

Utilities Sector – Overweight

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News Update

Regulatory risk on Adders-based projects

- **Government's committee proposes tariff reduction ...**
- **... and cancels auto-renewals of Adders-based projects.**
- **We expect strong resistance from the private sector**
- **EA is the most exposed, followed by GUNKUL and BCPG**

The government's committee on private power purchase issues, yesterday, resolved to revise legacy renewable power purchase agreements (PPAs) under the so called 'adders' scheme, aiming to reduce national electricity prices.

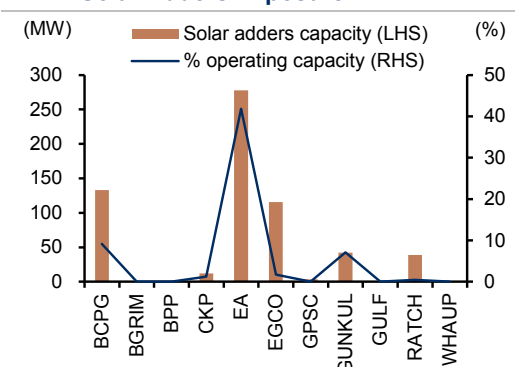
- The committee proposes to cancel the 'perpetual-like' feature whereby solar and wind projects under the Adder scheme have their contracts auto-renewed every five years, once their 10-year Adder subsidies expire.
- In place of the current auto-renewal mechanism, the committee resolves to either: 1) Allow a final five-year renewal for projects already beyond 25 years, or 2) cap contract life at 25 years for those yet to reach 25 years.
- In addition to the more defined contract life, the offtake tariff will also be reduced from around Bt3.5/kWh currently, which adjusts with the Ft revised every four months. The committee aims to cut the solar tariff to Bt2.16/kWh, benchmarked against the latest rate approved for the "Community Solar" projects under the government's "Quick-Big-Win" policy. The reduced rate for wind projects remains under consideration, but we expect it at Bt3.10/kWh, in line with the latest bidding round in 2023.
- We see sizeable valuation downside for these solar and wind projects, given both lower tariff rates and shorter contract life. That said, following our discussions with several affected companies, we foresee strong resistance from the private sector to these potential contract changes. As such, implementation could take time before the changes take effect.
- We flag the most exposed company being Energy Absolute Pcl (EA TB, SELL, Bt2.84), as all its renewable projects (278MW solar and 386MW wind) are under the Adder scheme, followed by Gunkul Engineering Pcl (GUNKUL TB, BUY, Bt4.68) with 42MW of solar and 85MW of wind projects under the scheme, representing 21% of its operating capacity. Another name with sizeable exposure is BCPG Pcl (BCPG TB, BUY, Bt6.95), with 133MW of solar and 9MW of wind projects under the Adder scheme, 10% of operating capacity.
- We note this regulatory change would also be indirectly negative for Small Power Producer (SPP) projects. This is since the tariff cut on Adder projects would reduce the grid's total electricity cost by around Bt0.10-0.15/kWh, i.e. the Policy Expense component of the electricity cost breakdown (Exhibit 4), leaving room for the government to cut the tariff further, compressing SPP margins as they would not benefit from these lower policy costs.

Ex 1: Our Rating And TP On Utilities Stocks

	Rating	Price Current (Bt)	Price Target (Bt)
BCPG	BUY	6.95	10.50
BGRIM	BUY	18.60	20.00
BPP	SELL	11.50	11.50
CKP	BUY	2.46	5.00
EA	SELL	2.84	1.50
EGCO	BUY	120.00	130.00
GPSC	BUY	46.50	48.00
GULF	BUY	61.75	75.00
GUNKUL	BUY	4.68	2.70
RATCH	BUY	34.75	35.00
WHAUP	BUY	6.70	6.50

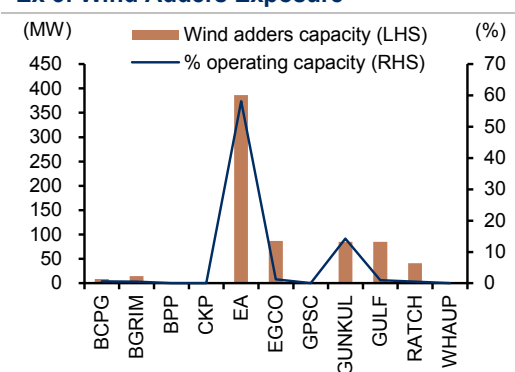
Sources: Bloomberg, ttb wealth estimates

Ex 2: Solar Adders Exposure



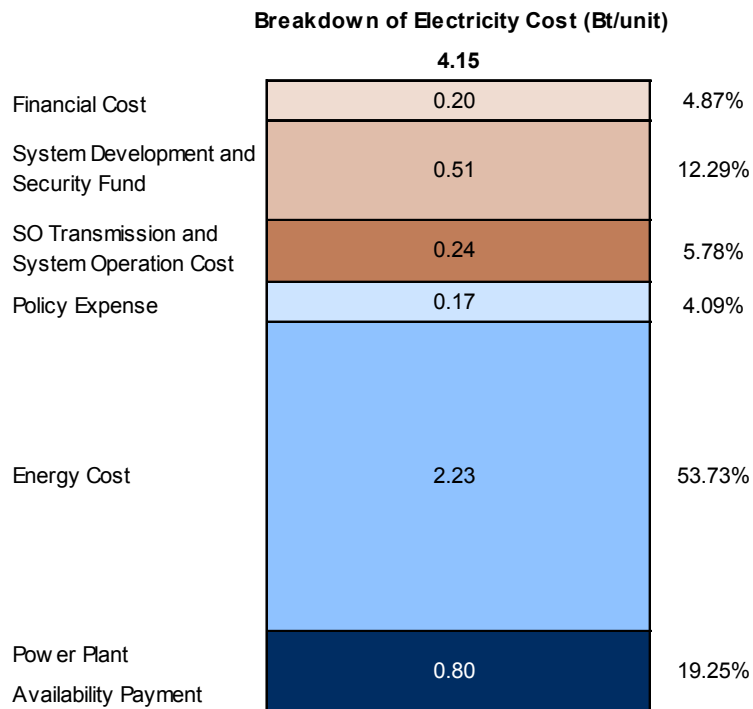
Source: Company data, ttb wealth estimates

Ex 3: Wind Adders Exposure



Source: Company data, ttb wealth estimates

Ex 4: Thailand's Electricity Price Component



Sources: ttb wealth securities
 Note: Numbers are as of 2023

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