

# RatingsDirect®

---

## Ratchaburi Electricity Generating Holding Public Co. Ltd.

**Primary Credit Analyst:**

Rajiv Vishwanathan, CFA, Singapore (65) 6239-6302; rajiv\_vishwanathan@standardandpoors.com

**Secondary Contact:**

Andrew M Wong, Singapore (65) 6239-6306; andrew\_wong@standardandpoors.com

### Table Of Contents

---

Major Rating Factors

Rationale

Outlook

Related Criteria And Research

# Ratchaburi Electricity Generating Holding Public Co. Ltd.

## Major Rating Factors

### Strengths:

- Good market position as the largest independent power producer in Thailand;
- Strong power purchase agreement and relationship with EGAT, which results in stable operating performance and cash flows; and
- Modest financial risk profile.

### Weaknesses:

- Site concentration and limited fuel diversity of its power generation assets;
- Exposure to credit quality of its sole power off-taker, EGAT; and
- Appetite for increasing offshore expansion introduces different jurisdictional and regulatory risks

### Corporate Credit Rating

BBB+/Stable/--

*ASEAN Rating Scale*

axA+/--/--

## Rationale

The corporate credit rating on Thailand-based Ratchaburi Electricity Generating Holding Public Co. Ltd. (RATCH) reflects the company's solid and long-term power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT; BBB+/Stable/--; axA+/axA-1), its good market position, and "modest" financial risk profile. EGAT's weaker stand-alone credit profile (SACP) at 'bbb' and RATCH's limited fuel and site diversity in its portfolio of power plants temper the above strengths. RATCH's increasing exposure to new international markets is also a rating weakness. EGAT owns 45% of RATCH, with the balance held by private parties.

We assess RATCH'S business risk profile as "satisfactory." In our opinion, RATCH has a good market position despite facing some concentration risk. The company is the second-largest electricity generator in Thailand and is the country's largest independent power producer. Besides being a single-site asset at Ratchaburi, about 80% of the capacity is gas-fired. About 90% of RATCH's revenue and net income currently come from its Thailand operations. RATCH's reliance on dividend contribution from Ratchaburi Electricity Generating Co., Ltd. decreased to 85% of total dividend income from 100%.

RATCH benefits from a stable operating and financial performance because its PPAs with EGAT ensure steady capacity payments for agreed levels of availability and heat rate. The agreements protect RATCH from any demand side risk, and RATCH has maintained high plant availability. They also allow the company to pass on most costs, especially fuel cost, and earn a fixed return on equity.

We believe RATCH also benefits from EGAT's considerable experience of running power plants because EGAT provides operating and maintenance services to RATCH. RATCH is likely to benefit from a stable demand for power in the near to medium term. The demand for power in the first half of 2012 was more than 5% higher than in the same period in 2011, and it has grown steadily over the past decade. The continuing economic recovery in Thailand after

the floods in the fourth quarter of 2011 supports power demand from EGAT and, consequently, RATCH.

RATCH's ambition to expand offshore, the pace of such expansion, and the credit quality of assets acquired or investments made would likely influence the company's credit profile over the next few years. In 2011, RATCH acquired generation assets in Australia, with revenues secured by PPAs. It is also seeking to invest in Laos and Cambodia, mainly through joint ventures with strategic partners. While the strategy may help RATCH diversify its portfolio, it is also likely to expose RATCH to different competitive factors in different jurisdictional and regulatory environments.

We do not expect Australia's new carbon legislation to have any impact on RATCH's business there. RATCH terminated the PPA for the Collinsville power plant (180 MW), receiving compensation of A\$99.57 million. RATCH expects to receive carbon credits over the next few years on the plant. The company also sold its stake in its coal-fired power plant, LoyYang A, to AGL Energy Ltd. (BBB/Stable/--) in June 2012. RATCH-Australia Corp. Ltd.'s (RAC) current capacity is 719.5 MW.

