

GLOBAL POWER SYNERGY PLC

No. 163/2021
4 October 2021

CORPORATES

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

Last Review Date: 30/09/20

Company Rating History:

Date	Rating	Outlook/Alert
01/10/19	AA-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Global Power Synergy PLC (GPSC) and the ratings on GPSC's existing senior unsecured debentures to "AA+" from "AA-", with a "stable" rating outlook. The upgrade reflects our view on the increasing importance of GPSC to its parent company, PTT PLC (PTT), and the PTT Group. As PTT's strategic vision is shifting toward future energy businesses, GPSC has become a flagship company through which many of the group's important strategic moves will be carried out in the future.

GPSC's stand-alone credit profile (SACP) of "aa-" reflects the company's position as the leading private power producer in Thailand and the highly predictable cash flow from its long-term power purchase agreements (PPA) with the Electricity Generating Authority of Thailand (EGAT) and the PTT Group. The SACP also takes into consideration GPSC's massive expansion into renewable energy which is expected to result in significantly elevated debt levels during the next several years.

The company rating on GPSC incorporates a two-notch uplift from GPSC's SACP to reflect our view on GPSC's status as a strategically important subsidiary of PTT.

KEY RATING CONSIDERATIONS

Leading private power producer in Thailand

At the end of August 2021, GPSC's operating power portfolio, in proportion to its ownership or equity capacity, totaled 5,385 megawatts (MW). Gas-fired power plants accounted for the largest proportion of 3,403 MW, or 63% of total operating capacity, followed by renewable power plants with 1,168 MW (22%) and coal-fired power plants with a combined capacity of 814 MW (15%).

The operating power portfolio is expected to reach 7,102 MW by 2023. The increase will mainly come from capacity expansion under Avaada Energy Private Ltd. (Avaada) and the commencement of an Energy Recovery Unit (ERU) power plant. The proportion of renewable power will also increase, to around 37% of the total by the end of 2023.

Well-diversified power portfolio

GPSC owns a well-diversified portfolio of power generation assets. At the end of August 2021, GPSC owned 37 power plants in Thailand and abroad. GPSC's portfolio includes six power plants under the Independent Power Producer (IPP) scheme with a combined capacity of 2,439 MW, which accounts for 45% of GPSC's total equity capacity. GPSC also has 18 cogeneration power plants under the Small Power Producer (SPP) scheme with a combined capacity of 2,196 MW, accounting for 41% of total equity capacity. The remaining equity capacity of 14% is spread among 12 renewable power plants and one ERU power plant.

Approximately 80% of GPSC's capacity is in Thailand. The remaining 20% is spread across the Lao People's Democratic Republic (Lao PDR), Japan, Taiwan, and India.

Predictable cash flows backed by long-term PPA

GPSC's predictable cash flows are mostly secured by long-term PPA with EGAT and reputable industrial users under the PTT Group. In 2020, sales to EGAT made up 42% of its total revenues. Electricity and steam sold to industrial users accounted for 57%.

GPSC sells electricity to EGAT under the IPP and SPP schemes. Typical PPA with EGAT have terms of 21-25 years. For the IPP scheme, GPSC receives the full amount of Availability Payment (AP) as long as the company has maintained the availability of the plants as agreed in the PPA, even if EGAT has not dispatched electricity from the plants. The PPA of the SPP scheme are slightly different; EGAT agrees to dispatch not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP schemes also contain a fuel price pass-through mechanism. Besides, GPSC sells electricity to EGAT under the non-firm SPP scheme to help manage power plant loads at optimum efficiency with no obligation to dispatch. GPSC also has PPA and Steam Purchase Agreements (SPA) with many industrial users in the Map Ta Phut area. The PPA and SPA cover 5-15 years.

Strategic move to renewable energy aboard

GPSC has made a strategic move to focus more on renewable power. This move is to align with PTT's new vision that is shifting its strategic direction toward future energy businesses, namely renewables, energy storage, and electric vehicle (EV) value chain. In its long-term strategic plan, the group has mandated GPSC to invest in renewable power generation for a combined capacity of at least 8,000 MW by 2030.

In the third quarter of 2021, GPSC completed the acquisition of a 41.6% stake in Avaada for an investment cost of approximately THB15 billion. As of August 2021, Avaada had a solar power portfolio of 4,560 MW in India, including operating capacity of 1,500 MW. The solar projects under Avaada have 25-year PPA with the Central and State Government of India, private commercial users, and industrial customers. The Avaada investment will add capacity of 1,897 MW to GPSC's portfolio when all projects start operations.

