationship, the outlook on TPCH is influenced by the outlook on TPOLY.

RATING SENSITIVITIES

Based on its status as a core subsidiary of TPOLY, any change in the rating on TPOLY will have the same effect on the rating on TPCH. The stand-alone credit profile of TPCH could be raised to a higher level if TPCH's performance and capital structure improve and significantly surpass our forecast. Conversely, the stand-alone credit profile of TPCH could be revised downward if the performances of its power plants deteriorate significantly from current levels, or if its capital structure weakens materially on account of aggressive debt-funded investments.

COMPANY OVERVIEW

TPCH was founded in 2012 specifically to receive the power projects owned by TPOLY. TPCH was listed on the Market for Alternative Investment (MAI) in 2015. As of June 2021, TPOLY remained the major shareholder of TPCH, holding a 41.3% stake.

In 2016, the company won contracts for three biomass power projects in Yala and Narathiwat provinces. The contracts cover a combined contracted capacity of 24.7 MW. Since then, TPCH has expanded its power portfolio, focusing on biomass power. It is also developing an 8-MW waste-to-energy project in Nonthaburi province.

As of September 2021, TPCH's aggregate contracted capacity was 112.2 MW, across 12 biomass power projects (104.2 MW), and one waste-to-energy project (8 MW). Ten of its biomass power plants are currently operating (98.5 MW).

KEY OPERATING PERFORMANCE
Table 1: Power Project Portfolio

Company/Country	Held by TPCH (%)	Status	Installed Capacity (MW)	Contracted Capacity (MW)	Tariff
Biomass Projects					
CRB	73	Operating	9.5	9.2	FiT
MWE	85	Operating	9.0	8.0	FiT
MGP	46	Operating	9.5	8.0	FiT
TSG	65	Operating	9.5	9.2	FiT
PGP	60	Operating	9.9	9.2	FiT
SGP	51	Operating	9.9	9.2	FiT
PTG	95	Operating	23.0	21.0	Adder
TPCH1	99	Operating	9.9	9.2	FiT
TPCH2	99	Operating	9.9	9.2	FiT
TPCH5	99	Operating	6.3	6.3	FiT
PBM	59	Constructing	3.0	2.9	FiT
PBB	59	Constructing	3.0	2.9	FiT
Sub total - Biomass			112.4	104.2	
Waste Projects					
SP	50	Constructing	9.5	8.0	FiT
Sub total - Waste			9.5	8.0	
Grand total			121.9	112.2	

Source: TPCH

CRB = Chang Raek Bio Power
MGP = Mahachai Green Power
PGP = Phathalung Green Power
PTG = Pattani Green
TPCH2 = TPCH Power 2
PBM = Pracharat Biomass Mae Lan
SP = Siam Power

MWE = Maewong Energy
TSG = Thungsuang Green
SGP = Satun Green Power
TPCH1 = TPCH Power 1
TPCH5 = TPCH Power 5
PBB = Pracharat Biomass Bannang Sata

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,278	1,910	1,783	1,705	1,235
Earnings before interest and taxes (EBIT)	251	522	666	656	401
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	432	764	846	824	512
Funds from operations (FFO)	354	667	756	729	437
Adjusted interest expense	74	96	90	92	75
Capital expenditures	210	1,261	1,823	668	837
Total assets	9,541	9,308	8,166	6,134	5,402
Adjusted debt	4,692	4,315	3,576	2,108	1,857
Adjusted equity	4,031	4,051	3,707	3,268	2,754
Adjusted Ratios					
EBITDA Margin (%)	33.79	40.01	47.47	48.35	41.48
Pretax return on permanent capital (%)	5.35 **	6.55	10.14	12.36	8.57
EBITDA interest coverage (times)	5.82	7.96	9.36	8.95	6.84
Debt to EBITDA (times)	6.01 **	5.65	4.22	2.56	3.63
FFO to debt (%)	13.75 **	15.46	21.13	34.60	23.53
Debt to capitalization (%)	53.79	51.58	49.10	39.21	40.28

Note: The figures include assets, liabilities, and the respective financial performances of MGP and SP, in proportion to the ownership stake in these JVs.

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TPC Power Holding PLC (TPCH)

Company Rating:	BBB-
Rating Outlook:	Stable

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