

Ratchaburi Electricity Generating Holding Public Co. Ltd.

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Ratchaburi Electricity Generating Holding Public Co. Ltd.

Major Rating Factors

Strengths:

- Stable operating performance and cash flows due to strong PPA with EGAT
- Good market position
- Modest financial risk profile
- Improving diversity of assets and cash flow

Weaknesses:

- Weaker stand-alone credit profile of EGAT than the rating on RATCH
- Risk of expansion in new international markets

Corporate Credit Rating

BBB+/Stable/--

ASEAN Regional Scale

axA+/-/--

Rationale

The rating on Thailand-based Ratchaburi Electricity Generating Holding Public Co. Ltd. (RATCH) reflects the company's solid power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT; BBB+/Stable/--; axA+/axA-1), good market position, and modest financial risk profile. EGAT's weaker stand-alone credit profile (SACP) than the rating on RATCH tempers the above strengths. RATCH's increasing exposure to new international markets is also a rating weaknesses, in our view.

In our opinion, RATCH has a good market position despite some concentration risk. The company is the second-largest electricity generator in Thailand and is the country's largest independent power producer. However, RATCH's stand-alone capacity is concentrated at a single site at Ratchaburi.

RATCH benefits from a stable operating and financial performance because PPAs with EGAT ensure steady capacity payments for agreed levels of availability and heat rate. The agreements protect the company from any demand side risk. They also allow RATCH to pass on most costs, especially fuel cost, and enable it to earn a fixed return on equity. We believe RATCH also benefits from EGAT's considerable experience of running power plants because the companies have an operating and maintenance agreement.

RATCH's entry into Australia following the acquisition of a majority controlling stake in Transfield Infrastructure Fund (TSI) provides the company access to more than 1,125.6 megawatts of generation assets in a well regulated market with revenues secured by PPA contracts. But it also exposes RATCH to different competitive dynamics given that Australia is a mature market, and most utility companies there are well established. RATCH's performance with its existing assets will influence the company's expansion strategy in Australia.

We expect RATCH's financial performance to weaken over the next 12-18 months as it consolidates its Australian operations. This is because, despite having higher operating margins, Australian utility companies such as TSI tend to have higher leverage than RATCH. Australian companies also pay higher interest rates than Thai companies, impacting RATCH's interest coverage ratios. We estimate RATCH's ratio of its funds from operations (FFO) to debt at more than 30% for 2011, from more than 40% for 2010. We project the company's FFO-to-interest

coverage at more than 5x for 2011 from above 10x in 2010.

Although RATCH is a strategic investment for EGAT, we do not consider RATCH to be a government-related entity. EGAT is RATCH's largest shareholder with a 45% stake and controls the company's board of directors. EGAT purchases all of RATCH's power and operates many of its power plants. As a result, the rating on RATCH is no more than one notch above the SACP of EGAT.

Liquidity

In our view, RATCH's liquidity is "adequate" as defined in our criteria. As of Sept. 30, 2011, the company had approximately Thai baht (THB) 9.14 billion in cash and cash equivalents, compared with THB2.75 billion of debt maturing over the next 12 months. Our liquidity assessment is also based on the following factors and assumptions:

- RATCH's liquidity sources, including cash, FFO, and credit facilities, will exceed its uses by about 1.38x over the next 12 months.
- The company's net sources would remain above cash requirements even if EBITDA declines 20%.
- The company has supportive banking relationships and good access to domestic and international debt markets. Its recent foreign currency denominated bond issue highlights this strength.

Outlook

The stable outlook reflects our expectation that RATCH's operating performance and cash flows from existing power operations will be stable. The outlook also reflects our view that the company will face no major challenges in integrating its Australia business. RATCH's financial performance supports the rating. This is despite the increased debt due to the acquisition of assets in Australia.

We could lower the rating on RATCH if its financial performance deteriorates due to higher debt than we expected to fund large investments or acquisitions. A ratio of FFO-to-debt of less than 20% or a net debt to EBITDA ratio that is not materially below 2.5x on a sustainable basis would indicate such deterioration. We could also lower the rating on RATCH if we lower the SACP of EGAT, or if RATCH continues to invest significantly in joint ventures and associated projects, such that the performance of these entities becomes the key driver of the rating.

We believe that the potential for an upgrade is limited over the next couple of years. We could, however, raise the rating on RATCH if: (1) we upgrade EGAT; or (2) RATCH's business risk profile improves significantly through acquisition of good quality assets, while the company maintains a modest financial risk profile.

Table 1

Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Peer Comparison						
	Ratchaburi Electricity Generating Holding Public Co. Ltd.	Electricity Generating Authority of Thailand	SP AusNet Group	SPI Australia Holdings (Partnership) L.P.	CLP Holdings Ltd.	
Rating as of Dec. 11, 2011	BBB+/Stable/--	BBB+/Stable/--	Local currency: A-/Stable/--	A-/Stable/NR	A-/Stable/A-2	
Domicile of operations	Thailand, Australia, Laos	Thailand	Australia	Australia	Hong Kong, Australia	
Stand-alone credit profile	bbb+	bbb	bbb+	bbb	a-	
--Average of past three fiscal years--						
(Mil. Mix currency)	THB	THB	A\$	A\$	HK\$	

