

# SPCG PLC

No. 14/2024  
19 February 2024

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Rating:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 01/03/23

### Company Rating History:

Date	Rating	Outlook/Alert
25/03/21	A-	Stable
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 rating on SPCG’s senior unsecured debentures at “A-”, with a “stable” outlook. The ratings reflect the highly reliable cash flow generation of SPCG’s solar power portfolio. The ratings also embed our expectation of SPCG maintaining a debt-free capital structure in the foreseeable future. Contrarily, the ratings are held back by the imminent drop-off in earnings, resulting from the complete phase-out of additional tariff (adder) and the successive delay of SPCG’s new power projects. We view the lower earnings base as constraint for meaningful expansion without incremental debt.

## KEY RATING CONSIDERATIONS

### Solar portfolio constitutes highly reliable cash flow

The reliability of SPCG’s cash flow stems from its 36 solar farms in Thailand, underpinned by the low operational risks and minimal counterparty risk. SPCG’s solar farms operate under non-firm long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA), covering 206 megawatts (MW). Under the PPAs, all solar farms have benefited from a THB8-per-kilowatt-hour (kWh) adder on top of the base tariff for the first 10 years.

SPCG’s solar farms have delivered satisfactory results on average. Most solar power plants consistently beat the studied operating performance threshold of the P50 level (a statistical level of confidence suggesting that the predicted solar energy yield could be achieved with 50% probability). For the first nine months of 2023, SPCG’s solar farms continued to perform satisfactorily, selling electricity of 276 gigawatt-hour (GWh) of electricity.

We project SPCG will have flat electricity sales for the whole year ending 2023. However, we expect the company will record earnings before interest, taxes, depreciation, and amortization (EBITDA) from its solar farms of about THB2.7 billion in 2023, marking a drastic contraction from about THB3.5 billion in 2022. This is due to a receding average tariff earned.

### Imminent drop-off in earnings

Looking further ahead, we expect to see SPCG’s earnings plunge due to the complete phase-out of adder. Currently, 23 out of 36 solar farms no longer enjoy the favorable adder and receive only a base tariff for power sales. The adder received by the remaining solar farms will entirely expire in June 2024. As a result, the average tariff will steeply decline to nearly THB5 per kWh in 2024 from THB8 per kWh in 2023. The tariff earned will fall further to below THB4 per kWh in 2025.

With that, we project SPCG’s EBITDA from the solar farms to plunge to THB1.5 billion in 2024 before sliding down to THB1.2 billion in 2025, recognizing the full impact of adder expiration.

### EEC Solar Project not materialized as planned

SPCG has endeavored to develop the 500-MW solar farm project in the Eastern Economic Corridor (the EEC Solar Project). The project, which is meant to make up SPCG’s weakening EBITDA, is co-invested by SPCG and PEA. The project company, SET Energy Co., Ltd. (SET Energy), is 75% owned by SPCG. PEA ENCOM International Co., Ltd. (PEA-ENCOM), a wholly owned subsidiary of PEA, holds the other 25% stake. SET Energy would sell electricity to PEA via PEA-ENCOM under a long-term PPA.

SPCG has spent about THB3 billion in acquiring lands to develop the first phase of the project (316 MW). However, the construction has been delayed for nearly three years due to long-pending regulatory approvals. We leave out the EEC Solar Project from our base forecast, as opposed to our previous rating assessments, given our assumption that the project will not progress.

### Investments in Japan

In addition to the core 36 solar farms, SPCG has investments in solar power projects in Japan. The company holds a 10% stake in the 67-MW Fukuoka Miyako Mega Solar Project. SPCG has also invested in the 480-MW Ukujima Mega Solar Project. The company will spend a sum of around THB2.6 billion for a 17.9% equity interest in the Ukujima Project. We expect SPCG to spend about THB1.1 billion in 2024 for the final equity injection. The Ukujima Project was previously slated to start operation in 2024. However, the commercial operation date is currently expected to occur in July 2025 due to a delay in obtaining requisite permits. We expect SPCG to earn dividends from full-year performances of this project from 2026 onwards.

### Debt-free capital structure to maintain

SPCG virtually has no debt, with a net cash positive position since September 2022. We project SPCG to maintain its debt-free capital structure as we expect SPCG will not carry out sizeable investments over the forecast period. In our base case, we forecast SPCG's total EBITDA to stand at THB2.8 billion in 2023, then plummet to THB1.4 billion in 2024. We expect SPCG to arrive at THB1.2 billion in total EBITDA per year during 2025-2026, given the full impact of adder expiration.

