TRIS
TRIS RATING

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Credit News ข่าวเครดิต
News for Investors
Announcement No. 405 27 July 2006

Ratchaburi Electricity Generating Holding Public Company Limited

Company Rating: AA-
Rating Outlook: Stable

Rating History:	Company Rating	Issue Rating Secured	Issue Rating Unsecured
15 Jun 2005	AA -	-	-
26 Jun 2003	A+	-	-

Rating Rationale

TRIS Rating affirms the company rating of Ratchaburi Electricity Generating Holding PLC (RATCH) at "AA-". The rating reflects reliable dividends from RATCH's wholly-owned operating subsidiary, Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN), its good quality power plant portfolio and its conservative investment policy. The rating also takes into consideration a structural subordination of RATCH's creditors and uncertainty about the deregulation of the power industry.

RATCH was established in 2000 as a holding company to purchase the Ratchaburi power plant from the Electricity Generating Authority of Thailand (EGAT). As of March 2006, EGAT held a 45% stake in RATCH, followed by BANPU PLC (14.99%). Currently, RATCH's power portfolio consists of four power plants with a total electricity generating capacity of 4,499 megawatts (MW) and total investment cost of Bt20,574 million as of March 2006.

For 2005 operations, RATCH received dividend income of Bt6,046 million from its two power plants, RATCHGEN and Tri Energy Co., Ltd. (TECO). RATCHGEN continues to be the major investment, constituting 81% of RATCH's total capacity and generating 92% of RATCH's dividend income.

RATCH's investment policy has been conservative. All power plants in its portfolio have long-term power purchase agreements (PPAs) with EGAT. RATCH is prepared to participate in the upcoming bidding for independent power producer program (IPP), though the bidding criteria and constraints remain unclear.

Rating Outlook

The "stable" outlook reflects an expectation that RATCH will receive reliable dividend income from RATCHGEN and other power plant investments. Besides, the company is expected to maintain its conservative investment policy.

Key Rating Considerations

Strengths/Opportunities

- Stable dividend income from RATCHGEN and TECO
- Long experience in the power industry
- Strong relationship with its major shareholder, EGAT
- Ready for upcoming IPP bidding in 2006-2007

Weaknesses/Threats

- Uncertainty of power industry reform

Corporate Overview

RATCH and RATCHGEN were established in 2000 to purchase the Ratchaburi power plants from EGAT. RATCH holds 99.99% of RATCHGEN, the largest private power producer in Thailand with the total installed capacity of 3,645 MW, representing 14% of Thailand's and 33% of the private sector's installed capacity as of November 2005. RATCH has expanded its power generating capacity by investing in TECO, a 700 MW power plant; Ratchaburi Power Co., Ltd. (RPC), a 1,400 MW gas-fired power plant; and Southeast Asia Energy Co., Ltd. (SEAN), a hydroelectric power plant. As of May 2006, RATCH owned a 50% share of TECO, a 25% stake in RPC and a 25% stake in SEAN.

Table 1: RATCH's Power Plant Portfolio as of March 2006

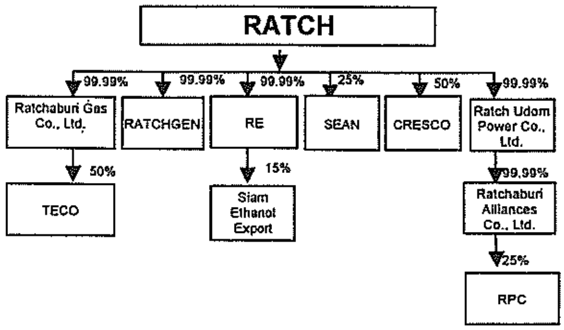
Type	100% Capacity (MW)	% Holding	RATCH Capacity (MW)	Investment Value (Bt million)
Power Plant	3,645	99.99	3,645	18,275
- RATCHGEN	700	50	350	1,809
- TECO	1,400	25	350	427
- RPC*	615	25	153.75	62.5
- SEAN**	-	-	-	-
Total	6,360		4,498.75	20,573.8

