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RATCH PATHANA ENERGY PLC

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CORPORATES

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

Last Review Date: 08/05/24

Company Rating History:

Date	Rating	Outlook/Alert
17/06/22	A	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Ratch Pathana Energy PLC (SCG) and the ratings on SCG's senior unsecured debentures to "A-" from "A". The rating outlook is "stable". We also lower SCG's stand-alone credit profile (SACP) to "bbb+" from "a-".

The downgrades reflect our expectation that SCG's debt to EBITDA ratio will remain above our threshold of 6 times over the next three years. SCG's higher leverage is due to the potential investments in solar power projects and the delay in recovery of electricity demand from industrial customers.

We continue to assess SCG as a "strategic" subsidiary of RATCH Group PLC (RATCH, rated "AA+/Stable"). Consequently, SCG's ratings have incorporated a one-notch uplift from its SACP.

The SACP continues to reflect SCG's reliable cash flow, supported by long-term power purchase agreements (PPAs) with creditworthy major counterparties—Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable") and Saha Pathana Inter-Holding PLC (SPI, rated "AA-/Stable"). The SACP also considers the smooth transition to the new cogeneration plant under the small power producer (SPP) replacement program in April 2024. However, SCG's SACP is constrained by its idle capacity and challenges in expanding its electricity sales to industrial customers. The SACP also factors in the likelihood of rising leverage due to its hefty investments in new solar power projects.

KEY RATING CONSIDERATIONS

Potential rise in leverage from hefty investments

We expect SCG's leverage to increase due to its substantial investment plans for new solar farms. SCG was awarded with five new solar power projects under the "RE Big Lot Phase 2" program, with contracted capacity totalling 298 megawatts (MW). These projects are scheduled to commence operations in 2026 and 2028. In our view, the total investment cost of about THB11-THB12 billion is highly significant for SCG. Despite the pause in signing PPAs with EGAT, we believe the company's appetite for growth will exert pressure on its financial position, particularly as it aims to increase total capacity to 400 MW by 2027.

We anticipate SCG's investment pipeline will raise its debt to EBITDA ratio to about 9-10 times, with a debt to capitalization ratio of about 55%-65%, over the next three years. To maintain this level of leverage, our base-case forecast assumes SCG will raise external equity funding, either from existing shareholders or from new partners at the project companies.

We believe SCG will develop and commission the new solar capacity within the scheduled commercial operation dates (SCODs), given low construction risk and its past record of project development.

Idle capacity and slow addition of new industrial customers

SCG's performance missed our previous forecast, primarily due to its idle capacity and slower-than-expected addition of new industrial customers. Electricity sales to industrial customers were about 369 gigawatt-hours (GWh) in 2024, showing no growth compared with the previous year. In context of the current macroeconomic risks induced by trade tension, we see the downside risk of industrial sales volume. Also, the prolonged uncertainty could hinder SCG from acquiring industrial customers. Considering this, we forecast a flat electricity sales volume for its industrial customers in 2025-2026, deviating from our previous revenue growth expectations that would have supported its deleverage plan.

Increased reliance on industrial customers intensifying market risk

We expect SCG to face increased demand risk in its revenue structure during 2025-2026, as the EGAT contracted capacity fell to 30 MW from the previous 90 MW. In effect, the electricity sales from its Sriracha power plant to EGAT are projected to decrease to around 200-210 GWh annually during 2025-2027, down from around 600 GWh in 2022-2023 and 332 GWh in 2024. Consequently, SCG's revenue will become increasingly reliant on electricity sales to industrial customers, which carries inherent demand risk. We project industrial customers to comprise nearly 60% of SCG's total revenue in 2025, up from about 35%-45% in 2022-2023.

However, we anticipate the EGAT revenue portion will increase following commencement of the first three new solar farms in the second half of 2026. This will help reduce the industrial customer portion to about 50% in 2027. This development will help provide greater demand stability and reduce dependency on power demand in the Sriracha Industrial Park.

Improved earnings from industrial customers, despite lagging growth

We expect SCG's operating performance to improve in 2025, despite lagging growth in power demand from industrial customers. We forecast SCG's EBITDA to rise to THB600-THB620 million in 2025, up from THB573 million in 2024. This will be driven by the higher efficiency of the new cogeneration power plant, resulting in a widening spark spread (the difference between the electricity tariff and the fuel cost to generate one kilowatt-hour of electricity) for industrial customers.