Table 1

Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Peer Comparison (cont.)					
Revenues	39,914.0	383,742.3	1,302.6	188.9	54,458.3
EBITDA	8,650.3	75,208.8	761.0	101.4	16,588.2
Net income from continuing operations	6,151.0	32,161.5	134.0	42.9	9,650.3
Funds from operations (FFO)	8,355.6	58,789.4	434.1	(2.1)	14,156.2
Capital expenditures	1,086.2	18,137.0	534.3	(2.1)	8,406.6
Free operating cash flow	7,616.0	26,482.3	(131.1)	0.0	5,141.2
Discretionary cash flow	4,402.7	11,976.3	(362.9)	0.0	(833.5)
Cash and short-term investments	12,180.0	55,913.8	200.7	0.0	3,986.3
Debt	19,776.9	377,100.7	4,518.0	0.0	62,133.4
Equity	44,015.3	275,738.0	2,622.3	0.0	71,249.3
Adjusted ratios					
EBITDA margin (%)	21.7	19.6	58.4	53.7	30.5
EBITDA interest coverage (x)	9.2	4.0	2.3	1.3	3.9
EBIT interest coverage (x)	8.3	2.9	1.7	1.5	3.5
Return on capital (%)	12.3	8.7	7.4	N.M.	10.9
FFO/debt (%)	42.2	15.6	9.6	N.M.	22.8
Free operating cash flow/debt (%)	38.5	7.0	(2.9)	N.M.	8.3
Debt/EBITDA (x)	2.3	5.0	5.9	0.0	3.7
Total debt/debt plus equity (%)	31.0	57.8	63.3	N.M.	46.6

N.M.--Not meaningful. THB--Thai baht.

Table 2

Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Financial Summary	--Year ended Dec. 31--				
	2011*	2010	2009	2008	2007
Revenues	33,194.5	42,181.1	35,350.6	42,210.2	43,820.7
EBITDA (lease adjusted)	7,498.3	7,820.1	8,924.2	9,205.6	7,816.5
Net income	4,318.9	5,220.4	6,739.6	6,492.9	5,829.4
Cash and short term investments	9,141.3	13,890.6	12,027.9	10,621.6	11,585.1
Total debt	35,327.8	16,859.7	19,639.8	22,831.1	26,400.0
Net debt	26,186.5	2,969.1	7,611.9	12,209.5	14,814.9
Shareholders' equity	48,190.3	46,547.2	44,524.1	40,947.5	37,479.8
Total assets	98,022.4	69,446.4	69,341.8	69,672.4	70,300.9
Funds from operations (FFO - lease adjusted)	6,148.5	7,861.0	8,324.1	8,881.7	8,118.7
Capital expenditure (lease adjusted)	7,668.0	837.2	973.0	1,448.4	1,734.5
Free operating cash flow (FOCF - lease adjusted)	(5,893.6)	9,107.7	7,820.3	5,919.9	6,021.1

Table 2

Lease adjusted ratios†					
EBITDA margin (%)	21.7	18.5	25.2	21.8	17.8
EBITDA interest coverage (x)	8.1	11.5	10.4	7.1	5.7
FFO/interest (x)	8.2	11.6	9.7	6.9	5.9
FFO/total debt (%)	23.2	46.6	42.4	38.9	30.8
FFO/net debt (%)	31.3	264.8	109.4	72.7	54.8
Total debt/total capital (%)	42.3	26.6	30.6	35.8	41.3
Net debt/net capital (%)	35.2	6.0	14.6	23.0	28.3
Total debt/EBITDA (x)	3.8	2.2	2.2	2.5	3.4
Net debt/EBITDA (x)	2.8	0.4	0.9	1.3	1.9

*For nine months ended Sept. 30, 2011; consolidates one quarter results of RATCH-Australia Corp. Ltd. †Lease adjusted ratios for the nine months ended Sept. 30, 2011, are for rolling twelve months ended Sept. 30, 2011. THB--Thai baht.

Table 3

Reconciliation Of Ratchaburi Electricity Generating Holding Public Co. Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB)

--Fiscal year ended Dec. 31, 2010--

Ratchaburi Electricity Generating Holding Public Co. Ltd. reported amounts										
	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	16,859.7	46,500.9	42,181.1	7,820.1	5,097.3	677.3	9,323.8	9,323.8	3,261.0	837.2
Standard & Poor's adjustments										
Reclassification of nonoperating income (expenses)	--	--	--	--	2,067.6	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	621.1	621.1	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(2,083.8)	--	--
Minority interests	--	46.2	--	--	--	--	--	--	--	--
Total adjustments	0.0	46.2	0.0	0.0	2,067.6	0.0	621.1	(1,462.7)	0.0	0.0
Standard & Poor's adjusted amounts										
	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	16,859.7	46,547.2	42,181.1	7,820.1	7,164.9	677.3	9,944.9	7,861.0	3,261.0	837.2

THB--Thai baht.

Related Criteria And Research

- Ratchaburi's Proposed Senior Unsecured Guaranteed Yen Bonds Rated 'BBB', Aug. 8, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Corporate Ratings Criteria 2008, April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

Ratings Detail (As Of December 15, 2011)	
Ratchaburi Electricity Generating Holding Public Co. Ltd.	
Corporate Credit Rating	BBB+/Stable/--
<i>ASEAN Regional Scale</i>	axA+/--/--
Senior Unsecured (1 Issue)	BBB
Corporate Credit Ratings History	
06-Jan-2011	BBB+/Stable/--
19-Nov-2010	BBB/Stable/--
06-Jan-2011 <i>ASEAN Regional Scale</i>	axA+/--/--
19-Nov-2010	axA/--/--
Business Risk Profile	Satisfactory
Financial Risk Profile	Modest
Debt Maturities	
(As of Sept. 30, 2011)	
2011: THB2,824 million	
2012: THB4,029 million	
2013: THB4,290 million	
2014: THB5,226 million	
2015: THB1,465 million	
Thereafter: THB16,736 million	
Total: THB34,570 million	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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