

SERMSANG POWER CORPORATION PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 06/09/21

Rating History:

Date	Rating	Outlook/Alert
06/10/20	BBB	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Sermsang Power Corporation PLC (SSP) to “BBB+” from “BBB”, with “stable” outlook. The rating upgrade reflects a significant improvement in SSP’s financial profile.

The rating continues to reflect the high predictability of cash flows from SSP’s power portfolio, supported by long-term power purchase agreements (PPAs), low operational risk of solar power, and satisfactory performance of its power plants. On the contrary, the rating is constrained by the increasingly challenging renewable power industry, and a likelihood of heightening leverage in supporting the company’s growth plan.

KEY RATING CONSIDERATIONS

Solar power remains the core business

Solar power remains the centerpiece of SSP’s power portfolio although the company has expanded into wind and biomass power. As of June 2022, SSP’s power portfolio consisted of 19 power projects across Thailand and Asia, with a net capacity of 270 megawatts (MW) when measured in proportion to SSP’s ownership of the projects. Sixteen solar power projects accounted for 78% of total capacity while the remainder was across two wind power plants and one biomass power plant.

SSP’s power plants hold long-term PPAs, mainly with the Electricity Generating Authority of Thailand (EGAT), credible power buyers in Japan, and Vietnam Electricity (EVN). The PPAs are on a non-firm basis. The cash generation from solar power plants is highly predictable, characterized by the committed tariff and low operational risk.

A streak of satisfactory performance

Most of SSP’s power plants have shown stable performance. The annual output of most of the company’s solar power plants reached the P50 level (the 50% probability of energy production), the threshold of expected operating performance.

SSP’s solar power plants recorded satisfactory performance in the past three years, with an average capacity factor of above 15%. Solar power projects sold about 283 gigawatt hours (GWh) of electricity per year, 5.8% higher than the P50 level. Sermsang Palang Ngan Co., Ltd. (SPN), a 52-MW solar powerplant in Thailand, recorded outstanding performance compared to SSP’s other power plants. SPN sold about 85-91 GWh of electricity per year, which is 14% above the P50 level since it commenced operations in 2015.

Divestment of Hidaka solar project

In June 2022, SSP sold all its interests in the Hidaka project, a 21-MW solar power plant in Hokkaido. SSP sold its 87% stake for JPY2.8 billion, recognizing a financial gain of THB348 million. Added to that, the divestment removed the respective project loan of about JPY4.6 billion from SSP’s balance sheet. In effect, SSP’s debt fell drastically to THB6.6 billion as of June 2022, from THB9.4 billion as of 2021.

Strengthened capital structure

SSP’s capital structure significantly improved from last year, due in large part to a series of capital increases made in late 2021 and early 2022. In total, SSP received funds of THB1.58 billion from capital increases under private

placement programs and warrant exercises. In addition, the gain from the Hidaka divestiture helped solidify SSP's financial profile. In the first half of 2022, the ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) markedly declined to 2.7 times, from 4.5 times in 2021. SSP's debt to capitalization ratio was 44.7% as of June 2022, marking a significant improvement from 59.7% in 2021.

Successful execution of nearshore wind farm

Over the past years, SSP has established a strong track record of developing solar and wind power projects. In October 2021, SSP successfully developed and commenced operation of a 48-MW nearshore wind farm in Vietnam. The project was considered very challenging, due to its complicated construction work and tight schedule. SSP managed to start commissioning of the wind project within the deadline imposed by the Vietnamese government while many developers faced significant delays in construction. Apart from greenfield projects, SSP also added to its portfolio of power generation capacity by acquiring a 25% stake in Winchai Co., Ltd. (Winchai) for about THB752 million in March 2022. Winchai owns and operates a 45-MW wind farm in Mukdahan, Thailand. Overall, SSP's power portfolio has become more diversified and solid in cash generation.

