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CREDIT OPINION
6 February 2024

Update

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RATINGS

**Ratch Group Public Company Limited**

| | |
|---|---|
| Domicile | Thailand |
| Long Term Rating | Baa1 |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


Contacts

Abhishek Tyagi +65.6398.8309
*VP-Sr Credit Officer*
abhishek.tyagi@moodys.com

Jocelyn Koh +65.6311.2653
*Ratings Associate*
jocelyn.koh@moodys.com

Ray Tay +65.6398.8306
*Senior Vice President/Manager*
ray.tay@moodys.com




# Ratch Group Public Company Limited

## Update following rating affirmation

## Summary

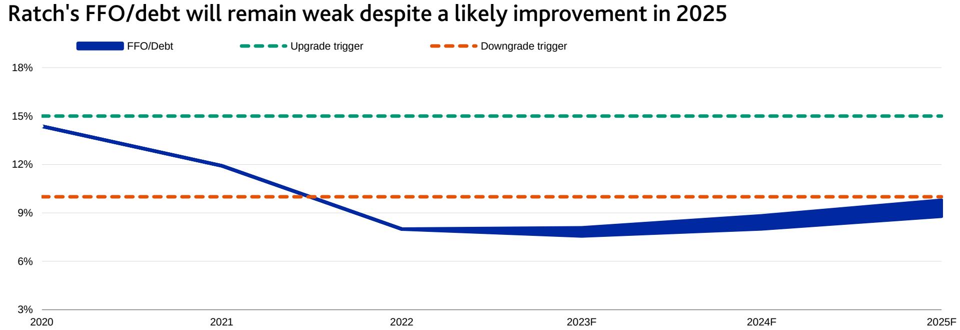

Ratch Group Public Company Limited's (Ratch, Baa1 negative) issuer rating consists of its BCA of baa3 and a two-notch uplift to reflect the high level of extraordinary support from, and the company's very high level of dependence on, the Government of Thailand (Baa1 stable) under our Joint Default Analysis approach for Government-Related Issuers. Support from the government could be routed through the company's parent, the Electricity Generating Authority of Thailand (EGAT), which the government fully owns.

This support assessment reflects the 45% effective ownership by the government in Ratch and its high strategic importance as Thailand's largest Independent Power Producer (IPP).

Ratch's baa3 BCA takes into consideration its stable operations in Thailand and its overseas expansion strategy, which could increase execution and development risks and strain its credit profile. The BCA also factors in Ratch's long-term power purchase agreements and secure fuel supply, and its entrenched position in Thailand's power sector.

Ratch's business profile will incorporate an increasing share of overseas and non-power projects, because of both investments and the contractual expiry of key power capacities in Thailand. Under our base-case projection, the company's funds from operations (FFO)/debt will remain at 7%-9% over the next one to two years, which is lower than the downgrade trigger of 10%.


Exhibit 1
**Ratch's FFO/debt will remain weak despite a likely improvement in 2025**




Metrics after adjustments for lease receivables and incorporating JVs.
*Sources: Moody's Financial Metrics™ and Moody's Investors Service*

## Credit strengths

» High likelihood of government support due to the company's strategic importance to Thailand's power sector

» Long-term PPAs and secure fuel supply, which support stable performance for the core power business in Thailand

## Credit challenges

» High financial leverage because of sizable capital spending and JV exposures

» Incremental credit risks with expansion beyond core Thailand power operations, partly offset by diversification benefits

» Associated governance risks as the company pursues growth strategy

## Rating outlook

The negative outlook reflects Ratch's continued execution of its stated growth strategy, which will result in a persistent increase in the company's financial leverage.

## Factors that could lead to an upgrade

An upgrade of Ratch's ratings is unlikely, because of the negative outlook and its ratings being on par with that of the sovereign. However, we could revise its outlook to stable if the company can achieve a sustained recovery in its FFO/debt above 10%, based on the pro rata consolidation of its joint ventures (JVs). We would assess the sustainability of such a recovery in the company's financial metrics based on its actions within a period of less than a year.

