GULF ENERGY DEVELOPMENT PLC

No. 249/2023
25 December 2023

CORPORATES

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

Last Review Date: 11/09/23

Company Rating History:

Date	Rating	Outlook/Alert
13/01/23	A+	Stable
26/08/21	A	Stable
26/04/21	A	Alert Negative
25/12/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Gulf Energy Development PLC (GULF) at "A+" and affirms the ratings on GULF's senior unsecured debentures at "A". The rating outlook remains "stable". 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 strengths are held back by risks associated with the company's overseas investments and the looming rise in debt load during expansion.

KEY RATING CONSIDERATIONS

Leading market position

The ratings factor in GULF's positioning as one of the leading power producers in Thailand. As of December 2023, its equity capacity (or installed capacity in proportion to its ownership stake in the power plants) totaled 12,552 megawatts (MW), of which 6,733 MW was in operation.

With its solid competitiveness, GULF has recently secured about 1,800 MW in contracted capacity under the Renewable Energy Big Lot program in Thailand. Of this, about two thirds are solar and solar plus battery energy storage (BESS) power projects, slated to be up and running during 2024-2029. The new contracts will help increase the renewable power mix to above 30% of the company's total capacity in operation by 2035, from about 8% at present.

Well-diversified power portfolio

GULF's power portfolio is not only large, but also well-diversified. Gas-fired power plants remain the centerpiece of its operating power-generating assets, comprising 92% of total equity capacity or 6,165 MW. The remaining 568 MW comes from renewable power projects including solar and wind power plants in Vietnam (229 MW), a biomass power plant, wind power plants, and solar rooftops in Thailand (223 MW), and a wind power plant in Germany (116 MW).

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 six combined-cycle power plants (6,043 MW of equity installed capacity) under the Independent Power Producer (IPP) scheme and 19 co-generation power plants (1,266 MW of equity installed capacity) under the Small Power Producer (SPP) scheme. All the SPP projects are operational, while the IPP projects are ramping up operating capacities. The two remaining units of GULF's GPD project, the Hin Kong Power project, and the Burapa Power project, with a combined equity installed capacity of 1,893 MW, are scheduled to operate during 2024-2027, helping boost its revenue and earnings.

In addition to domestic investments, GULF continues to expand internationally. In February 2023, the company completed an acquisition of a 49% stake in the 1,200-MW Jackson gas-fired power project in the United States (US), worth about THB14 billion. The project has been operational since 2022, generating returns to GULF in the forms of share profits and dividends. Also, GULF recently purchased a 24.99% stake in the 1,500-MW Outer Dowsing offshore wind power project in the United Kingdom (UK). The project is currently in the initial stages of development. GULF is expected to inject an equity of about THB20 billon until the project is fully constructed, estimated to be by 2031.

Highly predictable cash flows from PPAs with EGAT

The ratings mirror 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 electricity sales to EGAT under the IPP and SPP schemes. Each contract with EGAT is effective for 25 years from the date the power plant begins commercial operations. Holding PPAs with credible off-takers like EGAT causes GULF to be exposed to the very low counterparty risk.

For the IPP projects, EGAT is obliged to pay the full amount of the availability payment (AP) as long as GULF maintains 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. 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

GULF's management and operating teams have over 25 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 instill confidence that GULF's projects currently under development and construction will be completed on time. Also, GULF's power plants, both IPP and SPP 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. The company also employs proven technology from well-known suppliers 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 investments

Like other power producers in Thailand, GULF has expanded internationally over the past several years. Despite providing growth opportunities, overseas investments typically carry higher risks, particularly in fast-growing emerging markets such as Vietnam. Notable risks include changes in regulations, contract enforcement, inadequate infrastructure, and the credit profiles 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 completed construction ahead of deadline in November 2021, receiving a favorable Feed-in Tariff (FiT) of USD9.8 cents per kilowatt hour (kWh). The remaining 118 MW have been waiting for a new FiT, currently receiving 50% of a temporary rate of USD7.8 cents per kWh until the Ministry of Industry and Trade (MOIT) of Vietnam announces the final tariff, expected to be in 2024. GULF should not be materially affected as the project is relatively small, accounting for merely 2% of the company's aggregate equity capacity in operation.

In our view, the risks associated with GULF's latest overseas investments are manageable. The Jackson gas-fired power plant operates in the US, where country and regulatory risks are considered low. 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. The Outer Dowsing offshore wind power plant also operates in a low-risk country, the UK, with options to sell electricity to the UK government, the wholesale market, or corporates under private PPAs. We believe the escalating risks will have no material impacts on GULF as the investments in the US and the UK make up below 10% of its total equity capacity. Both projects will generate returns to GULF in the forms of share profits and dividends.

