

B.GRIMM POWER PLC

No. 74/2023
28 April 2023

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A-
Hybrid	BBB+
Outlook:	Stable

Last Review Date: 24/01/23

Company Rating History:

Date	Rating	Outlook/Alert
09/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on B.Grimm Power PLC (BGRIM) at “A”. At the same time, TRIS Rating affirms the ratings on BGRIM’s senior unsecured debentures at “A-” and the ratings on its subordinated capital debentures at “BBB+”. The rating outlook remains “stable”.

The ratings mirror BGRIM’s sizable and well-diversified power portfolio. The ratings also recognize the reliable cash flows, backed by long-term power purchase agreements (PPAs) and solid record of operational efficiencies. However, the ratings largely are weighed down by heavy debt load over the course of business expansion. In addition, the ratings embed our expectation of the company’s reviving financial performance in the years ahead.

KEY RATING CONSIDERATIONS

Sizable and well-diversified power portfolio

BGRIM owns a sizeable power portfolio, with the net installed power-generation capacity of 2,227 megawatts (MW), as measured in proportion to BGRIM’s equity stakes in the operating assets. Its power portfolio is well-diversified, comprising more than 50 operating power plants in Thailand and abroad.

As of December 2022, BGRIM owned 20 operating gas-fired cogeneration power plants, most of which are located in industrial estates in Thailand’s Eastern Economic Corridor (EEC). Cogeneration power plants remain the centerpiece of the power portfolio, making up about 69% of net operating capacity, or 1,539 MW.

Added to that, BGRIM has a pool of operating renewable projects, with a combined capacity of 683 MW in solar, wind, hydropower, and waste-to-energy (WTE). These are located in Thailand, Malaysia, Vietnam, Cambodia, and the Lao People’s Democratic Republic (Lao PDR).

Reliable cash flows backed by long-term PPAs

BGRIM’s reliable cash flows are chiefly stemmed from its portfolio of cogeneration power plants operating under the small power producer (SPP) scheme. All of them hold long-term PPAs with the Electricity Generating Authority of Thailand (EGAT, rated “AAA/stable”). Revenue from electricity sale to EGAT remains the majority, accounting for 68% of total revenues in 2022. The merits of the PPAs with EGAT include the minimum power purchase obligation, and gas price pass-through mechanism in the tariff formula.

The cogeneration power plants also hold PPAs and steam purchase agreements (SPAs) with industrial users covering 5-15 years. Each industrial customer is obliged to purchase a minimum amount of electricity and/or steam. However, the sale volume hinges on the demand from industrial activities. Electricity and steam sales to industrial users made up around 23% of total revenues in 2022.

Solid performance record of cogeneration power

The reliability of cash flow is also propelled by solid operational efficiencies. On the whole, BGRIM’s cogeneration power plants have operated with high availability factors and minimal unplanned outages. BGRIM has its own technical teams for day-to-day operations and maintenance. The plant operation is supported by long-term service agreements (LTSA) with global

manufacturers and suppliers. During 2020-2022, most of the cogeneration power plants have availability factors of above 95%, exceeding the PPA targets. The average heat rate (HR) was well below the respective borderlines.

Cogeneration power to remain the majority of earnings

We expect the cogeneration business to continue represent the majority of BGRIM's earnings. The company has successfully commenced operations of five cogeneration power plants from mid of 2022 to the first quarter of 2023. All of them were developed under the SPP replacement scheme. The company is also constructing two new cogeneration power plants in Ang Thong Province which are slated to start commercial run in 2023, with total contracted capacity with EGAT of 180 MW. We believe BGRIM will manage to develop the two projects as planned. In effect, the contracted capacity with EGAT to resume to 1,410 MW. The new cogeneration power plants also added room for generation capacity for new industrial customers. We expect BGRIM to gradually acquire new industrial customers in the years ahead. In addition, we expect the full utilization of the new cogeneration power plants will improve fuel saving, given the enhanced efficiency.

Expected revival of financial performance

The rating affirmation embeds our expectation of reviving financial performance. BGRIM's earnings in 2022 were heavily hurt by the sharp rise in gas prices. BGRIM sells electricity to industrial customers at discounts on the tariff rates charged by the Provincial Electricity Authority (PEA) to large electricity users. The tariffs generally carry a fuel adjustment charge, or Ft, to reflect changes in the fuel price. However, the Ft adjustment carries a time lag and is subject to the authorities' discretion on the timing and magnitude of adjustments.

Gas prices soared to hit the record high of above THB550 per metric million British thermal unit (MMBTU) in the third quarter of 2022. Meanwhile, the adjustment of electricity charges to industrial customers did not keep pace with the inflated fuel cost. As a result, BGRIM's earnings before interest, taxes, depreciation, and amortization (EBITDA) plunged to THB9.9 billion in 2022, from THB13 billion in 2021.