* Commercial operation will start in 2008

** Initial and commercial operations will start in 2010 and 2013

Since RATCH's establishment, EGAT has remained a major shareholder, owning a 45% stake as of March 2006. EGAT operates RATCHGEN's power plant under an operation and maintenance agreement (OMA) and is RATCHGEN's sole customer under PPAs. In addition, EGAT has a minimum gas off-take obligation under a master gas sales agreement (MGSA) with PTT PLC (PTT).

Chart 1: RATCH Structure as of June 2006



RE = Ratchaburi Energy Co., Ltd.
SEAN = Southeast Asia Energy Co., Ltd.
CRESCO = Chubu Ratchaburi Electric Power Services Co., Ltd.
TECO = Tri Energy Co., Ltd.
RPC = Ratchaburi Power Co., Ltd.
Source: RATCH

Recent Developments

- ***New managing director***

After Mr. Boonchoo Direksathapon, RATCH's former Managing Director retired, RATCH appointed Mr. Narong Sitasuwan as the new Managing Director. Prior to this position, Mr. Narong has 30 years of experience in power plant management. His prior position at EGAT was Senior Deputy Governor for the power generating group.

- ***Investment in SEAN***

RATCH purchases a 25% stake in SEAN which operates Nam Ngum 2 Dam, a 615 MW hydroelectric power project. SEAN has a 25-year power purchase agreement with EGAT. The project is located 35 kilometers north of Nam Ngum 1 Dam in Laos. The project plans to supply electricity to Thailand in 2010. The project cost was approximately Bt30,000 million and RATCH expects to invest Bt2,350 million in this project.

- ***Established CRESCO***

RATCH jointly invests with Chubu Electric Power (Thailand) Co., Ltd. (CEPT) to establish Chubu Ratchaburi Electric Power Services Co., Ltd. (CRESCO). RATCH has a 50% stake in CRESCO. CRESCO will operate and maintain the 1,400 MW gas-fired combined cycle power plant of Ratchaburi Power Co., Ltd.

- ***Increased stake in TECO from 37.5% to 50%***

On 9 March 2005, Ratchaburi Gas Co., Ltd. (RATCH's subsidiary), invested US$13.7 million to purchase additional shares of TECO. The aggregate 50% holding in TECO is worth Bt2,625 million.

INDUSTRY ANALYSIS

For several decades, Thailand's electricity sector has been dominated by three state-owned enterprises involved in the generation, transmission and distribution of power. EGAT has dominated electricity generation and transmission, while the Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA) have been responsible for distribution. The MEA and PEA are obligated to purchase energy from EGAT.

The Thai electricity industry experienced softer demand growth in 2005 and the trend is expected to continue in 2006 amid the Thai economic slowdown, volatile global energy prices, and an uncertainty of political climate. Since the privatization of EGAT was cancelled in March 2006, EGAT will continue to be a key component in the power industry's development over the medium term.

- ***Suspension of EGAT privatization plan by the Supreme Administrative Court does not stop the increasing role of private producers***

On 23 March 2006, the Supreme Administrative Court ruled that the transformation of EGAT into a public company was illegitimate, thereby blocking the proposed privatization of the enterprise. The Court ruling caused the government to suspend privatization plans for other related state enterprises, i.e. the PEA and the MEA. Power sector privatization began in the electricity generating sector in 1992 by encouraging private companies to produce and sell electricity to EGAT. The small power producer (SPP) project was introduced in 1992, followed by the independent power producer (IPP) project in 1994. Both IPPs and SPPs have 20- to 25-year PPAs with EGAT. The PPAs are well designed to mitigate the market risk of the operators, leaving mainly operating risk to be managed. Private producers under the IPP project are obligated to sell all electricity output to EGAT, while private power producers under the SPP project can sell electricity either to EGAT or to industrial users. At the present time, EGAT has signed PPAs with seven IPPs and 92 SPPs.

