

TPI POLENE POWER PLC

No. 85/2021
12 October 2021

CORPORATES

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

Last Review Date: 28/09/21

Company Rating History:

Date	Rating	Outlook/Alert
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
17/09/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TPI Polene Power PLC (TPIPP) and the ratings on TPIPP's outstanding senior unsecured debentures at "BBB+" with a "stable" rating outlook. At the same time, TRIS Rating assigns the rating of "BBB+" to TPIPP's newly proposed issue of up to THB5 billion in senior unsecured debentures.

The new issue rating replaces the issue rating previously assigned on 28 September 2021, following TPIPP's request to decrease the issue size from up to THB8 billion to up to THB5 billion. The proceeds from the new debentures will be used for refinancing a maturing bond and for investments in two new waste-to-energy (WTE) power plants the company won in bidding.

The ratings continue to reflect TPIPP's reliable and robust cash flows underpinned by power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and its competitive advantage with respect to fuel costs. However, the ratings are weighed down by the operational risks of refuse-derived fuel (RDF) power plants and the earnings reduction from the imminent expiration of the tariff adder. The ratings are also tempered by the expected rise in financial leverage and investment risks associated with the Special Economic Zone (SEZ) development project.

The ratings on TPIPP are capped by the ratings on its parent company at "BBB+" as TPIPP is a core subsidiary of TPI Polene PLC (TPIPL) (rated "BBB+/Stable" by TRIS Rating). TPIPP's stand-alone credit profile is affirmed at "a", reflecting its stronger credit profile than TPIPL.

TPIPP's continuing strong financial performance is mainly attributed to its reliable earnings from existing power plants and low financial leverage. Ongoing improvements in plant efficiency have brought about a gradual rise in power production and, consequently, in earnings. In the first half of 2021, revenue was THB5.57 billion, up by 4.6% year-on-year (y-o-y). Its earnings before interest tax depreciation and amortization (EBITDA) were THB2.9 billion, a 5.7% y-o-y increase. The net debt to EBITDA ratio was still low at about 2 times in June 2021.

TRIS Rating views TPIPP's primary mission over the next few years is to build adequate power capacity to compensate for the anticipated loss of earnings from adder expirations. TPIPP currently has three PPAs with EGAT, permitting the company to sell capacity of 163 megawatts (MW) with an adder of THB3.5 per kilowatt-hour (kWh). The adders of the first two PPAs with 73 MW capacity will start expiring in 2022, while the adder of the third PPA of 90 MW will expire in 2025. The company is striving to seek new investment opportunities nationwide to avoid its otherwise dwindling earnings over the next few years. So far, the company won in bidding two new waste-to-energy (WTE) projects in Songkhla and Nakhon Ratchasima provinces with a 7.92 MW and a 9.9-MW contracted capacity, respectively. Additionally, TPIPP is planning to participate in bids for several greenfield WTE projects and is proposing to sell capacity from its 40-MW RDF-fired plant to the authorities.

At the same time, the development of the SEZ project in Songkhla province is still ongoing. We believe that the success of the SEZ project will play an

important role in bolstering TPIPP's cash generation to a higher and more sustainable level. The company's management expects to generate additional EBITDA of THB20 billion per year when the SEZ project is fully completed.

However, the investment in the SEZ project will expose the company to a range of risks. Delays in the project remain a significant risk due to the country's protracted Coronavirus Disease 2019 (COVID-19) situation. Meanwhile, the Prime Minister reaffirmed the government's commitment to the SEZ project and authorized the Southern Border Provinces Administrative Centre (SBPAC) to proceed in accordance with the respective cabinet resolutions.

So far, TPIPP is securing land in areas where the project is expected to be developed. The company has entered into more land purchase agreements with total costs rising to about THB15-THB16 billion. At the end of August of 2021, the company has paid approximately THB9.59 billion for the procured land and plans to pay for the remainder during 2021-2022. In our view, the early land procurement with debt financing will cause the company to carry interest burden and weaken its balance sheet for an extended period. Also, we expect TPIPP's financial leverage to rise in the next few years, given the sizable scale of the investment. For this reason, we believe TPIPP needs to seek capable partners or develop a suitable financing scheme to avoid an overleveraged structure.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TPIPP's power plant operations will continue to provide solid cash flows over the long term. We also expect the company to successfully secure new power projects to partially counterbalance the drop-off in cash flow after the adder expiration, and that its operating performance and financial leverage will be in line with our forecast. We expect TPIPP's status as a core subsidiary of TPIPL will remain unchanged.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term since we expect the company to enter a large investment cycle, particularly with the new WTE power projects and the development of the SEZ project. However, a credit upside could develop if TPIPP considerably enhances its cash flow against debt obligations. This could occur if TPIPP is able to materialize its efficiency enhancement measures and secure new power purchase agreements.

Conversely, a rating downgrade could occur if TPIPP's operating performance is significantly worse than our forecast or if the company engages in sizable debt-financed investments, which result in a significant deterioration in the group's financial profile. The ratings or outlook could also be revised downward if we downgrade TPIPL's ratings.

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TPI POLENE POWER PLC (TPIPP)

Company Rating:	BBB+
Issue Ratings:	
TPIPP21NA: THB4,000 million senior unsecured debentures due 2021	BBB+
TPIPP22NA: THB4,000 million senior unsecured debentures due 2022	BBB+
TPIPP23DA: THB3,000 million senior unsecured debentures due 2023	BBB+
TPIPP247A: THB4,000 million senior unsecured debentures due 2024	BBB+
Up to THB5,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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