

V.R.1 Energy Company Limited

Credit Rating		Bond Information	
Issuer Credit Rating	khA	Size	USD 92 million
Outlook	Stable	Settlement	Monthly interest & principal bullet payment at maturity
Bond Credit Rating	khA	Maturity	3 Years
		Type	Plain infrastructure bond
		Seniority	Senior (unsubordinated), Unsecured Bond
		Coupon Rate	7.0% p.a.

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Key Rating Rationale

We initiate the credit coverage of V.R.1 Energy Company Limited (henceforth “VR1” or “the Project”) with an Issuer Credit Rating (ICR) of “**khA**” (National Scale) which indicates in the Cambodian context a “*Strong capacity to meet financial commitments but somewhat susceptible to adverse changes in circumstances and economic environment*”.

The Issuer Credit Rating itself has two components: a Stand-Alone Credit Profile (SACP) and an External Support Factor (ESF). The SACP analyses the credit profile of VR1 from the perspective of its construction risks and operation risk. In its own right, VR1’s SACP rating of “**khBBB**” indicates a “Low Risk” profile.

The ESF is generated either by related party such as parent company or a holding company (Group Support), or by government-related entities (Country Support). In the case of VR1, the ESF is “Strong” because of the identity of the shareholder of VR1, who could mobilize the support of the affiliate companies. Hence, the ICR is upgraded to “**khA**”.

For the Plain Infrastructure Bond, the Recovery Scoring is supported by the positive cash flow available for the debt service. The Recovery Scoring is estimated in the 75%-100% range, mostly caused by possible delays in bondholders recouping amounts owed to them. As prescribed in our methodology the Bond Credit Rating is “**khA**” (National Scale), at the same level as the Issuer Credit Rating.

Under the Project Finance methodology, we use for VR1, the SACP consists of the Construction Phase and the Operation Phase. In our analysis, the Construction Phase concentrates more risks. While completion of the project is not uncertain, delays in obtaining some permits and licenses could postpone the start of commercial operations which could trigger an earlier than expected refinancing. This might lead us to review the credit rating.

Outlook

As is typical in Project Finance, there is no track record to base forecasts on. We can only rely on VR1’s earnings and cash flows projections which seem reasonable to us. Hence the initial outlook is “**Stable**” subject to construction milestones being reached and operations performing as expected.

Rating Sensitivity

On the upside, the credit rating of VR1 would require a longer record of satisfactory operation. On the downside, operations performing below expectations or unresolved permits could lead us to review the rating.



Issues to Monitor

A few issues pertaining to ESG, mainly are the Environmental and Social Impact Assessment – (ESIA) as well as licenses, approvals and permits under the PPA Section 2.4 remain pending as of today. We expect resolution prior to the bond issuance in most cases, and in some other instances by the Commercial Operation Date (COD).

V.R.1 Energy Company Limited’s Summary

Overview

VR1 is a special purpose vehicle (henceforth “SPV”), was set up specifically to operate a 228MWp/200MWac photovoltaic solar (PV Solar) power farm in the Province of Stung Treng, in the Kingdom of Cambodia (henceforth “the Asset”). The Project is sponsored by Royal Group Power Co., Ltd. (henceforth “RGP” or the “Sponsor”), subsidiary of Royal Group, a locally-owned conglomerate. VR1 principally engages in (i) electric power generation, transmission and distribution, (ii) electrical, plumbing and other construction installation activities, (iii) other land transport (iv) non-specialized wholesale trade and (v) warehousing and storage. The analysis of its credit rating is undertaken under the RAC Methodology for Project Finance (henceforth “the Methodology”).

Under the Methodology, the Stand-Alone Credit Profile of a project is broken down in two phases: the Construction Phase and the Operation Phase. The risks of the Construction Phase are associated with the non-completion of the project itself. While the Operation Phase, the main risk is that the anticipated performance might be incorrectly assessed.

The main contracts are fairly typical for Project Finance with a long-dated asset generating stable cash flows that can support substantial leverage. In the case of VR1, Construction Phase has higher risk than the Operation Risk because it has to have the Engineering, Procurement and Construction contract (EPC), and the long term service agreement (LTSA). While the land lease agreement is certain as the land owner is Neak Oknha Kith Meng, the only owner of the SPV.

Meanwhile, the Operation Phase risks have been further reduced by Royal Government of Cambodia (RGC) guarantees and performance assurance backed by monetary compensation. The financial projections are underpinned by the performance expectations (the Operation & Maintenance contract “O&M will be done through the tender process) that bear less uncertainty. The bond’s coupon rate is fixed at 7.0% and its maturity is only three years which reduces the bondholders’ risk exposure.

Performance

The technology and processes are mature for a PV Solar project and present a low risk profile. The sponsor has strong experiences in the development, financing and construction of Power Plants, like Lower Sesan II Hydropower Plant (400MW), and Botum Sakor Gas-Fired Power Plant (900MW), which is currently under construction. On the revenue side, the Power Purchase Agreement (PPA) with Electricité du Cambodge (EDC) ensures visibility and stability, and is backed by the RGC. On the expense side, the main uncertainty is the cost of the operation and maintenance contract (O&M), while the coupon rate is fixed at 7.0% p.a. and the maturity of the bond is three years.



Rating Definition

Issuer Credit Rating – National Scale			
National Rating	Definition		
khAAA	Extremely Strong Capacity to meet financial commitments	1	Very low risk
khAA	Very strong capacity to meet financial commitments	2	
khA	Strong capacity to meet financial commitments but somewhat susceptible to adverse changes in circumstances and economic environment	3	Low risk
khBBB	Adequate capacity to meet financial commitments but more susceptible to adverse changes in circumstances and economic environment	4	
khBB	Adequate capacity to meet financial commitment but more vulnerable to adverse changes in circumstances and economic environment	5	Moderate risk
khB	Adequate capacity to meet financial commitments but more likely to be affected by adverse changes in circumstances and economic environment	6	
khCCC	Capacity to meet financial commitments dependent on favorable business, financial and economic conditions	7	High risk
khCC	Weak capacity to meet financial commitments	8	
khC	Unlikely to be able to meet financial commitments	9	Very high risk
khD	In default partially or for all financial commitments	10	

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