We expect that BGRIM's earnings will pick up. In our base-case projection, we assume gas prices to remain high in 2023 and gradually recede to ordinary levels from 2024 onwards in anticipation of easing demand-supply imbalance. The Ft adjustment will likely continue to compensate the hefty subsidy of electricity charges incurred by EGAT. As a result, we expect BGRIM's EBITDA to recover to range THB13-THB15 billion per year during 2023-2025.

Growth leaning towards renewable power

BGRIM aims to expand its gross installed capacity to 10,000 MW by 2030, up from 3,338 MW in 2022. Of the total target, half of which will come from renewable power. BGRIM is developing a hybrid power plant between solar, energy storage system (ESS), and cogeneration in U-Tapao area. The company has also invested in several renewable power projects, including solar farms in Malaysia and Japan, and wind farms in Vietnam.

BGRIM has recently been awarded to develop new solar and wind projects in Thailand with total capacity of 339 MW, or 161 MW in net capacity. These projects are scheduled to go on stream during 2026-2030. On top of that, BGRIM plans to invest and develop large-scale wind power projects in the Republic of Korea, with total installed capacity of 1,031 MW, or 597 MW in net installed capacity. If carried through, these potential projects would require total investment of THB69.7 billion, with scheduled commercial commencements from 2024-2027.

Financial leverage to remain elevated

We expect BGRIM will load up more debt in 2023 to support the committed projects in the pipeline. These projects consist of conventional and potential renewable power projects. In our base-case forecast, we expect BGRIM to defray to the tally of THB26 billion for capital expenditures and investments during 2023-2025. We expect BGRIM's adjusted net debt could peak at THB96 billion in 2023 and gradually decline to THB90 billion in 2025. We forecast the debt to EBITDA ratio to slide to 7.6 times in 2023, down from 9.2 times in 2022, and to hover around 6-6.5 times during 2024-2025. We project the ratio of debt to capitalization to stay about 70% in 2023 and steadily decline to 65% in 2025.

Due to the rise in debt and the issuance of additional subordinated capital debentures, the increase of interest expenses will continue to weigh considerably on the company's earnings. We forecast the funds from operations (FFO) to debt ratio to range 7%-10% during 2023-2025.

Debt structure

As of December 2022, BGRIM had consolidated debt (excluding lease liabilities) of THB114.5 billion and subordinated capital debentures of around THB8.0 billion. BGRIM's priority debt totaled THB73.8 billion, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 60%. Therefore, we rate BGRIM's senior unsecured debentures one notch below the company rating.

Adequate liquidity profile

On a consolidated basis, BGRIM held cash and cash equivalents of about THB31 billion at the end of 2022. The company also has unused credit facilities of about THB26.9 billion. We forecast BGRIM to generate FFO of about THB6.8 billion in 2023. The combination of cash on hand, unused credit facilities, and expected FFO should provide ample headroom to cover debts coming due in the next 12 months of about THB11.1 billion.

BASE-CASE ASSUMPTIONS

- Electricity sale of gas-fired cogeneration power plants to be in range of 12,200-13,400 GWh per year in 2023-2025 and steam sale to range 0.61-0.66 million tonnes per year.
- Capacity factor of renewable power plants during 2023-2025 to be:
 - Solar power : 16%-18%
 - Solar power with energy storage : 20%
 - Wind power : 15%-28%
 - Hydro power : 52%-64%.
- Total capital expenditures and investments of THB26.1 billion during 2023-2025.

RATING OUTLOOK

The “stable” outlook embeds our expectations that BGRIM’s power plants will continue to perform well and render strong cash flows, the company will complete the committed projects as planned, and its earnings and financial leverage are in line with our forecasts.

RATING SENSITIVITIES

An upgrade of ratings could develop if BGRIM’s level of cash flow against debt obligations is meaningfully enhanced. On the other hand, downward pressure on the ratings could emerge if BGRIM’s operating performance falls markedly short of our expectation. A downward revision to the ratings could also arise if BGRIM’s capital structure materially deteriorates due to a deluge of debt-financed investments.

COMPANY OVERVIEW

BGRIM was established in 1993 as a holding company for the power business under the conglomerate of the B.Grimm Group. BGRIM generates and sells electricity and steam through its subsidiaries and affiliates. BGRIM was listed on the Stock Exchange of Thailand (SET) on 19 July 2017. As of December 2022, BGRIM’s major shareholders were Mr. Harald Link and the B.Grimm Group, with a combined 68.3% stake. The rest of the company’s shares are publicly owned.