In our base-case scenario, we expect the new cogeneration power plant to operate with a heat rate of about 7,300-7,400 British thermal units per kWh (BTU/kWh) in 2025-2027, compared with previous heat rates of about 8,300-8,500 BTU/kWh, indicating higher operating efficiency.

In addition, we do not foresee material discrepancies between actual fuel prices and the fuel adjustment charge (Ft) in our base-case assumption, given the normalized gas prices. Hence, we anticipate improving spark spread and expect EBITDA to increase to around THB760 million in 2026 and THB1.2 billion in 2027. The main drivers are additional operating cash flows from EGAT-backed revenues as three new solar projects achieve commercial operation in 2026. We estimate EBITDA from these three projects to be around THB130-THB150 million in 2026 and THB540-THB560 million in 2027.

Manageable liquidity

We assess SCG as having a manageable liquidity profile. At the end of 2024, the company's liquidity sources comprised cash on hand of THB434 million and undrawn uncommitted bank credit facilities totaling THB1.54 billion. We forecast SCG's funds from operations (FFO) over the following 12 months to range between THB380-THB430 million. These sources of liquidity should cover its scheduled debt repayments including short-term loans of around THB1.63 billion, plus capital expenditures of about THB200-THB300 million, as well as the THB58 million recently announced dividend payouts. Given its accessibility to the credit market, SCG should successfully roll over its THB705 million short-term borrowings at the end of 2024 and refinance its THB700 million debenture due in 2025 with bank support.

Furthermore, over the same period, we expect SCG to spend around THB1.5 billion in 2025 on the three new solar power projects. We believe the company can secure necessary fundings through internal cash flow and additional external sources.

Debt structure

At the end of 2024, SCG's priority debts totaled THB118 million, representing about 2.6% of total debts. The priority debts consisted of THB33 million in secured debts and THB85 million in senior unsecured debts owed by its operating subsidiaries.

Strategic subsidiary of RATCH

We view SCG as a strategic subsidiary of RATCH. SCG became a subsidiary of RATCH in December 2021. RATCH currently holds a 51.7% interest in SCG. Since 2022, SCG has received support from financial institutions in RATCH's network. Also, SCG has adopted a financial policy which is aligned with RATCH's policy. RATCH has further expressed its intention to provide continued financial support to SCG, if needed.

RATCH positions SCG as a flagship company for investing in small- and medium-sized power projects, particularly those focused on renewable energy. RATCH's senior executives are members of SCG's board of directors. Furthermore, SCG's top management are appointed by RATCH. Concerning the current investment opportunities in solar energy, which align with RATCH's decarbonization objectives, we believe RATCH will play a significant role in supporting the funding plan for SCG.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for SCG's operations during 2025-2027 are as follows:

- Heat rates of 7,300-7,400 BTU/kWh for the SPP Replacement cogeneration plant.
- Electricity sales to industrial customers in Sriracha Industrial Park to remain flat during 2025-2026, then increase by about 10% in 2027.
- Dispatch factors of about 80% for the new 30-MW EGAT PPA.
- Availability factors averaged around 97% for the SPP Replacement Cogeneration unit.
- Availability factors between 93% and 97% for the two biomass power plants.
- A budget for maintenance expenditure and committed expansion investments to total THB400-THB500 million.
- Capital expenditures for the newly awarded five solar projects totaling about THB11-THB12 billion.
- The new solar power projects will employ project financing structure with a debt-to-equity ratio of about 3 times.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SCG will perform in line with our forecast. We also expect the company will manage its funding structure for new solar power projects to maintain a debt to EBITDA ratio below 10.0 times during the investment period.

RATING SENSITIVITIES

A revision to the ratings on SCG is subject to any change in its SACP, its strategic relevance to RATCH, or the credit profile of RATCH.

We are unlikely to raise the SACP over the next 12-18 months. However, we could consider an uplift if SCG significantly outperforms our expectations. This could be driven by stronger-than-expected electricity sales to industrial customers, more prudent leveraging, or a combination of both.