## Factors that could lead to a downgrade

We could downgrade Ratch's ratings if its projected FFO/debt remains persistently below 10% at the BCA level, which would reflect the completion of its announced acquisitions or further debt-funded investments. A further heightening of business or regulatory risks, likely because of further overseas expansion, could also lead to a downgrade. A downgrade of Thailand's sovereign rating, a reduction in EGAT's stake in Ratch, or a meaningful decline in EGAT's ability to provide support to the company would also be negative for the ratings.

## Key indicators

Exhibit 2

**Ratch Group Public Company Limited**

| | Dec-2018 | Dec-2019 | Dec-2020 | Dec-2021 [2] | Dec-2022 [3] |
|---|---|---|---|---|---|
| (CFO Pre-W/C + Interest) / Interest (3 year average) | 8.1x | 7.0x | 6.4x | 4.4x | 3.5x |
| (CFO Pre-W/C) / Debt (3 year average) | 35.3% | 28.3% | 21.9% | 12.2% | 7.8% |
| RCF / Debt (3 year average) | 22.6% | 17.6% | 13.4% | 5.5% | 2.8% |

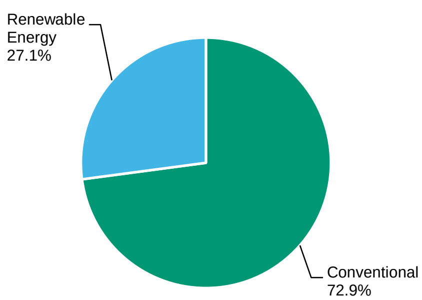
[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] 31-Dec 21 ratios do not include lease receivables as a part of CFO Pre-W/C; if we add lease receivables back to CFO Pre-W/C the respective ratios would be 5.8x, 17.3% and 10.6%.
[3] 31-Dec 22 ratios do not include lease receivables as a part of CFO Pre-W/C; if we add lease receivables back to CFO Pre-W/C the respective ratios would be 4.9x, 12.1% and 7.1%.
*Sources: Moody's Financial Metrics™ and Moody's Investors Service*

## Profile

Founded and listed on the Stock Exchange of Thailand in 2000, Ratch Group Public Company Limited was established to purchase power plants from its parent, Electricity Generating Authority of Thailand. Ratch's key operations are in Thailand, Australia, Laos and Indonesia. As of October 2023, power generating capacity under operations and development totaled 10.8 gigawatts (GW), of which 73% comprised conventional power plants such as coal- and gas-based plants. Capacity in Thailand accounted for around 51% of the company's total capacity.

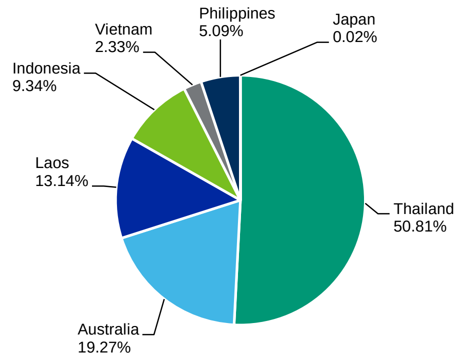
Ratch's business profile is transforming with the continued execution of its growth strategy. Ratch's business profile will incorporate an increasing share of overseas and non-power projects, because of both investments and the contractual expiry of material power capacities in Thailand over time.

Exhibit 3
**Power plant mix by fuel as of October 2023**




*Source: Company*

Exhibit 4
**Power plant mix by country as of October 2023**




*Source: Company*

EGAT, with a 45% stake, is Ratch's largest shareholder and the sole off-taker of its power generation capacity in Thailand and Laos. EGAT is fully owned by the Government of Thailand and is mainly involved in the generation and transmission of energy throughout the country.

RH International (Singapore) Corp. Pte. Ltd. (RHIS, Baa1 negative) is a wholly owned indirect subsidiary of Ratch. RHIS was incorporated with limited liability under the laws of the Republic of Singapore in September 2010. RHIS is an investment holding company, which primarily undertakes Ratch's investments and offshore projects in the power generation sector. RHIS is also involved in raising funds to meet Ratch's capital requirements. Both RHIS' medium-term notes program and outstanding senior unsecured notes are guaranteed by Ratch.

## Detailed credit considerations

### High likelihood of government support due to the company's strategic importance to Thailand's power sector

Ratch's issuer rating incorporates a two-notch uplift from our assessment of a high likelihood of support, and very high level of dependence on, the Government of Thailand and its parent, EGAT. This support assessment reflects Ratch's controlling government ownership, and its high strategic importance to the government and EGAT.

