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TRIS RATING
A Strategic Partner of S&P Global

GULF ENERGY DEVELOPMENT PLC

No. 3/2023
13 January 2023

CORPORATES

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

Last Review Date: 21/06/22

Company Rating History:

Date	Rating	Outlook/Alert
26/08/21	A	Stable
26/04/21	A	Alert Negative
25/12/18	A	Stable

Contacts:

Rapeepol Mahapant

rapeepol@trisrating.com

Narongchai Ponsirichusopol

narongchai@trisrating.com

Parat Mahuttano

parat@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating upgrades the company rating on Gulf Energy Development PLC (GULF) to "A+" from "A" and upgrades the ratings on GULF's senior unsecured debentures to "A" from "A-". The rating outlook remains "stable".

The rating upgrades reflect a substantial rise in GULF's cash flows, following the start of the commercial operation of its Independent Power Producer (IPP) projects. The increasing cash generation will help reduce leverage pressure. The issue ratings' single notch below the company rating reflects the structural subordination of the senior unsecured debentures to the debt obligations of GULF's operating subsidiaries.

The ratings continue to reflect GULF's position as one of the leading power producers in Thailand, its well-diversified portfolio, its proven record of developing and operating power plants, and its highly predictable cash flows, backed by long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable"). However, the ratings are constrained by risks associated with the company's overseas investments and its rapid expansion.

KEY RATING CONSIDERATIONS

Cash flows on the rise

We expect GULF's cash flows to stay on a growth path over the next three years. The company's two IPP projects, with an aggregate equity power capacity (or installed capacity in proportion to its ownership in the power plants) of about 3,700 megawatts (MW)), will significantly bolster its cash flows. Currently, half of the capacity has begun generating power with favorable results. We believe the remaining capacity will commence operation during 2023-2024 as scheduled.

Our base-case projection assumes GULF's total equity power capacity in the operational phase will reach 8,700 MW in the next three years, from 4,966 MW as of December 2022. The additional operating capacity will likely boost the company's total operating revenue to THB115 billion in 2025, from about THB100 billion in 2022. Earnings before interest, taxes, depreciation, and amortization (EBITDA) should rise to THB41 billion in 2025, from about THB30 billion in 2022. Its EBITDA margin (EBITDA as a percentage of revenue) should stay above 30% over the forecast period. GULF sold only about 10% of its electricity sales to industrial customers, helping limit the adverse impacts from the volatile prices of natural gas.

We forecast GULF to receive an annual dividend of THB4-THB6 billion from Intouch Holdings PLC (INTUCH) during 2023-2025, with a special dividend of about THB2 billion in 2023. The considerable amount will help stabilize GULF's cash flows.

Leverage pressure to decline

We believe GULF's financial leverage has already passed the peak level. Despite the continued rapid expansion, the company's rising cash flows should lower its debt to EBITDA ratio to about 7 times over the next three years, from almost 10 times in 2021. Our base-case projection assumes GULF's capital expenditures and equity investments to range from THB20-THB40 billion per annum during 2023-2025.

We expect GULF to rein in its financial leverage. The company recently reduced its ownership in an offshore wind power plant in Germany to 25% from 50%. The divestment proceeds of EUR305 million, or about THB11 billion, helped GULF manage its debt load meaningfully, particularly during rapid expansion. The partial divestment has also allowed GULF to deconsolidate the debt of the power project worth EUR541 million, or about THB20 billion. GULF's large number of investments creates financial flexibility as it can divest parts of its investments to reduce gearing, if needed.

Debt structure

As of September 2022, GULF's consolidated debt was about THB263 billion. Of this, THB159 billion was considered priority debt, comprising secured debt owed by GULF and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 60%, suggesting that GULF's unsecured creditors are significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

Leading market position

GULF is one of the leading power producers in Thailand, considering its large power portfolio. As of December 2022, the company had an aggregate equity power capacity of 8,622 MW. Of this, 4,966 MW was in operation. According to the project schedules, all the power projects under construction and development will be completed by 2027.

