TRIS RATING
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SPCG PLC

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CORPORATES

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

Last Review Date: 03/07/19

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", with a "stable" rating outlook. The ratings reflect the company's reliable revenue stream from solar power plants, solid cash flow generation, and strong financial profile. However, the ratings are partially weighed down by the gradual phase-out of adder tariffs and the changing business environment of the solar power industry, which holds back SPCG's efforts to rebuild its power portfolio.

KEY RATING CONSIDERATIONS

Reliable revenue streams from solar power plants

SPCG's revenues come mainly from its solar farm business. SPCG owns 36 operational solar power plants which are mostly located in the Northeastern region of Thailand. The company's solar power plants all have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) with total contracted capacity of 205.92 megawatts (MW).

SPCG has a highly lucrative power portfolio as all of its power plants receive an additional tariff (adder) of Bt8 per kilowatt-hour (kWh) on top of the base tariff for 10 years after the commercial operation date (COD). SPCG has enjoyed the highest rate of adder which has put it at a distinct advantage compared with peers in the renewable energy sector.

Cash flow from the solar power plants is predictable, thanks to the committed tariffs in the PPAs, low operational risks, and high creditability of the power buyer. TRIS Rating expects SPCG's investments in solar power plants will remain the centerpiece of its earnings during 2020-2022 despite its efforts to diversify its revenue base into areas, such as EPC (Engineering Procurement and Construction) services for industrial solar rooftops, steel roof, and authorized sales and service partner businesses.

For the first quarter of 2020, SPCG's total operating revenues stood at Bt1.5 billion. Revenues from solar farm business comprised about 79% while the remainder was contributed by the solar roof, steel roof, and authorized sales and service partner businesses.

Solar power plants continue to outpace forecast

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

Performance of the power plants continues to beat our expectations. In 2019, the actual power generation of 397 gigawatt-hours (GWh), exceeded our forecast by 10%. This trend continued in the first quarter of 2020, with the actual power output of 102 GWh representing about 28% of our full-year forecast.

We believe that overall plant performance will stay on course solidly, given technologically-proven and certified equipment, as well as operating efficiencies. In our base-case forecast for 2020-2022, we project SPCG will generate around 357-361 GWh of power output per year. This forecast is based on the expected plant performance ratio of around 77.6% and a 50% probability of energy production (P50). In all, we expect SPCG's solar power plants to bring in about Bt3.4-Bt4 billion in annual revenues.

Risk of earnings contraction

In our base-case forecast, we project earnings before interest, tax, depreciation, and amortization (EBITDA) to decline during the period from 2020 to 2022. This is because the adders for the company's 36 solar projects will gradually phase out from 2020 onward. EBITDA is projected to drop to Bt3 billion in 2022, down from Bt4.1 billion in 2019. Adder for the entire portfolio will be completely phased out in 2024 which could cause EBITDA to plunge to Bt1 billion in 2024. As such, SPCG needs to invest in new projects to replenish its dwindling earnings. Nonetheless, the company will remain focused on the solar power business.

Challenging business environment

In our view, the changing business environment of solar power poses significant downside risks to the much-needed reinvigoration of the company's solar power business. These include the cut-off of incentive tariff, intensifying competition, declining return on investment, and heightened counterparty risks. At present, the investment opportunities for solar power in Thailand appear to be less attractive compared with the glowing era of the last decade. The competition has considerably run down the tariffs on offer.

Private solar rooftops for self-consumption are growing. Solar power producers offering electricity to industrial users under private PPAs is a trend being seen industry-wide. SPCG also plans to branch into selling electricity to the private sector, a significant shift in the business model which carries relatively higher risks. The company is also looking at growth prospects overseas.

New solar projects in Japan

SPCG has invested in a 480-MW solar project in Ukujima island, Japan. The project is owned by SPCG and a number of reputable Japanese companies such as Kyudenko Corporation and Kyocera Corporation. SPCG holds a 17.9% stake in the project with an investment contribution of about Bt2.7 billion. Construction started in 2019 with commercial operations slated for 2023. Furthermore, the company is considering other solar projects in Japan with a combined capacity of up to 130 MW.