Ratch will continue to benefit from its strategic importance to the country's power sector because of its position as one of the leading private power generators in Thailand. Thailand's growing energy needs have increased its reliance on private power generators and energy imports from neighboring countries, and Ratch is likely to benefit from the projected steady growth in electricity demand over the next three to five years.

Thailand's Power Development Plan (PDP 2018-37) focuses on increased contribution from gas-fired power generation and reduced reliance on coal power generation. Ratch's operations are key to Thailand achieving the targets set under PDP 2018-37, which include increasing the country's generating capacity to 77.2 GW by year-end 2037.

As of January 2024, Ratch's attributable generation capacity (including projects in Laos that have PPAs with EGAT) accounted for around 15% of Thailand's total capacity. Ratch's expansion into the neighboring countries also supports the government's promotion of imported electricity.

We expect Ratch to maintain its close links with EGAT because the parent is Ratch's single-largest shareholder and the off-taker for most of its existing domestic capacity, and its capacity for its plants in Laos. We expect EGAT to support Ratch in times of need because of the latter's strategic importance to Thailand's power sector. EGAT also provides operating and maintenance services for most of Ratch's plants and supports the company in environmental management. Ratch's power plants maintain high performance standards, with minimal forced outages, because of the strong operational support from EGAT.

Another indication of the close links between the two entities is the fact that six of Ratch's 12 board members, including its chairman and CEO, are EGAT representatives. A number of Ratch's key management officers have also previously worked for EGAT. EGAT is the single-largest shareholder, with the remaining shares in Ratch being highly fragmented. As such, EGAT consolidates Ratch because of its effective control over the company.

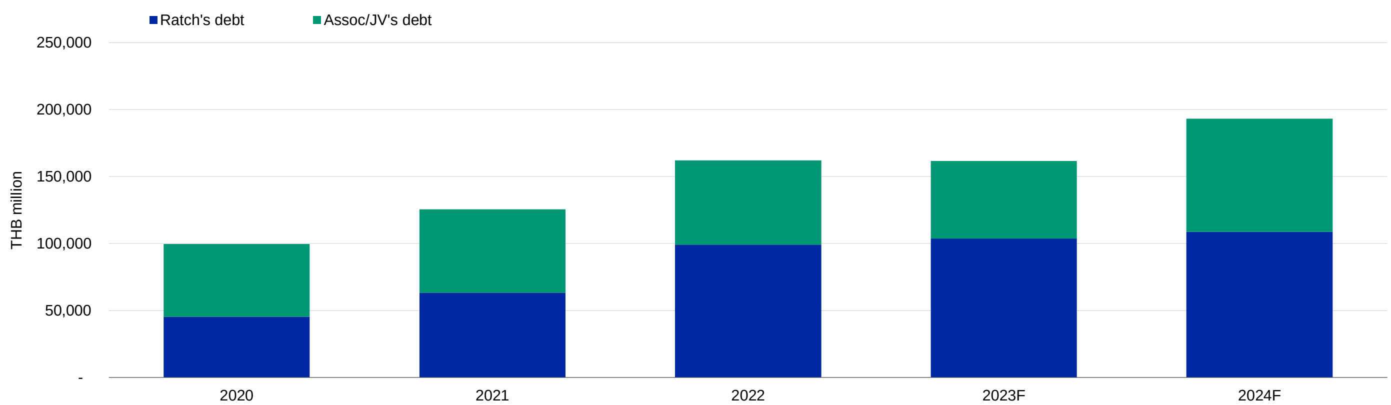
During the Asian financial crisis of 1997-98, for instance, EGAT and the Thailand government ensured the performance stability and debt-servicing ability of independent power producers by restructuring their PPAs to avoid huge foreign-exchange losses.

### High financial leverage because of sizable capital spending and JV exposures

The negative outlook reflects our view that Ratch's financial metrics will remain weak for the current rating level over the next one to two years and below the current downgrade triggers. We expect Ratch's financial metrics, including the pro rata share from its JVs, to remain weaker than historical levels because of its sizable debt exposures at the JV level and large acquisitions.

