

ENERGY ABSOLUTE PLC

No. 91/2022
25 August 2022

CORPORATES

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

Last Review Date: 19/04/22

Company Rating History:

Date	Rating	Outlook/Alert
10/05/19	A	Stable
09/04/18	A-	Stable
02/06/16	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Energy Absolute PLC (EA) at "A" and affirms the ratings on EA's senior unsecured debentures at "A-", with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to EA's newly proposed issue of THB4 billion and additional greenshoe portion of up to THB2 billion senior unsecured debentures. The company intends to use the proceeds from the new debentures to support its battery manufacturing and electric vehicle (EV) businesses.

The ratings continue to reflect EA's robust cash flows from its power generation assets with long-term Power Purchase Agreements (PPAs), as well as its first-mover position in the lithium-ion battery manufacturing industry and a moderate financial profile. However, the ratings are constrained by execution risks in its battery manufacturing and EV businesses as well as continued rising debt from investments and working capital needs for the EV business.

EA's cashflow generation during the first six months of 2022 was relatively stable. EA's revenue increased by 6.5% year-on-year (y-o-y) to approximately THB10.3 billion. Its earnings before interest, taxes, and depreciation, and amortization (EBITDA) slightly dropped by 1.8% y-o-y to about THB4.7 billion. Earnings from the operation of solar and wind power plants remain solid. Total power outputs for the first half in this year were 662 million kilowatt-hour (kWh), a 4.1% decline from the previous year due to slower wind speed. However, this has been offset by a heightening tariff rate following the upward adjustment of Ft from the beginning of this year.

EA's revenue is likely to grow in the second half of 2022, given the company's plan to start delivering 800 units of new E-buses in the third quarter with the total sales estimated at 1,200-1,500 units in this year. The company's EV-related business is benefiting from an upward trend in demand for EV in Thailand, accelerated by currently high fuel prices and incentives from government EV promotions. However, this promising outlook faces challenges from intensifying competition with the entry of international battery and EV manufacturers, technology risk, and cost pressure from rising raw material prices.

We expect EA's financial profile to remain at the current level despite the rise in debt to fund working capital for the E-bus assembling business, expansion plans for battery and EV assembling factories, and a potential business acquisition to strengthen its presence in the EV market. New earnings derived from battery and EV businesses should adequately compensate its high leverage. During 2022-2024, we expect the net debt to EBITDA to stay at 4-5 times and the ratio of funds from operations (FFO) to net debt to be about 20%.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EA's reliable and sizable cash generation from its power business will continue to be the main source of cash flows to the group. We expect EA's financial performance to stay in line with our forecast while the EV business should begin to generate satisfactory returns for the company over the next few years.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited in the next few years due to the execution risks associated with the battery- and EV-related businesses. However, a rating upside may occur if EA can materially enlarge its cash generation while maintaining a sound balance sheet. On the other hand, we could lower the ratings if EA's financial profile is materially weaker than our expectations. This could happen due to a significantly lower-than-expected profit in battery and EV business, aggressive debt-funded investments, or large equity losses from the new businesses.

RELATED CRITERIA

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

Energy Absolute PLC (EA)

Company Rating:	A
Issue Ratings:	
EA237A: THB1,000 million senior unsecured debentures due 2023	A-
EA248A: THB1,500 million senior unsecured debentures due 2024	A-
EA257A: THB700 million senior unsecured debentures due 2025	A-
EA260A: THB3,000 million senior unsecured debentures due 2026	A-
EA297A: THB2,000 million senior unsecured debentures due 2029	A-
EA298A: THB2,000 million senior unsecured debentures due 2029	A-
Up to THB4,000 million senior unsecured debentures and additional greenshoe portion of up to THB2 billion due within 10 years	A-
Rating Outlook:	Stable

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