

# BCPG PLC

No. 194/2022  
27 October 2022

## CORPORATES

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

Last Review Date: 19/04/22

### Company Rating History:

Date	Rating	Outlook/Alert
21/04/21	A-	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on BCPG PLC (BCPG) and the ratings on BCPG's senior unsecured debentures to "A" from "A-", with a "stable" outlook. The ratings uplift follows the upgrade of company rating on Bangkok Corporation PLC (BCP) to "A/stable" from "A-/stable", on 27 October 2022.

BCPG's stand-alone credit profile (SACP) remains at "bbb+". The company rating of "A", which is two notches above its SACP, reflects our view of BCPG as a core subsidiary of BCP.

The SACP mirrors BCPG's reliability of earnings and its well-diversified power portfolio. Contrarily, these strengths are weighed down by execution risks associated with projects under development and expected rise in financial leverage in supporting its growth strategies.

## KEY RATING CONSIDERATIONS

### A core subsidiary of BCP

We hold our view that BCPG is a core subsidiary of BCP as we view the company is essentially integral to BCP's future strategy. BCP currently holds 57.4% shares in BCPG, having control over BCPG's business strategies and financial policies through the company's board of directors, investment committee, and top management.

BCPG is the renewable energy business arm of BCP. We expect BCPG will continue its critical role in Bangkok Group's strategies in diversifying and expanding into steady-income business, as well as promoting sustainability. BCPG will be instrumental in materializing the group's net-zero commitments. Added to that, we expect BCPG will contribute sizable earnings before interest, taxes, depreciation, and amortization (EBITDA) to BCP. With its stable cash flow, the company considerably helps offset the high volatility in BCP's refining business.

### A well-diversified power portfolio

As of June 2022, BCPG owns 32 operating renewable projects, with a total contracted capacity in proportion to BCPG's ownership stakes of 390 megawatts (MW). This capacity comprises a mix of energy sources: solar (65%), hydropower (29%), and wind (6%).

BCPG's operating power plants are located in four countries, comprising Thailand (47%), Japan (20%), the Lao People's Democratic Republic (Lao PDR) (29%), and the Philippines (4%). We view BCPG's diversification strategy will mitigate risks related to the invested countries and reliability of energy sources.

### Reliability of cash flow

BCPG's reliable earnings are backed by its long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), Provincial Electricity Authority (PEA), and credible power buyers in Japan.

In the first half of 2022, solar power projects remained the centerpiece of BCPG's earnings, making up about 80% of total EBITDA. On the whole, BCPG's solar power projects have consistently performed at high efficiency since the

onset. The cash generation from solar power plants is highly predictable, characterized by the committed tariff and low operational risk.

#### **New capacity added to mitigate adder expiration**

A total contracted capacity of 176 MW of solar projects in Thailand contributed about 60%-70% of BCPG's EBITDA. Of the total, a pool of 133 MW solar projects receive adder of THB8 per kilowatt-hour (kWh) for the first 10 years. Revenue from adder is about THB2 billion a year. We expect a gradual decline in the earnings from 2022 onwards when adder is phasing out. Revenue from adder will plunge in 2024 and completely end in 2025. In response, BCPG has acquired two hydropower projects in the Lao PDR (114 MW) and commenced operation of three solar farms (65 MW) in Japan. We expect these projects will generate THB1.6-THB1.8 billion in EBITDA per year.

#### **Enlarging power portfolio**

BCPG is committed to adding new projects with total installed capacity of 719 MW in the years ahead. These include large-scale wind farm in the Lao PDR and several solar projects in Taiwan. BCPG is currently taking part in developing the "Monsoon Project", the first-ever wind power project in the Lao PDR. With 600-MW capacity, the Monsoon Project is slated to start construction in 2022 and sell electricity to the Vietnam Electricity (EVN) by the end of 2025. Proportionate to BCPG's 38% stake, the project will add about 230 MW to BCPG's power portfolio.

Furthermore, BCPG is developing several solar projects in Taiwan, which will gradually add 469 MW during 2023-2024. In addition, we also expect BCPG to further add its capacity in Thailand on the prospect of upcoming new quota for renewable energy sources. In our base case, we expect new domestic projects to commence commercial operations from 2024 onward.