The company's power portfolio will likely grow further, considering its growth strategy and potential project developments. GULF, as a leading power company, is well positioned to benefit from the Thai government's goals to achieve carbon neutrality and net-zero greenhouse gas emissions, with a new quota for purchasing electricity from renewable energy sources. The company is also exploring acquisition opportunities, focusing on renewable power projects to make its power portfolio greener. We have not incorporated potential acquisitions in our base-case forecast.

Well-diversified power portfolio

GULF has a well-diversified power portfolio with more than 30 projects in Thailand and abroad. Gas-fired power plants are the centerpiece of its power-generating assets, making up 93% of total equity power capacity or 8,057 MW. The remaining 565 MW is derived from renewable power projects including solar and wind power plants in Vietnam (229 MW), a wind power plant in Germany (116 MW), as well as a biomass power plant, wind power plants, and solar rooftops in Thailand (221 MW). GULF aims to increase the mix of renewable power to 30% of the total power capacity by 2030, from about 8% at present. Additional capacities of about 5,000 MW from new local and overseas renewable power projects would be needed to achieve the target. GULF recently acquired a 50% stake in Gulf Gunkul Corporation, a joint venture between GULF and Gunkul Engineering PLC (GUNKUL), owning 178 MW wind power projects in Thailand.

Most of the company's gas-fired power plants are in the central and eastern regions of Thailand. The gas-fired power plants in Thailand comprise 19 co-generation power plants (1,266 MW of equity installed capacity) under the Small Power Producer (SPP) scheme, and six combined-cycle power plants (6,043 MW of equity installed capacity) under the IPP scheme. These include capacities from the "Hin Kong Power" and "Burapa Power" IPP power plants with a combined equity capacity of 965 MW. In addition to the domestic plants, GULF is acquiring a 49% stake in Jackson Generation, LLC, owning a 1,200 MW gas-fired power plant in the US, valued at US$409.6 million or nearly THB14 billion.

Highly predictable cash flows from PPAs with EGAT

The ratings reflect the highly predictable cash flows GULF receives from its power plants, supported by long-term PPAs with fuel price pass-through mechanisms. The company currently sells about 90% of its equity capacity to EGAT under the SPP and IPP schemes. Each contract with EGAT is effective for 25 years from the date the power plant begins commercial operation. For the IPP projects, EGAT is obliged to pay the full amount of the availability payment (AP) as long as GULF has maintained the availability of the plant as agreed in the PPA. Even if EGAT has not dispatched electricity from GULF's IPP power plants, it is obliged to pay the AP. A PPA under the SPP scheme differs slightly. Under the terms of a PPA for an SPP plant, EGAT is obliged to buy not less than 80% of the contracted capacity based on operating hours. Both IPP and SPP power plants contain gas price pass-through mechanisms. As a result, cash flows generated from these power plants are highly predictable.

Proven record of developing and operating IPP/SPP plants

The company's management and operating teams have over 20 years of experience in developing and operating power plants in Thailand. The management team continues to demonstrate sound capability in project management. Nearly all power projects currently in operation were completed on time and within budget. This track record helps build confidence that GULF's projects currently under development and construction will be completed on time. Also, GULF's power plants, both SPP and IPP plants, have consistently exceeded the plant availability targets.

GULF mitigates the project completion risk by signing engineering procurement and construction (EPC) contracts with reputable EPC contractors such as Toyo Engineering Corporation and Mitsubishi Hitachi Power System (MHPS). The company employs proven technology from well-known suppliers like Siemens, GE, and Mitsubishi to ensure efficient operations. GULF generally holds long-term service agreements (LTSA) and long-term parts agreements (LTPA) with the original equipment suppliers. The service agreements, which cover the life of the PPA agreements, ensure reliable maintenance services for major pieces of equipment and mitigate fluctuations in the prices of spare parts. Having such a large power portfolio, GULF benefits from economies of scale and enjoys favorable terms with suppliers. The identical plants in its SPP portfolio and the pooling of spare parts help ensure parts availability and cost efficiency.

