?Asia-Pacific Sponsor of the Year 2013: EGCO

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Thailand’s Electricity Generating Public Company, or EGCO as it is better known, is a familiar name to project bankers active in Thailand. In 2013 EGCO expanded overseas and into renewables.

State-owned utility Electricity Generating Authority of Thailand partially spun out EGCO in 1992. Since then the sponsor has put together an impressive record of financings for conventional power projects. EGAT still owns just over 25% of EGCO, while TEPDIA, a joint venture of Japan’s Tepco and Mitsubishi, owns just under 24%, and the rest is publicly traded.

EGCO owns roughly 4,500MW of installed capacity, the vast majority of it natural gas- or coal-fired. Most of its portfolio is located in Thailand, where it has been able to maximise the competitive tension between Japanese banks and onshore lenders to close debt financings at ever-lengthening maturities and decreasing margins.

Throughout Thailand’s turbulent recent political history, EGAT and its state-owned siblings the Provincial Electricity Authority and the Municipal Electricity Authority, have continued to sign – and honour – power purchase agreements. This reliability has benefited financings for which EGCO is sponsor. In December 2013 it signed a $622 million 23-year financing for the 977MW Khanom 4 gas-fired combined cycle power plant.

The debt financing comprised a $187 million loan from JBIC, a $174 million loan from Mizuho and OCBC, and a $311 million equivalent baht-denominated facility from Bangkok Bank, BTMU and SMBC. The Khanom 4 plant had to enter operations in time to replace the KN2 and KN3 power plants, which forced EGCO to close the deal quickly, and complicated assembling a security package.

It is also the first limited recourse financing for an independent power plant since the Thai government made changes two years ago to EGAT power purchase agreements (PPA). The changes had sparked concerns at lenders about some of the agreements’ new dispute resolution mechanisms.

EGCO’s Japanese shareholders allowed EGCO to use financing from JBIC, and persuaded the three main Japanese lenders to participate. Two of them also provided baht-denominated debt with a maturity of more than 20 years. That support is testament to the strength of EGCO’s, and its sponsors’, relationships.

EGCO closed a roughly A$361.2 million ($324 million) acquisition financing in June 2013 for the 113.2MW Boco Rock wind farm in New South Wales, Australia. It was EGCO’s first investment outside South-East Asia. The deal featured more construction risk than most acquisition financings, and its foreign exchange risk was unusually high, because Boco Rock’s engineering, procurement and construction contract was denominated in euros and the value of the Australian dollar fluctuated wildly in the lead up to the country’s federal elections.

Boco Rock’s developer led the process of assembling the debt financing for the plant before it lined up an equity provider, which meant that by the time that EGCO came on board it had little leeway in altering the terms of the deal. But the deal attracted strong bank support, and closed as A$251.4 million in 5-year debt.

EGCO has been searching extensively for renewables opportunities. It said earlier in 2014 that it wanted to increase its installed capacity to 300MW by 2015 as it seeks to reduce its carbon footprint in line with government targets. But its options to invest in Thailand's solar market are limited because a government review of its adder tariff regime has led to a moratorium on new PPAs.

The sponsor closed one Thai solar deal of note in 2013, the $192 million equivalent debt financing for a 57MW PV portfolio in the provinces of Nakhonpathom and Suphanburi. The Asian Development Bank and several local banks participated in the financing for Solarco.

Opportunities in Australia until recently looked much more plentiful. EGCO is understood to have already unsuccessfully bid on several other Australian assets, including Hallet 5 and Hydro Tasmania, and liked the market because, until recently, it benefited from regulatory certainty.

This has changed since the federal election in September 2013, because the new government has made repealing the carbon tax and the other renewable initiatives of the previous administration one of its cornerstone policies. This uncertainty means that Australia's renewables market now resembles Thailand's. Utilities are reluctant to sign new PPAs – at least at reasonable tariffs – and this has deterred investors from looking at the country.

EGCO has already acquired experience cross-border, though until recently most of its investments, whether in Laos or the Philippines, have been part of a search for better-yielding assets than to reach its emission targets.

EGCO's has become adept at exploiting its Thai and Japanese parentage to create competitive tension between local and international lenders. It has also been quick to form relationships with other regional lenders.

But it is also a desirable credit in its own right. Several lenders working on the Boco Rock deal that said that EGCO's credit was one of the reasons the deal managed to close.