Exhibit 5

**Ratch's increasing debt including JV exposures**




*Sources: Moody's Financial Metrics™ and Moody's Investors Service*

Specifically, we expect Ratch's FFO/debt to remain at 7%-9% over the next one to two years, which is lower than the downgrade trigger of 10%. Ratch's FFO/debt was 8% in 2022, compared with a significantly higher 12%-18% in 2018-21.

Ratch's financial metrics have weakened because of substantial capital spending to increase its capacity and diversify its business mix away from Thailand's power sector. Ratch's metrics will likely gradually improve over time as its invested assets contribute to the company's cash flows. However, we now expect the improvement to take longer than expected, because of both the magnitude of its acquisitions to date and the likelihood of further capital spending.

Our financial metrics are based on the pro rata consolidation of Ratch's JVs. At the same time, we have factored in the collection of lease receivables in the company's FFO because it is the receipt of capacity payments.

Ratch's shareholders approved the acquisition of an equity stake in PT Paiton Energy (PE) in October 2021, which operates a 2,045 MW coal-based project in Indonesia. The transaction is yet to close, and Ratch will hold a 36% share in PE once it is completed. This project has long-term PPAs with Perusahaan Listrik Negara (P.T.) (Baa2 stable), with a remaining PPA period of about 20 years.

On 17 August 2022, Ratch announced the signing of a share purchase agreement to acquire Nexif Energy Joint Venture (NEJV), which owns a portfolio of battery energy storage, renewable and gas-fired projects, totaling 1,515.8 MW of attributable capacity, of which 450.5 MW is operational. The projects are located in Australia, Thailand, Vietnam and the Philippines, with PPAs with various off-takers, and some of them have merchant exposure. The NEJV transaction was completed in December 2022.

### Incremental credit risks with expansion beyond core Thailand power operations, partly offset by diversification benefits

Ratch's strategy to expand overseas and diversify its business mix is mainly driven by the lack of opportunities to expand in Thailand's power sector. Ratch's plan to grow its overseas portfolio will provide diversification benefits, but the increased exposure, especially to other developing countries such as Laos, Indonesia and Vietnam, will introduce uncertainties in its credit profile. Potential credit impact can stem from execution risks, higher levels of regulatory risk, and increasing capital requirements and organizational complexity.

Coupled with an organic decline in Ratch's contracted power capacity in Thailand, the company's strategy to diversify away from its core Thailand-related power generation operations is transforming the company's business profile. To reflect the incremental credit risks, we now have a tighter tolerance level for Ratch's financial metrics.

Incremental business risks could also come from its aim to increase its exposure to non-power businesses. One of Ratch's four targets for 2023-27 is to increase its non-power EBITDA to 5% or higher. Although its non-power business will remain relatively small, it would still increase its business risks. Ratch has participated in other non-power projects such as the MRT Pink Line Project and the MRT Yellow Line Project — through its 10% stake in the BSR JV — and an underground fiber-optic network project in Thailand.

The funding structure of Ratch's investments will continue to be an important factor in gauging its impact on the rating. Sizable debt exposures at Ratch's JVs will strain the company's adjusted credit metrics, which incorporate its pro rata share in the JVs. Ratch's credit profile will be strained further if its new investment plan requires aggressive debt funding or represents a significant increase in Ratch's business risk profile.

Ratch intends to increase its operating generating capacity to 10 GW by 2025 via both organic and inorganic routes — mergers and acquisitions — mostly in overseas markets. Ratch had 2.9 GW of generation capacity under construction and development as of September 2023, which will help the company achieve its target, not accounting for some decommissioning of capacity in Thailand in the next four years.

We expect Ratch's business portfolio to exhibit greater geographic diversification over time and its Thai operations to continue to support Ratch's credit quality. Although Ratch's power operations in Thailand will remain important to the company, and we continue to factor its stable operations in Thailand into the company's rating, Ratch's business profile is transforming with the continued execution of its strategy.

