SPCG PLC

No. 42/2015 4 June 2015

Company Rating: A-

Issue Rating:

Guaranteed BBB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/05/14	BBB+	Stable

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Rating Rationale

TRIS Rating upgrades the company rating of SPCG PLC (SPCG) to “A-” from "BBB+". At the same time, TRIS Rating also upgrades the rating of SPCG’s guaranteed and amortized debentures to "BBB+" from "BBB". The upgrade reflects the successful start-ups of all SPCG’s solar power projects in 2014, better-than-expected operating performance, and its leading position in Thailand's solar power industry.

The ratings also continue to reflect the stable cash flows from SPCG’s investment portfolio which comprises 36 solar power projects. All of the projects have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA), plus an adder tariff of Bt8 per kilowatt-hour (kWh) of solar energy under the Very Small Power Producer (VSPP) scheme. The ratings also take into consideration SPCG’s management experience in the solar power industry, the proven record of photovoltaic (PV) technology, and SPCG's selection of solar panels and inverters from reputable suppliers. However, the ratings are constrained by SPCG’s high leveraged balance sheet.

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 listed to the Stock Exchange of Thailand (SET). As of March 2015, the Khunchornyakong family held a 49% interest in SPCG. Currently, SPCG is a holding company that invests in 36 solar power projects with a combined contracted capacity of 205.92 megawatts (MW). In 2014, 90.8% of SPCG’s revenue came from solar farms, 6.3% from a metal sheet roofing factory, and the remaining 2.9% from solar rooftops and others.

SPCG’s business profile is strong. All 36 solar power projects have PPAs with the PEA and receive adder tariff of Bt8 per kWh for 10 years. The company’s solar farms are located in nine provinces in the Northeastern region of Thailand and Lopburi. Based on a study by the Department of Alternative Energy Development and Efficiency (DEDE), the level of solar irradiation in the Northeastern region of Thailand measures 19-20 megajoules per square meter (MJ/m^2) per day (or 5.28-5.56 kWh/m^2 per day) on average, higher than the national average of 18 MJ/m^2 per day (or 5 kWh/m^2 per day).

SPCG’s solar farms use multi-crystalline PV modules purchased from Kyocera, Japan. Kyocera has supplied more than 1.2 gigawatts (GW) of PV modules for utilities and households around the world since 1982, when it began mass producing multi-crystalline PV modules. SPCG’s solar modules carry a 25-year warranty on efficiency. SPCG’s inverters were supplied by SMA Solar Technology AG (SMA) and are secured by 20-year warranty contracts. SMA has supplied PV inverters with a combined capacity of 35 GW worldwide since 1981.

Currently, all of SPCG's solar farms are in operation. Its first farm has already reached five years of operation while its last farm started up in June 2014. In 2014, SPCG's average plant performance ratio was 78.5%. SPCG's power output increased from 178.7 Gigawatt hour (GWh) in 2013 to 339.9 GWh in 2014, a 90.3% increase. The higher generation was due to the new capacity added during 2013 - 2014. The actual power output of 339.9 GWh was 6.3% higher than an initial estimation based on a 50% probability (P50) of energy production. If the actual power output is compared with the 90% probability estimate or P90, the actual power output was higher by 13.4%. For the first three months of 2015, SPCG's operations continued to beat the initial estimation. SPCG generated 98.5 GWh of electricity in the first three months of 2015, 54.2% higher than in the same period of 2014. This amount of electricity exceeded the P50 estimation by 6.8% and was 13.8% higher than the P90 estimation. SPCG generated more power because the solar irradiation levels and plant's efficiency were better than expected.

At the end of March 2015, SPCG's total debt was Bt17,509 million, down from a peak of Bt18,014 million at the end of 2014, in accordance with SPCG's repayment schedule. Its total shareholders' equity improved to Bt7,743 million, partly due to a capital increase of Bt1,841 million through a private placement with Gulf International Investment (Hong Kong) Ltd. (Gulf). The company's total debt to capitalization ratio was 69.3% at the end of March 2015. The company's high leverage is partly offset by the stable and predictable cash flows produced by each solar project. Solar farms have a high operating margin (operating income before depreciation and amortization as percentage of sales) because of the adder tariff and low operating expenses. All SPCG's solar farm has a favorable electricity tariff of approximately Bt11 per kWh with an earnings before interest, tax, depreciation and amortization (EBITDA) margin of approximately 85%.

TRIS Rating's base-case scenario assumes an energy generation will match the P90 estimate and the performance ratio will be 77.5%. The electricity energy produced in the base-case scenario is expected to range from 340-350 GWh per annum. SPCG's EBITDA is expected to reach Bt3,400-Bt3,500 million per year during 2015-2020. From 2021 onwards, EBITDA is expected to gradually decline as the adder scheme starts to expire. The debt to capitalization ratio is expected to improve to 60%-65% by the end of 2016.

The "BBB+" rating for the guaranteed and amortized debentures issued by SPCG reflects the structural subordination of the issue, given that SPCG's cash flows are mainly derived from its operating subsidiaries. The dividends paid by its subsidiaries to SPCG are subject to the terms stipulated in the subsidiaries' project loans.

Rating Outlook

The "stable" outlook reflects the expectation that SPCG will be able to maintain its plant performance ratio of above 75% for the next three years with an expected EBITDA of Bt3,400-Bt3,500 million per year.

The credit upside for SPCG is limited over the next 12 months. On the contrary, the credit downside for SPCG would occur due to following factors: the deterioration in solar farm performance, which materially affects SPCG's ability to generate cash or a weaker capital structure due to large debt-funded investments.

SPCG PLC (SPCG)

Company Rating:	A-
Issue Rating:	
SPCG196A: Bt4 ,000 million guaranteed and amortized debentures due within 2019	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2015	-------------Year Ended 31 December ------------ 2014	2013	2012	2011
Revenue	1,357	4,357	2,473	1,214	579
Gross interest expense	234	979	605	230	103
Net income from operations	558	1,632	496	7	7
Funds from operations (FFO)	728	2,514	1,023	279	207
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,017	3,407	1,658	555	243
Capital expenditures	18	1,358	8,339	6,055	1,773
Total assets	25,618	25,571	22,501	13,052	5,217
Total debts	17,509	18,014	16,646	8,171	2,970
Shareholders' equity	7,743	7,100	3,513	2,589	1,160
Operating income before depreciation and amortization as % of sales	74.3	77.5	65.5	44.7	41.2
Pretax return on permanent capital (%)	13.5 **	12.5	8.5	5.3	6.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.4	3.5	2.7	2.4	2.4
FFO/total debt (%)	16.2 **	14.0	6.1	3.4	7.0
Total debt/capitalization (%)	69.3	71.4	82.6	75.9	71.9

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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