

ENERGY ABSOLUTE PLC

No. 40/2018
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CORPORATES

Company Rating:	A-
Issue Ratings:	
Partially guaranteed	A-
Guaranteed	AA
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/06/16	BBB+	Stable

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RATIONALE

TRIS Rating upgrades the company rating of Energy Absolute PLC (EA) from “BBB+” to “A-”. The upgrade reflects the enlarged cash flow from its power portfolio and the improvement in its financial profile. At the same time, TRIS Rating affirms EA’s partially guaranteed debenture at “A-” and fully guaranteed debentures at “AA”. The debentures are guaranteed by Siam Commercial Bank PLC (SCB), which is rated “BBB+” (International scale) by S&P Global Ratings.

EA’s ratings continue to reflect the steady cash flows of its solar power projects from the long-term power purchase agreements (PPA) with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). However, the ratings are constrained by the execution risk and its huge investment in the energy storage factories.

KEY RATING CONSIDERATIONS

Sizable and steady cash flows from PPAs with EGAT

EA’s solid cash flows are underpinned by secured long-term PPAs with state-owned utility off-takers and the low operational risks of solar and wind farms. EA’s on-hand capacity is 664 megawatts (MW). Of this total, 404 MW comes from four solar farms and a wind project that are currently operating. The second 260-MW wind project, Hanuman (HNM), is under construction. The project is scheduled to start commercial operation at the end of 2018.

Strengthened financial profile

EA’s cash flow has been enlarging along with the growing portfolio of operating assets, leading to an improvement in the financial profile. The larger cash flow generation is backed by rising power outputs and the better-than-estimated performance of the power projects. The good operation of the Hadkanhan (HKH) wind project also lessens concerns on execution risk inherent in the wind power projects. In 2017, EA’s earnings before depreciation and amortization (EBITDA) continued to grow to Bt6.3 billion, a 16.4% year-on-year increase. The funds from operations (FFO) to total debt ratio rose from 15.5% in 2015 to 19.8% in 2017.

Growing EBITDA from the second wind project

During 2018-2020, TRIS Rating expects that EA’s EBITDA will grow from Bt6.3 billion in 2017 to approximately Bt10 billion per annum in 2020 after all power projects are in operation for a full year. The operating margin (operating income before depreciation and amortization as a percentage of sales) should remain high at above 50%.

EA’s capital expenditures over the next three years will remain high as a result of new project developments. The investments will total about Bt23 billion, mainly including Bt15 billion for the HNM wind project, Bt4 billion for the first phase of the energy storage factory, and Bt2 billion for a new biodiesel plant. The outstanding debt is likely to increase further, however, the debt to EBITDA ratio should be below 5 times over the assessed period.

High execution risks from the energy storage project

EA’s credit profile is constrained by the high execution risks of the energy storage business. Despite the promising outlook from fast growing demand, we

view that EA's success in the energy storage business remains challenging, given broad risk exposures and limited track record and experience of the company's management in this business.

The important risks we consider include new technology to rival lithium-ion battery, intensifying competition from global manufacturers, and the likelihood of ongoing decline in battery prices due to improved efficiency and a rise of large production capacity in the global market. However, the company is attempting somewhat to mitigate those risks through the acquisition of shares in Amita Technologies Inc. to secure expertise and proprietary technology as well as develop skills and in-house knowledge through a small scale factory.

The total investment for 50-GWh energy storage factories worth Bt100 billion is not included in our base-case scenario. TRIS Rating expects the company to invest prudently and find investment partnerships in order to maintain a healthy balance sheet.

Adequate liquidity

EA's liquidity is adequate. Over the next 12 months, EA's sources of funds can cover its use of funds. The sources of funds include estimated FFO of Bt6.7 billion and cash and cash equivalents of Bt4.5 billion as of December 2017. The use of funds over the same period include capital expenditures of about Bt6-Bt7 billion and an estimated dividend of about Bt0.6-Bt0.7 billion. EA has no repayments for bank loans and bonds in 2018. Meanwhile, the company's earliest bond repayment is due in July 2019.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EA's solar and wind power plants will generate predictable cash flows as planned. The company is also expected to successfully execute the HNM wind power project. TRIS Rating assumes EA will be able to secure additional equity funding or find new partners for its considerable investments in order to maintain financial strength.

RATING SENSITIVITIES

A rating upgrade is possible if the performances of the HNM project runs smoothly as planned and the company maintains its total debt to EBITDA ratio below 3 times for a sustained period.