As of June 2023, Australia was Ratch's second-largest market, accounting for 16% of its capacity. Laos is the next largest market at 14%. The new projects in Laos are exposed to higher regulatory risk than projects in Thailand and Australia because the political, regulatory and economic environment in Laos is less developed. Any changes in the legal system in Laos that hurt Ratch's project company's operations and ability to service its liabilities will constitute a political force majeure event. In such a scenario, Ratch's project company can terminate its contract and is entitled to compensation from the Government of Laos (Caa3 stable) under the concession agreements and EGAT's PPA. Ratch's exposure to Laos and its large capital spending obligations are further mitigated by the fact that Ratch has set up JVs with partners and local governments.

### Long-term PPAs and secure fuel supply support stable performance for the core power business in Thailand

Ratch's long-term PPAs and secure fuel supply will remain its key credit strengths. The PPAs are robustly structured to limit the impact of fluctuations in both fuel costs and foreign-exchange rates, as well as changes in demand and the company's debt-servicing ability. The unique characteristics embedded in PPAs differentiate Ratch from other unregulated power companies that we rate, which usually exhibit high exposures to wholesale price volatilities. However, 1.47 GW of Ratch's PPAs will expire in 2025 and another 2.17 GW in 2027, which will further accelerate Ratch's business transformation.

For its fuel supply, the company has secured stable gas supplies to meet its obligations under the PPAs, through gas sales agreements with PTT Public Company Limited (Baa1 stable). Currently, most of Ratch's capacity is secured by EGAT under long-term PPAs, ranging between four and 26 years. The renewable PPAs can be automatically renewed every five years. In addition, 93.6% and 6.4% of capacity from the Hongsa thermal power plant has been contracted to EGAT and the state-owned Electricite du Laos, respectively, under 25-year PPAs.

EGAT has a strong track record of meeting its PPA obligations. As a result, demand is assured and market competition is limited for Ratch's existing operations. Moreover, under energy payment provisions, Ratch is insulated from fluctuations in fuel input prices, allowing the company to pass through any increases in fuel costs, as long as its plants meet the agreed heat rates.

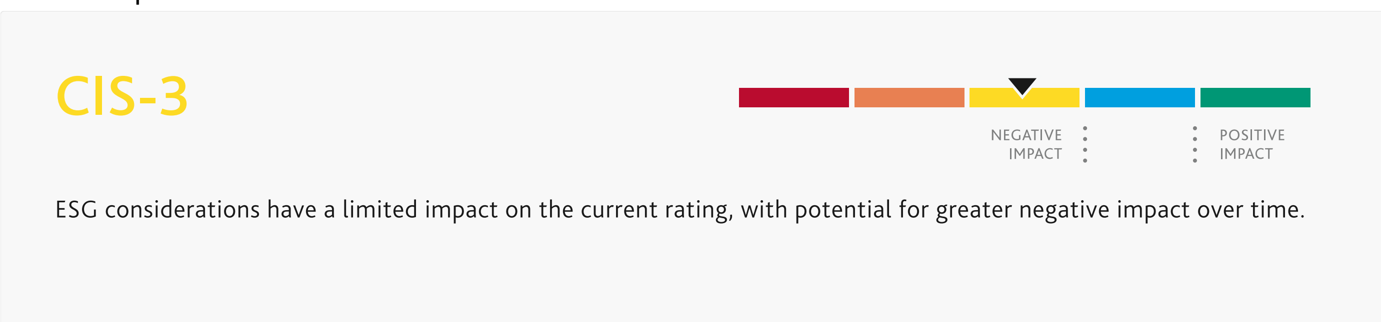
Ratch's cash flow is supported by availability payments, which cover the fixed operational and maintenance costs and interest costs, plus an agreed return on equity. Availability payments are received irrespective of the dispatch of electricity, as long as the power plants are available at the agreed capacity. Given this feature of Ratch's PPAs, its financial performance was not significantly hurt by the coronavirus pandemic in 2020-21, and in 2022 when fuel prices rose substantially.

Ratch has a solid track record of maintaining high levels of availability, often exceeding plant-specific targets, and regularly meeting the targeted heat rates for its power projects.

## ESG considerations

### Ratch Group Public Company Limited's ESG credit impact score is CIS-3

Exhibit 6
**ESG credit impact score**




*Source: Moody's Investors Service*

Ratch Group Public Company Limited's (Ratch) **CIS-3** indicates that ESG considerations have a limited impact on the current rating with potential for greater negative impact over time. The score reflects our revised view on governance risks. Electricity Generating Authority of Thailand's (EGAT) support partly but does not wholly mitigate Ratch's exposure to ESG considerations.

