

RATCHABURI ELECTRICITY GENERATING HOLDING PLC

No. 104/2018

24 July 2018

CORPORATES

Company Rating: AAA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
10/04/15	AAA	Stable
25/04/13	AA+	Stable
09/02/11	AA	Stable
15/06/05	AA-	Stable
12/07/04	A+	Stable
26/06/03	A+	-

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RATIONALE

TRIS Rating affirms the company rating on Ratchaburi Electricity Generating Holding PLC (RATCH) at “AAA”. The rating reflects RATCH’s position as the largest private power producer in Thailand, its predictable cash flows from long-term power purchase agreements (PPAs), and the strong relationship RATCH has with the Electricity Generating Authority of Thailand (EGAT). The rating also takes into consideration its conservative investment plans and strong financial position.

KEY RATING CONSIDERATIONS

Largest private power producer in Thailand

RATCH is the largest power producer in Thailand. As of May 2018, RATCH had 6,624 megawatts (MW) of equity capacity (power-generating capacity based on the percentage ownership of each power plant) in operation, of which 5,866 MW were connected with Thai power grid.

RATCH’s equity capacity will increase to 7,009 MW in 2020 when it completes projects in pipeline such as solar and wind farms in Australia and the Xe-Pian Xe-Namnoy project in the Lao People’s Democratic Republic (Lao PDR).

Predictable cash flow

Approximately 87% of RATCH’s equity capacity is covered by the PPAs with EGAT (rated “AAA” by TRIS Rating). The PPAs contain pricing formula structured on a pay-if-available basis. With this basis, the PPAs provide RATCH with stable cash flows as long as the company maintains its power plants in accordance with PPA targets and keeps the plants ready for EGAT’s dispatch instruction.

Most of RATCH’s plants have reached the plant availability target every year for the last five years. The Hongsa power plant, one of RATCH’s main power plants, shows an improving trend after resolving technical issues in the past two years. The PPAs also contain mechanisms whereby fuel costs are passed through to EGAT. As a result, cash flow has been stable and predictable.

Strong relationship with EGAT

RATCH has a strong relationship with EGAT in terms of shareholding structure and plant operation. EGAT is a major shareholder of RATCH. It has owned 45.0% of RATCH since the inception of RATCH in 2000. EGAT also operates RATCH’s main power plants, such as the Ratchaburi plant, the Hongsa plant, and the Nam Ngum 2 plant, under operation and maintenance agreements. EGAT is also the major customer of RATCH’s power plants under independent power producer (IPP) and small power producer (SPP) schemes. EGAT’s strong credit profile mitigates counter-party risk for RATCH.

Solid cash flow

TRIS Rating forecasts the company’s earnings before interest, tax, depreciation and amortization (EBITDA) to range from Bt11 billion to Bt13 billion per year during 2018-2020, despite a drop in revenue from the Ratchaburi plant, an artifact of the way the PPA is structured.

Equity income from investments in other power plants will offset the decline in revenue from the Ratchaburi plant. RATCH has equity investments in many power projects, such as the Hongsa plant, the Xe-Pian Xe-Namnoy plant, and the SPP cogeneration power projects. These investments will contribute about

Bt3.5-Bt4.0 billion in shares of profits per year during 2018-2020. TRIS Rating estimates RATCH's dividend income from the equity investments at about Bt2.0-Bt3.0 billion per year during 2018-2020.

Low leverage

TRIS Rating believes RATCH will maintain its strong capital structure as it pursues growth opportunities. At the end March 2018, the company's total debt was Bt27 billion and the total debt to capitalization ratio was 30%. Investment plans through 2020, including capital expenditures and equity investments, are forecast to be about Bt17 billion. Its capital structure is strong enough to support additional investments of about Bt10 billion spanning 2018-2020.

Ample liquidity

RATCH's has ample liquidity. The company's sources of funds comprise cash on hand of Bt13.2 billion and an undrawn credit facility of about Bt46.2 billion as of the end of March 2018. RATCH's funds from operations (FFO) over the next 12 months are forecast to be about Bt8 billion. The sources of funds are sufficient to cover the uses. Debt coming due over the next 12 months amount to Bt2.4 billion plus about Bt9 billion in capital expenditures and equity investment over the next 12 months.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will continue to receive reliable cash flows from the power projects secured with long-term PPAs. TRIS Rating expects RATCH's debt to capitalization ratio to stay below 35%, taking into account RATCH's growth strategy and investment plans.

RATING SENSITIVITIES

The credit rating downside case may occur if RATCH's financial leverage increases dramatically due to any large scale, debt-funded acquisitions.

