CreditNews

No. 71/2019
10 May 2019

# ENERGY ABSOLUTE PLC

## CORPORATES

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

**Last Review Date:** 09/04/18

**Company Rating History:**

| Date | Rating | Outlook/Alert |
|---|---|---|
| 09/04/18 | A- | Stable |
| 02/06/16 | BBB+ | Stable |

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## RATIONALE

TRIS Rating upgrades the company rating on Energy Absolute PLC (EA) to "A" from "A-". The upgrade reflects its strengthened credit profile from continuously enlarging cash flow base and satisfactory performance of its solar and wind projects.

At the same time, TRIS Rating upgrades its rating on partially guaranteed debenture to "A" from "A-" and affirms ratings on guaranteed debenture 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 reliable cash flows from its power portfolio, consistent performance of its existing power projects, and improving financial profile after the investments in its power projects completed. However, the ratings are constrained by the large investment and high execution risks in the battery factories.

## KEY RATING CONSIDERATIONS

### Large and reliable cash flows from the power portfolio

EA's robust cash flows are underpinned by long-term power purchase agreements (PPAs) with strong utility off-takers, including the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). PPAs help mitigate demand risks. All of EA's PPAs render 10-year adder tariffs, then boosting cash flow and profitability to a high level for a lengthy period. The low operational risks of solar farms also support stability of cash flow generation.

TRIS Rating views that EA's investment in its power projects will continue to be a source of cash inflow for a lengthy period. Currently, EA's all renewable power projects are operating commercially. The company's total capacity is 664 megawatts (MW), including four solar farms (278 MW) and two wind projects (386 MW).

### Satisfactory performance of power projects

EA's steady performance is backed by the simple operation of its solar projects and a selection of proven technology and creditable equipment. The overall performances of EA's power projects continue to outperform TRIS Rating's forecast by 6.4%.

In 2018, total power output was 894 gigawatt hours (GWh), up by 12.2% from 800 GWh in 2017. The total output from its solar plants was about 602 GWh and 292 GWh from the Hadkanhan wind project.

### Rising cash flow from the Hanuman project

The commencing operation of the 260-MW Hanuman project will be a key growth driver for EA's cash flow during 2019-2020. The project is the largest power project, accounting for 39% of EA's total capacity. The project commenced its full operations in April 2019, and thus lifting EA's operating capacity by 64% to 664 MW in 2019.

TRIS Rating expects that the total output from all power plants will be at least 1,400 million kWh per annum in 2020, once Hanuman reaching full-year operation. TRIS Rating forecasts that earnings before interest, taxes, depreciation, and amortization (EBITDA) from the power portfolio will be approximately Bt10 billion per annum.

**Strengthened credit profile**

Several worrisome risks in development of wind projects have lessened significantly, in our view. The continuation of good operating results in the Hadkanhan project lowered concerns on the company's ability to manage wind farms. The construction risk of the Hanuman wind farm also eliminated after the project commenced its full operation. The improved diversity of project earnings and locations also benefit the company's credit profile.

EA's financial profile continues to strengthen, supported by enlarging cash flows. EA's EBITDA continued to grow to Bt7.2 billion in 2018, from Bt4.1 billion in 2015. Its adjusted debt to EBITDA ratio improved to 3.5 times in 2018.

**Attempt to alleviate risks in the battery project development**

The ratings are constrained by EA's development risk in huge lithium-ion battery factories with a targeted capacity of 50 GWh per annum. The investment will cost about Bt100 billion or about 4 times higher than its equity. We assess the battery manufacturing business has high uncertainties, primarily including new or changing technology, prospect of intense competition, and possible price downtrend from the new supply.

The company is taking many preventive actions to minimize those risks, such as securing battery manufacturing technology and boosting battery demand through the initiation of many projects, such as electric cars, electric ferries, installation of charging stations, and developments in solar plus battery projects in neighboring countries. The company also enters into alliance with Industrial Technology Research Institute in Taiwan.

TRIS Rating believes that EA will develop battery factories phase-by-phase and find partnerships to support capital funding. Beginning with a small scale factory will help reduce downside impact from the project risk. EA plans to test the market by starting the first phase of battery production with a capacity of 1 GWh. The factory is expected to start commercial operation in the second half of 2019.

For the second phase, the expansion plan remains uncertain as it depends on the success of the first phase. The company may split the development plan into smaller phases in case market demand for batteries does not grow as rapidly as expected.

**Sound financial profile maintained**

Capital spending during 2019-2020 will include remaining construction payments for the Hanuman project of about Bt4 billion and other new projects of approximately Bt8.7 billion. The new projects comprise the first-phase of the battery factory of Bt4 billion, green diesel and phase change material (PCM) factories of Bt1.0 billion, developments of solar plus battery power plants of Bt1.5 billion, and other projects (such as electric cars, electric ferries, and charging stations) of about Bt2.2 billion. Additionally, the company has to make new borrowings to partly finance its supplier credit for developing the Hanuman project in previous year.

