SPCG PLC

No. 37/2014

2 May 2014

Company Rating: BBB+

Outlook: Stable

Issue Rating: BBB

Rating Rationale

TRIS Rating assigns the company rating to SPCG PLC (SPCG) at "BBB+". At the same time, TRIS Rating assigns a rating of "BBB" to SPCG's proposed issue of up to Bt4,000 million in guaranteed and amortized debentures. The ratings reflect the stable cash flows from SPCG's investment portfolio comprising 36 solar power projects. All of the projects have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA), plus the adder tariff received as a producer of solar power energy under the Very Small Power Producer (VSPP) scheme. The ratings also take into consideration SPCG's management experiences in solar power business, the proven record of photovoltaic (PV) technology, and a selection of solar panels and inverters from reputable suppliers. However, the ratings are constrained by SPCG's highly leveraged balance sheet and limited operational history.

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 on MAI to the Stock Exchange of Thailand (SET). As of March 2014, the Khunchornyakong family held a 54.36% interest in SPCG. Currently, SPCG is a holding company that invests in 36 solar power projects owned and operated by its subsidiaries. The projects have a combined contracted capacity of 205.92 megawatts (MW). Each of the first 34 projects has a contract capacity of 5.88 MW. Each of the last two projects has a contract capacity of 3.00 MW. In 2013, 83.4% of SPCG's revenue came from solar farms, 12.7% from metal sheet roofing factory, and the remaining 3.8% from solar rooftops and others.

SPCG's business profile is strong. All 36 solar power projects have PPAs with the PEA and receive an adder tariff of Bt8 per kilowatt-hour (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 solar irradiation in the Northeast 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 5.00 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 were secured by 20-year warranty contracts. SMA has supplied PV inverters with a combined capacity of 30 GW worldwide since 1981.

As of 30 April 2014, 31 of SPCG's projects, with a total contracted capacity of 176.52 MW, were in operation. The remaining five projects are expected to commence operation by mid-2014. The total investment cost for all 36 projects is budgeted at Bt21,900 million, of which Bt16,100 million is funded with debt.

At the end of 2013, SPCG's total debt was Bt16,646 million and the total debt to capitalization ratio was relatively high at 82.6% because the solar farms are in the initial stage of operations. The high leverage was 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

Contacts:

Sermwit Sriyotha
sermwit@trisrating.com

Pravit Chaichamnapai
pravit@trisrating.com

Yingyong Chiaravutthi, CFA
yingyong@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

percentage of sales) because of the adder tariff and low operating expenses. The current electricity tariff for solar power project comprises three components: the time of use (TOU) tariff, the Ft charge, and the adder. All three components totaled approximately Bt11.6 per kWh as of February 2014. Each solar project has an expected payback period of six to seven years.

For 2013 operation, SPCG generated 178.7 GWh of electricity with an average plant performance ratio of 78.5%. The actual power generation was 2.6% higher than an initial estimation that is 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 generation was higher by 9.6%. 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 produced in the base-case scenario is expected to range from 335-345 GWh per annum. SPCG's earnings before interest, tax, depreciation and amortization (EBITDA) is expected to reach Bt3,500-Bt3,550 million per year during 2015-2020. From 2021 onwards, EBITDA is expected to gradually decline as the adder scheme starts to expire. SPCG's total debt is expected to be approximately Bt18,000 million by the end of 2014. 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 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. The proceeds from the debentures will be used to refinance the company's existing loans and to fund its expansion.

Rating Outlook

The "stable" outlook reflects the expectation that SPCG's remaining five projects will commence operations as planned and the company will generate predictable EBITDA in a range of Bt3,500-Bt3,550 million per year. The ratings do not expect SPCG to make any sizable investments without additional equity financing. If these assumptions hold, the debt to capitalization ratio will improve as expected.

SPCG PLC (SPCG)

Company Rating:	BBB+
Issue Rating:	
Up to Bt4 ,000 million guaranteed and amortized debentures due within 2019	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	-------- Year Ended 31 December ------		
	2013	**2012**	**2011**
Sales	2,473	1,214	579
Gross interest expense	605	230	103
Net income from operations	496	7	7
Funds from operations (FFO)	998	279	207
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,658	555	243
Capital expenditures	8,339	6,055	1,773
Total assets	22,501	13,052	5,217
Total debts	16,646	8,171	2,970
Shareholders' equity	3,513	2,589	1,160
Operating income before depreciation and amortization as % of sales	65.5	44.7	41.2
Pretax return on permanent capital (%)	8.5	5.3	6.5
EBITDA interest coverage (times)	2.7	2.4	2.4
FFO/total debt (%)	6.0	3.4	7.0
Total debt/capitalization (%)	82.6	75.9	71.9

* *Consolidated financial statements*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com