Conversely, a lower SACP could be triggered by higher-than-expected debt funding for new investments, such as the absence of external equity funding. A downgrade of the SACP could also result from factors that undermine project viability, including significant cost overruns or delays in commercial operations. Also, material underperformance, stemming from pressure on spark spreads or a significant shortfall in electricity demand growth from industrial users, could also weigh on the SACP.

COMPANY OVERVIEW

SCG was established in 1999 to own and operate a cogeneration power plant to supply EGAT. The company was listed on the Stock Exchange of Thailand (SET) in 2004. As of May 2024, RATCH held a 51.7% interest in SCG, followed by SPI (12.2%), S&J International Enterprises PLC (9.6%), and Saha Pathanapibul PLC (5.7%).

On 19 April 2024, SCG commenced operations of a new 80-MW cogeneration plant, supplying electricity to EGAT under a 25-year, 30-MW PPA—replacing a 90-MW PPA that expired on the same day. The PPA with EGAT helps mitigate market risk, as EGAT is obligated to off-take electricity production from this SPP Replacement project. Furthermore, the pass-through mechanism for fuel costs and exchange rates specified in the PPA also stabilizes earnings under this agreement.

The plant uses natural gas as its primary fuel under a long-term gas supply agreement with PTT PLC. SCG also supplies electricity and steam to industrial users within Saha Group's Sriracha Industrial Park. The company's total cogeneration installed capacity at the Sriracha Industrial Park now stands at 154 MW of electricity and 110 tonnes of steam per hour.

As for the renewable business, SCG operates two very small power producer (VSPP) biomass power plants in Lamphun and Kamphaeng Phet with a total installed capacity of 17.1 MW and a total contracted capacity of 15 MW with Provincial Electricity Authority (PEA) under the FiT structure. The company also provides solar rooftop solutions to private customers, leveraging its network within Sriracha Industrial Park and the PRINC Hospital Group. In addition, SCG has a strong project pipeline in solar power, including six prospective PPA projects with EGAT totaling 325 MW in contracted capacity, with SCODs between 2026 and 2030.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics

	Unit	2024	2023	2022
Gas-fired SPP plant in Sriracha				
Net output energy [1]	GWhe	749	1,002	1,050
Proportion of energy supplied to industrial customers	%	56	42	42
Availability factor – SPP Replacement	%	97	n.a.	n.a.
Biomass VSPP plants				
SGN – net output energy [1]	GWhe	85	83	82
SGN – availability factor	%	95	95	95
SGF – net output energy [1]	GWh	56	54	58
SGF – availability factor	%	95	91	97

Remarks: [1] *Net output of electricity and steam in the unit of GWhe*
[2] *Installed capacities reduced to 75 MW, from 214 MW before April 2024*
[3] *As compared with EGAT contract heat rate of 7,409 BTU/kWh ; COD in April 2024*
Source: SCG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	--------------------Year Ended 31 December -----------------				
	2024	**2023**	**2022**	**2021**	**2020**
Total operating revenues	3,613	5,111	5,763	4,233	3,978
Earnings before interest and taxes (EBIT)	3	204	(190)	81	246
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	573	733	383	690	821
Funds from operations (FFO)	373	553	271	575	692
Adjusted interest expense	196	179	110	109	129
Capital expenditures	504	2,009	1,350	279	306
Total assets	8,430	9,941	8,521	7,592	6,626
Adjusted debt	4,338	4,289	3,028	2,008	3,523
Adjusted equity	3,437	3,734	3,693	3,980	2,739
Adjusted Ratios					
EBITDA margin (%)	15.9	14.3	6.7	16.3	20.6
Pretax return on permanent capital (%)	0.0	2.4	(2.6)	1.2	3.8
EBITDA interest coverage (times)	2.9	4.1	3.5	6.3	6.3
Debt to EBITDA (times)	7.6	5.8	7.9	2.9	4.3
FFO to debt (%)	8.6	12.9	9.0	28.6	19.6
Debt to capitalization (%)	55.8	53.5	45.0	33.5	56.3

* *Consolidated financial statements*

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

Ratch Pathana Energy PLC (SCG)

Company Rating:	A-
Issue Ratings:	
SCG259A: THB700 million senior unsecured debentures due 2025	A-
SCG299A: THB550 million senior unsecured debentures due 2029	A-
SCG329A: THB1,400 million senior unsecured debentures due 2032	A-
Rating Outlook:	Stable

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