# ASIA GREEN ENERGY PLC

No. 101/2023
1 June 2023

**CORPORATES**

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

**Last Review Date:** 06/06/22

**Company Rating History:**

| Date | Rating | Outlook/Alert |
|---|---|---|
| 01/10/21 | BB+ | Stable |

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## RATIONALE

TRIS Rating upgrades the company rating on Asia Green Energy PLC (AGE) to "BBB-" from "BB+". The rating outlook remains "stable". The upgrade primarily reflects the strengthening of AGE's capital structure, driven by its strong earnings performance over the past two years. The company's enlarging equity base will provide strong cushion against the effect of coal price volatilities during a downtrend in the coal market.

The rating continues to reflect AGE's established position in the coal trading business in Thailand as well as its competitive advantage from coal trading facilities and logistics management. The credit strengths are, however; offset by its price risk exposure, customer concentration risk, as well as concerns over the long-term prospect of coal consumption in view of the global decarbonization trend.

## KEY RATING CONSIDERATIONS

### Improvement in capital structure

We view AGE's enlarged equity base, accumulated from robust cash inflows over the last several years, as having significantly strengthened AGE's capital structure. During a period of exceptionally high coal prices, the company has preserved a large portion of internally generated cash flows and prioritized usage of the funds to support its rapidly rising working capital requirements. As a result, the company's debt rose by a relatively modest amount despite a significant surge in AGE's revenue in 2022. Other credit metrics also showed positive developments, with the debt to capitalization ratio decreasing from 58.4% in 2021 to 52.9%, and the net debt to EBITDA ratio decreasing to 1.9 times in 2022, better than our guidance for the rating upgrade.

We anticipate AGE's financial structure to strengthen further, supported by its robust earnings in the first quarter of 2023. With a stronger capital position, AGE is expected to reduce its reliance on debt financing for its coal trading activities. Also, assuming the normalization of coal prices, both AGE's working capital needs and debt levels are projected to decline. AGE's capital spending is expected to remain moderate in the foreseeable future. As a result, we expect AGE to maintain comfortable credit metrics, with a net debt to EBITDA ratio below 3.0 times and funds from operations (FFO) to net debt ratio above 20% over the next three years.

### Sound performance during high price period

AGE effectively managed the challenges posed by the exceptionally high and volatile coal prices in 2022. The heightened coal prices have caused a slowdown in the consumption of coal in various end-market segments. AGE's coal trading volume dropped by 20% year-on-year (y-o-y) to 4.08 million tonnes in 2022 from 5.11 million tonnes in 2021. However, AGE's average coal selling price increased by 83% during 2022, offsetting the effect of low volumes.

The company delivered better-than-forecast performance for 2022, achieving earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB1.9 billion for 2022, almost doubling its EBITDA recorded for 2021. Its EBITDA margin of 10.4% in 2022 was higher than the previous year of 8.0%. Besides benefitting from the price uptrend, we assess that the improved profitability is partially attributable to the company's effective logistics and inventory management that help mitigate the impact from price fluctuations. Additionally, AGE actively sought out additional coal suppliers with the aim to diversify sources and obtain the best-priced coal supply.

The company's well-maintained profit margin, combined with higher selling coal prices, translated into higher earnings and cash flows. AGE's revenue lifted by 45% y-o-y to THB18.8 billion in 2022, while EBITDA increased by 88% y-o-y to approximately THB1.9 billion in 2022. In the first quarter of 2023, the company reported revenue at THB4.5 billion, up by 21.6%. The EBITDA margin stood at 10.6%.

**Established position in coal trading business**

AGE is a medium-sized coal trader in Thailand, importing coal primarily from Indonesia, Australia and Russia for distribution in the Thai market. With 20 years of industry expertise, the company has established a strong customer base across various sectors. AGE's coal trading volume in Thailand has remained the highest in the country, ranging within three to five million tonnes traded during 2018-2022. AGE's market share measured by domestic sales volume as percentage of total coal imported to Thailand, stood at 17.8% in 2022, noticeably up from 11.6% in 2018.

**Competitiveness from riverfront facilities and proximity to customers**

AGE's core facilities in Ayutthaya Province reinforce its trading competitiveness. The main facilities comprise a sizable stockpile area with a storage capacity of one million tonnes, three owned loading ports, two warehouses, five screening plants, and a fleet of trucks and lighters. These assets enable the company to undertake large-volume orders, and ensure reliable supplies and prompt deliveries. Also, the presence of coal-screening plants allows AGE to cater to diverse coal demands in the market as retail customers require different coal sizes based on their machinery specifications.

The company's location on the Pasak River in Ayutthaya Province also provides additional advantages, allowing the company to transport coal economically by barge. The company also benefits from its proximity to Saraburi Province, which is a significant hub of cement production, one of the main coal-consuming industries.

