

NATIONAL POWER SUPPLY PLC

No. 128/2020
28 August 2020

CORPORATES

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

Last Review Date: 11/03/20

Company Rating History:

Date	Rating	Outlook/Alert
16/11/17	BBB-	Stable
28/11/16	BBB	Negative
08/01/10	BBB	Stable
21/07/05	BBB+	Stable

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RATIONALE

TRIS Rating upgrades the company rating on National Power Supply PLC (NPS) and the ratings on NPS's senior unsecured debentures to "BBB" from "BBB-", with a "stable" outlook. The upgrade reflects improvement in NPS's operating performance and financial profile during the last three years. The "BBB" ratings continue to reflect NPS's reliable cash flows from long-term Power Purchase Agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme and from long-term contracts with Double A (1991) PLC (DA). The ratings are partially offset by the ongoing group restructuring.

KEY RATING CONSIDERATIONS

Continued improvement in operating performance

NPS has demonstrated a continued improvement in its power plant operations, after implementing new operating software and reprocessing its operations and fuel management systems in late 2017. The plant's availability factor has been maintained the healthy level of 85%-88% range since 2018.

Long-term PPAs secure revenues

About 80%-90% of NPS's revenue comes from the sale of power and steam. This revenue is secured under long-term PPAs with EGAT and industrial customers. NPS has 25-year PPAs with EGAT covering 296 megawatts (MW) of electricity, or 41% of total capacity. NPS also sells 167.6 MW (23% of total capacity) to DA under power sales agreements lasting from one to 19 years. Customers in the industrial estates in Prachinburi and Chachoengsao provinces take up the remaining power and steam generating capacity.

The PPAs with EGAT comprise monthly capacity payments (CP) and energy payments (EP). The CP covers the investment costs and is linked to the US dollar/Thai baht exchange rate. The EP primarily covers the variable costs of actual electricity production. EGAT is obliged to dispatch at least 80% of the contracted capacity based on operating hours, while other off-takers also have minimum off-take obligations.

Qualified for FiT scheme

NPS's bio-mass power plants qualify and have been applied for the Feed-in Tariff (FiT) scheme. According to the resolution of the National Energy Policy Council dated 16 December 2019, electricity producers using bio-mass fuel have the option to sell electricity using the FiT scheme for a purchase price of THB3.66 per kilowatt-hour (kWh or unit). NPS has applied for the FiT scheme for 116 MW of its bio-mass power plants. EGAT has sent the power purchase agreement to the Office of The Attorney General for consideration. Once NPS signs a new contract with EGAT, the company's earnings before interest, tax, depreciation and amortization (EBITDA) is expected to increase by about THB300 million per year.

The FiT will help stabilize NPS's average electricity tariff. Electricity tariffs on the existing scheme for NPS's bio-mass power plants are indexed to natural gas and fuel oil prices. If these fuel prices decline, NPS's average electricity tariff also declines based on the indexation, creating uncertainty on profitability.

Big progress for IPP project

NPS's Independent Power Producer (IPP) project is now under development, after 10-year delay due to the environmental concerns of using coal as the primary fuel. The project finally received an approval from the regulator to change the fuel type to gas in July 2019. NPS has already signed a PPA with EGAT and a gas sale and purchase agreement with PTT PLC (PTT). The IPP project has a scheduled commercial operation date in November 2027. Currently, the company is in the process of conducting an Environmental Impact Assessment (EIA) for the power plant and gas pipeline, which is expected to be completed in 2021. Once EIA is cleared, the company will select the engineering, procurement and construction (EPC) contractor and arrange financing. NPS holds a 65% interest in this project, with the remainder held by Gulf Energy Development PLC (GULF).

More feed stock option for ethanol plant

The ethanol plant is now more flexible after completing a plant upgrade to use both cassava and molasses as raw materials in late 2018. The upgrade gives the company more flexibility to manage its raw materials and lower its production costs. In 2019, the plant utilization rate increased to about 50% from about 17% in 2018. The EBITDA generated by the ethanol plant reached about THB120 million in 2019 from a loss of THB57 million in 2018. In the first three months of 2020, the company ramped up the plant's utilization rate to 72% and recorded an EBITDA of THB73 million from the ethanol business.

