TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

ELECTRICITY GENERATING PLC

No. 120/2024
12 July 2024

CORPORATES

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

Last Review Date: 30/08/23

Company Rating History:

Date	Rating	Outlook/Alert
23/09/22	AA+	Negative
08/10/21	AA+	Stable

Contacts:

Rapeepol Mahapant

rapeepol@trisrating.com

Tern Thitinuang, CFA

tern@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Electricity Generating PLC (EGCO) and the ratings on its senior unsecured debentures to "AA" from "AA+". At the same time, we revise the rating outlook to "stable" from "negative".

Meanwhile, we revise down EGCO's stand-alone credit profile (SACP) to "aa-" from "aa" to reflect our expectation of the company's deteriorating financial profile, due to significant impairment losses from an overseas project, a strong likelihood of earnings contraction, and its continued acquisitive growth.

The company rating on EGCO incorporates a one-notch uplift from its SACP as we maintain our assessment of EGCO as a strategic affiliate of Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable") and we expect EGAT to support EGCO in times of financial stress.

The SACP continues to mirror EGCO's strong market presence, its large power portfolio, and the highly reliable cash flows, aided by long-term power purchase agreements (PPAs). Conversely, the SACP is held back by risks associated with the company's overseas investments.

KEY RATING CONSIDERATIONS

Significant impairment losses from Yunlin project

EGCO has incurred material impairment losses from the Yunlin offshore wind power project in Taiwan, in which it currently owns a 26.56% stake. The Coronavirus Disease 2019 (COVID-19) pandemic and obstructions during monopile installation at the beginning stage caused delays and excessive project cost overruns. As a result, EGCO realized considerable losses during 2022-2023, including an impairment on its sponsor loans amounting to THB12 billion. Despite the non-cash items, we view the losses as significantly reducing the expected investment returns and cash flows. Also, EGCO is needed to provide additional sponsor loans to complete the construction.

Our base-case forecast assumes no further adverse impacts from the project on EGCO's financial statements and expects the project to be fully completed by the end of 2024. That said, we expect EGCO to get back the principle of the additional sponsor loans and earn interest incomes from the project, in the foreseeable future.

Contracted earnings outlook

We anticipate a significant drop in EGCO's earnings after 2025 as the PPA of the Quezon coal-fired power plant in the Philippines ceases. The project, which carries 460 megawatts (MW) in capacity, has generated an annual EBITDA of about THB5 billion, representing one-fourth of the company's total annual EBITDA. EGCO is proposing to the current power buyer an extended PPA. However, the extension remains uncertain. Even if successful, we expect the project's tariff rates and EBITDA to fall significantly from the original PPA while EGCO's newly added investment assets will unlikely produce large enough returns to offset the earnings contraction.

In our base case, we forecast total operating revenue to be about THB46 billion in 2024, declining to THB30-THB40 billion per annum in 2025-2026. Looking forward, we anticipate EGCO's earnings to be increasingly reliant on the dividends received from its affiliates, which are subject to the respective performances and dividend payout policies. We project dividends income received from affiliates to increase to THB6-THB12 billion per annum, from THB5-THB8 billion per annum, based on our expectation that its investment projects will gradually generate more returns. In all, our base-case forecast predicts EGCO's EBITDA to be about THB19 billion in 2024, before dropping to THB15-THB17 billion per year in 2025-2026.

Weakening financial profile

We anticipate a rise in financial leverage despite EGCO's endeavors to reduce its debt burden by divesting some of its power assets. The proceeds from asset recycling and additional incomes from newly invested projects are unlikely to be large enough to offset the increase in debt load. For the first quarter of 2024, EGCO's debt to EBITDA ratio was 4.6 times (annualized with trailing 12 months). Looking forward, we believe EGCO's growth strategy will further raise debt.

Our base-case projection expects the company will incur total investment spending of about THB41 billion throughout 2024-2026. The combination of investment outlays, additional sponsor loans to Yunlin project, and the potentially softening earnings gives rise to the prospect of a weakening financial profile. In our forecast, we project a debt to EBITDA ratio of above 5 times during 2024-2026. The debt to capitalization ratio should remain at 44%-46%.