BGRIM has extensive experience in developing and operating gas-fired combined-cycle cogeneration power plants. BGRIM was awarded its first SPP contract through a subsidiary, Amata B.Grimm Power 1 Ltd. (ABP1), in 1996. ABP1 commenced operation in 1998.

As of December 2022, BGRIM had gross operating capacity of 3,338 MW or net capacity of 2,227 MW when measured in proportion to BGRIM’s ownership of the plants. The operating power portfolio consists of 20 gas-fired cogeneration power plants in Thailand, 22 solar farms in Thailand, one solar farm in Vietnam, one solar farm in Cambodia, three hydropower plants in the Lao PDR, one waste-to-energy power plant in Thailand, two wind farms in Thailand, and one backup diesel power plant in Vietnam.

BGRIM sells electricity mainly to EGAT and a number of industrial users. BGRIM also holds PPAs with the Provincial Electricity Authority (PEA), the Metropolitan Electricity Authority (MEA), Electricite du Laos (EDL), Vietnam Electricity (EVN), Electricite du Cambodge (EDC), and industrial users in Vietnam.

Most of BGRIM’s power plants employ proven technologies from reputable suppliers, such as Siemens and GE Power (GE). The cogeneration power plants have LTSA to ensure the reliability of the turbines and keep maintenance costs under control. BGRIM’s cogeneration power plants hold gas supply contracts (GSAs) with PTT PLC (PTT) for 21-25 years. The terms of the GSAs usually match the terms of the PPAs with EGAT.

KEY OPERATING PERFORMANCE
Table 1: Power Plants' Key Operating Performance

Plant Performance	Unit	2018	2019	2020	2021	2022
Gas-fired SPP power plants						
Net output energy ¹	GWhe ¹	10,928	12,422	12,719	13,194	12,368
Plant heat rate ²	BTU/kWh	7,822	7,854	7,895	7,865	7,746
Availability factor ²	%	96.8	97.3	97.7	96.7	96.9
Solar power plants						
Net output energy ³	GWh	106	720	1,164	962	866
Hydro power plants						
Net output energy ³	GWh	51	133	166	181	197
Wind power plants						
Net output energy ³	GWh	-	-	-	16	40

Sources: BGRIM

Notes: 1) Net output of electricity and steam equivalent (GWh equivalent – GWhe)

2) Values are average across all operating plants

3) Excluding output energy from associate and joint ventures companies

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	62,487	46,701	44,111	44,193	36,631
Earnings before interest and taxes (EBIT)	4,682	8,017	7,147	6,840	5,834
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,929	13,183	12,830	11,547	9,218
Funds from operations (FFO)	4,831	8,813	8,996	7,916	5,945
Adjusted interest expense	4,942	3,987	3,523	3,388	3,048
Capital expenditures	11,852	11,436	16,721	4,041	5,837
Total assets	170,651	149,198	130,696	121,693	100,636
Adjusted debt	91,291	74,877	64,759	44,640	47,801
Adjusted equity	38,192	36,840	35,328	34,701	27,739
Adjusted Ratios					
EBITDA margin (%)	15.89	28.23	29.09	26.13	25.17
Pretax return on permanent capital (%)	3.12	6.16	6.39	7.05	6.63
EBITDA interest coverage (times)	2.01	3.31	3.64	3.41	3.02
Debt to EBITDA (times)	9.19	5.68	5.05	3.87	5.19
FFO to debt (%)	5.29	11.77	13.89	17.73	12.44
Debt to capitalization (%)	70.50	67.02	64.70	56.26	63.28

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
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

B.Grimm Power PLC (BGRIM)

Company Rating:	A
Issue Ratings:	
BGRIM230A: THB1,500 million senior unsecured debentures due 2023	A-
BGRIM247A: THB2,000 million senior unsecured debentures due 2024	A-
BGRIM255A: THB4,200 million senior unsecured debentures due 2025	A-
BGRIM255B: THB300 million senior unsecured debentures due 2025	A-
BGRIM267A: THB3,000 million senior unsecured debentures due 2026	A-
BGRIM275A: THB3,000 million senior unsecured debentures due 2027	A-
BGRIM280A: THB5,000 million senior unsecured debentures due 2028	A-
BGRIM295A: THB2,150 million senior unsecured debentures due 2029	A-
BGRIM317A: THB7,000 million senior unsecured debentures due 2031	A-
BGRIM325A: THB2,550 million senior unsecured debentures due 2032	A-
BGRIM19PA: THB8,000 million subordinated capital debentures	BBB+
BGRIM23PA: THB8,000 million subordinated capital debentures	BBB+
Rating Outlook:	Stable

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