Performance improvement

NPS's profitability and EBITDA have continued to improve over the past three years. NPS's EBITDA rose to the THB4.0-THB4.5 billion range in 2018 and 2019, from THB2.5-THB3.0 billion during 2016-2017. For the first half of 2020, EBITDA stood at THB2.4 billion. The EBITDA margin rose to over 25% during 2018 through the first half of 2020, from less than 20% during 2016-2017.

The debt to EBITDA ratio has also recovered. The improved EBITDA helped lower the debt to EBITDA ratio to below 4 times in 2019 and 2020, compared with 7-9 times in 2015-2017. We assess NPS should be able to keep its debt to EBITDA ratio below 4 times during 2020-2022, providing that the company is able to maintain a power plant availability factor of at least 85% throughout the forecast period.

Debt continues to decline

NPS's adjusted debt declined by about 16% from THB19.09 billion at the end of 2018 to THB16.0 billion at the end of June 2020. The ratio of debt to capitalization also improved to 61.1% at the end of June 2020 from 68.8% at the end of 2018. We expect the company's capital structure will gradually improve, as the company has no sizable investments planned during 2020-2022. Under our base-case projection, we project capital expenditures of around THB1.61 billion in 2020, as the company plans to construct transmission lines and a steam pipe-line to support its new industrial customers. Capital expenditures will decline to the normal level of around THB700-THB800 million per year during 2021-2022. We expect that the company's debt to capitalization ratio will improve to a level below 60% during 2020-2022.

Manageable liquidity

TRIS Rating believes NPS should be able to properly manage its liquidity during the forecast period. During July 2020-June 2021, debt of about THB4.26 billion will come due, comprising long-term loans of about THB655 million and debentures of about THB3.61 billion. As of June 2020, NPS had cash and cash equivalents of about THB1.42 billion and unused credit facilities of about THB1.1 billion. These sources of funds plus expected funds from operations (FFO) of about THB2.7-THB3 billion per year should be sufficient to cover debt repayments over the next 12 months. However, NPS issued new debentures worth THB3.68 billion on 7 August 2020. The proceeds from the newly issued debentures will be used to refinance debentures due in September 2020 worth THB3.01 billion. The company plans to use the balance of THB666 million, plus cash from operations to redeem part of the NPS218A debentures for a principal amount of THB1 billion in the fourth quarter of 2020. NPS also plans to issue new debentures in the first quarter of 2021 in preparation for refinancing the rest amount of debentures due in August 2021.

BASE-CASE ASSUMPTIONS

- NPS's plant availability factor is forecast to remain above 85%-86% during 2020-2022.
- Existing electricity tariff scheme for NPS's bio-mass plants is used.
- NPS's EBITDA to be in the range of THB3.8-THB4.1 billion per annum during 2020-2022.
- Total capital expenditure to be about THB1.61 billion in 2020 and THB700-THB800 million per year in 2021-2022.
- Debt to EBITDA ratio to be lower than 4 times during 2020-2022.

RATING OUTLOOK

The “stable” outlook reflects our expectation that NPS’s power plants can maintain their performance and generate reliable cash flow after implementing an improvement program.

RATING SENSITIVITIES

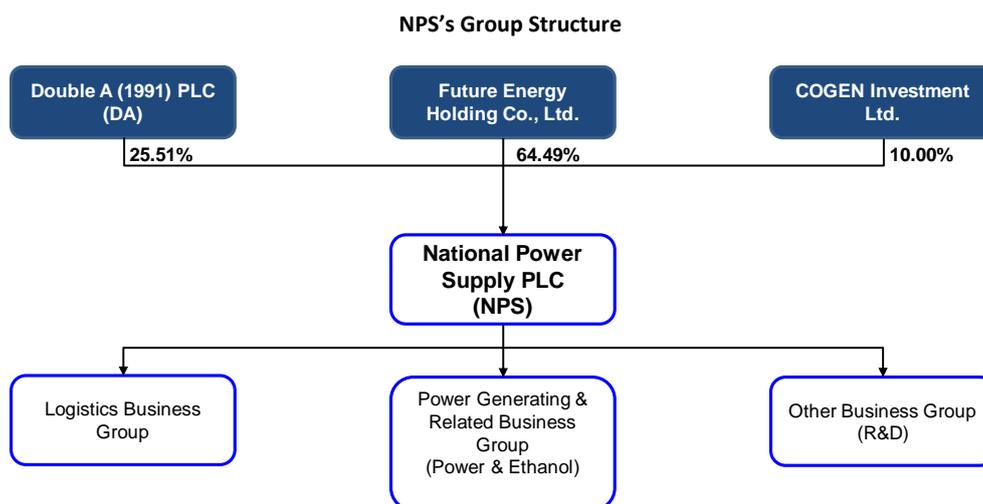
The reliability of the power plants and operating cash flow are positive factors for the ratings. In contrast, negative credit factors could include any deterioration in operating performance or a weaker capital structure.