Exhibit 7
**ESG Issuer Profile Scores**


*Source: Moody's Investors Service*

### Environmental

Ratch's **E-3** reflects its exposure to carbon transition because of thermal fleets in its generation portfolio, partly mitigated by the company's strategy to increase its renewable generation capacity. It also considers physical climate risks potentially stemming from extreme weather conditions.

### Social

Ratch's **S-3** primarily reflects the higher risk of demographics and societal trends owing to a risk that public concern over environmental or social issues could lead to adverse regulatory political intervention.

### Governance

Ratch's **G-3** reflects its demonstrated commitment to its diversification and growth strategy. Such a commitment has resulted in a discernible shift towards a more accommodating financial policy and a persistent increase in its financial leverage. Ratch also continues to demonstrate appetite to invest in non-core businesses such as transportation. The score also takes into consideration the increasingly complex organizational structure, as Ratch pursues growth using the joint venture structure for its investments.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Liquidity analysis

Ratch will have inadequate liquidity over next 12 months and will need to raise external financing. As of September 2023, its cash sources comprised cash holdings of THB34.6 billion. We expect its annual operating cash flow to be around THB7 billion-THB8 billion for the next 12 months. On the other hand, we expect the company's projected cash outlay for the next 12 months to include capital spending of around THB30 billion-THB35 billion, short-term debt of THB13 billion and current portion of long-term debt of THB25 billion as of September 2023, and dividend payments.

However, its solid access to domestic funding markets, its status as a subsidiary of EGAT and the likelihood of support from EGAT when needed will temper the liquidity risk.

## Methodology and scorecard

When mapped to our Unregulated Utilities and Unregulated Power Companies rating methodology, published in May 2017, Ratch's business profile is closer to that of an unregulated power company because its business is governed by PPAs, based on bilateral negotiations with off-takers. The company's scorecard-indicated outcome is Ba1 based on forward-looking metrics, which incorporate the pro rata JV adjustments. The difference between its scorecard-indicated outcome and standalone credit quality can be explained by the current negative rating outlook, while the gap between the BCA and the final rating reflects our expectation of parental support in times of need. The final issuer rating of Baa1 is within the scorecard-indicated range under our Joint Default Analysis, based on the high likelihood of support and its very high default dependence on the Thailand government.

Exhibit 8

**Rating factors**

**Ratch Group Public Company Limited**

| Unregulated Utilities and Unregulated Power Companies Industry Grid [1] | 2022 | | Moody's 12-18 Month Forward View [2] | |
|---|---|---|---|---|
| **Factor 1 : Scale (10%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Scale (USD Billion) | A | A | A | A |
| **Factor 2 : Business Profile (35%)** | | | | |
| a) Market Diversification | Baa | Baa | A | A |
| b) Hedging and Integration Impact on Cash Flow Predictability | Aa | Aa | A | A |
| c) Market Framework & Positioning | Baa | Baa | Baa | Baa |
| d) Capital Requirements and Operational Performanc | Baa | Baa | Baa | Baa |
| e) Business Mix Impact on Cash Flow Predictability | n/a | n/a | n/a | n/a |
| **Factor 3 : Financial Policy (15%)** | | | | |
| a) Financial Policy | Baa | Baa | Ba | Ba |
| **Factor 4 : Leverage and Coverage (40%)** | | | | |
| a) CFO pre-WC + Interest / Interest (3 Year Avg) | 2.8x - 4.2x | Ba | 1x - 4.2x | B - Ba |
| b) CFO pre-WC / Debt (3 Year Avg) | 5% - 12% | B | 5% - 12% | B |
| c) RCF / Debt (3 Year Avg) | 8% - 15% | Ba | 3% - 8% | B |
| **Rating:** | | | | |
| a) Scorecard-indicated Outcome | | Ba1 | | Ba1 - Ba2 |
| b) Actual BCA Assigned | | | | baa3 |

| **Government-Related Issuer** | **Factor** |
|---|---|
| a) Baseline Credit Assessment | baa3 |
| b) Government Local Currency Rating | Baa1 |
| c) Default Dependence | Very High |
| d) Support | High |
| e) Final Rating Outcome | Baa1 |