#### **Heavy investments ahead**

BCPG is expanding into power transmission and substation business. The company has recently invested in a cross-border transmission line by acquiring a 25% interest in Nam Tai Hydropower Sole Co., Ltd. BCPG will pay for this transaction by transferring its account receivable with Electricite du Laos (EDL) to the seller, for a total amount of USD34 million. In return, BCPG will receive 50% of economic rights in the transmission system which will facilitate sales of electricity from the Lao PDR to Vietnam. The transaction will also facilitate BCPG's plan to shift the off-taker of the two hydropower plants, "Nam San 3A" and "Nam San 3B", from EDL to EVN.

In addition to the committed projects, we assume BCPG to spend about THB6.3 billion for acquisitions of operating power projects in 2022-2023, which will help BCPG accelerate its growth strategy as the targeted projects will have immediate impacts on cash generation.

Given its financial discipline policy, BCPG recently sold its entire interest in geothermal projects in Indonesia. BCPG received THB14.5 billion in cash and would recognize profit from the divestment for THB2 billion. The divestment enhances BCPG's investment capacity for the projects in pipeline. It is possible that BCPG may consider divesting parts of its existing projects as an option to reduce debt load over the course of enlarging its portfolio. In total, we project BCPG to defray a net amount of THB37.5 billion for capital expenditures and other investments in 2022-2025.

#### **Execution risks of projects under development**

BCPG's future earnings largely hinge on the success of the project executions. During the build-up phase, we view BCPG remains exposed to a range of execution risks associated with the projects under development, particularly delays in construction of the greenfield wind farm. A wind farm development typically entails relatively high construction risks, given the high requirement of plant design and construction. A significant delay in the construction and cost overrun could cause serious impact on project viability.

In addition, BCPG's investments in hydropower and the large-scale wind farm will expose the company to higher resource risks than the solar power. Hydropower production depends primarily on water availability, which can vary significantly from year to year. At the same time, wind power plants entail higher operational risks, particularly mechanical and electrical breakdowns. In addition, the success of a wind power project depends on the availability and speed of wind.

#### **Earnings and leverage on uptrend**

We assume that BCPG could achieve the developments of projects and acquisition as planned in our base-case projection. BCPG's power plants will likely continue to deliver satisfactory performance. We forecast BCPG's revenue to total around THB5.4 billion per year in 2022-2023. Revenue will climb to range THB6.4-THB7.5 billion per year in 2024-2025. We project BCPG to arrive at THB3.6 billion in EBITDA in 2022. EBITDA will then steadily rise towards THB6 billion per year by 2025. The debt to EBITDA ratio will range around 7-8 times during 2023-2025. We forecast the debt to capitalization ratio will stay in the 50%-57% range in 2023-2025.

## Strong liquidity position

We assess BCPG currently has a strong liquidity position. As of June 2022, the company had cash on hand of about THB22.1 billion and unused credit facilities (committed and uncommitted) of about THB1.2 billion. We forecast BCPG to generate funds from operations (FFO) of about THB2.2 billion in 2022. The cash on hand, unused credit facilities and expected FFO are sufficient to cover long-term debt coming due of about THB3.9 billion in next 12 months.

## Debt structure

As of June 2022, BCPG's consolidated debt totaled THB25.7 billion, of which THB7.5 billion was priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 29%.

## BASE-CASE ASSUMPTIONS

- In 2022-2025, capacity factor of power plants to be:
  - Thailand solar assets : 13%-20%
  - Japan solar assets : 11%-15%
  - Taiwan solar assets : 16%-17%
  - Hydropower plants in the Lao PDR : 48%-50%.
- Net capital expenditures and investments to be THB37.5 billion in 2022-2025.
- Gross installed capacity to reach 1,038 MW in 2025.
- EBITDA margin of about 67%-84% over 2022-2025.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that BCPG will maintain its satisfactory operating performance. The construction and development of projects are expected to be completed as planned. In addition, we expect BCPG's financial leverage and cash flow against debt obligations will be at the levels in line with our forecasts over the course of its expansion.

## RATING SENSITIVITIES

A credit upside would develop if the company could generate sizable cash flow that materially reduces its financial leverage. Contrarily, the ratings and/or outlook could be revised downward if BCPG's operating performance significantly falls short of our expectation, or the financial profile deteriorates considerably due to excessive debt-funded investments.

According to TRIS Rating's "Group Rating Methodology", BCPG's company rating will move in tandem with BCP's company rating. Hence, any change in BCP's rating will result in the same change to the rating on BCPG. In addition, BCPG's rating could change if in our view, there is change in BCPG's status to the Bangchak Group to a weaker level.

