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# **ASSESSING CREDIT RISK FOR ISSUERS IN THE POWER GENERATION SECTOR**

3 April 2019 | Mindanao Energy Investment Forum, Davao City

# Credit Rating: Power Generation Projects

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## Amortizing & Contracted Structures

1) Predictability and Sufficiency of Cash Flows	30%
2) Competitiveness/ Regulatory Support	15%
3) Technical & Operating Profile	20%
4) Leverage & Coverage	<u>35%</u>
	100%

# 1. Quality & Diversity of Cash Flows (30%)

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- ❖ Degree of contractual support underpinning project revenues
- ❖ Diversity of revenue sources
- ❖ Credit quality of the offtaker & Ability to find replacement contract on substantially similar terms



## 2. Competitiveness/Regulatory Support (15%)

- ❖ Cost structure relative to peers
- ❖ Contracted pricing terms relative to market pricing levels
- ❖ For renewables, economic competitiveness of the project relative to the market for fossil-fuel-fired plants
- ❖ Environmental risks and changes in the regulatory landscape





# 3. Technical & Operating Profile (20%)

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- ❖ Technology and Operating Performance
- ❖ Sponsor Commitment



## 4. Leverage & Coverage (35%)

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### ❖ Debt service coverage ratio (DSCR)

- CFADS/P+i
- Debt/EBITDA

### ❖ Projected Scenarios – Forward Looking Assessment

- Most likely financial & operating parameters
- Downside on sensitivity scenarios to test resiliency of the project cash flows

# Partially Contracted Structures

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- ❖ Contracted cash flow with one or more offtakers
  - Credit quality of the offtakers
  - Tenor of the PSAs
  - Tariff escalation clause
  - Fuel supply/resource risk
- ❖ Competitiveness of project assets – all-in cost structure relative to peers (e.g. supercritical coal plants vs PCC)
- ❖ Entry barriers

# Structuring Considerations

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- 1) Liquidity – debt service reserve account (DSRA)  
major maintenance reserve (MMR)
- 2) Construction and Ramp-up Risk
- 3) Priority of Claim, Structural Subordination & Double Leverage





# Summing Up

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- ❖ Presented a general approach to assessing credit risk for borrowers in the power generation sector
- ❖ Identified the key factors, both qualitative & quantitative, that affect the credit profile of borrowers



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**Let's discuss.**

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