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Research Update:

Ratch 'BBB+' Rating Affirmed With Stable Outlook; Proposed Guaranteed US\$1 Billion MTN Program Rated 'BBB'

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Ratch 'BBB+' Rating Affirmed With Stable Outlook; Proposed Guaranteed US\$1 Billion MTN Program Rated 'BBB'

Overview

- We expect Ratch to maintain its satisfactory market position, strong relationship with EGAT, stable operating performance, and good progress at the Hongsa project over the next 24 months.
- We are affirming our 'BBB+' long-term corporate credit rating and our 'axA+' long-term ASEAN regional scale rating on the Thailand-based independent power producer. We are also affirming our 'BBB' long-term issue rating on the company's guaranteed ¥15 billion senior unsecured bond.
- We are assigning our 'BBB' long-term issue rating to Ratch's proposed guaranteed US\$1 billion MTN program.
- The stable outlook reflects our expectation that Ratch will maintain its financial strength over the next two years, despite growing investments.

Rating Action

On April 17, 2014, Standard & Poor's Ratings Services affirmed its 'BBB+' long-term corporate credit rating on Ratchaburi Electricity Generating Holding Public Co. Ltd. (Ratch). The outlook is stable. We also affirmed our 'axA+' long-term ASEAN regional scale rating on the Thailand-based independent power producer. At the same time, we affirmed our 'BBB' long-term issue rating on the company's guaranteed ¥15 billion senior unsecured bond.

We assigned our 'BBB' long-term issue rating on a proposed US\$1 billion multi-currency medium-term notes (MTN) program that Ratch unconditionally and irrevocably guarantees.

Rationale

We affirmed the ratings because we expect the operating performance of Ratch's core subsidiaries to remain stable and support the company's financial strength over the next 24 months. The affirmation also reflects our expectation that Ratch will complete its Hongsa power project by the end of 2015. Hongsa is a mine-mouth lignite-fired power plant project in Laos with total 1878 megawatt installed capacity, with Electricity Generating Authority of Thailand (EGAT) taking up 90% of sold electricity on a 25-year power purchase agreement (PPA). Ratch has 40% stake in the project. The project will add 14%-15% additional capacity to Ratch. We do not consolidate the project on

a pro-rata basis now that we have better visibility on the project's cash flows, given that it is 80% complete. However, we consider it highly likely that Ratch will extend support to the project if it faces financial difficulty.

Ratch's strong PPAs with its majority shareholder and key off-taker, state-owned transmission company EGAT, and stable operating performance support its "satisfactory" business risk profile. The concentration of Ratch's generating assets at one location in Thailand and fuel concentration to gas partly offset the above strengths. In our business risk profile assessment, we do not factor Ratch's 10-year ambitious business plan, which was formulated last year, to transform itself into an integrated energy company. This is because, over the next two years, we do not expect these plans to translate into meaningful new ventures into riskier ASEAN countries that do not share a border with Thailand. However, we revised our assessment of management and governance to "satisfactory" from "strong" to reflect our view that the Ratch management does not have a record in this field.

We expect stable operations at Ratch's core subsidiaries in Thailand and Australia to keep the company's financial performance steady over the next two years because of stable PPA income. We estimate Ratch's ratio of debt to EBITDA to remain between 1.5x and 2.0x during this time. However, a significant pickup in the company's capital investments in joint venture power plants will consume increasingly larger portions of its internal cash flows. This will weaken the ratio of free operating cash flow (FOCF) to debt to an average 10%-15% over 2014-2015. This supports our view that Ratch's financial risk profile is "intermediate."

Our base-case scenario for Ratch's stand-alone operations in 2014-2015 assumes:

- Revenue will increase by 2%-3% annually.
- EBITDA margin will be steady at 16%-18%.
- Total committed capital expenditure, including equity injection in various joint venture power projects will amount to Thai baht (THB) 10 billion-THB12 billion.
- Dividend distribution will be stable at THB3.3 billion-THB3.5 billion.
- Minimum cash and short-term investment of THB5 billion; we adjust 60%-70% of total cash and short-term investment amounts net of total debt.
- Annual dividends from joint ventures and associates will be about THB1 billion.
- Annual EBITDA will be THB10 billion-THB12 billion.
- The Hongsa project will be completed on budget and on time.