Risks associated with overseas expansion

We expect GULF to keep expanding internationally. Overseas investment should account for 10%-20% of the company's total investments over the next three years. Despite providing growth opportunities, overseas expansion typically carries higher risks, particularly in fast-growing emerging markets such as Vietnam. Notable risks include changes in regulations, contract enforcement, insufficient infrastructure, and the credit profile of off-takers. GULF's offshore wind power project in Vietnam was affected by the Coronavirus Disease 2019 (COVID-19) pandemic. Only 4 MW of the total equity power capacity of 122 MW could complete construction ahead of the expiry of the Feed-in Tariff (FiT) in November 2021. As a result, commercial operations of the remaining 118 MW have been waiting for a new FiT expected to be announced in 2023. However, GULF should not be materially affected, considering its existing power portfolio. Currently, the company's investments in Vietnam represents only about 3% of its total power portfolio.

Risks associated with GULF's latest overseas investment are acceptable. The Jackson gas-fired power plant operates in the US, where country and regulatory risks are considered low. However, the power plant sells electricity to the wholesale market without PPAs. Fluctuations in power demand and electricity prices could result in more volatile revenue and earnings, compared with power plants in Thailand. As the Jackson power plant's capacity makes up about 7% of GULF's total equity capacity, the market and fuel price risks should have no material impact on GULF.

Diversification into infrastructure and digital businesses

GULF has recently expanded into new areas of businesses including infrastructure and digital. The company, through GULF MTP LNG Terminal, comprising GULF and PTT Tank Terminal Co., Ltd. (PTT Tank), is developing the Map Ta Phut Industrial Port Development Phase 3 (MTP3) project under a Public Private Partnership (PPP) contract with the Industrial Estate Authority of Thailand (IEAT). The THB40 billion project includes infrastructure work (dredging and land reclamation) and superstructure work (seaport and LNG terminal construction). GULF MTP LNG Terminal will receive annual fixed payments of about THB1 billion from IEAT for 30 years after completion of the infrastructure work, scheduled for 2024.

Apart from the MTP3 project, GULF, through GPC Consortium (GPC), is developing the Laem Chabang Port Phase 3 (LCP3) project. The THB30 billion project requires GPC, comprising GULF, PTT Tank, and China Harbour Engineering Co., Ltd. (CHEC), to design, build, and operate Terminals F1 and F2. The LCP3 project will be exposed to market risk as performance of the joint venture will be subject to transport demand. As an equity partner, GULF will receive a share of profit and dividends from GPC. We expect GULF to attempt to minimize demand risk, considering its policy to invest in projects generating fixed returns and predictable cash flows.

GULF, through BGSR Consortium (BGSR), consisting of GULF, BTS Group Holdings PLC (BTS), Sino-Thai Engineering & Construction PLC (STEC), and Ratch Group PLC (RATCH), is also developing two motorway projects, M6 and M81. These two projects, costing about THB12.6 billion in total, require BGSR to design and install toll collection systems, control systems, and other related infrastructure (phase 1) and operate and maintain the projects (phase 2). BGSR will not be exposed to ridership risk as it will receive fixed returns after these projects commence operations in 2024. GULF will receive a share of the profit and dividends from BGSR.

In addition to the infrastructure projects, the company's acquisition of a 46.57% stake in INTUCH charts a path to new opportunities in the telecom and digital businesses. The INTUCH acquisition not only provides additional dividend income, but also enables GULF to access new opportunities by leveraging the existing digital platforms owned by Advanced Info Service PLC (ADVANC) and Thaicom PLC (THCOM). The digital platforms could support the power trade if the government permits power producers to sell electricity directly to end-users in the future. GULF recently restructured its shareholding by acquiring a 41.1% stake in THCOM from INTUCH, amounting to THB4.5 billion. GULF would receive an approximate THB2 billion special dividend from INTUCH, causing the net payments for the acquisition to lower to THB2.4 billion. GULF has consolidated THCOM's operations from the end of 2022 onwards and it has recently made a tender offer for the remaining shares of THCOM. We expect no one to sell their stake in THCOM to GULF, considering the low offering price.

