SPCG PLC

No. 104/2018
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CORPORATES

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

Last Review Date: 13/09/18

Company Rating History:

Date	Rating	Outlook/Alert
17/08/17	A	Stable
04/06/15	A-	Stable
02/05/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on SPCG PLC (SPCG) and the ratings on its outstanding debentures at "A". The ratings reflect the company's predictable revenue stream from solar power plants, solid cash flow generation, and strong financial profile. However, the ratings are constrained by risks of forthcoming new investments to rebuild its power assets portfolio, given the changing business environment of the solar power industry.

KEY RATING CONSIDERATIONS

Reliable revenue streams from solar power

SPCG's business strengths are predicated upon its reliable sources of revenues, which are chiefly from its investments in solar power plants. SPCG, through its subsidiaries, owns 36 operational solar power plants mostly located in the Northeastern region of Thailand. All of the plants have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) with total contracted capacity of 205.92 mega-watts (MW). All 36 solar power plants receive an additional tariff (adder) of Bt8 per kilowatt-hour (kWh) on top of the normal tariff for 10 years after commencing commercial operation.

The cash flows from the solar power plants are predictable, due to the committed tariffs in the contracts, low operational risks, and high creditability of the power buyer. TRIS Rating expects SPCG's investments in solar power plants will remain as major sources of cash flows during 2019-2021 despite its efforts to diversify revenue base, such as EPC (Engineering Procurement and Construction) service for industrial solar rooftops.

Forecast-beating performance of power plants

SPCG's management experience in the solar power business underpins the company's strength. SPCG was the first developer of commercial-scale solar power plants in the country.

The performances of power plants continue to beat our expectations. In 2018, the actual power generation of 384 gigawatts-hours (GWh), surpassed our forecast by 4%. This trend continued in the first four months of 2019, with the actual power output of 136 GWh, representing about 37% of our full-year forecast.

TRIS Rating believes the overall plant performances will stay on in the years ahead, supported by technologically-proven and certified equipment, as well as operating efficiencies. In our base case for 2019-2021, SPCG will generate about 362-365 GWh of annual power output. This forecast is based on the expected plant performance ratio of around 78% and a 50% probability of energy production (P50). In all, the domestic solar power plants will bring in about Bt4 billion in annual revenues.

Solid cash flow generation

The ratings affirmation reflects our expectation that SPCG will continue to generate sizable cash flows in 2019-2021. Earnings before interest, tax, depreciation, and amortization (EBITDA) have remained nearly constant over the past several years. SPCG has consistently arrived at a hefty Bt4 billion in EBITDA per year.

Considering the company's installed production capacity, SPCG's cash flow generation is way ahead of most of its domestic peers, thanks to the favorable terms of PPAs in possession. SPCG's power plants have an advantage over most of other solar power plants as they all obtain an adder of Bt8 per kWh, the highest-ever government incentives to promote solar power generation. In the base case, TRIS Rating expects SPCG will generate EBITDA of at least Bt3.5 billion per year during 2019-2021.

Expansion needed to maintain future cash flows

Despite its superior performance, SPCG is at risk of shrinking profits in the years ahead. The impending expiration of the adder, which starts from 2020 through 2024, will put to rest a long-running period of robust cash flow. Given the current capacity, SPCG's EBITDA will gradually decline from 2020 onwards. EBITDA is projected to plunge in 2024, prompting SPCG to embark on an attempt to rebuild its power portfolio. However, the company's new investments are inconsiderable by far.

SPCG has purchased a minority stake in a company that leases land to a 30-MW solar power plant in Tottori, Japan. SPCG should receive about Bt2-Bt3 million in dividend per year. SPCG is poised to further invest in Japan, aided by its long-established partner, Kyocera Corporation (Kyocera). The company currently has potential solar projects in the pipeline, with a combined capacity of 612 MW. The company intends to hold shares of less than 20% in each project and recognize return as dividend income.