This results in the following credit measures for the company in 2014-2015:

- Debt-to-EBITDA ratio of 1.6x-2.0x.
- EBITDA interest coverage of 7.0x-9.0x.
- Average FOCF-to-debt ratio of 10%-15%.

We believe Ratch benefits from its "strategically important" position in the

EGAT group. We do not expect EGAT to lower its 45% controlling stake in Ratch because EGAT has a policy to directly or indirectly account for at least 50% of Thailand's power generating capacity. As the largest independent power producer in Thailand, Ratch holds 14% of the system's installed generating capacity as of February 2014. Therefore, we also think that Ratch would benefit at least indirectly from the likelihood of extraordinary government support for the entire group in a situation of potential distress. EGAT has a dominant market position in electricity generation and is the sole owner and operator of the electricity transmission system in Thailand.

We rate Ratch's proposed guaranteed MTN program one notch below the corporate credit rating to reflect structural subordination because the company operates through an operating subsidiary/holding company structure. Cash flows at Ratch's level are structurally subordinated to cash flows at its operating subsidiaries. The ratio of priority debt and other liabilities at the subsidiaries' level to total consolidated assets is more than 20%, our rating notch-down threshold. We don't expect this ratio to fall significantly in the next few years.

Ratch expects to use the proceeds from the MTN program for general corporate purposes, including, capital expenditure, investment, and refinancing. We expect the company to make the first draw-down soon to refinance its debt maturing in 2014.

Liquidity

Ratch's liquidity is "adequate," as our criteria define the term. Our view factors in potential extraordinary liquidity support from the group and the company's good standing in the local financial markets. This mitigates the fact that Ratch's liquidity sources currently fall short of its liquidity needs, given sizable debt maturing in 2014, which the company aims to refinance shortly before it comes due. We also note that though Ratch has no committed credit lines, it has access to uncommitted facilities of about THB22 billion as of Dec. 31, 2013.

Principal liquidity sources include:

- Cash and short-term investment of THB9.4 billion as of Dec. 31, 2013.
- Funds from operations that we estimate at THB8 billion-THB9 billion in 2014.

Principal liquidity uses include:

- Contractual debt maturity of about THB14.7 billion in 2014.
- Limited working capital outflow of THB0.5 billion in 2014.
- Committed capital expenditure of THB4 billion-THB5 billion in 2014, predominantly on joint venture power project investments.
- Stable dividends of THB3.3 billion in 2014.

Outlook

The stable outlook on Ratch reflects our expectation that the company will maintain its financial strength over the next two years, despite increasing focus on new capacity additions and investments. We anticipate that Ratch's debt-to-EBITDA ratio will remain below 2.0x during this time. We do not expect the relationship between Ratch and its controlling shareholder EGAT to change.

Downside scenario

We may lower the rating on Ratch if the company's financial strength weakens because of sizable debt-funded acquisitions or investments, which are beyond our expectation. A debt-to-EBITDA ratio of more than 2.5x over a prolonged period could indicate such weakening. We may also lower the rating if we see signs that Ratch's relationship with EGAT is weakening.

Upside scenario

We believe the potential for an upgrade is limited over the next two years because we do not expect Ratch's business risk profile to substantially improve because of contributions from Hongsa or other investments.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: 'bbb'

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Favorable (+1 notch)

Group support

- EGAT group credit profile (GCP): 'bbb+'
- Group status: Strategically important

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Ratchaburi Electricity Generating Holding Public Co. Ltd.	
Corporate Credit Rating	BBB+/Stable/--
ASEAN Regional Scale	axA+/--/--

RH International (Singapore) Corporation Pte. Ltd.	
Senior Unsecured	BBB

Ratings Assigned

Ratchaburi Electricity Generating Holding Public Co. Ltd.	
Senior Unsecured	BBB

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