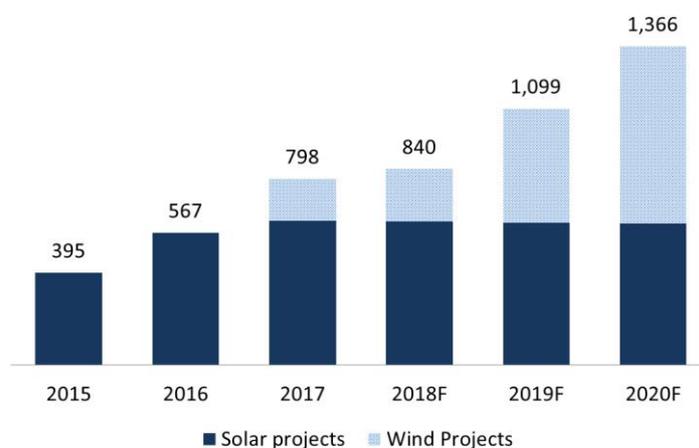
On the other hand, we could lower the ratings if EA's financial profile is materially weaker than our expectation. This could happen due to the aggressive debt-funded investments or large equity losses from a failure in executing the new projects.

The ratings and outlook for EA's guaranteed debentures solely reflect the creditworthiness of its guarantor, SCB, which has current international scale company ratings of "BBB+" with "stable" outlook from S&P Global. The ratings and outlook for EA's partially guaranteed debentures reflect both creditworthiness of both SCB (guarantor) and EA (issuer), and could be revised should there be any changes in the credit profile of either SCB or EA.

COMPANY OVERVIEW

Established in 2006, EA was previously known as Suntech Palm Oil Ltd., before changing its name to Energy Absolute PLC in 2008. In late 2012, EA expanded into renewable energy generation through the development of the solar and wind power projects. EA's power generation segment became the key cash flow contributor and accounted for more than 90% of the company's total EBITDA of Bt6.35 billion in 2017. EA was listed on the Market for Alternative Investment (MAI) in 2013 and was moved to the Stock Exchange of Thailand (SET) in January 2017. As of March 2017, Mr. Somphote Ahunai was the major shareholder, holding an approximately 43% interest in EA.

The company has a total contracted capacity of 664 MW, 278 MW from the four solar power projects and 386 MW from the two wind power projects. EA has long-term PPAs with the EGAT for the total capacity of 270 MW from its three core solar projects. Each project receives the adder rate of Bt6.5 per kilowatt-hour (kWh) for 10 years under the Small Power Producer (SPP) scheme. Additionally, EA's two wind projects are the 126-MW HKH and the 260-MW HNM. The HKH project started commercial operation in mid-2017 and the HNM is scheduled to start commercial operation in late 2018. The two projects also obtained PPAs with EGAT and receive an adder rate of Bt3.5 per kWh for 10 years.

KEY OPERATING PERFORMANCE
Chart 1: EA's Total Power Outputs (Million Units)


Source: EA and TRIS Rating's estimates

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	11,580	10,392	9,197	7,583	3,936
Gross interest expense	1,329	1,308	851	398	121
Net income from operations	3,686	3,354	2,689	1,608	267
Funds from operations (FFO)	5,486	4,481	3,449	2,003	425
Earnings before interest, tax, depreciation, and amortization (EBITDA)	6,356	5,460	4,100	2,372	472
Capital expenditures	3,520	8,208	11,475	8,609	6,431
Total assets	44,530	41,507	33,057	19,327	11,466
Total debt	27,699	28,378	22,226	12,001	6,076
Shareholders' equity	14,744	10,389	8,510	5,897	4,363
Depreciation & amortization	1,528	1,116	735	414	128
Dividends	559	373	75	75	37
Operating income before depreciation and amortization as % of sales	55.2	52.1	44.4	31.0	10.4
Pretax return on permanent capital (%)	11.7	12.3	13.8	13.8	5.4
EBITDA Interest coverage (times)	5.4	4.2	4.8	6.0	3.9
FFO/total debt (%)	19.8	15.8	15.5	16.7	7.0
Total debt/capitalization (%)	65.3	71.4	72.3	67.1	58.2

* Consolidated financial statements

Energy Absolute PLC (EA)

Company Rating:	A-
Issue Ratings:	
EA197A: Bt1,000 million senior partially guaranteed debentures due 2019	A-
EA207A: Bt3,000 million senior fully guaranteed debentures due 2020	AA
EA217A: Bt4,000 million senior fully guaranteed debentures due 2021	AA
Rating Outlook:	Stable

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