Earnings growth from new projects

As a result of expansion, SSP's electricity sales volume has constantly grown over the past three years. SSP sold about 400 GWh of electricity in 2021, up from 254 GWh in 2020. The increase in sales volume was mainly from the commencements of operation of new projects and full-year operations of preceding projects. In the first half of 2022, SSP mustered electricity sales of 289 GWh, a 63% increase from 178 GWh year-on-year (y-o-y). EBITDA came in at THB1.3 billion, a robust 38% increase y-o-y. We forecast SSP's EBITDA will rise to a fresh record of THB2.8 billion in 2022.

Increasingly challenging power industry

We see growth opportunities for renewable power in Thailand as the government is bent on increasing the proportion of renewable energy, given its long-term goals to achieve carbon neutrality and net-zero greenhouse gas emissions. We expect the opening of a new quota for purchasing electricity from renewable energy sources. That being said, we hold the view that the domestic power market has become more challenging, with competition mounting in recent years. Private companies, ranging from very small entrepreneurs to large conglomerates, have branched into the power market. Meanwhile, demand for power is growing modestly after the pandemic-hit contraction. Added to that, the high excess reserve of capacity could set back the development of new power projects. We have seen Thai power companies leaning towards investments outside Thailand, in pursuit of higher returns and stronger electricity demand. However, some overseas expansions carry higher country risk stemming from transparency and consistency of regulations, the credit profiles of off-takers, and environmental challenges.

Leverage could rise from growth plan

Currently, SSP has committed to developing new projects including a 22-MW solar farm in Japan, and a pool of solar rooftop projects in Indonesia. However, we assume in our base-case projection that SSP could add 103 MW in new capacity on top of its committed projects. We expect SSP to further grow its footprint in Vietnam on the prospect of renewable power opportunities from the country's upcoming Power Development Plan 8 (PDP8). In our base case, we expect new projects to commence commercial operations from 2024 onward.

In our base-case projection, we forecast SSP to spend around THB10 billion during 2022-2025. We assume most committed projects would be funded by project loans while top-up projects would obtain financing from the Engineering Procurement and Construction (EPC) contractors, whereby SSP will pay the construction costs a year after the projects are operational. Consequently, SSP's debt could reach THB10.4 billion when the company starts to drawdown loans to pay EPC contractor in 2025.

We project SSP's revenues to range from THB3-THB3.4 billion per year in 2022-2025, and EBITDA to hover around THB2.4-THB2.8 billion per year in the same period. The debt to EBITDA ratio will likely rise from the current level to 3.1-4.4 times. The debt to capitalization ratio should stay in the 45%-52% range.

Adequate liquidity

Most of SSP's power projects have already secured long-term project loans. SSP has also utilized both short-term and long-term banking facilities to support its subsidiaries. SSP and its subsidiaries have complied with respective financial covenants on their bank loans.

We assess SSP's liquidity as adequate. As of June 2022, the company had THB1.2 billion in short-term and long-term debts coming due in the next 12 months. At the same time, it had cash on hand of THB5.1 billion while we expect funds from operations (FFO) of about THB2 billion.

Debt structure

As of June 2022, SSP had consolidated debt of about THB11.2 billion, excluding lease liabilities. Of this amount, THB9.2 billion was priority debt, comprising secured debt owed by SSP and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 81%, far above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". This suggests that SSP's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- The 22-MW solar farm in Shizuoka, Japan, to start operation in the fourth quarter of 2024.
- Top-up project to start operation for 48 MW in the first quarter of 2024 and 55 MW in the fourth quarter of 2025.
- A pool of 26-MW solar rooftops in Indonesia to gradually start operation in 2022-2023.
- Gross capacity to reach 480 MW in 2025.
- During 2022-2025, power plants to generate a combined power output of 515-718 GWh per year.
- Capital expenditure and investments to total THB10 billion during 2022-2025.
- SSP to obtain financing from the EPC contractors for construction of the top-up projects.