Despite the currently strong capital, we view SPCG's new EBITDA base will preclude the company from meaningful expansion without incremental debt. We also note that a high debt financed project at this point could weaken SPCG's financial risk profile as its core EBITDA are reaching the lowest level.

### Adequate liquidity

We view SPCG as having adequate liquidity relative to its maturing debt. SPCG will have debt obligations coming due in the next 12 months of THB0.7 billion, while as of September 2023, the company had cash of THB4.5 billion.

### Debt structure

At the end of September 2023, SPCG's total debt, excluding lease liabilities, was THB2.2 billion, comprising solely senior unsecured debentures. There is no subordination risk for SPCG's unsecured creditor.

### BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for SPCG's operations during 2023-2026:

- Annual power sale to range between 360-368 GWh.
- Revenue from solar rooftop installation business to be about THB0.7-THB1 billion per annum, with a gross profit margin of 25%-30%.
- Development of the EEC Solar Project to stand still.
- Capital expenditures to be THB0.1 billion per annum.
- Final equity injection for the Ukujima Project of THB1.1 billion to be made in 2024.
- Dividend payment to be about THB1 billion per year.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that SPCG's existing power portfolio will continue to perform well and generate cash flow as forecast, resulting in its operating performance and financial leverage to be in line with our forecast.

### RATING SENSITIVITIES

An upgrade of ratings is unlikely, given that SPCG's cash flows are tapering off due to the expiring adders. Conversely, we could take a negative action on the ratings if SPCG's capital structure weakens considerably due to high debt-funded projects. A negative pressure on the ratings might also happen if the company's power plants significantly underperform, leading to subdued earnings.

### 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 August 2023, the Khunchornyakong Family held a 34%

interest in SPCG. SPCG is a holding company, investing in 36 solar farms in Thailand, with a total installed capacity of 260 MW.

SPCG's strong business profile is underpinned by the reliable cash flows it earns from investing in solar power projects. SPCG, through its operating subsidiaries, owns 36 operational solar power plants in Thailand. All plants have PPAs with PEA and have schemes receiving a tariff adder of THB8 per kWh on top of the normal tariff for 10 years. The company's solar farms are located in nine provinces in northeastern Thailand and in Lopburi Province.

SPCG has endeavored to seek new project investments to replenish its dwindling earnings. The company has invested in the Ukujima Mega Solar Project, a 480-MW solar farm located in Ukujima Island, Japan. In total, SPCG will spend around JPY9 billion for a 17.92% share in the project, along with reputable partners, such as Kyudenko Corporation, and Kyocera Corporation. The project is expected to commence operation in July 2025.

Apart from the Ukujima Project, SPCG also invested in the Fukuoka Miyako Solar Project, a solar farm located in Miyako, Fukuoka (Kyushu Island), Japan. The project has a 67-MW total installed capacity, including 23 MW for the North Phase and 44 MW for the South Phase. SPCG spent around THB96 million for a 10% share in the project. The project became fully operational since February 2023.

SPCG has endeavored to develop the solar farm project in the EEC area. The company holds a 75% share in the project company, SET Energy. PEA-ENCOM, a subsidiary of PEA, holds the remaining 25%. The EEC Solar Project is aimed at producing and distributing the electricity to the PEA.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	3,228	4,466	4,568	4,976	5,260
Earnings before interest and taxes (EBIT)	1,802	2,821	3,023	3,339	3,365
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,290	3,479	3,688	4,019	4,036
Funds from operations (FFO)	2,047	3,131	3,390	3,737	3,632
Adjusted interest expense	40	104	155	207	361
Capital expenditures	139	116	2,725	38	31
Total assets	24,191	23,718	24,048	21,718	21,903
Adjusted debt	0	0	1,721	2,122	3,417
Adjusted equity	21,478	20,974	19,347	17,156	15,604
<b>Adjusted Ratios</b>					
EBITDA margin (%)	70.9	77.9	80.7	80.8	76.7
Pretax return on permanent capital (%)	11.0 **	12.0	13.4	15.6	15.4
EBITDA interest coverage (times)	56.5	33.5	23.8	19.4	11.2
Debt to EBITDA (times)	0.0 **	0.0	0.5	0.5	0.8
FFO to debt (%)	n.m. **	n.m.	197.0	176.1	106.3
Debt to capitalization (%)	0.0	0.0	8.2	11.0	18.0

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

n.m. = Not meaningful

**RELATED CRITERIA**

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**SPCG PLC (SPCG)**

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<b>Company Rating:</b>	A-
<b>Issue Rating:</b>	
SPCG24OA: THB1,500 million senior unsecured debentures due 2024	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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