MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Ratch's Baa1 ratings; outlook remains stable

05 Nov 2021

Singapore, November 05, 2021 -- Moody's Investors Service today affirmed the Baa1 long-term issuer rating and (P)Baa1 rating on the senior unsecured medium-term note (MTN) program of Ratch Group Public Company Limited (Ratch). At the same time, Moody's has affirmed the (P)Baa1 rating for the guaranteed senior unsecured MTN program and Baa1 ratings of the backed senior unsecured notes issued by RH International (Singapore) Corp. Pte. Ltd (RHIS). RHIS is a wholly owned subsidiary of Ratch, and the senior unsecured notes issued by RHIS are guaranteed by Ratch.

The outlook on all the ratings remains stable.

"The affirmation of Ratch's Baa1 ratings reflects our expectation that even though company's credit metrics now supports a lower Baa3 standalone credit profile, the rating uplift from its 45% shareholder Electricity Generating Authority of Thailand (EGAT) can widen to two notches, preserving its overall credit quality," says Abhishek Tyagi, a Moody's Vice President and Senior Credit Officer.

RATINGS RATIONALE

Moody's has changed Ratch's standalone credit profile to Baa3 from Baa2, driven by the company's substantial capital spending program that will result in financial metrics more consistent with a Baa3 credit profile. This change incorporates Ratch's shareholders' approval to acquire PT Paiton Energy (PE) for US$809.6 million which will be completed by March 2022 and the company's plans to raise equity.

Moody's projects the company's credit metrics will worsen to a level in line with its Baa3 standalone credit profile. Projected funds from operations (FFO) interest coverage after pro-rata share of its joint ventures (JVs) will measure 3.1x-3.6x and projected FFO/debt 9%-12%, compared with 3.9x-4.5x and 14%-17% over 2018-20, respectively. These metrics factor in the THB30 trillion equity issuance announced by Ratch, which is expected to be completed by first quarter of 2022. Should the equity issuance be delayed or canceled, Moody's will review the negative impact on Ratch's standalone credit profile and ratings.

The change in standalone credit profile also reflects Ratch's overseas expansion strategy that could increase execution and development risks and pressure its credit profile, which is currently largely dominated by its stable Thailand operations. As of 2020, around 91% of its total revenue was generated through domestic electricity generation.

Ratch's Baa1 ratings incorporate a two-notch uplift, reflecting Moody's expectation that EGAT, which owns a 45% stake in Ratch, will provide support to Ratch in times of stress. EGAT's credit profile is stronger than Ratch's. EGAT is wholly owned by the Thailand sovereign (Baa1 stable).

Moody's expects Ratch to maintain its close links with EGAT, given that the parent is Ratch's largest shareholder and the sole off-taker of its existing domestic capacity, as well as its capacity for plants in Laos.

Ratch's credit quality is supported by its strong market position in Thailand and sound business profile, which is underpinned by its power purchase agreements. Sizable debt exposures at its joint ventures (JVs) also pressure Ratch's adjusted credit metrics, which incorporate its pro-rata share in the JVs.

Ratch's credit quality also considers its strategy to increase its renewable energy portfolio to more than 25% of its total portfolio, from around 16% currently.

The stable outlook reflects Moody's expectation that there will be no material adverse changes in the regulatory environment for Thailand's electricity market in the near to medium term. The stable rating outlook assumes the timely completion of the proposed equity raising and reflects Moody's expectation that Ratch will maintain a prudent financial profile as it grows.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade Ratch's standalone profile if its adjusted FFO/debt rises above 15% - based on pro-rata consolidation of JVs - on a consistent basis.

Moody's could downgrade Ratch's rating if its financial strength deteriorates beyond the rating agency's expectations, potentially due to aggressive debt-funded investments or a material increase in business risks, likely because of an overseas expansion or a large rise in regulatory risk.

Metrics that Moody's would consider for a downgrade include adjusted FFO/interest coverage below 2x and adjusted FFO/debt below 7.5% on a sustained basis.

A downgrade of Thailand's sovereign rating or a reduction of EGAT's stake in the company would also be negative for Ratch's rating.

The principal methodology used in these ratings was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Founded in 2000, Ratch Group Public Company Limited was established to purchase power plants from its parent, Electricity Generating Authority of Thailand (EGAT). As of December 2020, Ratch's key operations were in Thailand, Laos and Australia, with a total installed operating capacity of 6.6 gigawatts (GW), of which 4.4GW was from power plants in Thailand. Ratch was listed on the Stock Exchange of Thailand in 2000. EGAT, which owns a 45% stake, is Ratch's largest shareholder and the sole off-taker of its power generation capacity. EGAT is fully owned by the Thailand government and is mainly involved in the generation and transmission of energy throughout the country.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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