Company (Ticker) (S&P / Moody's / Fitch)

Trinidad Generation Unlimited (TRNGEN) (BB/Baa3/--)

Trinidad Generation Unlimited (TGU) is owned by the National Investment Fund Holding Company Limited (NIF) whose sole shareholder is the Government of the Republic of Trinidad and Tobago (GORTT). TGU operates a 720-megawatt (MW) TGU facility is the largest combined-cycle gas-fired power plant in the Caribbean. TGU accounts for 34% of the country's generating capacity, supplies approximately 50% of Trinidad & Tobago's electrical energy. TGU is a critical to GORTT's strategy to maintain low energy prices as a competitive edge for private investment`.

In August 2011, TGU commenced a 30-year energy supply agreement with the Trinidad and Tobago Electricity Commission (T&TEC), also owned by GORTT. Under this arrangement, TGU generates its revenues based on capacity payments, assuming a minimum capacity of 93% is maintained, with shortfalls attracting a minimal penalty charge. The agreement also makes provision for T&TEC, the sole offtaker of the energy, to supply fuel at no cost to TGU. Water, another critical input is supplied and guaranteed by the Water and Sewage Authority of Trinidad and Tobago, another GORTT entity. These contract terms ensure that raw material supply interruption has no effect on the receipt of capacity revenues.

Major Issues / Risks

Strengths/ Opportunities

- TGU is 100% owned by GORTT. Debt has change of control provision that would prompt accelerated payment of debt.
- TGU operates the largest and most efficient combined cycle plant in T&T. Delivers 50%+ of T&T electricity therefore a strategic asset for T&T.
- Long-term PPA guarantees stable revenues and cash flow generation - Revenue 100% guaranteed by GORTT through a power purchase agreement (PPA). Approximately 95% of revenues are billed and payable in USD.
- Tolling structure which eliminates exposure to fuel price or volume risk – under the PPA, fuel and water are supplied to TGU at no cost.
- Provides an essential service and is therefore integral to the country's energy strategy.
- Strong EBITDA margins
- Stable regulatory environment, contracts, and agreements
- Strong liquidity

Weaknesses /Threats

- Highly leveraged compared to regional peers.
- No diversification in terms of asset mix or geography. TGU owns a single asset and is totally reliant on this facility for its cash flow.
- Impending refinancing risk. US$600MN due 2027 bonds will begin to amortise in 2025 at a rate of US$200Mn p.a. May require government support as EBITDA will likely be lower than principal payments.

Major Developments

Stable revenues. TGU has maintained stable revenues as capacity availability levels have generally been within targeted levels.

Stable operating expenses – TGU has also maintained stable operating expenses. The entity is largely insulated from the impact of price volatility associated the cost of its key inputs, natural gas, and water.

Strong EBITDA margins – above 75% on average.

Interest Costs have remained relatively stable, the bulk of which is associated with the 2027 bond floated in 2016. There has been no major borrowing since then.

Possible refinancing risk looming. TGU's major debt facility is a US$600 million bond, proceeds of which were used to finance the construction of the facility. The facility will start to amortize in 2025 in three annual instalments of US$200 million until the bond is fully amortized in 2027. Over the period 2014 to 2018, TGU generated Debt to EBITDA ratios within the 5.1x to 5.7x range. It would therefore take on average 5 years to pay off the debt with funds generated from operations, which is longer than the three-year repayment schedule on the 2027 bond. Based on gross available cash reserves of $132MN as at December 2018 and a rate of accumulation of an average of 8.5% p.a. since 2014, it is unlikely that TGU will be able to make principal payments from its reserves. This would also be compounded by the major maintenance due in 2023 which will likely be financed from internally generated funds. Until then TGU will continue to make interest payments from internally generated funds.

Credit Outlook

Stable

In line with the downgrade of the T&T sovereign rating in April 2020, S&P also lowered TGU's rating. In line the sovereign, S&P assigned a stable outlook TGU. However, the rating agency noted that TGU could face a downgrade if the sovereign is downgraded. This could occur if there is a prolonged period of global economic contraction which will weigh on the global prices of hydrocarbons. This will delay the recovery of T&T's economic activity, industrial demand as well as the revenues of GORTT and major public entities. Consequently, there will be a greater likelihood of a scenario where the government would need to provide extraordinary support to state agencies such as TGU. To the extent that the GORTT can draw down on the sizeable net international reserves and the Heritage Stabilization Fund, the government will likely support should the need arise.

Outlook

TGU is expected to continue to generate stable revenues by virtue of its PPA with the TTEC which has 19 years remaining. Once the company adheres to a rigorous maintenance protocol the required capacity availability levels will be maintained. While TGU is expected to maintain cash flow stability, the levels will be insufficient to fund amortization payments of US$200 million starting in 2025. TGU will therefore require support from GORTT or seek refinancing of the bond. TGU could leverage the strength of its contracts, its significance in GORTT's energy strategy mix as well as its competitive position and business profile to refinance the bond.

Recommendation – If owning the issuer's notes is aligned with the client's overall objective, we recommend that they **hold**.

Trinidad Generation Unlimted					
Fiscal year ended Dec. 31					
(000s $)	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue	105,892.0	103,300.0	106,046.0	105,421.0	101,916.0
EBITDA	83,920.0	83,298.0	79,007.0	83,226.0	83,501.0
Funds from operations (FFO)	46,201.0	46,043.0	44,484.0	78,495.0	81,501.0
Interest expense	38,567.0	38,733.0	34,523.0	4,731.0	2,000.0
Cash interest paid	37,052.0	37,480.0	34,523.0	4,731.0	2,000.0
Cash flow from operations	16,018.0	35,659.0	35,604.0	265,657.0	9,024.0
Capital expenditure	1,361.0	27,941.0	9,395.0	10,591.0	273.0
Free operating cash flow (FOCF)	14,657.0	7,718.0	26,209.0	255,066.0	8,751.0
Discretionary cash flow (DCF)	4,657.0	-52,282.0	22,209.0	33,066.0	8,751.0
Cash and short-term investments	132,272.0	126,983.0	178,704.0	99,403.0	95,337.0
Gross available cash	132,272.0	126,983.0	178,704.0	99,403.0	95,337.0
Debt	450,932.0	454,881.0	401,907.0	439,238.0	473,067.0
Equity	223,745.0	205,492.0	203,631.0	231,790.0	392,424.0
Adjusted ratios					
EBITDA margin (%)	79.3	80.6	74.5	78.9	81.9
Return on capital (%)	12	12.3	13.1	11.5	11.1
EBITDA interest coverage (x)	2.2	2.2	2.3	17.6	41.8
FFO cash interest coverage (x)	2.2	2.2	2.3	17.6	41.8
Debt/EBITDA (x)	5.4	5.5	5.1	5.3	5.7
FFO/debt (%)	10.2	10.1	11.1	17.9	17.2
Cash flow from operations/debt (%)	3.6	7.8	8.9	60.5	1.9
FOCF/debt (%)	3.3	1.7	6.5	58.1	1.8
DCF/debt (%)	1	-11.5	5.5	7.5	1.8

Source: S&P Global Ratings

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