**Capable logistics management**

We view AGE's extensive logistic experiences gives it a cost advantage over local coal traders. Logistic costs for coal trading are crucial, accounting for 20%-25% of total costs. To ensure efficient supply chains, the company has strengthened its chartering and logistics teams to oversee the entire aspects of the process.

AGE's logistics operations involve the utilization of dry-bulk vessels to transport coal from international mines to Sichang Island. From there, barge transportation is employed to move the coal from Sichang Island to the company's ports situated in Ayutthaya Province. Then, in-land transportation is utilized to deliver coal to customer factories. The company's cost competitiveness in logistics has been strengthened after initiating the importation of coal through larger dry-bulk vessels.

**Exposure to customer concentration risk and price risk**

AGE's revenue profile demonstrates the significant risk of its reliance on the cement industry and a single cement producer. About 40%-50% of the company's total revenue originates from the Thai cement industry, while its largest customer makes up 25%-30% of total revenue.

Also, we view that AGE's profitability is tied to global coal price fluctuations, exposing the company to the risk of inventory losses when coal prices drop sharply. However, the price risk is partially mitigated with AGE's fast inventory turnover and back-to-back orders with large customers.

**Constrain from global decarbonization trend**

AGE's credit profile is constrained by the prospect of a decline in coal demand over the long-term due to the global transition toward greener energy. Coal-related businesses will face many challenges, such as stricter environmental regulations, government carbon reduction policies, limited financial support, and their customer demands for clean fuels. These factors are encouraging coal users to explore alternative fuels and greener energy sources.

Considering these anti-coal trends, we believe that AGE's growth potential of coal trading in Thailand will be limited. The announcement of coal-reduction plans from AGE's significant customers also poses the risk of declining coal sales.

**Diversification to logistics for non-coal products**

Currently, AGE is focusing on expanding the fleets of owned trucks with a target to reduce dependence on outsourcing parties and, at the same time, utilize the fleets to support logistics services for non-coal products. At the end of the first quarter of 2023, the company has 106 owned trucks with the target of growing by another 52 units in 2023. Despite the small contribution of less than 5% of total revenue, logistics services demonstrate good growth potential with revenue growth of 13% in 2022 and 35% in 2021. Success in the new businesses will be positive for the company's credit profile, given the better and more stable margin compared to coal trading.

### Earnings to normalize in 2023-2024

We expect AGE's exceptionally high earnings to normalize in the future. This expectation is backed by an anticipated decline in coal prices, caused by the rising traction of global transition towards greener energy and the improvement of the demand-supply imbalance in the coal market. The coal price, referring to the Newcastle Index, began dropping in early 2023 from aroundUSD400 per tonne in December 2022 to USD185 per tonne in May 2023 after passing the period of energy shortage crisis in late 2022.

We forecast that the company's total sales volume of coal will range from 4.0 to 4.5 million tonnes per annum during 2023-2025. Overall revenue, however, is anticipated to decline, based on our assumption of a downward trend in coal prices. With AGE's pricing strategy with a fixed percentage margin, we estimate AGE's EBITDA is likely to fall. The company's EBITDA for 2023 will be approximately THB1.5 billion and normalize to above THB800-THB900 million per annum during 2024-2025.

### Adequate liquidity

AGE's sources of funds are adequate to cover uses of funds over the next 12 months. The sources of funds include an estimated FFO of THB1 billion over the next 12 months and cash on hand of THB226 million at the end of March 2023. Uses of funds consist of loan repayments of THB103 million, planned capital spending of about THB392 million, and dividend payments of THB400 million.

### Capital structure

At the end of March 2023, AGE's outstanding debt, excluding financial lease, amounted to THB4.4 billion. Secured loans, including bank loans and trust receipts, totaled THB3.06 billion. As its priority debt ratio of 69.5% well exceeds the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view AGE's unsecured creditors as being significantly disadvantaged concerning the priority of claims against the company's assets.

## BASE-CASE ASSUMPTIONS

- Newcastle coal price at USD150 per tonne in 2023, USD100 per tonne in 2024 and USD90 per tonne in 2025
- Total sales volume of around 4.0-4.5 million tonnes per annum during 2023-2025.
- Revenue declining from THB18 billion in 2023 to THB11.5 billion in 2025.
- EBITDA margin in the 7%-9% range.
- Total capital spending of THB392 million in 2023 and about THB280 million per year during 2024-2025.
- Dividend payout of 40%.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that AGE will maintain its market position and cost competitiveness, and that the company's cash flow and financial metrics will remain in line with our forecasts.

## RATING SENSITIVITIES

A rating upgrade could happen if we see AGE's cash flows widen materially and appear likely to be sustainable. This could be supported by rising revenue contributions from new businesses or sustained high volumes of coal sales.

In contrast, a rating downgrade scenario could stem from a material deterioration in its financial profile, which could happen from the deteriorating operation of existing businesses, as well as heavy debt-funded investments. The net debt to EBITDA ratio above 3.5 times for a prolonged period could trigger a negative rating action.