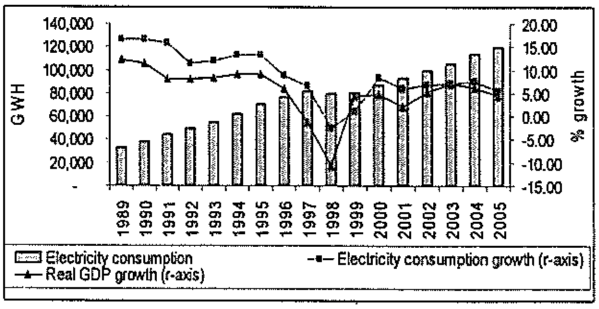
As of January 2006, Thailand had combined installed electricity generating capacity of 26,457 MW. EGAT had 60% of the total, followed by EGAT's affiliates and IPPs (30%), SPPs (8%), and power imported from Laos (2%). EGAT's share of power generation capacity decreased from 100% before 1995 to 92% in 1999 and to 60% at the end of January 2006. Electricity generation from private producers sharply increased by 2,870 MW in 2000 when the first two IPPs, TECO and Independent Power (Thailand) Co., Ltd., began commercial operations in July and August 2000, respectively. The first two units of the Ratchaburi power plant started operation in the same year.

EGAT sold two of its power plants to Electricity Generating PLC (EGCO) in 1995 and 1996, and then sold the Ratchaburi power plant to RATCHGEN in 2000. EGAT is moving from being a power producer to a power purchaser.

The government has planned to call bids of new independent power projects for which generation capacity is required to come on stream from 2011 onwards. The new supply of about 10,000-12,000 MW will help meet the country's increasing demand for electricity, which is expected to rise by an estimated 2,000 MW to 3,000 MW per year from 2007 until 2015 based on average projected economic growth of 6.5% per year.

- ***Slower electricity demand growth reflects moderate economy***

Chart 2: Electricity Consumption, Growth Rate and Real GDP Growth



Sources: National Economic and Social Development Board and Energy Policy and Planning Office

Electricity demand generally moves in tandem with the domestic economy. According to the Energy Policy and Planning Office (EPPO), electricity consumption in 2005 was 120,450 gigawatts per hour (GWH), representing 5.5% year-on-year growth. This growth was slower than the 7.54% growth recorded in 2004. It is expected that electricity consumption in 2006 will grow at approximately the same rate as 2005. In the first quarter of 2006, 30,201 GWH of electricity was consumed which represented year-on-year growth of 5.4%. Lately, GDP growth in 2006 has been revised down to between 4.2% and 4.9% by the Office of National Economic and Social Development Board (NESDB).

Except during the 1997/1998 economic crisis, electricity demand in Thailand has been very strong and relatively stable. Electricity consumption grew approximately 7% per annum from 2000 to 2005. According to a final report on Thailand Long-Term Load Forecasts by the NIDA Consulting Center of the National Institute of Development Administration completed in February 2006, under a moderate economic recovery scenario, Thailand peak electricity consumption will grow at an average rate of 7.16% from 2002 to 2006, 5.81% from 2007 to 2011, and 5.74% from 2012 to 2016.

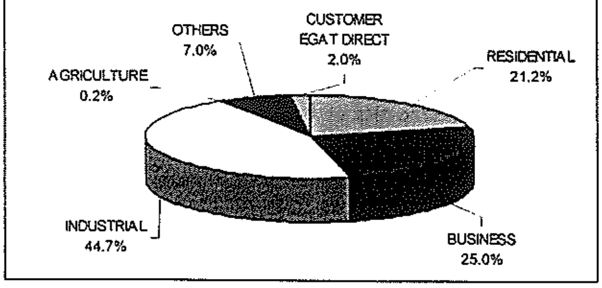
Table 2: Electricity Demand Forecasts

NESDB Plan	Years	Annual Growth (%) of Peak Demand (MW)		
		Moderate Economic Growth Case	Target Economic Growth Case	Low Economic Growth Case
9th	2002-2006	7.16	7.22	7.11
10th	2007-2011	5.81	6.30	4.77
11th	2012-2016	5.74	6.29	4.28