In our view, the risks associated with the solar projects in Japan are manageable; taking into account the low country risk and off-taker risk, as well as, creditability of SPCG's investing partners. However, the planned investments in Japan will be far from countering the effect of imminent cash flow declines of existing power assets.

Exposed to changing business environment

As SPCG will remain focused on solar power, TRIS Rating views that the changing business environments pose downside risks on SPCG's inevitable expansions. These include the cut-off of incentive tariff, intensified competition, abated return on investment, and heightened counterparty risks. The investment opportunities for solar power in Thailand nowadays appear to the less attractive, in contrast to the blooming era in the last decade. The competition has substantially driven down the tariffs on offer.

The country's power development plan now places greater emphasis on private solar rooftops for self-consumption. Solar power producers offering electricity to industrial users under private PPAs is the trend seen industry-wide. SPCG also plans to foray into selling electricity to the private sector, an important shift of business model which carries relatively higher risks.

Strong cash flow protection and liquidity

Given the robust cash flow and management's conservative financial policy, SPCG's leverage level has abated over the past years. In 2018, the ratio of debt to EBITDA stood at 1.62 times. Given the scheduled debt repayments, the ratio of debt to capitalization fell to 33% as of 2018, a steady decrease from 67% in 2014. The ratio further declined to 29% as of March 2019.

TRIS Rating's base case embeds our expectation that SPCG's power plants will continue to deliver strong performance. We forecast the company's EBITDA to the range about Bt3.5 billion per year 2019-2021. Meanwhile, SPCG will spend a total of B3.4 billion for maintenance expenditures and further expansions over the same period. As a result, the ratio of debt to capitalization is projected to further decline to about 20% over the next three years while the debt to EBITDA ratio could fall to 1.1 times.

SPCG's liquidity is strong. As of March 2019, SPCG held cash of Bt0.1 billion and marketable securities of Bt2.9 billion that are available for redeeming Bt2.4 billion debentures coming due in next 12 months. SPCG has Bt1.7 billion in debentures coming due in 2020 and Bt2.2 billion in 2021. SPCG's sizable EBITDA is assessed to satisfy the upcoming debt due.

BASE-CASE ASSUMPTIONS

- During 2019-2021, all 36 solar power plants could generate energy output ranging from 362-365 GWh per year.
- Revenues from the solar business will range from Bt3.9-Bt4.1 billion per year
- Total operating revenues will arrive at Bt5.1-Bt5.3 billion per year.
- Operating margin (operating income before depreciation and amortization as a percentage of total operating revenues) will stay over 65%.
- Total capital expenditure and investments will amount to about Bt300 million in 2019, and Bt1.5 billion a year in 2020-2021.

RATING OUTLOOK

The "stable" outlook embeds the expectation that SPCG will be capable of maintaining the plant performance ratio at a satisfactory level above 75% over the next three years, leaving the company with EBITDA of at least Bt3.5 billion per year. SPCG's financial policy is expected to remain prudent such that the forthcoming expansions would not markedly hurt its financial flexibility.

RATING SENSITIVITIES

Positive effect on the ratings could develop if SPCG could generate significantly more EBITDA on a sustained basis, which could result from building sound and profit-making assets or earning solid returns from investments, while maintaining leverage at a manageable level.

On the contrary, a downward rating pressure could emerge if solar plant performances significantly come short of expectation, which would considerably weaken SPCG's cash flow. A negative rating pressure could also come from SPCG's excessive use of debt to fund the expansion plans.

COMPANY OVERVIEW

SPCG was founded in 1996 as Solar Power Co., Ltd. (SPC) to develop solar power projects in Thailand. In 2011, the company was listed on the Market for Alternative Investment (MAI), through a reverse listing process, and was renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET). As of March 2019, the Khunchornyakong family held a 45% interest in SPCG. SPCG is a holding company, investing in 36 solar farms with a total installed capacity of 260.35 MW.