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

Strong cash flow protection and liquidity

The rating affirmation is built on our expectation that SPCG will continue to deliver robust cash flow in the next few years. We expect EBITDA to range from Bt3-Bt3.5 billion during 2020-2022. Given the management's cautious financial policy, SPCG's leverage level has declined over the past years. As of December 2019, the ratio of debt to EBITDA stood at 0.84 times. Given the scheduled debt repayments, the debt to capitalization ratio fell to just 18% as of 2019. The ratio further declined to 16% as of March 2020.

SPCG is forecast to incur maintenance expenditures of about Bt100 million per year during 2020-2022. Meanwhile, the investments in solar projects in Japan will cost about Bt3.4 billion. As a result, the debt to capitalization ratio is projected to further decline to about 13% in 2022 while the debt to EBITDA ratio could remain below 1 time.

SPCG's liquidity is strong. As of March 2020, SPCG held cash of Bt1.6 billion and marketable securities of Bt2 billion that are more than enough to cover Bt2.2 billion of debentures coming due in the next 12 months. SPCG has Bt1.7 billion in debentures coming due in December 2020 and Bt0.5 billion in January 2021.

BASE-CASE ASSUMPTIONS

- During 2020-2022, annual power output to be in the 357-361 GWh range.
- Total revenues are projected to be Bt5.2 billion in 2020, Bt5 billion in 2021, and Bt4.7 billion in 2022.
- Maintenance expenditures of around Bt100 million per year during 2020-2022.
- Total investment in solar projects in Japan of Bt3.4 billion during 2020-2022.
- Bond repayments of Bt1.7 billion in 2020, Bt2.2 billion in 2021, and Bt1.3 billion in 2022.
- Dividend pay-out of Bt1.3 billion per year during 2020-2022.

RATING OUTLOOK

The "stable" outlook embeds our expectation that SPCG will be capable of maintaining its plant performance ratio at a satisfactory level above 75% over the next three years, leaving the company with EBITDA of at least Bt3 billion per year. Given SPCG's strong financial profile, the new investments should not markedly hurt the company's financial flexibility.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited, given the pressure from the expiring adder. However, it could emerge if SPCG is able to generate significantly more EBITDA on a sustained basis, which could result from building sound profit-making assets or earning solid returns from investments, while maintaining a strong balance sheet.

On the contrary, a downward rating pressure could develop if SPCG's cash flow weakens considerably, which might occur from significant deterioration of plant performance or failure to replenish dwindling revenues. A negative rating pressure could also arise from SPCG's excessive use of debt to fund new investments.

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 renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET). As of March 2020, the Khunchornyakong family held a 37% 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 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2020	---------------Year Ended 31 December ------------ 2019	2018	2017	2016
Total operating revenues	1,462	5,274	5,998	6,015	5,460
Earnings before interest and taxes (EBIT)	949	3,378	3,480	3,437	3,301
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,120	4,050	4,171	4,081	3,954
Funds from operations (FFO)	1,039	3,653	3,606	3,398	3,199
Adjusted interest expense	69	361	504	618	746
Capital expenditures	7	31	17	90	91
Total assets	22,858	21,903	22,798	23,027	24,232
Adjusted debt	2,945	3,417	6,776	9,220	10,700
Adjusted equity	15,581	15,604	13,881	11,208	9,766
Adjusted Ratios					
EBITDA margin (%)	76.65	76.79	69.54	67.85	72.42
Pretax return on permanent capital (%)	15.49	15.48	15.80	15.29	13.93
EBITDA interest coverage (times)	16.19	11.23	8.28	6.60	5.30
Debt to EBITDA (times)	0.72	0.84	1.62	2.26	2.71
FFO to debt (%)	127.02	106.91	53.21	36.86	29.89
Debt to capitalization (%)	15.90	17.96	32.80	45.13	52.28

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

SPCG PLC (SPCG)

Company Rating:	A
Issue Ratings:	
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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