

AMATA B. GRIMM POWER 3 LTD.

No. 4/2022
31 January 2022

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 21/01/21

Company Rating History:		
Date	Rating	Outlook/Alert
28/02/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Amata B. Grimm Power 3 Ltd. (ABP3) at “A-” with a “stable” rating outlook. The company rating incorporates ABP3’s stand-alone credit profile (SACP) of “a-” and its status as a “strategic” subsidiary of B. Grimm Power PLC (BGRIM, rated “A/Stable” by TRIS Rating).

The SACP reflects the high reliability of ABP3’s cash flow generation, backed by a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT). It also recognizes the commercially proven technology of its cogeneration power plant and strong track record of operational performance. However, the company rating is constrained by the risk of reliance on single operating asset.

KEY RATING CONSIDERATIONS

Majority of earnings backed by long-term PPAs with EGAT

ABP3 owns and operates a combined cycle cogeneration power plant, which commenced commercial run in 2012. The company holds a 25-year PPA with EGAT, covering 90 megawatts (MW), under the Small Power Producer (SPP) scheme. The PPA, which is on take-or-pay basis, largely mitigates market risk. EGAT is obliged to dispatch at least 80% of the contracted capacity, based on plant operating hours. ABP3’s sales to EGAT constitutes about 60%-70% of total sales per annum while the payment risk of the power buyer is very minimal.

The reliable earnings are also supported by the capacity payments. In addition, the adverse impact from wild swing of fuel price and exchange rate is mitigated through the index-based tariff adjustment.

Offtake agreements with industrial customers

In addition, ABP3 also sells electricity and steam to industrial customers in Amata City (Chonburi) Industrial Estate (ACCIE). The company holds multi-year off-take agreements, covering 44 MW of electricity and 13 tons per hour of steam. Each industrial customer is obliged to purchase minimum amount of electricity and/or steam as agreed in its respective agreement.

ABP3 sells electricity to the industrial customers at discounts on tariff rates charged by the Provincial Electricity Authority (PEA) to large general service customers. 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 the adjustments. As such, a spike in fuel prices could have significant impact on the company’s earnings. Moreover, the sale volume hinges on demand, which is driven by industrial activity levels.

Industrial customers recovered from COVID-19

The industrial activities were hurt by the Coronavirus Disease 2019 (COVID-19), which undermined the electricity and steam demands, particularly during the second quarter of 2020.

For the first nine months of 2021, electricity and steam sales to industrial customers recovered to pre-COVID-19 levels. ABP3 sold electricity about 186 gigawatt-hours (GWh), an increase of 19% year-on-year (y-o-y). At the same time, steam sales to industrial customers also rose by 40% to 83 kilotons. That

said, we view the recent emergence of the new variant could add uncertainties and the prolonged pandemic may have impact on the electricity and steam demands from industrial customers.

Commercially proven technology of cogeneration power plant

ABP3's combined cycle cogeneration power plant utilizes proven combined-cycle natural gas-fired generation based on two gas turbine engines supplied by Siemens, a leading manufacturer and supplier for power generation in global market. The Siemens SGT 800 gas turbines have bypass stacks, which give the power plant additional flexibility. For example, ABP3 can operate the gas turbines even when the steam turbine is undergoing maintenance or for load management purposes.

The plant operation is well managed by the long-term service agreement (LTSA) with Siemens, which has been extended until 2034. The extended LTSA covers the next two major overhaul cycles of the power plant, helping ABP3 achieve high availability factor and efficiency.

Strong track record of operations

ABP3 has its own operation and maintenance teams for day-to-day operations. The teams leverage BGRIM's expertise in the operation and maintenance of cogeneration power plants. Since the get-go, ABP3 has performed in accordance with operational expectations under the PPA. For the first nine months of 2021, the plant's actual availability factor was nearly 100% and the heat rate was 7,467 British thermal units/kilowatt-hour (BTU/kWh), well below the borderline of 8,000 BTU/kWh as required by the PPA. In terms of energy efficiency, the ABP3 plant achieved the primary energy saving (PES) expectation and received an additional tariff of THB0.36/kWh from EGAT as a fuel-saving (FS) payment. We consider the risk of performance penalties and PPA termination is very limited.

High reliability of cash generation

ABP3 has consistently delivered high reliability of cash generation. The company's revenue and earnings have been stable for the past several years. During 2018-2020, revenues ranged from THB2.8-THB3.1 billion per year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged from THB759-THB821 million per year over the same period. For the first nine months of 2021, both revenues and EBITDA were broadly in line with our forecast. In our base-case forecast for 2021-2024, we expect ABP3 will generate about THB3 billion a year while EBITDA will range THB670-THB750 million per year. The debt to EBITDA ratio is projected to steadily decline to stay below 3 times from 2023 onwards. The ratio of debt to capitalization will reduce towards 50% over the forecast period.