RATING OUTLOOK

The "stable" outlook reflects our expectations that SSP's power plants will continue to run satisfactorily and generate cash flows as expected. We also expect the company to develop new projects as planned, without serious project delays or cost overruns. Despite ongoing expansions, we expect SSP to keep the level of cash flow against financial leverage within our forecast range.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. On the contrary, negative rating pressure would develop if SSP's financial profile weakens considerably, which could occur from excessive debt-fund investments or a material underperformance of the power plants that results in deteriorating cash generation.

COMPANY OVERVIEW

SSP was founded in 2015 as a holding company. SSP invests in companies that generate and sell electricity produced from renewable resources. The company was listed on the Market for Alternative Investment (MAI) in September 2017. SSP's shares were moved to the Stock Exchange of Thailand (SET) in March 2019. In 2021, SSP issued 50 million new shares under a private placement for UOB Kay Hian Private Ltd. and Mr. Pongsak Thammatucharee. As of June 2022, SSP's major shareholder was the Kraipisitkul family, which owns 52% of the company's shares. Public shareholders owned the rest.

SSP's first power plant was a solar power plant in Lopburi with an installed capacity of 52 MW. The plant was owned and run by its subsidiary, Sermsang Palang Ngan Co. Ltd. (SPN). SPN has a long-term PPA with EGAT for 40 MW of power. SPN receives an adder of THB6.5 per kilowatt-hour (kWh) for the first 10 years. SSP later expanded into solar rooftop projects and solar farms overseas, including Japan, Vietnam, Mongolia, and Indonesia.

In Thailand, SSP owns a 5-MW solar farm, which it co-developed with the War Veterans Organization of Thailand (WVO). The project receives a fixed feed-in-tariff (FiT) of THB4.12 per kWh. The term of the PPA is 25 years. Apart from solar farms, SSP also has solar rooftop projects with many industrial users under private PPAs. The electricity tariffs charged to industrial users are based on the time of use (TOU) tariff minus a discount, as specified in the PPAs.

SSP also has several operating solar farms overseas. The company has three solar farms in Japan, with total gross capacity of 68 MW. These three projects receive a FiT of JPY36 per kWh under 20-year PPAs with reputable off-takers in Japan, such as Kyushu Electric Power Co., Inc. (KYUDEN). SSP also owns the Khunsight Kundi solar farm project, a 16-MW solar farm in Mongolia. This project has a 12-year PPA with National Dispatch Center LLC. The tariff is a FiT basis of US cent16.2 per kWh. SSP also owns a 50-MW solar farm in Vietnam. EVN is the off-taker for this project under a 20-year PPA. The tariff is a fixed FiT basis of US cent9.35 per kWh.

In July 2021, SSP acquired a 100% share of UPT. UPT owns and operates a 9.9-MW biomass power plant in Nakorn Ratchasima, Thailand. UPT commenced operation in May 2019 and sells power to the Provincial Electricity Authority (PEA) under a 20-year PPA. The PPA carries a fixed FiT of THB2.39 per kWh and a variable FiT, which is linked to the core inflation rate. PPAs also carry a premium FiT of THB0.3 per kWh for the first eight years. In October 2021, SSP's 48-MW nearshore wind farm in Vietnam commenced its operation. In March 2022, SSP invested in a 25% shares in Winchai wind farm through Qian Xing Long Co., Ltd. (QXL), adding net capacity of 11 MW to SSP's power portfolio.

Currently, SSP is developing a 22-MW solar farm in Shizuoka, Japan, and a number of solar rooftop projects in Indonesia. SSP's gross capacity will reach 377 MW when all committed projects in the pipeline start operations in 2024.