Strong market presence

EGCO is a leading power producer and the first independent power producer (IPP) in Thailand. The company has strong market presence, with a large power portfolio. EGCO also has a solid record of developing and operating several types of power plants including conventional and renewable energy. Most of its power projects have met the criteria set forth in the respective PPAs, performing in accordance with their respective guidance. Given its competitiveness, we expect EGCO to benefit from the Thai government's policy to increase renewable power supply, which will bring in investment opportunities for private power producers.

As of May 2024, EGCO's aggregate equity capacity (or contracted capacity in proportion to its ownership in the power plants) was 7,042 MW. Of this, 6,709 MW came from power plants in operation. The company's power portfolio is diversified in terms of type of generation, primary fuel used, and geography, largely helping stabilize its revenue and earnings. We view its wealth power assets as also serving as a source of financial flexibility. The company could divest parts of its existing power assets as an option to deleverage.

Apart from the investments in power generating assets, EGCO has expanded into new power-related businesses including oil pipeline transport, smart industrial estate, liquefied natural gas (LNG) importation, and innovation. However, we do not expect these investments to contribute significant revenue and earnings in the near term. The power business is expected to remain the core of its operating performance and assets.

Highly reliable cash flows from long-term PPAs

EGCO's cash flows are highly reliable as most of its power projects (about 70% of total equity capacity) operate under multi-year PPAs, with typical terms of 15-30 years. Conventional power plants are the bedrock of EGCO's earnings, holding PPAs that are structured to ensure investment cost recovery and fuel price pass-through. This mechanism helps minimize market and fuel price risks considerably.

We view EGCO to carry low counterparty risk as it holds PPAs with credible off-takers. EGAT has remained the main off-taker, holding around 50% of EGCO's total equity capacity. Manila Electric Company (Meralco), one of the largest electricity distributors in the Philippines, comes in second accounting for 10% of EGCO's equity capacity.

Overseas investment risks

EGCO has been growing its presence overseas, with increased minority investments in several affiliates over recent years. After establishing a footprint in the US in 2021, with a series of investments in companies engaging in gas-fired and renewable power projects, EGCO has continued to explore business opportunities in the country. The company recently acquired a 50% stake in the Compass portfolio, consisting of three gas-fired power plants with an aggregate capacity of 1,304 MW. Also, EGCO recently reinvested in Indonesia, with the purchase of a 30% stake in PT Chandra Daya Investasi (CDI). CDI engages in the infrastructure and utility business, owning 147 MW gas-fired power plants, water supply facilities, and tank and jetty facilities in an industrial estate on West Java Island. Its core income comes from the power plants, mainly serving industrial users.

We expect EGCO to keep expanding overseas, given its acquisitive growth strategy. We view overseas investments as carrying several risks, including country risks, heavy reliance on partners, more competitive market environments, as well as higher fuel cost and demand risks. In some countries such as the US, EGCO's power plants sell electricity to the wholesale markets, contending with other power producers by offering competitive prices to win dispatch orders. Fluctuations in power demand and competition could heighten earnings volatility. Investments in the US comprised about 10% of EGCO's total assets, as of May 2024. Some of the power plants in the US have long-term agreements with off-takers to reduce the volatility.

We expect EGCO to keep overseas expansion through joint ventures and affiliates, receiving returns in the form of a share of profit and dividends. We expect dividend income to contribute almost half of its EBITDA during 2024-2026. The increasing reliance on dividend income could impact its earnings stability.

Strategic affiliate of EGAT

We continue to view EGCO as a strategic affiliate of EGAT. Since inception, EGAT has remained the major shareholder of EGCO, with a 25.4% stake. EGAT has strong influence over the company’s business direction and financial policy. EGCO's president is generally nominated from EGAT's top management. Five of the fifteen members of EGCO’s board of directors are appointed by EGAT. Also, their discernible relationship is predicated on long-term contractual commitments in electricity supply and business synergy. Some investment opportunities are initiated by EGAT, especially government-to-government projects.

We believe EGCO will receive support from EGAT in a distress scenario, given the strong linkages. In accordance with our “Group Rating Methodology”, the company rating incorporates a one-notch uplift from EGCO’s SACP.