We estimate RATCH's ratio of funds from operations (FFO) to debt to remain at 25%-29% over the next 18 months. RATCH's ratio of adjusted debt to capital increased to about 41% in 2011, from about 27% in 2010, because the company used debt to purchase of additional shares in RAC. Australian utility companies, such as generation assets in RAC, tend to have higher leverage than RATCH. Australian companies also pay higher interest rates than Thai companies, thus affecting RATCH's interest coverage ratios. Nevertheless, the Australian utilities tend to have higher operating margins than RATCH.

We do not consider RATCH to be a government-related entity despite EGAT being RATCH's largest shareholder with a 45% stake. EGAT also controls the company's board of directors. EGAT buys 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**

We assess RATCH's liquidity to be "strong," as defined in our criteria. The company's sources of liquidity are likely to exceed its uses by more than 1.5x over the next 12 months. Our liquidity assessment is based on the following factors and assumptions:

- We expect the company's liquidity sources to be about Thai baht (THB) 25 billion over the next 12 months including cash and cash equivalents and funds from operations.
- We expect RATCH to have steady recurring cash flows, with FFO averaging more than THB11 billion per year over the next two to three years.
- Liquidity uses include about THB11 billion in the next 12 months for capital spending, debt maturities, working capital needs, and dividends.

RATCH has supportive banking relationships and good access to domestic and international debt markets. The company's recent issuance of ¥15 billion in senior unsecured bonds due 2026 highlights this strength.

## Outlook

The stable outlook reflects our expectation that RATCH's operating performance and cash flows from existing power operations will remain stable in the next 12-24 months. The outlook also reflects our view that the company will face no major challenges in integrating its Australia business.

We may lower the rating on RATCH if the company's financial performance deteriorates due to debt-funded acquisitions or investments that are higher than our expectation, leading to an FFO-to-debt ratio of less than 20% or a net-debt-to-EBITDA ratio materially higher than 2.5x on a sustainable basis. We may also lower the rating if we lower the SACP of EGAT or if RATCH continues to invest significantly in joint ventures and associated projects in higher-risk jurisdictions, such that the performance of these entities becomes the key rating driver.

We believe the potential for an upgrade is limited over the next two years. However, we may 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**

<b>Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Peer Comparison</b>						
<b>Industry Sector: Utility Company</b>						
	<b>Ratchaburi Electricity Generating Holding Public Co. Ltd.</b>	<b>Electricity Generating Authority of Thailand</b>	<b>SP AusNet Group</b>	<b>SPI Australia Holdings (Partnership) L.P.</b>	<b>CLP Holdings Ltd.</b>	
Rating as of Dec. 13, 2012	BBB+/Stable/--	BBB+/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/A-2	
<b>--Average of past three fiscal years--</b>						
(Mil. mix curr.)	THB	THB	A\$	A\$	HK\$	
Revenues	40,329.5	399,197.3	1,420.5	188.9	66,904.0	
EBITDA	8,767.2	75,805.7	824.3	101.4	18,282.7	
Net income from cont. oper.	5,602.0	33,333.9	98.3	42.9	9,272.0	
Funds from operations (FFO)	8,009.2	60,076.9	476.2	(2.1)	15,679.3	
Capital expenditures	3,458.9	18,081.1	611.3	(2.1)	10,891.8	
Free operating cash flow	5,327.6	38,230.5	(183.6)	0.0	3,447.2	
Discretionary cash flow	2,090.1	19,484.2	(409.0)	0.0	(2,528.8)	
Cash and short-term investments	13,209.3	65,970.5	204.7	0.0	4,761.0	
Debt	23,653.5	378,861.1	4,861.5	0.0	81,555.4	
Equity	46,603.9	287,505.0	2,855.6	0.0	77,326.0	
<b>Adjusted ratios</b>						
EBITDA margin (%)	21.7	19.0	58.0	53.7	27.3	
EBITDA interest coverage (x)	8.1	4.1	2.4	1.3	3.7	

**Table 1**

Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Peer Comparison (cont.)					
EBIT interest coverage (x)	7.3	3.0	1.7	1.5	3.2
Return on capital (%)	11.8	8.3	7.4	N.M.	10.2
FFO/debt (%)	33.9	15.9	9.8	N.M.	19.2
Free operating cash flow/debt (%)	22.5	10.1	(3.8)	N.M.	4.2
Debt/EBITDA (x)	2.7	5.0	5.9	0.0	4.5
Total debt/debt plus equity (%)	33.7	56.9	63.0	N.M.	51.3

N.M.--Not meaningful. THB--Thai baht. HK\$--Hong Kong dollar.

