

SMC Global Power (0192889D PM)

FUNDAMENTAL VIEW ¹

As of 15 May 2024

- We see lower non-call risk for SMC GP's c.2025 perps owing to strong near-term parental funding support and its recent c.2024 perp refinancing that suggests management's ability to source liquidity and willingness to repay the perps.
- We remain concerned about non-call risk for SMC GP's c.2026 perps owing to expectations of constrained parental support, SMC GP's firmly negative free cash flows, and net cash flow uncertainty of a planned \$3.3 bn LNG project.
- While SMC GP improved its cost passthrough contractual mix in 2023, the company still remains exposed to high thermal coal input costs (~45-50% of contracts).
- SMC GP incurs sizable capex that has led to additional debt incurrence and elevated credit metrics.

RISKS & CATALYSTS

As of 15 May 2024

- We remain concerned about non-call risk for SMC GP's c.2026 perps owing to expectations of constrained parental support and SMC GP's firmly negative free cash flows.
- A moderate portion of SMC GP's off-take contracts (~45-50%) do not contain cost pass-through mechanisms. This exposes the company to a rise in thermal coal input costs that could squeeze its EBITDA margins.
- We are watchful of a failure to extend its 480 MW and 330 MW emergency power supply agreements (EPSAs) by mid-2024.
- SMC GP incurs sizable capex that has spurred additional debt incurrence. Consequently, its credit metrics remain elevated.
- Over 88% of SMC GP's installed capacity is thermal coal or gas-fired, which may be viewed unfavorably from an ESG perspective.

KEY METRICS

As of 15 May 2024

PHP BN	FY21	FY22	FY23	1Q23	1Q24
Debt to Book Cap	66.7%	69.2%	62.8%	65.9%	63.0%
Net Debt to Book Cap	57.7%	66.4%	59.4%	63.8%	59.1%
Debt/Total Equity	199.9%	224.6%	168.7%	193.2%	170.0%
Debt/Total Assets	79.2%	79.0%	73.8%	76.1%	72.7%
Gross Leverage	10.5x	19.4x	13.0x	18.2x	12.6x
Net Leverage	9.1x	18.6x	12.2x	17.7x	11.9x
Interest Coverage	2.5x	1.4x	2.2x	1.5x	2.2x
EBITDA Margin	35.9%	13.2%	26.4%	25.6%	27.3%

BUSINESS DESCRIPTION

As of 15 May 2024

- SMC GP is a leading power generation and distribution company in the Philippines. As at 31 December 2021, its total generation capacity stood at 4.7 GW, accounting for ~20% of the national grid.
- The bulk of its revenues is derived from power generation (~82%), with the remainder from electricity distribution and retailing (~18%).
- It operates 7 power generating plants across diversified energy sources, comprising coal (~62%), natural gas (~25%), hydro (~12%) and battery energy storage (~1%).
- Through long-term power supply agreements and retail supply contracts, SMC GP either sells electricity directly to customers (including large Philippines power distribution company Manila Electric Company, distribution utilities and other industrial customers), or through the Philippine Wholesale Electricity Spot Market.
- SMC GP acts as the Independent Power Producer Administrator (IPPA) for three power plants (~54% of total capacity), where it has the right to sell electricity generated by the IPPs without having to bear large upfront capital expenditures for plant construction and maintenance.
- SMC GP also distributes and retails electricity services through its wholly-owned subsidiary Albay Power and Energy, which distributes power in the province of Albay, Luzon.
- SMC GP is a wholly-owned unlisted subsidiary of San Miguel Corporation, one of the largest and most diversified conglomerates in the Philippines based on total revenues and assets.

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