KEY OPERATING STATISTICS

Table 1: Portfolio of SSP (As of June 2022)

	Project Name	Type	Off-taker	Location	SCOD/ COD	Ownership %	Capacity (MW)	
							Installed	Contracted
Operating							328	289
1	SPN	Solar Farm	EGAT	Lopburi	Feb-15	100	52	40
2	WVO	Solar Farm	PEA	Ratchaburi	Nov-18	100	8	6
3	Zouen	Solar Farm	KYUDEN ^(b)	Kumamoto, Japan	Aug-18	100	8	6
4	Yamaga	Solar Farm	KYUDEN ^(b)	Kumamoto, Japan	May-20	90	34	30
5	Leo1	Solar Farm	TEPCO ^(c)	Shizuoka, Japan	Jul-21	100	26	20
6	Binh Nguyen	Solar Farm	EVN ^(e)	Quang Nai, Vietnam	May-19	87	50	40
7	Khunsight Kundi	Solar Farm	NDC LLC ^(d)	Ulaanbaatar, Mongolia	Jul-19	75	16	15
8	SNNP1	Solar Rooftop	Srinanaporn	Samutsakorn	Mar-18	100	0.4	0.4
9	SNNP2	Solar Rooftop	Srinanaporn	Ratchaburi	Mar-18	100	1	1
10	Do-Home	Solar Rooftop	Do Home	Bangkok, Korat, Khonkhan, Chiang Mai	Jul-18	100	3	3
11	SNNP3	Solar Rooftop	Srinanaporn	Samutsakorn	Apr-19	100	0.4	0.4
12	SNNP4	Solar Rooftop	Srinanaporn	Samutsakorn	Mar-20	100	0.3	0.3
13	TAPACO	Solar Rooftop	TAPACO	Chonburi, Prachinburi	Apr-20	100	0.9	0.9
14	PRC	Solar Rooftop	PRC	Nonthaburi	Apr-20	100	1	1
15	SPT	Solar Rooftop	SPT	n.a.	Jun-22	100	0.8	0.8
16	SSE	Solar Rooftop	Private users	Indonesia	Q4/19-Q1/22	95	23	23
17	UPT	Biomass	PEA	Nakornratchasima	May-19	100	10	8
18	TTTV	Wind Farm	EVN ^(e)	Tra Vinh, Vietnam	Oct-21	80	48	48
19	Winchai	Wind Farm	PEA	Mukdaharn	Apr-19	25	45	45
Developing							49	44
20	Leo2	Solar Farm	TEPCO ^(c)	Shizuoka, Japan	Oct-24	100	22	17
21	SSE	Solar Rooftop	Private users	Indonesia	Q2/22-Q4/22	95	7	7
22	SSE	Solar Rooftop	Private users	Indonesia	2023	95	20	20
Total							377	333

Source: SSP

Remark: (a) Hokkaido Electric Power Co., Inc.

(b) Kyushu Electric Power Co., Inc.

(c) Tokyo Electric Power Company

(d) National Dispatching Center LLC

(e) Electricity of Vietnam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,716	2,617	2,192	1,481	1,137
Earnings before interest and taxes (EBIT)	886	1,351	1,160	771	663
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,344	2,102	1,693	1,088	888
Funds from operations (FFO)	1,093	1,629	1,303	799	648
Adjusted interest expense	249	403	367	276	238
Capital expenditures	79	4,891	1,013	2,255	3,369
Total assets	23,278	24,063	16,925	13,045	11,893
Adjusted debt	6,581	9,427	9,409	7,370	6,218
Adjusted equity	8,138	6,374	4,804	3,997	3,858
Adjusted Ratios					
EBITDA margin (%)	78.31	80.31	77.26	73.47	78.07
Pretax return on permanent capital (%)	8.74 **	7.27	7.93	6.30	6.56
EBITDA interest coverage (times)	5.41	5.22	4.61	3.94	3.73
Debt to EBITDA (times)	2.66 **	4.49	5.56	6.77	7.00
FFO to debt (%)	29.86 **	17.28	13.85	10.85	10.42
Debt to capitalization (%)	44.71	59.66	66.20	64.84	61.71

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Sermsang Power Corporation PLC (SSP)

Company Rating:	BBB+
Rating Outlook:	Stable

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