Source: Report on "Thailand Long-Term Load Forecasts" by NIDA Consulting Center, National Institute of Development Administration

The industrial sector is still the largest electricity consumer, accounting for 44.67% of total consumption, followed by the business sector, residential customers, EGAT's direct customers and the agriculture sector.

Chart 3: Electricity Consumption by Sector (2005)



Source: Energy Policy and Planning Office

Despite a recovery in electricity demand since 2000, growth has not yet absorbed the sharp increase in supply, resulting in an oversupply situation. The reserve margin in 2005 was 24.7%, higher than the target of 15% to 20%.

- ***Power industry liberalization plan awaits new government***

The power pool system, which aims to promote competition in electricity supply, was officially cancelled by a Cabinet resolution on 9 September 2003. The new power industry model, namely the Enhanced Single Buyer or ESB system, was approved under a Cabinet resolution on 9 December 2003. Under the new structure, EGAT role as the country's sole electricity buyer, transmitter, and wholesaler will be maintained, and EGAT will continue its status as the operator of the country's power grid. The ESB model is expected to have no impact on existing PPAs.

According to the new model, EGAT also planned to corporatise and sell shares to the public. However, the Supreme Administrative Court ruling on 23 March 2006 blocked the attempt to sell EGAT shares in the stock market. Further power industry liberalization has stalled, at least until a new government takes office. Elections may be held as early as October 2006. Until then, EGAT still needs to plan for additional supply, and a new round of IPP bidding is scheduled to take place in early 2007.

BUSINESS ANALYSIS

RATCH's business profile is above average. Its current business is dominated by its largest subsidiary, RATCHGEN. As of December 2005, RATCHGEN's investment constituted approximately 90% of RATCH's total investment while dividends received from RATCHGEN contributed 92% of RATCH's total revenue.

- ***EGAT continues to be RATCH's major shareholder***

RATCH was established and was listed on the Stock Exchange of Thailand in 2000. The establishment of RATCH to purchase the Ratchaburi power plant from EGAT is one part of EGAT's privatization.

EGAT has strong interest in RATCH in terms of dividends received and operation provided. As of March 2006, 45% of RATCH was owned by EGAT, followed by the BANPU group (14.99%), the Social Security Office (4.17%) and the Government Savings Bank (2.62%).

- ***Reliable dividends from RATCHGEN***

RATCH's cash flow is highly dependent on dividend income from RATCHGEN. This income source is relatively stable as a result of RATCHGEN's well-designed project structures, state-of-the-art power plants, and the operator's long experience in the power sector.

RATCHGEN has 25-year PPAs with EGAT that are well structured to protect RATCHGEN from fluctuations in power demand and supply. The pay-if-available payment structure of the PPAs provides stable cash flow to RATCHGEN, while the revenue adjustment mechanism limits foreign exchange rate risk and inflation rate risk. Fuel risk is limited through the structure of the energy payments in the PPAs and through a 25-year gas sale agreement (GSA) with PTT. EGAT has an obligation to take a minimum level of gas under the take-or-pay GSA.

Technology and operating risks are mitigated by the operation and maintenance agreement (OMA) with EGAT. With over 30 years of operating experience, EGAT has developed a strong reputation for running its power plants. EGAT has a nine-year contract to operate and maintain RATCHGEN's entire plant on a daily basis. The Contractual Service Agreement (CSA) supply contract with GE for major gas turbine parts helps minimize operational risk as it mitigates price risk and major parts availability risk.