## COMPANY OVERVIEW

BCPG was initially a department of BCP in charge of developing and operating the BCP Group's renewable power business. BCPG was spun off from BCP in 2015 and listed on the Stock Exchange of Thailand (SET) in September 2016. After that, BCPG diversified its portfolio from concentrating on solar power projects in Thailand to solar power projects in Japan, geothermal plants in Indonesia, wind farms in the Philippines and Thailand, and hydropower plants in the Lao PDR. In November 2020, BCPG successfully raised new capital of about THB7.4 billion and THB2.1 billion from warrant execution in 2021 to support its investment plans over 2022-2025. In March 2022, BCPG sold all investment in geothermal plants in Indonesia.

As of June 2022, BCP held a 57.42% shareholding in BCPG. BCPG has investments in four countries in Asia. BCPG's power portfolio holds a total contracted capacity of about 390 MW. Currently, BCPG is developing a wind farm in the Lao PDR which will export electricity to Vietnam. BCPG is also developing new solar power projects in Taiwan.

KEY OPERATING PERFORMANCE

Table 1: BCPG's Portfolio (As of Jun 2022)

Project	Country	Installed Capacity (MW)	Contracted Capacity (MW)	PPAs Tenor (Years)	Tariff Scheme
<b>Operating Projects</b>		<b>470.0</b>	<b>390.4</b>		
1. Solar farms	Thailand	187.0	133.0	5 years and automatic renew 5 years	Base tariff (Plus adder in first 10 years)
2. Solar farms	Thailand	25.9	25.9	25 years	Fixed feed-in tariff
3. Solar floating and rooftop	Thailand	14.4	14.4	Up to 25 years	Base tariff (with discount)
4. Wind farm	Thailand	10.0	9.0	5 years and automatic renew 5 years	Base tariff (Plus adder in first 10 years)
5. Solar farms	Japan	104.3	79.7	20 years	Fixed feed-in tariff
6. Hydro power	Lao PDR	114.0	114.0	27 years	Fixed feed-in tariff
7. Wind farm	Philippines	14.4	14.4	20 years	Fixed feed-in tariff
<b>Developing Projects</b>		<b>719.2</b>	<b>716.2</b>		
1. Solar rooftop	Thailand	1.6	1.6	Up to 25 years	Base tariff (with discount)
2. Solar farms	Japan	13.0	10.0	20 years	Fixed feed-in tariff
3. Wind farms	Lao PDR	230.0	230.0	25 years	Fixed feed-in tariff
4. Solar farms/rooftop	Taiwan	469.0	469.0	25 years	Fixed feed-in tariff
5. Wind farms	Philippines	5.6	5.6	20 years	Fixed feed-in tariff
<b>Total</b>		<b>1,189.2</b>	<b>1,106.6</b>		

Source: BCPG

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS \*

Unit: Mil. THB

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total operating revenues	2,601	4,692	4,241	3,441	3,432
Earnings before interest and taxes (EBIT)	790	3,019	2,764	2,372	2,059
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,372	3,700	4,477	2,782	2,549
Funds from operations (FFO)	494	2,710	3,631	2,201	1,922
Adjusted interest expense	437	895	820	579	527
Capital expenditures	1,169	3,349	1,141	1,307	1,499
Total assets	57,622	58,721	51,220	37,137	31,558
Adjusted debt	4,043	18,513	16,005	18,698	13,352
Adjusted equity	29,024	27,228	22,549	15,555	15,142
<b>Adjusted Ratios</b>					
EBITDA margin (%)	52.74	78.86	105.55	80.86	74.26
Pretax return on permanent capital (%)	4.38 **	5.66	6.47	7.12	6.62
EBITDA interest coverage (times)	3.14	4.13	5.46	4.80	4.83
Debt to EBITDA (times)	1.23 **	5.00	3.57	6.72	5.24
FFO to debt (%)	45.13 **	14.64	22.69	11.77	14.40
Debt to capitalization (%)	12.23	40.47	41.51	54.59	46.86

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## 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
- Issue Rating Criteria, 15 June 2021

**BCPG PLC (BCPG)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
BCPG249A: THB2,000 million senior unsecured debentures due 2024	A
BCPG269A: THB1,000 million senior unsecured debentures due 2026	A
BCPG289A: THB1,000 million senior unsecured debentures due 2028	A
BCPG319A: THB4,000 million senior unsecured debentures due 2031	A
BCPG339A: THB4,000 million senior unsecured debentures due 2033	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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