Ample liquidity

We assess EGCO as having ample liquidity, with THB46.2 billion in cash and marketable securities and THB8.8 billion in undrawn short-term credit facilities as of March 2024. Including the expected funds from operations (FFO) over the next 12 months of THB13.9 billion, sources of cash add up to THB68.9 billion, which should enable EGCO to comfortably meet all the debt coming due over the next 12 months of THB26.9 billion.

Debt structure

As of March 2024, EGCO’s consolidated debt, excluding lease liabilities, was about THB137 billion. Of this total, THB27 billion was considered priority debt. The priority debt to total debt ratio was 20%.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating’s base-case forecast during 2024-2026 are as follows:

- Total operating revenue to be about THB46 billion in 2024, declining to THB30-THB40 billion per annum in 2025-2026.
- EBITDA margin to range from 40%-50%.
- Dividend income received from affiliates to range from THB6-THB12 billion per annum.
- Capital expenditures and investments to total THB41 billion.
- Annual dividend payment of THB6.5 per share.

RATING OUTLOOK

The “stable” outlook reflects our expectations that EGCO’s power plants will continue to render strong and stable cash flows to support its growth plan over the forecast periods. We also expect EGCO will expand with a disciplined financial policy while its new investments will generate returns commensurate with the associated risks. As such, its financial profile should be in line with our forecast. Also, we believe EGCO will remain a strategic affiliate of EGAT.

RATING SENSITIVITIES

Our assessment of the company rating on EGCO is subject to changes in its SACP. A downward revision to the rating on EGAT or a change in our view on EGCO’s strategic relevance to EGAT could also affect the ratings on EGCO.

We are unlikely to raise the SACP in the near term. However, we could revise the SACP upward if EGCO’s earnings are above our forecast and it can sustain a debt to EBITDA ratio well below 5 times. This could most likely occur from a capital increase and/or divesting parts of its power assets.

Conversely, we could lower the SACP if EGCO performs considerably short of our forecast or if its business risk increases materially from heightening exposures in more competitive market environments or in riskier businesses, affecting its earnings stability. We could also revise down the SACP if EGCO’s financial profile deteriorates. An indication of this would be a sustained debt to EBITDA ratio of 6-7 times. This could happen if EGCO undertakes large debt-financed acquisitions without a commensurate increase in earnings.

COMPANY OVERVIEW

EGCO, the country’s first IPP, was founded by EGAT in 1992 under the government's privatization scheme. Initially, EGAT held a 100% ownership in EGCO, which was subsequently diluted to about 48% when EGCO was listed on the Stock Exchange of Thailand (SET) in 1995.

As of March 2024, EGAT remained a major shareholder, with a 25.4% stake in EGCO, followed by TEPDIA Generating B.V. (TEPDIA), which held 23.9%. TEPDIA is owned by three major shareholders including 1) a joint venture (JV) between Tokyo Electric Power Group and Chubu Electric Power Group, 2) Mitsubishi Corporation, and 3) Kyushu Electric Power.

EGCO is a holding company engaging in the power business through its operating subsidiaries and affiliates. The company has also leveraged its expertise in power plant operations, providing operation and maintenance services for others. As of May 2024, the total equity capacity of its power projects was 7,042 MW, of which 6,709 MW was in operation.

EGCO has a diversified power portfolio in terms of type of generation, primary fuel used, and geography. Offshore power projects are located in the US (21% of the total equity capacity), South Korea (13%), the Lao People's Democratic Republic (Lao PDR) (10%), the Philippines (10%), Taiwan (2%), Australia (1%), and Indonesia (1%). Conventional power plants using natural gas and coal as primary fuels make up the majority of 80% of the total equity capacity. The remainder is accounted for by renewable power plants, including hydropower, wind, solar, biomass, and fuel cells. EGCO aims to enlarge the proportion of renewable power in response to global energy trends.

EGCO has diversified into oil pipeline transport, jointly investing with Thai Pipeline Network Co., Ltd. (TPN) to expand the oil pipeline system from the central to the northeastern parts of Thailand. EGCO is developing its first industrial estate located at the site of its retired power plant in Rayong province and it has been granted permits by the Energy Regulatory Commission (ERC) to engage in the LNG shipping business. It is also focusing on the power innovations and energy trading platform in response to energy trends. However, these non-power businesses remain small.