## COMPANY OVERVIEW

AGE was established in 2004 to engage in the coal distribution business in Thailand and nearby countries. It sources the bulk of its coal from Indonesia, Russia, and Australia. The company owns and operates three loading terminals, four coal screening factories, and a large coal storage area in Ayutthaya Province. The company primarily outsources trucks and barges to support transportation by land and river. AGE's major shareholder is the Kuansataporn family.

AGE's coal business accounted for 97% of the total, with the balance coming from oil sales and logistics services. Over 90% of coal sales are derived from the Thai market. AGE's domestic end-customers cover a broad spectrum of industries, including cement, power, food and beverage, paper, and textiles. The company also distributes coal overseas to countries such as Vietnam, Cambodia, China, Myanmar, and Taiwan.

## KEY OPERATING PERFORMANCE

**Chart 1: AGE's Revenue Breakdown (Mil. THB)**

| Revenue | 2018 | 2019 | 2020 | 2021 | 2022 | 1Q22 | 1Q23 |
|---|---|---|---|---|---|---|---|
| **Coal Trading** | | | | | | | |
| - Domestic | 6,827 | 5,630 | 6,652 | 11,699 | 16,778 | 3,271 | 4,238 |
| - Export | 656 | 173 | 897 | 715 | 1,425 | 307 | 96 |
| **Total Coal Trading** | **7,483** | **5,803** | **7,549** | **12,414** | **18,203** | **3,578** | **4,334** |
| Logistics and Oil | 418 | 393 | 348 | 470 | 531 | 136 | 154 |
| Other | | | | | 81 | | 13 |
| **Total** | **7,901** | **6,196** | **7,897** | **12,884** | **18,815** | **3,714** | **4,501** |

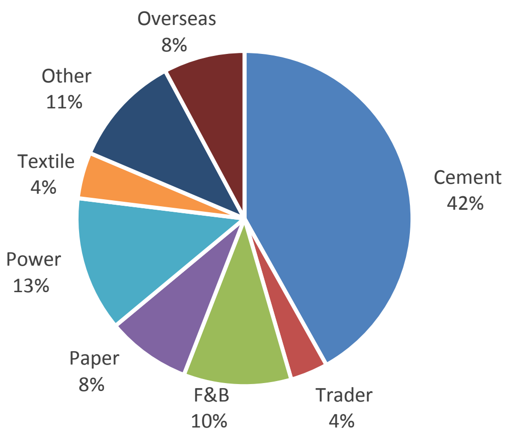
*Source: AGE*

**Chart 2: AGE's Coal Volumes (Mil. Tonnes)**

| Volumes | 2018 | 2019 | 2020 | 2021 | 2022 | 1Q22 | 1Q23 |
|---|---|---|---|---|---|---|---|
| **Coal Trading** | | | | | | | |
| - Domestic | 2.91 | 2.69 | 3.76 | 4.77 | 3.82 | 0.85 | 1.04 |
| - Export | 0.49 | 0.13 | 0.65 | 0.34 | 0.26 | 0.06 | 0.02 |
| **Total Coal Trading** | **3.40** | **2.82** | **4.41** | **5.11** | **4.08** | **0.91** | **1.06** |

*Source: AGE*

**Graph 1 : AGE's Coal Revenue Breakdown by Industry in 2022**




*Source: AGE*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | | | -------------Year Ended 31 December --------- | | |
|---|---|---|---|---|---|
| | Jan-Mar 2023 | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 4,520 | 18,852 | 12,957 | 7,931 | 6,210 |
| Earnings before interest and taxes (EBIT) | 435 | 1,746 | 862 | 307 | 360 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 481 | 1,956 | 1,039 | 451 | 476 |
| Funds from operations (FFO) | 342 | 1,455 | 819 | 375 | 382 |
| Adjusted interest expense | 66 | 173 | 71 | 47 | 57 |
| Capital expenditures | 34 | 31 | 139 | 216 | 190 |
| Total assets | 9,022 | 8,976 | 7,582 | 5,434 | 4,732 |
| Adjusted debt | 4,208 | 3,760 | 3,481 | 2,302 | 2,158 |
| Adjusted equity | 3,638 | 3,342 | 2,483 | 1,888 | 1,816 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 10.6 | 10.4 | 8.0 | 5.7 | 7.7 |
| Pretax return on permanent capital (%) | 24.5 ** | 25.5 | 16.0 | 6.9 | 8.2 |
| EBITDA interest coverage (times) | 7.3 | 11.3 | 14.5 | 9.7 | 8.3 |
| Debt to EBITDA (times) | 2.2 ** | 1.9 | 3.3 | 5.1 | 4.5 |
| FFO to debt (%) | 33.9 ** | 38.7 | 23.5 | 16.3 | 17.7 |
| Debt to capitalization (%) | 53.6 | 52.9 | 58.4 | 54.9 | 54.3 |

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

## RELATED CRITERIA

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

Asia Green Energy PLC (AGE)

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

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