Furthermore, GULF recently entered into a Memorandum of Understanding (MOU) with Singapore Telecommunications Ltd. (SINGTEL) to jointly study the potential development of a data center business and with Binance Group (BINANCE) to jointly study the potential development of digital assets exchange and related businesses in Thailand. These collaborations should be crystallized in coming years. We do not include these potential businesses in our base-case forecast.

Liquidity to stay manageable

As of September 2022, GULF had undrawn credit facilities, plus cash and cash equivalents, of about THB59 billion. Over the next 12 months, the company should generate about THB27 billion in funds from operations (FFO) while it has THB24.6 billion in long-term loans and debentures coming due. We expect GULF to continue to manage its liquidity appropriately.

GULF is required by a financial covenant on its debenture obligations to maintain a net interest-bearing debt to equity ratio below 3.5 times. The ratio stood at 1.9 times as of September 2022. We expect GULF to remain compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- Total equity power capacity in the operational phase to reach 8,700 MW in the next three years.
- Total operating revenues to reach THB115 billion in 2025.
- EBITDA margin to stay above 30% during 2023-2025.
- Capital expenditures and equity investments to range from THB20-THB40 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectations that GULF’s power plants in operation will run smoothly and generate cash flows as planned, while the plants under construction will commence operations as scheduled, and that the company’s growth strategy will not significantly weaken its financial profile from the current level.

RATING SENSITIVITIES

A rating upgrade could happen if GULF’s financial profile significantly improves. Conversely, a rating downside could occur if the projects under development are materially delayed from schedules, significantly affecting projected cash flows. Any large debt-funded investment, that materially deteriorates the company’s capital structure, could also put downward pressure on the ratings. A debt to EBITDA ratio significantly above 8 times on a sustained basis could pressure the ratings.

COMPANY OVERVIEW

GULF was established in 2011 as a holding company to invest in power and other energy-related projects. The company received the power portfolio transferred from Gulf Holding Co., Ltd., founded by Mr. Sarath Ratanavadi, in 2012. GULF was listed on the Stock Exchange of Thailand (SET) in late 2017. As of September 2022, Mr. Sarath and related parties held a 73.6% interest in the company.

As of December 2022, GULF had an aggregate equity installed capacity across all power projects of 8,622 MW. Of this, 4,966 MW was in operation.

KEY OPERATING STATISTICS

Table 1: GULF's Power Portfolio (as of Dec 2022)