KEY OPERATING PERFORMANCE

Table 1: Power Project Portfolio (as of May 2024)

Project	Location	Plant Type	Holding (%)	100% Contracted Capacity (MW)	EGCO Contracted Capacity (MWe)
Projects in Operation					
IPP (Domestic)					
1. KN4	Nakorn Si Thammarat	CCGT	100	930	930
2. GPG (KK2)	Saraburi	CCGT	50	1,468	734
3. BLCP	Rayong	Coal-fired	50	1,347	673
SPP (Domestic)					
4. EGCO Cogen Replacement	Rayong	Cogen	80	74	59
5. KLU	Pathum Thani	Cogen	100	102	102
6. BPU	Ratchaburi	Cogen	100	215	215
Renewable (Domestic)					
7. NED	Lopburi	Solar	67	63	42
8. SPP 2-5 (4 projects)	Saraburi, Si Saket, Ubon Ratchathani	Solar	100	30	30
9. GYG	Yala	Biomass	50	20	10
10. GPS	Chai Nat, Nakhon Sawan, Phetchabun	Solar	60	26	16
11. TWF	Chaiyaphum	Wind	100	7	7
12. CWF	Chaiyaphum	Wind	100	80	80
13. Solarco	Nakhon Pathom, Suphan Buri	Solar	49	57	28
Renewable (Overseas)					
14. NTPC	Lao PDR	Hydro	35	1,070	375
15. BRWF	Australia	Wind	100	113	113
16. XPCL	Lao PDR	Hydro	13	1,280	160
17. Gangdong	South Korea	Fuel cells	49	20	10
18. Yunlin (Partial)	Taiwan	Wind	27	264	70
19. APEX (Partial)	US	Solar, Wind	17	294	51
20. NT1PC	Lao PDR	Hydro	25	645	161
Overseas					
21. QPL	Philippines	Coal-fired	100	460	460
22. SBPL	Philippines	Coal-fired	49	455	223
23. Paju	South Korea	CCGT	49	1,823	893
24. Linden Cogen	US	CCGT	28	972	272
25. RISEC	US	CCGT	49	609	298
26. Compass	US	CCGT	50	1,304	652
27. CDI	Indonesia	CCGT	30	147	44
Subtotal - Projects in Operation				**13,875**	**6,709**
Projects under Construction					
1. Yunlin (Partial)	Taiwan	Wind	27	376	100
2. APEX (Partial)	US	Solar, Wind, Battery	17	1,335	233
Subtotal - Projects under Construction				**1,711**	**333**
Grand Total				**15,586**	**7,042**

Source: EGCO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----------Year Ended 31 December ---------- 2023	2022	2021	2020
Total operating revenues	10,641	51,119	61,233	37,963	35,730
Earnings before interest and taxes (EBIT)	3,203	9,121	10,675	15,430	13,819
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,814	20,931	18,312	18,788	19,717
Funds from operations (FFO)	3,098	14,969	13,153	14,256	14,851
Adjusted interest expense	1,529	4,932	4,039	3,714	3,869
Capital expenditures	259	1,489	1,560	704	251
Total assets	264,677	243,233	254,043	241,932	214,438
Adjusted debt	96,697	90,072	78,791	92,204	74,500
Adjusted equity	110,117	105,226	120,797	114,037	102,834
Adjusted Ratios					
EBITDA margin (%)	44.5	40.4	29.4	48.6	54.0
Pretax return on permanent capital (%)	3.7 **	3.8	4.5	7.2	6.9
EBITDA interest coverage (times)	3.1	4.2	4.5	5.1	5.1
Debt to EBITDA (times)	4.6 **	4.3	4.3	4.9	3.8
FFO to debt (%)	15.1 **	16.6	16.7	15.5	19.9
Debt to capitalization (%)	46.8	46.1	39.5	44.7	42.0

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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
- Issue Rating Criteria, 15 June 2021

Electricity Generating PLC (EGCO)

Company Rating:	AA
Issue Ratings:	
EGCO26NA: THB1,000 million senior unsecured debentures due 2026	AA
EGCO28NA: THB700 million senior unsecured debentures due 2028	AA
EGCO30NA: THB500 million senior unsecured debentures due 2030	AA
EGCO33NA: THB1,000 million senior unsecured debentures due 2033	AA
EGCO38NA: THB3,800 million senior unsecured debentures due 2038	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000