RATCHGEN's operation in 2005 was satisfactory because the company could maintain the equivalent availability factor (EAF) of the thermal units at 86.1% which is slightly better than the target. The EAF of the combined cycle units decreased slightly from 91.7% in 2004 to 90.5% in 2005, but was better than the target.

- ***Investments focused on power-related businesses***

RATCH has a policy to invest in power projects and power related businesses in Thailand and in the Southeast Asian region. The company's investment policy is moderately conservative, with the first priority given to existing power projects holding long-term PPAs with EGAT, followed by brownfield and greenfield projects. In addition to RATCHGEN's power plant, the company has invested in three IPP projects, namely TECO, SEAN and RPC which was formerly named the Hin Krut project.

- ***TECO investment provided dividend income of Bt483 million in 2005***

In 2003, the company took a 37.5% ownership stake in TECO with an investment of Bt2,100 million. TECO is a 700 MW gas-fired combined cycle IPP located in Ratchaburi province. Its location adjacent to RATCHGEN's power plant benefits both plants through cooperation. TECO commenced commercial operations in July 2000 under 20-year PPAs with EGAT. In 2005, TECO maintained its EAF at 91%, slightly better than RATCHGEN's average EAF for the combined cycle units. RATCH acquired an additional 12.5% stake in TECO for US$13.7 million in March 2005. TECO's shareholders comprise Ratchaburi Gas Co., Ltd. (50%), which is RATCH's wholly-owned subsidiary and Texaco Thailand Energy Company I (50%).

- ***RPC project on track***

RATCH holds 25% of RPC with an initial investment of Bt427 million as of March 2006. RPC is an IPP power project, formerly known as the Hin Krut project. After strong opposition from the local community, the project changed its fuel from coal to natural gas and relocated from Prachuap Khiri Khan province to the RATCHGEN site. RPC is a two-block combined cycle power plant with total generating capacity of 1,400 MW. The total project cost is approximately US$890 million and the project is roughly 75% debt financed. RATCH will inject the equity portion worth approximately Bt1,700 million during 2006-2008. The plant started construction in the second quarter of 2006 with commercial operations scheduled to start in 2008.

- ***Small hydro projects pending***

Ratchaburi Energy Co., Ltd. (RE), established in 2001, is another investment arm of RATCH. RE formerly planned to develop four small hydro power projects with a total capacity of 36.7 MW at four of the Royal Irrigation Department's dams. However, construction has not yet started due to a policy change that EGAT will wholly operate small hydro power plant projects.

In January 2006, RE signed a Gas Sale Agreement with PTT Exploration and Production PLC (PTTEP) and PTTEP Siam Ltd. to buy flare gas, a by-product of crude oil production from the Sirikit oil field in Sukhothai province. The flare gas will be used in a two megawatt power plant project. The project is expected to start generating power in 2007.

FINANCIAL ANALYSIS

RATCH's financial position has been very strong. The dividends received from its power plant portfolio have been sufficient to fund its existing investments.

- ***Reliable dividend income from RATCHGEN and TECO***

With an investment of approximately Bt18,275 million in RATCHGEN, RATCH received Bt5,563 million in dividend income in 2005. RATCHGEN has a clear policy to pay out 100% of its net profit after it meets a DSCR coverage ratio of 1.2 times and fully funds its debt reserve account. Dividends from RATCHGEN will remain a dependable source of cash flow to RATCH given its solid project structures.

An investment of Bt2,625 million in TECO was funded through RATCH's internal cash flow. RATCH received dividend payments of Bt241 million in 2004 and Bt483 million in 2005. Given its much smaller size relative to RATCHGEN, the dividend contribution from TECO accounts for only 6%-8% of the total amount of dividends RATCH receives.