TRIS Rating expects predictable operations of EA's renewable power plants and its financial strength will be able to support its planned investments. Although the adjusted debt is expected to rise in 2019, we view that the fast growing cash flows can compensate, and thus maintaining its good financial profile. We forecast that the adjusted debt to EBITDA is likely to rise in 2019 before decline to 3.5-4.0 times in 2020 and 2021.

## BASE CASE ASSUMPTIONS

- EA's revenue will surge to Bt18-Bt20 billion in 2020-2021 from Bt11.5 billion in 2018. The new projects included in our projection are production of green diesel and PCM plus the first phase battery factory
- EA's total EBITDA will grow to Bt10 billion during 2020-2021.
- EBITDA margin to be 50%-60% during 2019-2021.
- Dividend payout ratio will be around 20%

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EA's solar and wind power plants will generate reliable cash flows as planned. TRIS Rating views that the company will take a prudent approach in making investment decisions regarding the development of the battery project.

## RATING SENSITIVITIES

A rating upgrade is limited in the medium term due to constraints from the sizable investment in its battery factories. However, a rating upside may occur if EA can materially enlarge its cash flow base while maintaining sound financial status. 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 rating of "BBB+" with a "stable" outlook from S&P Global Ratings. The ratings and outlook for EA's partially guaranteed debentures reflect the 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.

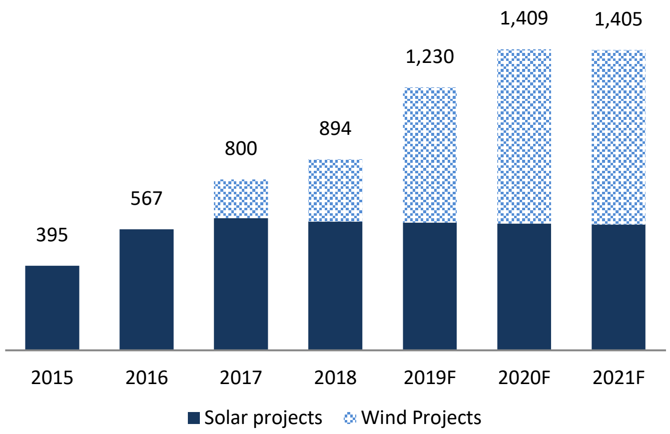
## COMPANY OVERVIEW

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 accounted for more than 90% of the company's total EBITDA of Bt7.17 billion in 2018. 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 December 2018, 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 projects achieved commercial operation in April 2019. The two projects also obtained PPAs with EGAT and receive an adder rate of Bt3.5 per kWh for 10 years.

## KEY OPERTING PERFORMANCE

**Chart 1: EA's Total Power Outputs (Million Units)**




## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Bt million*

| | ---------------------- Year Ended 31 December | | | | ----------------- |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| Total operating revenues | 11,578 | 11,584 | 10,415 | 9,202 | 7,590 |
| Operating income | 6,984 | 6,423 | 5,545 | 4,142 | 2,372 |
| Earnings before interest and taxes (EBIT) | 5,302 | 4,907 | 4,256 | 3,377 | 1,971 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 7,168 | 6,503 | 5,466 | 4,150 | 2,385 |
| Funds from operations (FFO) | 6,033 | 5,344 | 4,463 | 3,460 | 2,025 |
| Adjusted interest expense | 1,106 | 1,202 | 1,009 | 661 | 340 |
| Capital expenditures | 5,779 | 3,524 | 8,212 | 11,477 | 8,613 |
| Total assets | 59,208 | 44,530 | 41,507 | 33,057 | 19,327 |
| Adjusted debt | 24,803 | 24,292 | 24,533 | 19,194 | 10,531 |
| Adjusted equity | 19,518 | 14,744 | 11,389 | 8,510 | 5,897 |
| **Adjusted Ratios** | | | | | |
| Operating income as % of total operating revenues (%) | 60.3 | 55.4 | 53.2 | 45.0 | 31.3 |
| Pretax return on permanent capital (%) | 11.3 | 11.7 | 11.9 | 13.7 | 13.7 |
| EBITDA interest coverage (times) | 6.5 | 5.4 | 5.4 | 6.3 | 7.0 |
| Debt to EBITDA (times) | 3.5 | 3.7 | 4.5 | 4.6 | 4.4 |
| FFO to debt (%) | 24.3 | 22.0 | 18.2 | 18.0 | 19.2 |
| Debt to Capitalization (%) | 56.0 | 62.2 | 68.3 | 69.3 | 64.1 |

* *Consolidated financial statements*

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

## Energy Absolute PLC (EA)

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

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