Single operating asset

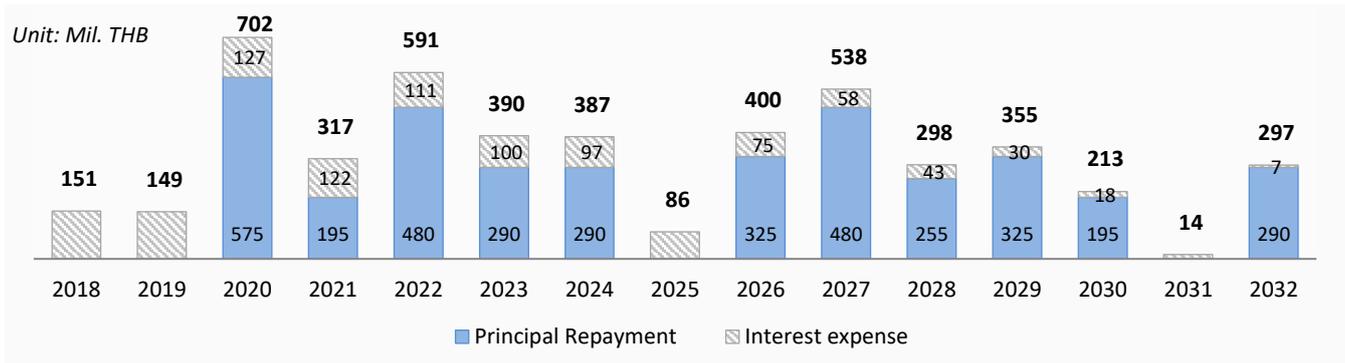
The rating is constrained by ABP3's single operating asset. ABP3's business risk is relatively higher than those of large-scale power companies with multiple power-generating assets. Due to the lack of operational diversification, its earnings could be at risk of major disruptions from unforeseen events, such as prolonged outage, or damage to key parts of machinery. That said, we view the likelihood of such scenario is remote, given the proven track record of operation and the supportive LTSA.

Satisfactory debt service capability

In April 2017, ABP3 borrowed an inter-company loan of THB3.7 billion from Amata B. Grimm Power SPV1 Ltd. (ABPSPV). The proceeds were used to refinance an outstanding bank project loan. The repayment schedule of the inter-company loan matches the maturity of the bonds issued by ABPSPV. ABP3's debt service obligations vary significantly from year to year. Debt services will range from THB14 million to THB702 million per year during 2018-2032 with no principal repayments called for in 2018, 2019, 2025, and 2031. The first principal repayment was made in April 2020. We expect ABP3 to manage its liquidity needs and reserve cash for the years in which large principal repayments are scheduled to be made.

As of September 2021, ABP3 had cash on hand and cash equivalents of THB835 million. The available cash and cash equivalents combined with the forecast EBITDA should be sufficient to cover the scheduled debt services of THB387-THB591 million in 2022-2024.

Chart 1: Debt Service Schedule of ABP3's Inter-company Loans



Sources: ABP3 and TRIS Rating's estimates

Guarantee obligation to ABPSPV's debentures

ABP3 is one of the guarantors of the guaranteed debentures issued by ABPSPV. The other two guarantors of the debt issue are Amata B. Grimm Power (Rayong) 1 Ltd. (ABPR1) and Amata B. Grimm Power (Rayong) 2 Ltd. (ABPR2). Under the terms of the guarantee, the guarantors jointly and severally provide unconditional and irrevocable guarantees on all amounts due under the debentures, including the principal amount of up to THB11.5 billion, interest accrued thereon, and related expenses.

Strategic subsidiary under BGRIM Group

ABP3 is one among 22 cogeneration power plants under BGRIM Group. As of December 2021, ABP3's installed capacity accounted for 5% of total capacity of BGRIM's gas-fired cogeneration power plants. In terms of cash flow contribution, ABP3's EBITDA represents approximately 6% of the group's total EBITDA. Despite its small revenue contribution, we view ABP3 as a strategic subsidiary of BGRIM. In our view, the cogeneration power plants are the centerpiece of BGRIM's power portfolio, representing 73% of BGRIM's total power generation capacity.

BGRIM has five cogeneration power plants in ACCIE, including ABP3. We view ABP3 is important to BGRIM in managing overall operating efficiency of the group's power plants in ACCIE. Hence, we expect ABP3 will obtain parental support in a distressed scenario.

BASE-CASE ASSUMPTIONS (2021-2024)

- The plant availability factor to be in the range of 92%-98%.
- PPA with EGAT to be 90 MW, PPAs with industrial customers to be 44 MW, and steam purchase agreements with industrial customers to be 13 tons/hour.
- Annual electricity sales to be 868-928 GWh and annual steam sales of 78-83 kilotons.
- Capital expenditure to be THB8-THB39 million per year.
- The inter-company loan repayment to be made according to repayment schedule of the guaranteed debentures issued by ABPSPV.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that ABP3 will sustain its strong operational efficiency, and the company's earnings and leverage level will be in line with our forecast.