COMPANY OVERVIEW

NPS was established in July 1995. The company is the leading operator of biomass power plants in Thailand. DA held a 25.5% stake in NPS as of 15 May 2020. NPS and DA have the same ultimate shareholder. Mr. Yothin Dumnernchanvanit and other related parties indirectly hold 89.7% of NPS’s shares and 98.9% of DA’s shares.

As of July 2020, NPS owned and operated a total of nine biomass-fired and coal-fired power plants under the SPP scheme. The nine plants, located in industrial parks in Prachinburi and Chachoengsao provinces, have a total capacity of 716 MW of electricity and 1,017 tonnes per hour of steam.

In addition to producing electricity, NPS has diversified into energy-related businesses and supporting businesses. During 2017-2019, approximately 80%-85% of NPS’s EBITDA came from the power segment; the balance, or 15%-20%, came from other businesses.



Source: NPS

KEY OPERATING PERFORMANCE

Table 1: EBITDA Breakdown

Unit: %

Segment	2016	2017	2018	2019	Jan-Mar 2020
Power and steam	81.3	70.3	87.2	83.4	80.7
Industrial water	11.1	11.2	7.7	7.8	7.4
Ethanol	6.1	13.2	(1.2)	4.0	4.9
Others	0.6	4.7	6.3	4.8	7.0
Total	100.0	100.0	100.0	100.0	100.0
Total EBITDA (mil. THB)	2,490	2,703	3,969	4,507	1,269

Table 2: NPS's Plant Performance Statistics

Plant Performance	Unit	2016	2017	2018	2019	Jan-Mar 2020
Net output*	GWhe	3,419	3,590	4,097	3,946	971
Plant heat rate	BTU/kWhe	12,783	12,490	12,710	12,425	12,315
Availability	%	82.46	83.16	88.49	84.97	85.59
Forced outage	%	9.55	6.85	1.94	5.08	5.61
Schedule & maintenance outage	%	7.99	9.99	9.57	9.95	8.80

* Net output of power and steam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	7,931	15,506	14,816	13,976	12,451
Earnings before interest and taxes (EBIT)	1,660	2,897	2,328	1,114	723
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,432	4,507	3,969	2,703	2,490
Funds from operations (FFO)	1,839	3,389	2,989	1,484	1,259
Adjusted interest expense	464	1,042	1,136	1,228	1,231
Capital expenditures	327	883	288	426	771
Total assets	29,616	28,826	30,401	31,420	33,734
Adjusted debt	15,998	16,639	19,087	19,367	21,564
Adjusted equity	10,171	9,707	8,660	8,056	9,045
Adjusted Ratios					
EBITDA margin (%)	30.67	29.06	26.79	19.34	20.00
Pretax return on permanent capital (%)	10.70 **	10.46	8.17	3.70	2.26
EBITDA interest coverage (times)	5.24	4.33	3.49	2.20	2.02
Debt to EBITDA (times)	3.55 **	3.69	4.81	7.17	8.66
FFO to debt (%)	21.36 **	20.37	15.66	7.66	5.84
Debt to capitalization (%)	61.13	63.16	68.79	70.62	70.45

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

National Power Supply PLC (NPS)

Company Rating:	BBB
Issue Ratings:	
NPS209A: THB3,013.4 million senior unsecured debentures due 2020	BBB
NPS218A: THB5,000 million senior unsecured debentures due 2021	BBB
NPS242A: THB1,383.7 million senior unsecured debentures due 2024	BBB
NPS258A: THB2,298.2 million senior unsecured debentures due 2025	BBB
Rating Outlook:	Stable

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