

B. GRIMM BIP POWER 2 LTD.

No. 47/2018
25 April 2018

CORPORATES

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

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RATIONALE

TRIS Rating assigns the company rating of B. Grimm BIP Power 2 Ltd. (BIP2) at "A-" with "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to BIP2's proposed issues of up to Bt3,350 million in senior unsecured debentures. The proceeds from the proposed debentures will be used to refinance BIP2's outstanding project loans.

The ratings reflect the company's reliable cash flow from a long-term power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) under the Small Power Producer (SPP) scheme and a proven record of operating gas-fired combined cycle cogeneration units by its largest shareholder, B. Grimm Power PLC (BGRIM). However, the ratings are partially offset by the company's single asset risk.

KEY RATING CONSIDERATIONS

Reliable cash flow from long-term PPA

BIP2 has a 25-year PPA with EGAT for 90 megawatts (MW) under the SPP scheme. BIP2 also has long-term off-take agreements with industrial customers to sell 18.5 MW of electricity. The PPA with EGAT has helped mitigate the market risk as EGAT agreed to dispatch not less than 80% of the contracted capacity based on operating hours. The PPA also contains a gas price pass-through mechanism. For the industrial customers, the contracts specify the minimum off-take amounts. The electricity tariff charged to the industrial customers is based on the electricity tariff that the Provincial Electricity Authority (PEA) charges to large general service customers. The tariff generally carries a fuel adjustment charge or Ft to adjust for changes in fuel prices. BIP2 holds a gas supply contract (GSA) with PTT PLC (PTT) for 25 years covering the same terms as the PPA with EGAT.

BIP2 sells around 750 gigawatt hour (GWh) of electricity per year. The electricity sold to EGAT accounted for 88% of total electricity sold, while the electricity sold to the industrial customers accounted for 9%-12%, and the rest was sold to B. Grimm BIP Power 1 Ltd. (BIP1) for load management purposes.

BGRIM's expertise in operating cogeneration power plants

BIP2 has its own operation and maintenance teams for day-to-day operations, leveraging BGRIM's expertise in the operation and maintenance of cogeneration power plants. BIP2 also entered into an eight-year long-term service agreement (LTSA) with IHI Corporation (IHI). The agreement has an option for renewal subject to mutual agreement between BIP2 and IHI. The LTSA agreement helps mitigate operational risks and control maintenance costs.

BIP2's operations have met the PPA targets since its inception in January 2016. The actual availability factor was 96.9% in 2016 and 96.2% in 2017, higher than the 90.4% required by the PPA. The PPA allows 840 hours per year for planned maintenance in a normal year and 1,080 hours per year in a year when a major overhaul is planned. The plant heat rate was about 7,644-7,657 British Thermal Unit/kilowatt-hour (BTU/kWh) during the past two years, better than the PPA allowance of 7,950 BTU/kWh. In terms of energy efficiency, BIP2's plant has managed to achieve the primary energy saving (PES) threshold and received an additional tariff of 0.36 Bt/kWh of fuel saving (FS) payment from EGAT.

Proven technology in gas-fired combined cycle cogeneration plant

BIP2's power plant employs proven technology used in its combined cycle cogeneration plant. The GE LM 6000PD gas turbine has a proven track record with a fleet of more than 1,000 units in operation and more than two million operating hours. BIP2's plant is composed of two gas turbine units, two heat recovery steam generators (HRSGs), and one steam turbine. The steam turbine is made by Siemens.

Steady earnings from cogeneration power plant

In 2017, BIP2 had Bt2,218 million in revenue, a slight increase from Bt2,199 million in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) for 2017 were Bt660 million, up from Bt641 million in 2016. Looking forward to the next three years, TRIS Rating expects BIP2's revenue will be around Bt2,000-Bt2,500 million and EBITDA will range between Bt600-Bt700 million per year.

Acceptable capital structure

At the end of 2017, BIP2's debts totaled Bt3,457 million with a debt to capitalization ratio of 68.4%. TRIS Rating expects BIP2's debt to capitalization ratio will be lower in the next three years, hovering at around 60%. The total debt to EBITDA ratio is expected to remain at 5 times.

Satisfactory liquidity and cash flow adequacy

BIP2's liquidity is good. Cash on hand was Bt861 million as of December 2017. Debt repayments will run at Bt100-Bt200 million per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectation that BIP2 will maintain smooth operations, which will generate a reliable stream of earnings (EBITDA) of Bt600-Bt700 million per year.

RATING SENSITIVITIES

An upside for BIP2's ratings is limited over the next 12-18 months. A rating downside case may occur if BIP2's performance deteriorates significantly, hurting its cash flow generation.

COMPANY OVERVIEW

BIP2 was established in 2010 to own and operate a gas-fired combined cycle cogeneration power plant under the SPP scheme. The plant is located in Bangkadi Industrial Park (BIP), Pathumthani province. The power plant has an installed capacity of 114.6 MW plus 20 tonnes of steam per hour. BIP2 started its commercial operation in January 2016. As of December 2017, BIP2's shareholders were BGRIM (74%), BIP (12%), and Nikornkij& Son (BIP Group -- 14%).

KEY OPERATING PERFORMANCE

Plant Performance Statistics of BIP2				
Plant Performance	Unit	2017	2016	
Net output energy *	GWhe	738.4	728.4	
Plant heat rate	BTU/kWh	7,657	7,644	
Primary energy saving factor	%	11.9	11.9	
Availability	%	96.2	96.9	
Unplanned outage	%	3.3	0.5	
Planned outage	%	0.5	2.6	

* Net output of electricity and steam

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	---- Year Ended 31 December ----	
	2017	2016
Revenue	2,218	2,199
Gross interest expense	205	153
Net income from operations	264	309
Funds from operations (FFO)	458	654
Earnings before interest, tax, depreciation, and amortization (EBITDA)	660	641
Total assets	5,606	5,565
Total debts	3,457	3,679
Shareholders' equity	1,597	1,670
Operating income before depreciation and amortization as % of sales	29.1	28.7
Pretax return on permanent capital (%)	9.0	11.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.2	4.2
FFO/total debt (%)	13.2	17.8
Total debt/capitalization (%)	68.4	68.8

Note: All ratios have been adjusted by operating leases.

B. Grimm Power BIP 2 Ltd. (BIP2)

Company Rating:	A-
Issue Rating:	
Up to Bt3,350 million senior unsecured debentures due within 15 years	A-
Rating Outlook:	Stable

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