Diversification into infrastructure, digital businesses

GULF has recently expanded into new ventures including infrastructure and digital businesses. 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 liquefied natural gas (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 share profits and dividends from GPC. We expect GULF to attempt to minimize demand risk, considering its policy of investing 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. Both 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 2025. GULF will receive share profits and dividends from BGSR.

In addition to the infrastructure projects, the acquisition of a 47.4% stake in Intouch Holdings PLC (INTUCH) and 41.1% stake in Thaicom PLC (THCOM) not only brings in additional income, but also enables GULF to access new opportunities in the telecom and digital businesses. This should support the power trade if the government permits power producers to sell electricity directly to end-users in the future.

Furthermore, GULF and its partners, Singapore Telecommunications Ltd. (SINGTEL) and Advanced Info Service PLC (ADVANC), are jointly developing a data center business in Thailand. Also, GULF is cooperating with Binance Group (BINANCE) to develop digital asset exchange and related businesses, planned to be publicly launched in early 2024.

Earnings to continue to rise

We forecast GULF's earnings to remain on a growth path, mainly boosted by its IPP and newly acquired renewable power projects. Our base-case projection assumes GULF's total equity capacity in the operational phase will reach 9,900 MW in 2026, from 6,733 MW as of December 2023. The added capacity will likely boost the company's total operating revenue to about THB120 billion in 2026, from THB107 billion in 2023. Earnings before interest, taxes, depreciation, and amortization (EBITDA) should rise to about THB43 billion in 2026, from THB34 billion in 2023. Its EBITDA margin (EBITDA as a percentage of revenue) should remain above 30% over the forecast periods. GULF has sold only about 10% of its electricity sales to industrial customers, helping limit the adverse impacts from a time lag for fuel price adjustments. Also, an expected dividend of THB7-THB9 billion per annum, mostly from INTUCH, should help stabilize GULF's earnings.

Leverage to climb

GULF's financial leverage will tend to increase. Following the large number of newly acquired renewable power projects, we revise upwards the company's capital expenditures and equity investments over the next three years to THB40-THB60 billion per annum from THB20-THB40 billion per annum in our previous forecast. The increasing investment budget will likely push up its debt to EBITDA ratio to 8-8.5 times during 2023-2026, from 6.7 times in the first nine months of 2023.

GULF's wealth of investment assets, including INTUCH worth about THB118 billion as of September 2023, helps create financial flexibility as the company can divest parts of those to reduce gearing, if needed. Our base-case forecast does not include asset divestment or capital increase scenarios.

Debt structure

As of September 2023, GULF's consolidated debt was about THB292 billion. Of this, THB150 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 51%, suggesting that GULF's unsecured creditors are disadvantaged to the priority debt holders with respect to claims against the company's assets.

Liquidity to stay manageable

We believe GULF will continue to adequately manage its liquidity. As of September 2023, the company had undrawn credit facilities, plus cash and cash equivalents, of about THB79 billion. Over the next 12 months, it is estimated to generate about THB20 billion in funds from operations (FFO). Sources of cash add up to THB99 billion, adequately covering debt coming due in the next 12 months of about THB54 billion.

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 1.6 times as of September 2023. We expect GULF to remain compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast (consolidated basis) during 2023-2026 are as follows:

- Total equity power capacity in the operational phase to reach 9,900 MW by 2026.
- Total operating revenues to range between THB100-THB120 billion per annum.
- EBITDA margin to stay above 30%.
- Capital expenditures and equity investments to range from THB40-THB60 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. Also, the company's growth strategy will not significantly weaken its financial profile.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited in the near term due to the company's massive expansion. However, it could occur if GULF substantially unloads its debt burden. Conversely, a rating downside could arise if its financial profile significantly weakens, which could result from excessive debt-funded investments, considerable cost overruns, or material deterioration in cash generation. A debt to EBITDA ratio of well 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 2023, Mr. Sarath and related parties held a 73.8% interest in the company.

As of December 2023, GULF had an aggregate equity installed capacity across all power projects of 12,552 MW. Of this, 6,733 MW was in operation.