[1] All ratios are based on adjusted financial data and incorporate Moody's global standard adjustments for nonfinancial corporations. Metrics after adjustments for lease receivables and incorporating JVs.
[2] As of January 2024. This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
*Source: Moody's Investors Service*

## Appendix

Exhibit 9

### Peer comparison

| | Ratch Group Public Company Limited | | | Cikarang Listrindo (P.T.) | | | Pertamina Geothermal Energy Tbk | | |
|---|---|---|---|---|---|---|---|---|---|
| **Rating / outlook** | **Baa1 Negative** | | | **Ba1 Stable** | | | **Baa3 Stable** | | |
| **BCA / Standalone** | **baa3** | | | **NA** | | | **Ba1** | | |
| **(in US millions)** | FY2020 | FY2021 | FY2022 | FY2020 | FY2021 | FY2022 | FY2020 | FY2021 | FY2022 |
| Revenue | 1,094 | 1,169 | 2,137 | 466 | 515 | 550 | 354 | 369 | 386 |
| EBITDA | 301 | 359 | 343 | 191 | 202 | 208 | 298 | 289 | 315 |
| Total Assets | 3,803 | 4,758 | 6,629 | 1,343 | 1,359 | 1,362 | 2,536 | 2,391 | 2,469 |
| Total Debt | 1,511 | 1,896 | 2,866 | 570 | 559 | 556 | 1,062 | 974 | 960 |
| (CFO Pre-W/C + Interest) / Interest | 6.1x | 4.0x | 2.8x | 5.6x | 6.1x | 6.4x | 6.4x | 11.2x | 11.2x |
| (CFO Pre-W/C) / Debt | 18.9% | 8.8% | 5.5% | 24.6% | 27.2% | 28.8% | 20.1% | 22.1% | 23.6% |
| RCF / Debt | 11.6% | 3.4% | 1.7% | 13.5% | 15.8% | 16.6% | 20.1% | 22.1% | 20.5% |
| Debt / Book Capitalization | 42.1% | 43.0% | 46.8% | 45.9% | 44.5% | 44.1% | 50.8% | 44.1% | 43.2% |

Ratch's metrics before adjustments for lease receivables and incorporating JVs.
*Source: Moody's Financial Metrics™*

Exhibit 10

### Moody's-adjusted debt breakdown

**Ratch Group Public Company Limited**

| THB mil | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|
| As Reported Debt | 32,136.3 | 43,133.4 | 61,119.2 | 98,975.1 |
| Pensions | 203.8 | 225.5 | 266.7 | 293.0 |
| Non-Standard Adjustments | 1,879.9 | 1,920.7 | 1,938.8 | - |
| Moody's - Adjusted Debt | 34,220.0 | 45,279.6 | 63,324.7 | 99,268.2 |

Ratch's metrics before adjustments for lease receivables and incorporating JVs.
*Source: Moody's Financial Metrics™*

Exhibit 11

### Moody's-adjusted EBITDA breakdown

**Ratch Group Public Company Limited**

| THB mil | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|
| As Reported EBITDA | 9,831.6 | 9,699.0 | 12,018.4 | 12,626.8 |
| Pensions | 24.8 | 24.7 | 23.4 | 19.8 |
| Unusual | (137.4) | (304.5) | (576.8) | (661.1) |
| Moody's - Adjusted EBITDA | 9,719.0 | 9,419.2 | 11,464.9 | 11,985.6 |

Ratch's metrics before adjustments for lease receivables and incorporating JVs.
*Source: Moody's Financial Metrics™*

## Ratings

Exhibit 12

| Category | Moody's Rating |
|---|---|
| **RATCH GROUP PUBLIC COMPANY LIMITED** | |
| Outlook | Negative |
| Issuer Rating | Baa1 |
| Senior Unsecured MTN | (P)Baa1 |
| **RH INTERNATIONAL (SINGAPORE) CORP. PTE. LTD.** | |
| Outlook | Negative |
| Bkd Senior Unsecured | Baa1 |
| Bkd Senior Unsecured MTN | (P)Baa1 |

*Source: Moody's Investors Service*

REPORT NUMBER 1394164

### CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |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