- ***Profitability dropped slightly in the first quarter of 2006***

RATCH's revenues increased 10.9% to Bt44,035 million in 2005. Energy payments (EP) were up by 12% and availability payments (AP) increased by 9%. RATCH's operating margin before depreciation and amortization was 20.4% in the first quarter of 2006, down from 21.7% in 2005. The company's leverage and liquidity improved as long-term debt was repaid, and the cost of debt fell after the refinancing. The debt to capitalization ratio improved from 61.0% at the end of 2003 to 48.8% at the end of the first quarter of 2006 as the company has not yet made any large investments. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio for 2005 improved to 8.6 times from 5.7 times in 2003.

- ***RATCH's internal cash flow is sufficient to fund investments***

The dividends received from its power plants are approximately Bt6,000 million a year, which is more than sufficient to fund planned investments approximately of Bt3200 million during 2006-2009 (Bt1,700 million in the RPC project and Bt1,500 million in the Nam Ngum 2 project). For the new round of IPP projects open for bidding during 2006-2007, RATCH may need external financing for any new equity investment.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------- Year ended 31 December	-------------			
	3/2006	2005	2004	2003	2002	2001
Electricity sales	12,389	44,035	39,714	35,528	27,493	17,423
Total operating costs	10,540	37,472	32,668	28,634	21,256	13,180
Operating profit	1,849	6,563	7,046	6,894	6,237	4,243
Interest expense	328	1,209	1,225	1,703	1,967	1,386
Net profit	1,934	6,066	6,487	5,424	4,729	3,060
Funds from operations (FFO)	2,420	8,670	8,750	7,892	6,573	4,347
Capital expenditures	5	790	125	2,401	27,050	92
Total assets	69,414	69,941	69,494	67,144	67,784	39,850
Total debt	31,806	32,586	35,765	38,652	40,896	18,267
Shareholders' equity	33,423	31,489	28,468	24,736	22,574	19,295
Operating income before depre. and amort. as % of sales	20.4	21.7	24.5	26.7	29.5	31.4
Pretax return on permanent capital (%)	3.5 **	11.5	12.1	11.3	13.7	13.1
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	9.0	8.6	8.5	5.7	4.5	4.3
FFO/total debt (%)	7.6 **	26.6	24.5	20.4	16.1	23.8
Total debt/capitalization (%)	48.8	50.9	55.7	61.0	64.4	48.6

* Consolidated financial statements
** Non-annualized

RATCH's Power Generation Portfolio*

Unit: Bt million

	------------ Year ended 31 December ------------				
	2005	2004	2003	2002	2001
Electricity Generation Capacity (MW)					
RATCHGEN**	3,645	3,645	3,645	3,645	1,470
TECO (RATCH portion)	350	262.5	262.5	-	-
RPC (RATCH portion)***	350	350	-	-	-
SEAN (RATCH portion) ****	153.75	-	-	-	-
Total	4,498.75	4,257.5	3,907.5	3,645	3,645
Investment (cost method)					
RATCHGEN**	18,275	18,275	18,275	18,275	16,000
TECO	1,809	1,284	1,284	-	-
RPC***	416	416	-	-	-
SEAN ****	44	-	-	-	-
Total	20,544	19,975	19,559	18,275	16,000
Investment (equity method)					
RATCHGEN**	22,472	22,244	21,780	21,891	18,829
TECO	2,676	2,166	1,965	-	-
RPC***	291	381	-	-	-
SEAN ****	43	-	-	-	-
Total	25,482	24,791	23,745	21,891	18,829
Dividend received					
RATCHGEN**	5,563	5,796	5,615	3,888	-
TECO	483	241	220	-	-
RPC***	-	-	-	-	-
SEAN ****	-	-	-	-	-
Total	6,046	6,037	5,835	3,888	-

* Consolidated financial statements
** Based on stand-alone financial statements
*** Commercial operations will start in 2008
**** Commercial operations will start in 2013

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a *"Rating Outlook"* that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. The rating outlook will be announced in conjunction with the credit rating. In all cases, the outlook assigned to a company will apply to all debt obligations issued by the company. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.

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