GPSC also announced plans to acquire a 25% equity interest in CI Changfang Ltd. (Changfang) and CI Xidao Ltd. (Xidao). GPSC expects to spend about THB16.6 billion for this transaction. Changfang and Xidao are developing 595-MW offshore wind farms in Taiwan. The projects have 20-year PPAs with Taiwan Power Company. This transaction is expected to be completed within 2021 and will add capacity of 149 MW to GPSC's portfolio when all phases commence operations.

PTT, the parent company, has supported these investments through a three-year shareholder loan of THB20 billion to GPSC. We expect GPSC to take around THB15 billion of the available loan amount with the remaining needs to be funded by cash flow from operations.

High debt levels during expansion

As of June 2021, GPSC's adjusted debt was THB86 billion. The debt to capitalization ratio stood at 43.5%. We project GPSC to spend a total of THB97 billion on expansion during 2021-2024 including new renewable investments of THB33 billion and maintenance and development existing projects of THB64 billion.

We expect the company's adjusted debt to peak at THB145 billion in 2023, causing a rise in the debt to capitalization ratio to 53%. The debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio is projected to peak at 7.1 times in 2023, before gradually declining to 5-6 times once the ERU power plant commences full-year operation in 2024.

Strategically important subsidiary of the PTT Group

We believe that GPSC is becoming increasingly important to the PTT Group in view of PTT's new vision "Powering life with future energy and beyond". PTT is moving along with emerging trends with an aim to increase the capacity of clean energy and by diversifying into new ventures that go beyond petroleum and petrochemical businesses. By 2030, the PTT Group aims to increase its renewable power capacity to 12,000 MW and to reduce greenhouse gas emissions by 15% from 2020. The group also targets to generate 30% of its profit from "future energy and beyond" businesses.

GPSC has become the flagship subsidiary to spearhead future energy expansion, including renewable power, energy storage & energy management systems, battery value chain for EV, and other forms of clean energy such as power from hydrogen.

Strong support from the PTT Group

As GPSC is one of the flagship companies of the PTT Group, we believe that the group will continue to provide strong support to GPSC. In April 2021, PTT's board of directors approved a restructuring of the power business shareholding structure by increasing its direct shareholding in GPSC. As a result, PTT holds a combined 44.5% equity interest in GPSC.

PTT's level of direct shareholding in GPSC is close to that of its interest in other flagship companies in the PTT Group, such as PTT Global Chemical PLC (GC), Thai Oil PLC (TOP), and IRPC PLC (IRPC).

PTT's strong support to GPSC is evidenced by its subscription of all GPSC's remaining shares of the new equity right offerings to support the acquisition of GLOW Energy PLC (GLOW) in 2019 to ensure that GPSC receives a full amount of THB74 billion from the equity issue and a shareholder loan of THB20 billion for GPSC to invest in the renewable energy abroad. We believe that PTT will continue to provide extraordinary support to GPSC when needed.

BASE-CASE ASSUMPTIONS

- Revenue of THB70-THB77 billion per annum during 2021-2024. EBITDA of THB20-THB22 billion per annum in the same period.
- Total capital expenditure of THB64.4 billion during 2021-2024, including capital expenditure for the SPP Replacement Projects and the ERU project.
- Total investment in renewable energy of THB33 billion during 2021-2024.
- Minimum cash on hand of THB15 billion.
- Dividend payouts of THB3.9-THB4.4 billion per annum during 2021-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GPSC's power plants will continue to run smoothly and generate stable cash flow as forecast. We also expect the company to maintain its financial discipline while pursuing its growth strategy in renewables energy.

RATING SENSITIVITIES

A rating upgrade is limited over the next 12-18 months. A stand-alone credit downside could occur if GPSC's cash flow from operation is materially lower than expected or if the capital structure weakens significantly due to excessive debt-funded investments. Any change in the credit profile of PTT or any change in the linkage between GPSC and PTT could also impact GPSC's ratings.

COMPANY OVERVIEW

GPSC was founded on 20 January 2013 through the amalgamation of PTT Utility Co., Ltd. (PTTUT) and Independent Power (Thailand) Co., Ltd. (IPT) as the flagship power company of the PTT Group. Following its establishment, GPSC gradually bought shares in power plants from other companies in the PTT Group.