Company/Project		Type	Fuel	Installed Capacity (MW)	Ultimate Holding (%)	Equity Capacity (MW)	PPA with EGAT/PEA (MW)
In operation							
1.	**Under GMP**						
1.	GVTP	SPP	NG	141	52.5	74	90
2.	GTS1	SPP	NG	138	52.5	73	90
3.	GTS2	SPP	NG	138	52.5	73	90
4.	GTS3	SPP	NG	130	52.5	68	90
5.	GTS4	SPP	NG	130	52.5	68	90
6.	GNC	SPP	NG	127	70.0	89	90
7.	GBL	SPP	NG	130	52.5	68	90
8.	GBP	SPP	NG	130	52.5	68	90
9.	GNLL2	SPP	NG	130	52.5	68	90
10.	GNPM	SPP	NG	138	70.0	97	90
11.	GNRV1	SPP	NG	128	70.0	89	90
12.	GNRV2	SPP	NG	128	70.0	89	90
Sub total				***1,586***		***924***	***1,080***
2.	**Under GJP**						
1.	GNS	IPP	NG	1,668	40.0	667	1,600
2.	GUT	IPP	NG	1,752	40.0	701	1,600
3.	GKP1	SPP	NG	124	40.0	50	90
4.	GKP2	SPP	NG	124	40.0	50	90
5.	GTLC	SPP	NG	126	40.0	50	90
6.	GNNK	SPP	NG	130	40.0	52	90
7.	GNLL	SPP	NG	125	30.0	38	90
8.	GCRN	SPP	NG	126	40.0	50	90
9.	GNK2	SPP	NG	132	40.0	53	90
Sub total				***4,309***		***1,711***	***3,830***
3.	**Under IPD**						
1.	GSRC	IPP	NG	2,650	70.0	1,855	2,500
Sub total				***2,650***		***1,855***	***2,500***
4.	**Under Gulf Solar**						
1.	BV	Rooftop	Solar	0.1	75.0	0.1	-
2.	TS1	Rooftop	Solar	0.1	75.0	0.1	-
3.	KKS	Rooftop	Solar	0.3	75.0	0.2	-
4.	TS2	Rooftop	Solar	0.1	75.0	0.1	-
Sub total				***0.6***		***0.5***	***-***
5.	**Under Gulf Gunkul Corporation**						
1.	WED	Wind farm	Wind	68	50.0	34	60
2.	GNP	Wind farm	Wind	60	50.0	30	60
3.	KWE	Wind farm	Wind	50	50.0	25	50
Sub total				***178***		***89***	***170***
6.	**Others**						
1.	GCG	SPP	Woodchip	25	100.0	25	21
2.	Gulf 1	Rooftop	Solar	42	96.0	40	-
3.	GTN1	Solar farm	Solar	69	90.0	62	-
4.	GTN2	Solar farm	Solar	50	90.0	45	-
5.	BKR2	Wind farm	Wind	465	25.0	116	-
6.	Mekong (partial)	Wind farm	Wind	4	95.0	4	-
7.	DIPWP (partial)	Power & Water	NG	195	49.0	96	-
Sub total				***850***		***388***	***21***
Total in operation				***9,572***		***4,966***	***7,601***

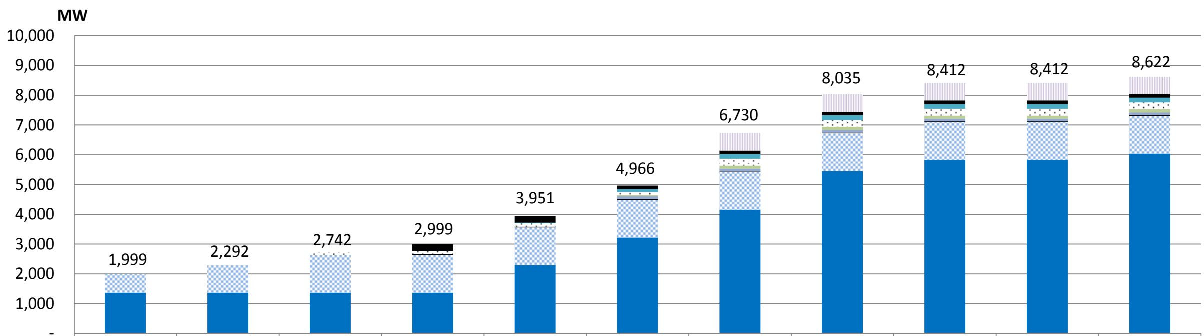
Under construction/development*							
1.	GPD	IPP	NG	2,650	70.0	1,855	2,500
2.	Hin Kong Power	IPP	NG	1,540	49.0	755	1,400
3.	Burapa Power	IPP	NG	600	35.0	210	540
4.	Gulf 1	Rooftop	Solar	91	74.0	67	-
5.	Mekong	Wind farm	Wind	124	95.0	118	-
6.	DIPWP	Power & Water	NG	131	49.0	64	-
7.	Jackson**	Gas-fired	NG	1,200	49.0	588	-
Total under construction/development				***6,336***		***3,656***	***4,440***
Total portfolio				**15,908**		**8,622**	**12,041**

