

ENERGY ABSOLUTE PLC

No. 53/2024
11 April 2024

CORPORATES

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

Last Review Date: 27/07/23

Company Rating History:

Date	Rating	Outlook/Alert
27/07/23	A-	Negative
24/04/23	A-	Stable
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) and the ratings on its senior unsecured debentures at “A-”. At the same time, we maintain the “negative” rating outlook.

The ratings continue to reflect EA’s robust cash flows from its power generation assets with long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). The ratings also incorporate EA’s business integration in the supply chain for electric vehicles (EVs) in Thailand. However, the ratings are constrained by its short track record and risks inherent in its battery manufacturing and EV businesses, heightened counterparty risk with Thai Smile Bus Co., Ltd. (TSB), and the possibility of further weakening of its financial profile.

KEY RATING CONSIDERATIONS

Limited headroom for additional leverage

EA’s headroom for financial leverage is quite limited, in TRIS Rating’s view. EA’s debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio stood at around 5 times in 2023, with its debt reaching THB64 billion at the end of December 2023, a sharp rise from THB44 billion at the end of December 2021. The additional debt was primarily allocated to fund working capital needs for the production of EVs and for hire-purchase loans to TSB. However, returns from the new businesses remain small compared with the size of the investment.

With the expiration of adders in the power generation business, EA’s overall EBITDA could decline to THB8 billion in 2026, from about THB10-THB11 billion in 2024. Thus, without a considerable increase in earnings from the EV business, the company’s debt to EBITDA ratio may rise above 5 times, surpassing our rating downgrade threshold. Therefore, in our view, EA has limited headroom to take on additional debt. We expect EA to prudently manage its working capital and capital expenditure (CAPEX) in order to keep its debt to EBITDA ratio below 5 times.

Reliable cash flows from power portfolio

Sizable and predictable cash flows from EA’s power portfolio continue to be a vital factor in supporting its credit strength. The healthy cash flow is backed by long-term PPAs with EGAT and PEA, together with the low operational risks of solar and wind farms. Also, the company benefits from the 10-year adder tariffs, which lift cash flow and profitability until the adder expiration.

EA’s total power generating capacity is 664 megawatts (MW), consisting of four solar farms (278 MW) and two wind projects (386 MW). All of EA’s renewable power projects have been operating fully since 2019, providing an average EBITDA of THB10-THB12 billion per annum during 2020-2023.

Adder tariffs to start phasing out

TRIS Rating expects a decline in EA’s cash flow from the power portfolio as the expiration of adder tariffs of its solar and wind farms start to expire. The adder of THB6.5 per kWh from three core solar farms, each with a capacity of 90 MW, will expire gradually between 2024 and 2026. The adder of THB3.5 per kWh for two wind farms is set to expire in 2027 and 2029, respectively.

Given the adder expiration, TRIS Rating predicts the average tariff for solar projects to reduce to THB3.5 per kWh in 2026 from THB10.5 per kWh in 2023. The average tariff for wind farms will stay at about THB6.6 per kWh over the same period. This translates to a reduction in EBITDA of about THB1.1-THB1.5 billion per year during 2024-2026.

First-mover and business integration in EVs

EA has fully embarked on its venture in the rapidly evolving EV industry with a focus on the commercial sector, encompassing E-buses, E-tractors, and E-trucks. This specialized focus has positioned EA favorably to capture nascent demand within public transportation and logistics operations, where the degree of competition may relatively low compared with the broader consumer segment.

EA's competitive edge is supported by its vertical integration across the EV supply chain, spanning from the production of batteries, the manufacture and assembly of a range of vehicles, and the installation of charging stations with the fast-charging battery technology. This integrated approach allows the company to offer a package of solutions to align with a diverse range of customer requirements in the commercial sector. However, given its relatively short track record in this business, the success of EA's business model remains to be seen.

Risks inherent in battery manufacturing and EV businesses

Challenges in the EV industry and EA's short track record in the EV business continue to constrain its credit profile. EA's market position is likely to be threatened by the prospect of growing competition from global EV and battery manufacturers as well as the rapid evolution of battery production technology. However, EA is attempting to address those risks by focusing on niche markets within the commercial sector and collaborating with international battery producers. Such a partnership should help enhance its technological capability and broaden its range of products and applications.

We view EA will gradually earn customer acceptance in terms of product quality, as evidenced by rising sales to external customers. In 2023, the total number of EVs sold grew by 95% to 2,264 units. Of these, 1,640 units were sold to TSB while 624 units were sold to external customers. However, EA is likely to face the challenge of sustaining sales growth momentum this year following an anticipated sharp decline in delivery to TSB. We hold the view that success in the battery and EV businesses still hinges on the speed of market transition to EV and gaining trust from external customers.