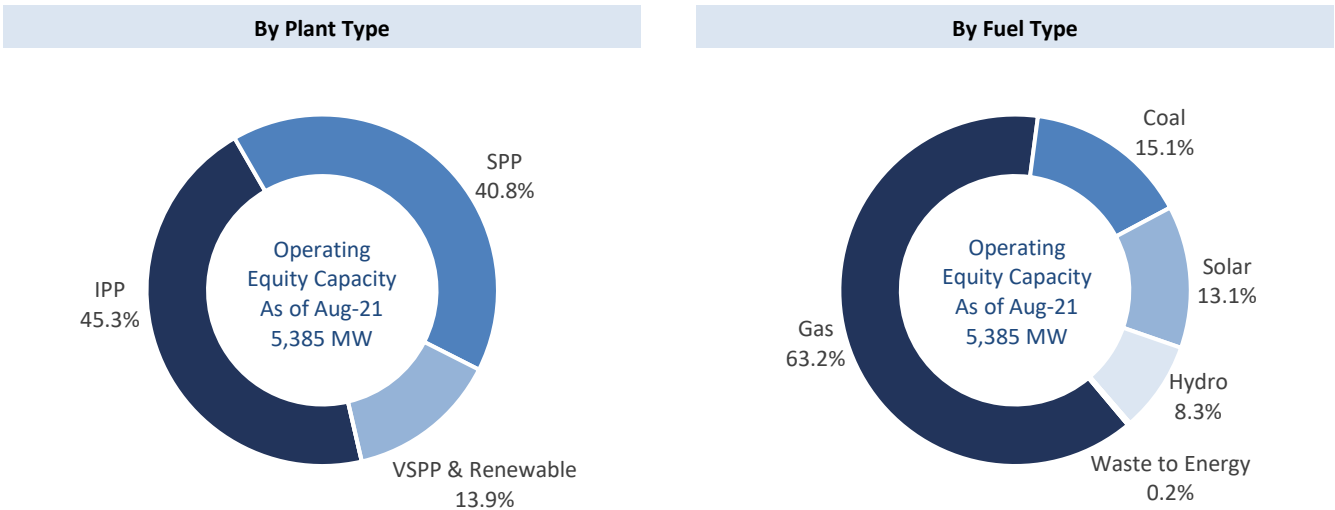
GPSC was listed on the Stock Exchange of Thailand (SET) in 2015. At the end of August 2021, the PTT Group held around 75% of the company's total shares while the remainder was held by the public. Shareholdings under the PTT Group consist of 44.5% held by PTT, 10% held by GC, and 20.8% held by TOP.

On 14 March 2019, GPSC acquired a 69.11% stake in GLOW from ENGIE Global Developments B.V. (ENGIE). Currently, GPSC holds a 99.8% stake in GLOW. After the acquisition, GLOW's power portfolio of 2,771 MW was added to GPSC's pre-acquisition power portfolio of 2,256 MW, bringing the combined capacity to 5,026 MW.

At the end of August 2021, GPSC had an operating capacity of 5,385 MW. The operating capacity is expected to reach 7,102 MW by 2023.