* *Excluding hydro power projects*

** *In operation, but on acquisition process*

Source: GULF

Chart 1: GULF's Equity Installed Capacity in Operational Phase (Based on Projects in Pipeline)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
US - Gas-fired	-	-	-	-	-	-	588	588	588	588	588
Germany - Wind	-	-	-	232	232	116	116	116	116	116	116
Oman - Gas-fired	-	-	-	-	20	96	160	160	160	160	160
Vietnam - Solar and Wind	-	-	107	107	111	111	229	229	229	229	229
Private PPA - Solar Rooftop	0	0	0	0	1	40	107	107	107	107	107
SPP & VSPP - Wind	-	-	-	-	-	89	89	89	89	89	89
SPP - Biomass	-	-	-	25	25	25	25	25	25	25	25
SPP - Gas-fired	630	923	1,266	1,266	1,266	1,266	1,266	1,266	1,266	1,266	1,266
IPP - Gas-fired	1,368	1,368	1,368	1,368	2,296	3,223	4,151	5,456	5,833	5,833	6,043

Source: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	--------------Year Ended 31 December			------------
		2021	2020	2019	2018
Total operating revenues	67,283	47,475	32,883	30,054	17,191
Earnings before interest and taxes (EBIT)	15,884	16,184	10,050	9,049	5,927
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,364	20,556	13,717	10,540	7,839
Funds from operations (FFO)	15,061	13,548	9,040	6,798	4,685
Adjusted interest expense	6,136	6,831	4,676	3,731	3,154
Capital expenditures	15,332	22,196	18,611	13,649	18,558
Total assets	421,621	362,674	245,581	134,278	123,669
Adjusted debt	233,339	200,370	120,797	63,289	51,542
Adjusted equity	122,411	107,509	72,080	49,040	44,788
Adjusted Ratios					
EBITDA margin (%)	32.99	43.11	41.71	35.07	45.60
Pretax return on permanent capital (%)	6.07 **	5.89	5.86	7.47	5.60
EBITDA interest coverage (times)	3.64	3.01	2.93	2.83	2.49
Debt to EBITDA (times)	8.36 **	9.75	8.81	6.00	6.57
FFO to debt (%)	7.92 **	6.76	7.48	10.74	9.09
Debt to capitalization (%)	65.59	65.08	62.63	56.34	53.51

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

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

Gulf Energy Development PLC (GULF)

Company Rating:	A+
Issue Ratings:	
GULF238A: THB4,500 million senior unsecured debentures due 2023	A
GULF241A: THB2,500 million senior unsecured debentures due 2024	A
GULF249A: THB12,000 million senior unsecured debentures due 2024	A
GULF252A: THB10,000 million senior unsecured debentures due 2025	A
GULF258A: THB2,500 million senior unsecured debentures due 2025	A
GULF258B: THB7,000 million senior unsecured debentures due 2025	A
GULF261A: THB2,000 million senior unsecured debentures due 2026	A
GULF268A: THB2,200 million senior unsecured debentures due 2026	A
GULF268B: THB15,928.2 million senior unsecured debentures due 2026	A
GULF269A: THB6,000 million senior unsecured debentures due 2026	A
GULF272A: THB8,000 million senior unsecured debentures due 2027	A
GULF278A: THB2,000 million senior unsecured debentures due 2027	A
GULF278B: THB1,000 million senior unsecured debentures due 2027	A
GULF289A: THB3,000 million senior unsecured debentures due 2028	A
GULF291A: THB1,000 million senior unsecured debentures due 2029	A
GULF292A: THB1,000 million senior unsecured debentures due 2029	A
GULF298A: THB800 million senior unsecured debentures due 2029	A
GULF298B: THB5,071.8 million senior unsecured debentures due 2029	A
GULF308A: THB1,000 million senior unsecured debentures due 2030	A
GULF319A: THB9,000 million senior unsecured debentures due 2031	A
GULF322A: THB5,000 million senior unsecured debentures due 2032	A
GULF328A: THB3,000 million senior unsecured debentures due 2032	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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