SPCG's strong business profile is buoyed by the reliable cash flows it earns from investing in solar power projects. SPCG, through its operating subsidiaries, owns 36 operational solar power plants. All of the plants have PPAs with PEA and will receive a tariff adder of Bt8 per kWh on top of the normal tariff for 10 years. The cash flows from the solar power projects are reliable and predictable because of the committed tariffs in the contracts and the fact that the payment risk of the buyer is minimal. The company's solar farms are located in nine provinces in the Northeastern region of Thailand and in Lopburi province. The Northeastern region is best suited for solar power production, based on the statistics for solar irradiation levels in the area.

Going forward, TRIS Rating believes SPCG will stay on a roll, largely backed by technologically-proven and certified equipment, as well as operating efficiencies. SPCG's power plants are well-equipped, as the company sources its major equipment, i.e., photovoltaic (PV) modules and inverters, from reputable suppliers, namely Kyocera Corporation (Kyocera) and SMA Solar Technology AG (SMA). Both suppliers also provide SPCG with multi-year warranties covering the efficiency of their products.

In 2018, solar power projects continued to account for the majority (72%) of the company's revenue. The rest came from its solar rooftop business (25%) and metal sheet roofing and other businesses (3%). TRIS Rating expects SPCG's investments in solar power plants will remain as major sources of cash flows during 2019-2021.

SPCG will remain focused in solar power, with an eye on developing new projects in Japan. As of March 2019, SPCG has six potential investment projects in Japan. The first one is solar farm of 480 MW in Ukujima Island. The project cost is around Bt5.8 billion, which SPCG will invest a total of Bt3.0 billion during 2019-2023. The rest projects will be developed under the newly set-up company named Sakura Solar LLC (Sakura). Sakura are 49% owned by Kyocera, 34% owned by Mitsubishi Research Institute Inc. (MRI), and 17% owned by SPCG. Five projects under Sakura will be located in Kumamoto and Kyoto Watsuka, with total capacity of 66.9 MW. SPCG will invest around Bt235 million during 2019-2022. Apart of these six potential projects, SPCG is considering to invest in another 65 MW solar farm in Japan, with the investment amount range of Bt200-Bt250 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	---------------Year Ended 31 December ---------- 2018	2017	2016	2015
Total operating revenues	1,355	5,998	6,015	5,460	5,006
Operating income	1,047	4,131	4,042	3,941	3,885
Earnings before interest and taxes (EBIT)	883	3,480	3,437	3,301	3,265
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,052	4,171	4,081	3,954	3,910
Funds from operations (FFO)	950	3,606	3,398	3,199	3,083
Adjusted interest expense	96	504	618	746	898
Capital expenditures	7	17	90	91	220
Total assets	23,450	22,798	23,027	24,232	24,736
Adjusted debt	5,958	6,776	9,220	10,700	13,023
Adjusted equity	14,673	13,881	11,208	9,766	8,470
Adjusted Ratios					
Operating income as % of total operating revenues (%)	77.26	68.88	67.20	72.18	77.59
Pretax return on permanent capital (%)	14.71	15.80	15.29	13.93	13.22
EBITDA interest coverage (times)	10.98	8.28	6.60	5.30	4.35
Debt to EBITDA (times)	1.43	1.62	2.26	2.71	3.33
FFO to debt (%)	61.39	53.21	36.86	29.89	23.67
Debt to capitalization (%)	28.88	32.80	45.13	52.28	60.59

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

SPCG PLC (SPCG)

Company Rating:	A
Issue Ratings:	
SPCG19DA: Bt1,800 million senior unsecured debentures due 2019	A
SPCG20DA: Bt1,700 million senior unsecured debentures due 2020	A
SPCG21DA: Bt1,700 million senior unsecured debentures due 2021	A
SPCG22DA: Bt1,250 million senior unsecured debentures due 2022	A
SPCG23DA: Bt650 million senior unsecured debentures due 2023	A
Rating Outlook:	Stable

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