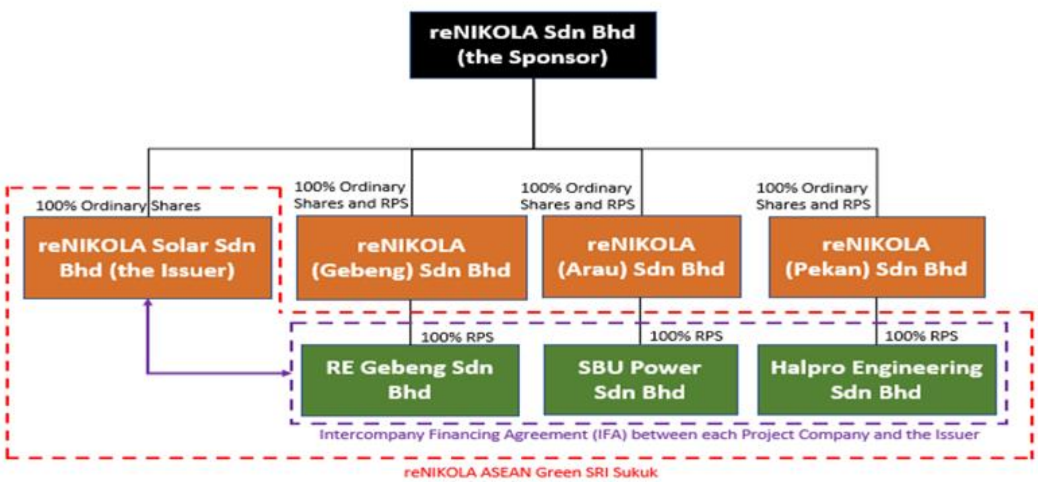
RAM RATINGS

RAM Ratings reaffirms the rating of reNIKOLA Solar's ASEAN Green SRI Sukuk

RAM Ratings has reaffirmed the AA_3/Stable rating of reNIKOLA Solar Sdn Bhd's (the Issuer) RM390 mil ASEAN Green SRI Sukuk (the Sukuk) in view of the robust energy output of the three solar photovoltaic plants (the Projects or the Plants) underlying the transaction and the resulting strong consolidated cashflow generation.

The Projects are a 3.996 MWac plant in Arau, Perlis, which commenced operations on 3 March 2018 (held under SBU Power Sdn Bhd); a 29.916 MWac plant in Gebeng, Pahang, which became operational on 22 January 2020 (under RE Gebeng Sdn Bhd); and a 30 MWac plant in Pekan, Pahang that started operations on 29 June 2021 (under Halpro Engineering Sdn Bhd).

Figure 1: Parties to the sukuk transaction



Source: reNIKOLA Solar

The rating also reflects the project companies' sound project fundamentals, underscored by the favourable terms of their power purchase agreements (PPAs) with Tenaga Nasional Berhad (TNB) (Rated AAA by RAM). TNB is obligated to purchase up to a specified limit of energy generated by the Plants, which moderates the absence of fixed availability-based revenue. Since achieving commercial operations, the Plants' annual energy yields have consistently surpassed the minimum 70% declared annual quantity (DAQ) required by the respective PPAs. The Plants' net energy output (NEO) ranged between 87% and 99% of their respective DAQs in 2021. Their cumulative electricity generation of 96,881.8 MWh in the same period was 8.4% above the quantity used in our sensitised scenario, which assumes a P90 energy yield. Having faced minimal disruptions in 2021, the Plants were available for most of the year.

The Plants' robust operations has also contributed favourably to the financial performance of the respective project companies, despite the Sponsor's limited experience in the solar business. All three companies were operationally profitable in 2021. Healthy energy output and cost control covenants are expected to underpin the project companies' strong financial performances going forward. Operations and maintenance (O&M) fees are relatively fixed via long-term Operation and Maintenance Agreements. Under the terms of the transaction, operating and capital expenditure cannot exceed 10% of the approved budget established prior to the Sukuk's issuance.

The Issuer's debt servicing ability is anchored on the combined cash generating ability of the project companies. The intercompany financing agreements entered into by the Issuer with each of the companies govern the flow of funds, ensuring the Issuer meets periodic profit and principal payments on a timely basis. Based on our sensitised cashflow projection which includes a lower NEO, higher plant unavailability and increased operating expenditure, the Issuer's minimum and average annual finance service coverage ratios (with cash balances, post-distribution) on a consolidated basis will come in at a respective 1.50 times and 1.74 times over the remaining period of the Sukuk, in line with the requirements for an AA_3 rating.

The Plants however remain exposed to long-term solar irradiance variability and inherent regulatory and force majeure risks. Therefore, a longer operating track record would provide a better gauge of the quality of O&M and the sustainability of the Plants' energy output. Exposure to force majeure or major operational risk is lower for the Issuer and the project companies as the Plants are geographically well spread out at three different sites which span vast land banks. The companies are also covered by insurance (as required by the PPAs) to mitigate force majeure risk, although compensation in the event of financial losses may not be adequate.

Analytical contacts
Chong Van Nee, CFA
(603) 3385 2482
vannee@ram.com.my

Jack Kwan
(603) 3385 2532
jack@ram.com.my

Date of release: 24 June 2022

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings' credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad
© Copyright 2022 by RAM Rating Services Berhad

RAM Rating Services Berhad
(763588-T)

Level 8, Mercu 2
KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur
Malaysia

T + 603 3385 2488
F + 603 3385 2582
E ramratings@ram.com.my
www.ram.com.my