RATING SENSITIVITIES

The credit upside for ABP3 is limited over the next 12-18 months. Contrarily, downward pressure on the rating could develop if ABP3's operating performances significantly fall short of our forecast. Downward revision to the rating may also develop in the event of significant deterioration of debt service capability.

According to TRIS Rating's "Group Rating Methodology", any material change in credit profile of BGRIM or any material change in the linkage between ABP3 and BGRIM could also impact the company rating on ABP3.

COMPANY OVERVIEW

ABP3 was established in 2010 to own and operate a cogeneration power plant under the SPP scheme. Located in ACCIE, Chonburi province, the power plant has an installed capacity of 132.5 MW plus 30 tons per hour of steam. ABP3 has a 25-year PPA with EGAT, covering 90 MW while it has multi-year off-take agreements with industrial customers in ACCIE to sell 44 MW of electricity and 13 tons per hour of steam. The contracts with the customers in the industrial estate specify the minimum amounts of electricity and/or steam each customer is obligated to purchase. ABP3's plant commenced commercial operations on 1 October 2012.

ABP3's combined cycle cogeneration power plant employs proven technology from Siemens. The Siemens SGT 800 gas turbine has a proven track record, with more than 100 units sold worldwide since 1997. ABP3's power plant comprises two gas turbine units with bypass stacks, two heat recovery steam generators, and one steam turbine. The gas turbines and the steam turbine are all made by Siemens.

ABP3 has entered into the LTSA with Siemens. Siemens will provide maintenance services, including spare parts and performance upgrades, for the gas turbine units. The collaboration between Siemens and BGRIM will help ensure the reliability of the turbines and keeps maintenance costs under control. ABP3 has a 25-year gas supply contract with PTT PLC and a long-term water supply agreement with AMATA Water Co., Ltd. Moreover, the company has a contract with the PEA to purchase backup power in the event of an emergency.

During 2018-2020, ABP3 annually sold about 612-636 GWh of electricity to EGAT, 217-248 GWh to industrial customers, and 62-93 GWh to related companies (other power plants in ACCIE owned by BGRIM) for load management purposes. ABP3's revenue and earnings have been stable in the past several years. During 2018-2020, revenues ranged from THB2.8-THB3.1 billion per year. EBITDA ranged from THB759-THB821 million per year over the same period. Revenues for the period from 2018 to 2020 were derived from electricity sold to EGAT (65%), electricity sold to industrial customers (25%), and steam sold to industrial customers (3%).

As of September 2021, ABP3's shareholders were BGRIM (60.7%), Summit Sunrise Energy Co., Ltd. of the Sumitomo Group (SSEC -- 18%), Amata Corporation PLC (AMATA -- 18.3%), and B. Grimm Joint Venture Holding Ltd. (BGJV -- 3%).

The major shareholder, 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. As of September 2021, BGRIM had installed capacity of 4,015 MW, 2,894 MW of which was in operation.

KEY OPERATING PERFORMANCE

Table 1: Plant Performance Statistics of ABP3

Plant Performance	Unit	Jan-Sep 2021	2020	2019	2018	2017	2016
Net output energy ¹	GWhe ²	749.9	924.4	969.8	960.0	967.9	875.0
Plant heat rate	BTU/kWh	7,467	7,499	7,439	7,523	7,521	7,617
Primary energy saving factor	%	15.5	15.1	15.7	15.1	15.2	14.1
Availability	%	99.9	97.8	96.0	95.6	97.2	97.9
Unplanned outage	%	0.1	1.8	0.9	1.2	2.5	1.3
Planned outage	%	0.0	0.4	3.2	3.1	0.3	0.8

Remarks: ¹ Net output of electricity and steam

² Gigawatt-hour equivalent

Source: ABP3

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total operating revenues	2,815	3,074	2,980	2,825	2,739
Earnings before interest and taxes (EBIT)	584	525	557	580	486
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	821	759	791	814	721
Funds from operations (FFO)	658	604	636	641	538
Adjusted interest expense	128	150	151	172	180
Capital expenditures	8	17	7	9	13
Total assets	5,203	5,917	5,830	5,730	5,241
Adjusted debt	2,399	2,657	2,811	2,496	3,039
Adjusted equity	1,808	1,637	1,590	1,615	1,482
Adjusted Ratios					
EBITDA margin (%)	29.16	24.70	26.55	28.82	26.31
Pretax return on permanent capital (%)	11.22	9.78	10.44	11.19	9.53
EBITDA interest coverage (times)	6.41	5.06	5.23	4.74	3.99
Debt to EBITDA (times)	2.92	3.50	3.55	3.07	4.22
FFO to debt (%)	27.43	22.74	22.62	25.68	17.71
Debt to capitalization (%)	57.02	61.87	63.88	60.72	67.22

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Amata B. Grimm Power 3 Ltd. (ABP3)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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