Heightening counterparty risk from TSB

A substantial increase in its hire-purchase loans to TSB has heightened the counterparty risk with TSB. EA has extended hire-purchase loans to TSB in connection with the sales of E-buses to TSB. The amount of loan has increased sharply over the past two years, totaling THB9.4 billion at the end of December 2023. TSB is a large bus operator and is now facing operational challenges with substantial losses and high levels of debt. EA has started limiting its exposure by scaling down the delivery of E-buses during the second half of 2023. Any impairment of EA's hire-purchase loans could have a significant impact on its overall risk profile.

TSB is in the process of restoring its financial strength. Beyond Security PLC (BYD), its parent company, is undergoing an organizational restructuring to provide enhanced financial support. At the end of December 2023, BYD had extended THB9.15 billion loans to TSB. BYD is adjusting its loan terms with TSB to extend interest and principal repayment schedules. We expect BYD will continue to provide financial support to TSB, maintaining TSB's bus operation and its debt servicing ability.

Manageable liquidity

EA is likely to take on more debt to cover its uses of funds over the next 12 months. These include total debt repayments of THB15.7 billion (including short-term loans of about THB8.8 billion for working capital), debenture payments of THB5.5 billion, capital expenditure of THB4.9 billion, and estimated dividend payments of THB1.1 billion. Sources of funds include cash and cash equivalents of about THB2.5 billion, plus estimated funds from operations (FFO) of THB8 billion. The company also has an undrawn credit line of THB5.35 billion.

We believe the company will be able to source adequate funds to cover the shortfall, given its strong cash flow generation from the power business and good track record in accessing the debt market in the past. The company is likely to refinance maturing debentures with new issuances.

Capital structure

At the end of December 2023, EA's total outstanding debt, excluding financial leases, was THB62.7 billion, of which about THB18.7 billion was priority debt. The priority debt ratio was 29.8%. As a result, we view the unsecured debenture holders are not significantly disadvantaged to the company's priority debt holders.

BASE-CASE ASSUMPTIONS

- Estimated power output at 1,400-1,450 GWh during 2024-2026.
- Revenue to drop in a range of THB24-THB26 billion per annum during 2024-2026.
- EBITDA to drop to about THB8 billion in 2026 from THB10-THB11 billion in 2024.
- CAPEX of THB14 billion for in 2024-2026, including an expansion for battery factory and charging station network, investment in waste management and waste to energy projects, as well as a wind farm project.
- Dividend payment of THB1.1 billion in 2024 and to reduce to THB0.8 billion following adder expiration.
- Hire-purchase loan exposure to TSB will not increase further.

RATING OUTLOOK

The “negative” outlook reflects our concerns of a rise in EA’s leverage in the near future. The expiration of adder tariffs will gradually lower cash generation from the power business, which may not be offset by earnings growth from the EV business.

RATING SENSITIVITIES

We could lower the ratings if EA’s financial profile deteriorates further, which may be due to a significant increase in working capital needs, aggressive debt-funded investments, or weak financial operations from the new businesses. A payment default by TSB would also lead to a downgrade action.

A rating upgrade is unlikely in the near term. However, a revision of outlook to “stable” may occur if EA is able to reduce its debt and/or regain its financial strength significantly, for instance, if its net debt to EBITDA remains well below 5 times on a sustainable basis.

COMPANY OVERVIEW

EA is a holding company, primarily investing in solar and wind power plants. Established in 2006, the company was previously known as Suntech Palm Oil Ltd., a biodiesel manufacturer, before changing its name to Energy Absolute PLC in 2008. In late 2012, EA expanded into the renewable energy business through the development of solar and wind power projects. The company was listed on the Market for Alternative Investment (MAI) in 2013 and was moved to the Stock Exchange of Thailand (SET) in January 2017. The company’s major shareholder is the Ahunai Family, holding about 43.5% of total shares as of February 2024.