**Table 2**

Ratchaburi Electricity Generating Holding Public Co. Ltd. -- Financial Summary					
Industry Sector: Utility Company					
	--Fiscal year ended Dec. 31--				
	2011	2010	2009	2008	2007
Rating history	--/--/--	--/--/--	--/--/--	--/--/--	--/--/--
(Mil. THB)					
Revenues	43,456.9	42,181.1	35,350.6	42,210.2	43,820.7
EBITDA	9,525.3	7,832.1	8,944.3	9,207.6	7,785.0
Net income from continuing operations	4,840.6	5,225.9	6,739.6	6,492.9	5,829.4
Funds from operations (FFO)	7,842.3	7,861.2	8,324.1	8,881.7	8,118.7
Capital expenditures	8,566.4	837.3	973.0	1,448.4	1,734.5
Free operating cash flow	(945.1)	9,107.6	7,820.3	5,919.9	6,021.1
Discretionary cash flow	(4,207.6)	5,846.6	4,631.2	2,730.3	2,975.3
Cash and short-term investments	13,709.3	13,890.6	12,027.9	10,621.6	11,585.1
Debt	34,461.1	16,859.7	19,639.8	22,831.1	26,400.0
Equity	48,611.1	46,676.3	44,524.1	40,974.5	37,479.8
<b>Adjusted ratios</b>					
EBITDA margin (%)	21.9	18.6	25.3	21.8	17.8
EBITDA interest coverage (x)	5.5	11.6	10.4	7.1	5.7
EBIT interest coverage (x)	4.8	10.5	9.8	6.2	4.8
Return on capital (%)	11.2	11.1	13.2	12.5	10.3
FFO/debt (%)	22.8	46.6	42.4	38.9	30.8
Free operating cash flow/debt (%)	(2.7)	54.0	39.8	25.9	22.8
Debt/EBITDA (x)	3.6	2.2	2.2	2.5	3.4
Debt/debt and equity (%)	41.5	26.5	30.6	35.8	41.3

N.M.--Not meaningful.

Table 3

Reconciliation Of Ratchaburi Electricity Generating Holding's Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB)										
--Fiscal year ended Dec. 31, 2011--										
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	34,461.1	47,917.3	43,456.9	9,525.3	6,248.8	1,719.8	7,954.0	7,954.0	3,262.5	8,566.4
Standard & Poor's adjustments										
Reclassification of nonoperating income (expenses)	--	--	--	--	2,052.1	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(332.7)	(332.7)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	221.0	--	--
Minority interests	--	693.8	--	--	--	--	--	--	--	--
Total adjustments	0.0	693.8	0.0	0.0	2,052.1	0.0	(332.7)	(111.7)	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	34,461.1	48,611.1	43,456.9	9,525.3	8,300.9	1,719.8	7,621.3	7,842.3	3,262.5	8,566.4

## Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

## Ratings Detail (As Of December 13, 2012)

### Ratchaburi Electricity Generating Holding Public Co. Ltd.

Corporate Credit Rating	BBB+/Stable/--
ASEAN Rating Scale	axA+/--/--
Senior Unsecured	BBB

### Corporate Credit Ratings History

06-Jan-2011	BBB+/Stable/--
19-Nov-2010	BBB/Stable/--
06-Jan-2011	axA+/--/--
19-Nov-2010	axA/--/--

**Ratings Detail (As Of December 13, 2012) (cont.)**

**Business Risk Profile** Satisfactory

**Financial Risk Profile** Modest

**Debt Maturities**

(Bil. THB)

2012: 4.63

2013: 5.14

2014: 6.30

2015: 2.16

2016: 3.99

Thereafter: 17.50

\*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.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).