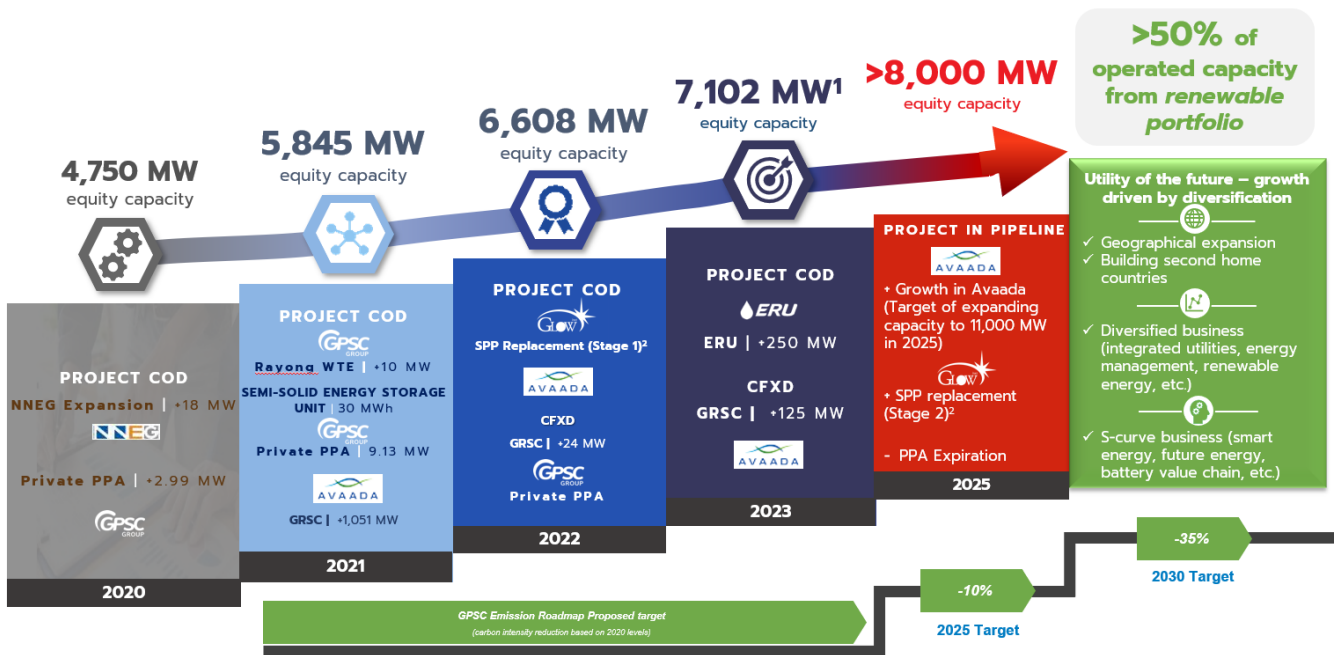
KEY OPERATING STATISTICS

Chart 1: GPSC's Operating Power Portfolio (As of Aug 2021)



Source: GPSC

Chart 2: GPSC's Power Portfolio Development (Equity Capacity)



Notes: 1. Maintain original capacity of Glow Cogeneration plants
 2. SPP Replacement Stage 1: Glow Energy Phase 2 (new plant with 2 PPAs with EGAT, total capacity of 192 MW electricity and 300 T/h steam, SCOD in 2022); and SPP Replacement Stage 2: Glow SPP2 and Glow SPP3 is under feasibility study for internal investment approval.

Source: GPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	36,008	71,788	67,951	25,771	20,940
Earnings before interest and taxes (EBIT)	7,187	13,506	11,437	4,666	3,984
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,702	23,009	18,980	7,088	5,611
Funds from operations (FFO)	8,904	17,929	13,511	6,311	4,967
Adjusted interest expense	1,997	4,087	5,221	534	387
Capital expenditures	2,383	5,482	3,180	2,961	3,090
Total assets	257,140	256,656	252,017	64,439	59,968
Adjusted debt	83,885	85,993	88,247	11,933	11,977
Adjusted equity	113,547	111,867	110,176	42,349	40,374
Adjusted Ratios					
EBITDA margin (%)	32.50	32.05	27.93	27.50	26.79
Pretax return on permanent capital (%)	6.52 **	6.16	8.21	7.98	7.11
EBITDA interest coverage (times)	5.86	5.63	3.64	13.28	14.49
Debt to EBITDA (times)	3.65 **	3.74	4.65	1.68	2.13
FFO to debt (%)	21.08 **	20.85	15.31	52.89	41.47
Debt to capitalization (%)	42.49	43.46	44.47	21.98	22.88

* Consolidated financial statements

** Annualized with trailing 12 months

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

Global Power Synergy PLC (GPSC)

Company Rating:	AA+
Issue Ratings:	
GPSC22NA: THB2,000 million senior unsecured debentures due 2022	AA+
GPSC24NA: THB5,000 million senior unsecured debentures due 2024	AA+
GPSC258A: THB1,500 million senior unsecured debentures due 2025	AA+
GPSC26NA: THB6,000 million senior unsecured debentures due 2026	AA+
GPSC29NA: THB8,000 million senior unsecured debentures due 2029	AA+
GPSC308A: THB1,000 million senior unsecured debentures due 2030	AA+
GPSC31NA: THB7,500 million senior unsecured debentures due 2031	AA+
GPSC34NA: THB6,500 million senior unsecured debentures due 2034	AA+
GPSC358A: THB2,500 million senior unsecured debentures due 2035	AA+
Rating Outlook:	Stable

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