COMPANY OVERVIEW

RATCH is a holding company focused on power projects and related businesses. The company was established in 2000 to purchase the Ratchaburi power plant from EGAT. RATCH was listed on the Stock Exchange of Thailand (SET) in 2000. EGAT remains the company's major shareholder with a 45.0% stake.

As of May 2018, RATCH's aggregate equity capacity of power projects was 7,385 MW. About 6,624 MW is in operation while the rest (761 MW) is in the development and construction phases. In addition, RATCH invests 10.0% stakes in two mass rapid transit projects in Bangkok: the Pink Line and the Yellow Line.

As of May 2018, RATCH owned 13% of Thailand's installed capacity. RATCH is the largest power generator in Thailand with an equity capacity of 5,866 MW, connected with the Thai power grid.

RATCH's Portfolio

RATCH's Projects in Operation as of Jun 2018

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Term	Expiry Year
1. RATCHGEN	Thermal/CCGT	3,645	100.0	3,645	25 years	2025, 2027
2. TECO	CCGT	720	100.0	720	20 years	2020
3. RPCL	CCGT	1,490	25.0	373	25 years	2033
4. NN2	Hydro	615	25.0	154	25 years	2038
5. Hongsa	Thermal (Lignite-fired)	1,878	40.0	751	25 years	2040
6. Solarta	Solar power	42	49.0	21	5 years	2019 (Auto-renewal)
7. Solar Power	Solar power	22	40.0	9	5 years	2020 (Auto-renewal)
8. Huay Bong 2	Wind-turbine	104	20.0	21	5 years	2023 (Auto-renewal)
9. Huay Bong 3	Wind-turbine	104	20.0	21	5 years	2022 (Auto-renewal)
10. RW Cogen	Cogeneration	234	40.0	94	25 years	2039, 2040
11. Songkla Biomass	Thermal (biomass)	10	40.0	4	20 years	2032
12. NNEG	Cogeneration	139	40.0	56	25 years	2040
13. EDL-Gen	Mostly hydro	1,131	10.1	114	Multiple contracts	Multiple years
14. RAC	Gas, Wind, Solar	643	100.0	643	Multiple contracts	Multiple years
Total		10,772		6,624		

Source: RATCH

RATCH's Projects Under Construction and Development as of Jun 2018

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Terms	COD (e)
Power Project						
1. Berkprai	Cogeneration	99	35.0	35	25 years	2019
2. NNEG (expansion)	Cogeneration	60	40.0	24	n.a.	2020
3. Xe Pia –Xe Namnoy	Hydro	410	25.0	103	27 years	2019
4. Guangxi Fangchenggang	Nuclear Power	2,360	10.0	236	n.a.	2021
5. Mount Emerald	Wind-Turbine	180	100.0	180	12 years	2018
6. Collinsville	Solar power	43	100.0	43	12 years	2018
7. Riau	CCGT	288	49.0	141	20 years	2021
Total		3,440		761		

Project Name	Project Type	Project Equity Investment (Bt Mil.)	RATCH Holding (%)	RATCH's Equity Investment (Bt Mil.)	COD(e)
Other Project					
1. MRT Pink & Yellow Lines	Mass Rapid Transit	28,000	10.0	2,800	2021
Total		28,000		2,800	

Source: RATCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	8,979	41,996	47,578	57,177	54,970
Gross interest expense	435	1,485	1,360	1,340	1,468
Net income from operations	1,161	5,654	6,008	4,522	5,134
Funds from operations (FFO)	1,933	9,393	10,732	8,356	10,101
Earnings before interest, tax, depreciation and amortization (EBITDA)	2,989	13,108	12,754	11,819	12,823
Capital expenditures and investments	3,050	7,153	9,250	6,297	1,977
Total assets	98,097	94,225	96,391	92,605	96,235
Total debts	26,978	21,932	24,728	21,456	22,298
Shareholders' equity	62,850	63,281	62,453	60,420	61,199
Operating income before depreciation and amortization as % of sales	20.6	18.9	17.8	16.0	16.8
Pretax return on permanent capital (%)	8.9 **	9.2	9.6	8.6	9.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.9	8.8	9.4	8.8	8.7
FFO/total debt (%)	32.3 **	42.8	43.4	38.9	45.3
Total debt/capitalization (%)	30.0	25.7	28.4	26.2	26.7

* Consolidated financial statements

** Annualized with trailing 12 months

Note: FFO, EBITDA, and all financial ratios are adjusted with lease receivable from related party.

Ratchaburi Electricity Generating Holding PLC (RATCH)

Company Rating:	AAA
Rating Outlook:	Stable

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