KEY OPERATING STATISTICS

Table 1: Revenue Breakdown

Unit: %

	2019	2020	2021	2022	Jan-Sep 2023
Power	99	98	99	95	93
Consulting	1	1	1	1	1
Infrastructure	-	1	0	4	4
Satellite	-	-	-	-	2
Total	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**30,040**	**32,863**	**47,467**	**94,151**	**86,389**

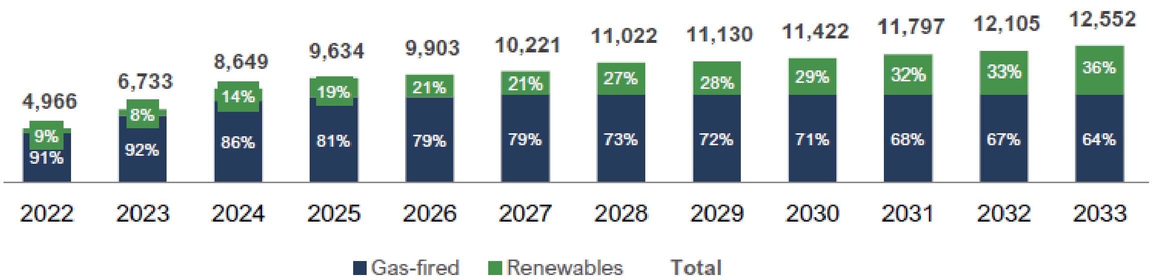
Source: GULF

Table 2: GULF's Power Portfolio (as of Dec 2023)

Project	Location	Held by GULF (%)	100% Installed Capacity (MW)	Equity Installed Capacity (MW)
Projects in operation				
Conventional energy (gas-fired)				
IPP	Thailand	40-70	7,396	4,151
SPP	Thailand	40-70	2,474	1,266
DIPWP	Oman	49	326	160
Jackson	US	49	1,200	588
Renewable energy				
Solar private PPA	Thailand	80	130	110
Wind	Thailand	50	178	89
Biomass	Thailand	100	25	25
Solar and wind	Vietnam	90-95	247	229
Wind	Germany	25	465	116
Sub total – projects in operation			**12,440**	**6,733**
Projects under construction and development				
Conventional energy (gas-fired)				
IPP	Thailand	35-70	3,465	1,892
Renewable energy				
Solar private PPA	Thailand	80	135	103
Solar and solar plus BESS	Thailand	100	2,405	2,405
Waste	Thailand	51-100	30	20
Hydro	Laos	20-49	3,142	1,047
Wind	UK	25	1,500	375
Sub total – projects under construction and development			**10,677**	**5,842**
Grand total			**23,082**	**12,552**

Source: GULF

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



Sources: GULF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2023		------------Year Ended 31 December ---------- 2022	2021	2020	2019
Total operating revenues	86,747		94,187	47,475	32,883	30,054
Earnings before interest and taxes (EBIT)	22,137		23,162	16,184	10,050	9,049
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	28,258		29,169	20,556	13,717	10,540
Funds from operations (FFO)	19,852		20,140	13,548	9,040	6,798
Adjusted interest expense	7,787		8,745	6,831	4,676	3,731
Capital expenditures	9,988		20,593	22,196	18,611	13,649
Total assets	476,710		418,172	362,674	245,581	134,278
Adjusted debt	236,142		206,385	200,370	120,797	63,289
Adjusted equity	144,256		135,802	107,509	72,080	49,040
Adjusted Ratios						
EBITDA margin (%)	32.25		30.74	43.11	41.71	35.07
Pretax return on permanent capital (%)	7.10	**	6.42	5.89	5.86	7.47
EBITDA interest coverage (times)	3.63		3.34	3.01	2.93	2.83
Debt to EBITDA (times)	6.73	**	7.08	9.75	8.81	6.00
FFO to debt (%)	10.56	**	9.76	6.76	7.48	10.74
Debt to capitalization (%)	62.08		60.31	65.08	62.63	56.34

* *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:	
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
GULF263A: THB4,100 million senior unsecured debentures due 2026	A
GULF263B: THB5,805 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
GULF273A: THB4,400 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
GULF279A: THB3,664 million senior unsecured debentures due 2027	A
GULF283A: THB4,500 million senior unsecured debentures due 2028	A
GULF289A: THB3,000 million senior unsecured debentures due 2028	A
GULF289B: THB1,500 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
GULF303A: THB3,500 million senior unsecured debentures due 2030	A
GULF308A: THB1,000 million senior unsecured debentures due 2030	A
GULF309A: THB3,031 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
GULF333A: THB3,500 million senior unsecured debentures due 2033	A
GULF339A: THB1,000 million senior unsecured debentures due 2033	A
Rating Outlook:	Stable

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