EA’s power business has a total contracted capacity of 664 MW, comprising four solar power projects (278 MW) and two wind power projects (386 MW). All of the power plants are in commercial operation. The company is expanding its scope of investment into the energy storage business and developing a framework to support its emerging EV business. EA’s EV business includes manufacturing of battery, production and distribution of E-cars and E-buses, E-ferry transport services, and EV charging stations.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Business

Business	Revenue (Mil. THB)			Revenue Mix (%)		
	2021	2022	2023	2021	2022	2023
Biodiesel	8,225	7,422	5,647	40%	27%	19%
Power	10,933	11,182	12,729	53%	41%	42%
EV and mass transportation	1,782	6,789	11,377	9%	31%	37%
Battery	568	2,748	4,709	3%	10%	15%
Other business	200	304	814	1%	1%	3%
Less: Inter-segment revenue	(1,537)	(3,091)	(5,202)	(7%)	(11%)	(17%)
Sales revenue	20,173	25,354	30,074	98%	99%	99%
Other revenue	384	354	333	2%	1%	1%
Total revenue	20,558	25,708	30,407	100%	100%	100%

Source: EA

Table 2: Core Power Portfolio as of Dec 2023

Project	Type	Hold (%)	Status	Contracted Capacity (MW)	Tariff Scheme	Commercial Operating Date
Thailand						
ESLO	Solar	100	Operating	8	THB8 adder	Oct-12
ESN	Solar	100	Operating	90	THB6.5 adder	Dec-13
ESL	Solar	100	Operating	90	THB6.5 adder	Feb-15
ESP	Solar	100	Operating	90	THB6.5 adder	Apr-16
Hadkanghan	Wind	100	Operating	126	THB3.5 adder	Jun-17
Hanuman	Wind	100	Operating	260	THB3.5 adder	Apr-19
				664		

Source: EA

Table 3: EA's Power Outputs from Core Projects

Project	2019	2020	2021	2022	2023
Revenue (Mil. THB)					
Solar power	6,158	6,050	6,070	6,732	7,023
Wind power	4,816	4,543	4,863	4,432	5,692
Total	10,974	10,593	10,933	11,164	12,715
Power output (Mil. kWh)					
Solar power	627	621	629	660	667
Wind power	762	733	794	660	791
Total	1,389	1,354	1,423	1,319	1,458
Average tariff (THB/kWh)					
Solar power	9.82	9.74	9.65	10.21	10.53
Wind power	6.32	6.20	6.08	6.72	7.19

Source: EA

Table 4: EA's EV Sales

Types of EV	Units		
	2021	2022	2023
E-bus	112	1,077	1,656
E-tractor and others		83	608
Total	112	1,160	2,264

Source: EA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2023	2022	2021	2020	2019
Total operating revenues	30,146	25,416	20,197	17,109	14,913
Earnings before interest and taxes (EBIT)	9,464	6,869	6,992	6,606	7,423
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	12,882	10,336	9,748	9,397	9,970
Funds from operations (FFO)	10,248	8,733	8,288	7,730	8,526
Adjusted interest expense	2,297	1,426	1,421	1,646	1,433
Capital expenditures	4,738	2,587	6,025	7,247	14,726
Total assets	114,229	103,364	85,476	78,484	70,220
Adjusted debt	64,484	51,670	43,902	44,104	34,372
Adjusted equity	44,010	41,304	35,102	29,627	24,866
Adjusted Ratios					
EBITDA margin (%)	42.7	40.7	48.3	54.9	66.9
Pretax return on permanent capital (%)	9.1	7.7	8.8	9.0	12.4
EBITDA interest coverage (times)	5.6	7.2	6.9	5.7	7.0
Debt to EBITDA (times)	5.0	5.0	4.5	4.7	3.4
FFO to debt (%)	15.9	16.9	18.9	17.5	24.8
Debt to capitalization (%)	59.4	55.6	55.6	59.8	58.0

* Consolidated financial statement

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

Energy Absolute PLC (EA)

Company Rating:	A-
Issue Ratings:	
EA248A: THB1,500 million senior unsecured debentures due 2024	A-
EA249A: THB4,000 million senior unsecured debentures due 2024	A-
EA257A: THB700 million senior unsecured debentures due 2025	A-
EA259A: THB1,250 million senior unsecured debentures due 2025	A-
EA261A: THB1,150 million senior unsecured debentures due 2026	A-
EA269A: THB3,095.7 million senior unsecured debentures due 2026	A-
EA260A: THB3,000 million senior unsecured debentures due 2026	A-
EA279A: THB750 million senior unsecured debentures due 2027	A-
EA281A: THB2,000 million senior unsecured debentures due 2028	A-
EA289A: THB2,770.3 million senior unsecured debentures due 2028	A-
EA297A: THB2,000 million senior unsecured debentures due 2029	A-
EA298A: THB2,000 million senior unsecured debentures due 2029	A-
EA299A: THB1,400 million senior unsecured debentures due 2029	A-
EA301A: THB1,000 million senior unsecured debentures due 2030	A-
EA329A: THB1,700 million senior unsecured debentures due 2032	A-
EA331A: THB2,850 million senior unsecured debentures due 2033	A-
Rating Outlook:	Negative

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