

Fact Sheet

San Miguel Global Power:

Fossil fuel-oriented growth strategy raises financial red flags

Key Takeaways

San Miguel Global Power Holdings Corporation (SMGPH) — formerly SMC Global Power — is the largest power producer in the Philippines, with plans to rapidly expand its generation portfolio.



SMGPH aims to complete 1,900MW of coal and 1,313MW of gas-fired capacity by 2025.

More than 60% of coal capacity under development in the Philippines is attributable to SMGPH, which is also pursuing large-scale, strip coal mining operations in Mindanao province. SMGPH has proposed over 10,000MW of gas-fired power plants as well.

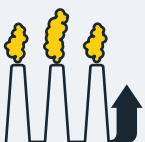


By contrast, San Miguel Corporation (SMC), 100% owner of SMGPH and one of the Philippines' largest conglomerates, declared a 2050 net-zero target in June 2023.



SMGPH is also developing 800MW of solar and 1,000MW of battery storage projects.

It does not currently own wind or solar assets, despite a 2018 goal to complete 10GW of renewables capacity by 2028.



As a result of its ambitious expansion plans, the company's capital expenditures have risen dramatically, funded by increased loans, bonds, and issuances of perpetual securities.

In IEEFA's analysis, just 0.1% of funds from SMGPH's most recent bond issuance in July 2022 went to renewable projects, compared with 76% for fossil fuel projects.

However, SMGPH's heavy reliance on fossil fuels has negatively impacted its financial metrics in recent years. Therefore, the company's development strategy, weighted heavily in favor of more coal and liquefied natural gas (LNG) capacity, raises major financial red flags.

In FY2022



Operating income fell 22%, while net income fell 80%, due largely to higher fuel costs and an inability to pass through costs to end users.

Free cash flow, which measures available cash after capital expenditures, fell to -P71.3 billion. SMGPH also posted an all-time-low EBITDA margin — a measure of operating profitability.



The company is expected to take twice as long, from four years to nine years, to service its current debt based on current earnings, signaling its ability to service debt may be under pressure. IEEFA's analysis also revealed major challenges in covering interest payments and capital distributions for perpetual securities holders.



SMGPH fell short across all performance metrics compared with top competitors

Aboitiz Power and First Gen. While SMGPH's earnings have improved in the first half of FY2023, ongoing challenges in meeting financial obligations persist.

All of these factors demonstrate that the company is facing a near-term liquidity crunch that could evolve into a longer-term funding shortfall.



SMGPH has US\$3.4 billion (P167 billion) worth of U.S. dollar-denominated perpetual notes callable between 2024 and 2026. But the company's immediate financial challenges indicate an elevated non-call risk for perpetual bonds.



SMGPH managed to access debt markets by issuing a P40 billion fixed-rated bond in

July 2022. However, the company's weak financial profile is underplayed for these instruments due to its status as an unrated utility on a global scale.



SMGPH's weak financial profile and coal exposure might make financing or refinancing

costlier. Already, two of its largest bondholders — BlackRock and UBS — are members of the Glasgow Financial Alliance for Net Zero (GFANZ). In the future, SMGPH's ability to access low-cost capital may be constrained due to its fossil fuel growth-oriented strategy, as financial institutions increasingly recognize climate-related investment risks.

SMGPH's shift from coal to LNG may exacerbate financial issues rather than alleviate them, for several key reasons:



LNG is significantly more expensive than coal. Since January 2021, average LNG prices in Asia have averaged nearly three times the price of coal. This presents greater financial risks, especially if SMGPH's generation costs are not fully passed through to end users.



LNG prices are expected to remain high compared with historical levels through 2030.

Futures curves for LNG in Asia do not show prices falling significantly until 2027. SMGPH does not have any active long-term LNG supply contracts, meaning the company could remain entirely exposed to extreme volatility in global LNG spot markets.



None of SMGPH's existing or proposed LNG-to-power plants have offtake contracts beyond 2024 that might ensure recovery of fuel costs. These plants could therefore be entirely exposed to competitive pressures in the Philippines' wholesale power market.

In IEEFA's view, SMGPH's options to address financial challenges are limited.

The company may:

- Deploy more renewable energy and reduce fossil fuel expansion plans. SMGPH has not added any renewable energy capacity to its portfolio since 2014. The company's delayed renewables transition could impede its long-term value creation in a rapidly evolving industry.
- Refinance and/or raise additional capital. While the backing of parent company SMC offers some comfort, SMC's own elevated debt and business uncertainties will be critical to monitor. Moreover, SMGPH may struggle to access affordable capital markets due to its weak financial profile, tight funding conditions, and fossil fuel-focused strategy.
- Buy or produce fuel requirements domestically. The company appears to be accelerating domestic coal development in Mindanao to reduce exposure to global prices. Access to domestic gas depends on efforts to boost production from the Malampaya field.
- Pass through all fuel costs to end users. SMGPH may continue to push for full pass-through of fuel costs via legal and regulatory avenues, though efforts may collide with the government's goals to bring down power costs.

IEEFA believes that an immediate, material pivot toward low-cost, domestic renewable energy represents the best hedge against exposure to imported fossil fuels, and would best position the company within the Philippines' accelerating energy transition.

