

ELECTRICITY GENERATING AUTHORITY OF THAILAND

No. 89/2018
29 June 2018

CORPORATES

Company Rating: AAA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
30/06/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating of Electricity Generating Authority of Thailand (EGAT) at “AAA”. The rating reflects EGAT’s important role as a state-owned enterprise responsible for electricity generation and transmission for Thailand, its dominant position as the country’s largest power generator and its status as the sole owner of power transmission throughout Thailand. The rating also incorporates EGAT’s strong financial position, and strong support from the government.

KEY RATING CONSIDERATIONS

Critical role in Thai power industry

EGAT’s business profile reflects its critical role in the Thai power sector. EGAT engages in power generation and power purchasing. The Thai power industry is structured as an enhanced single buyer model. This means EGAT is the main entity purchasing electricity from the private power plants in Thailand and neighboring countries to supply electricity for the whole country through the national transmission network (national grid).

EGAT is the sole owner and operator of the national grid. It also operates the National Control Center (NCC) to control the electricity flow to meet electricity demand for the whole country. All power plants connected to the national grid, including EGAT’s plants, as well as private and foreign power plants, are under the NCC supervision for their generation schedule.

Dominant position in power generation

EGAT continues to be the largest power producer in Thailand. At the end of March 2018, EGAT owned and operated 47 power plants, with total capacity of 15,757 megawatts (MW), representing 37.2% of dependable capacity in Thailand. The remaining 62.8% is purchased from the private power producers in Thailand (53.7%) and power imported from the Lao People’s Democratic Republic (Lao PDR) and Malaysia (9.1%).

EGAT has a proven track-record, with almost 50-year experience in operating various types of power plants. At the end of March 2018, EGAT owned and operated 8,582 MW of combined cycle power plant, 3,647 MW of thermal power plant, 3,488 MW of hydroelectric power plant, and 40 MW of renewable and diesel power plant. EGAT also has excellent expertise and a proven track record in managing the national grid.

Reliable revenue from creditworthy customers

About 97.1% of EGAT’s total revenue comes from electricity sold in bulk to the Provincial Electricity Authority (PEA) (69.1%) and the Metropolitan Electricity Authority (MEA) (28.0%). PEA and MEA are also state-owned enterprises in Thailand. PEA is responsible for distributing electricity to end users in the provincial area, while MEA distributes electricity in the metropolitan areas (Bangkok, Samutprakarn and Nonthaburi provinces).

Recovered investment cost through the tariff

EGAT has recovered its investment cost through the electricity tariff. The current structure of the electricity tariff is calculated based on a return on invested capital (ROIC) of 5.69% for EGAT. This rate of return is meant to generate cash flow sufficient to cover EGAT’s investment in both power plants

and transmission network.

Limited exposure to fluctuations in fuel price

EGAT has limited exposure to fluctuations in fuel price. Under the structure of the electricity tariff regulated by the Energy Regulatory Commission (ERC), any changes in the price of fuel or the price EGAT must pay for purchasing power will be incorporated into the fuel adjustment charge (or the F_t) and passed through to end users. The ERC calculates and publishes the F_t every four months.

Prudent financial policy

EGAT has a conservative financial policy. It has a policy to keep a minimum cash on hand of Bt45,000 million. It also has internal guideline to maintain financial disciplines. The key financial guidelines include maintaining the debt to equity ratio at less than 1.5 times, the self-financing ratio at more than 25.0%, and the debt service coverage ratio at more than 1.5 times.

Strong financial position

EGAT's financial position is strong. At the end of 2017, EGAT's total debt was reported at Bt395,233 million, including power purchase commitments worth Bt283,026 million with other generators. EGAT's capital structure was very healthy, with a total debt to capitalization ratio of 47.8% at the end of 2017.

EGAT has a very strong liquidity profile. It had cash on hand and cash equivalents of Bt70,955 million and undrawn credit facilities of Bt10,000 million at the end of 2017. Its funds from operations (FFO) over the next 12 months are expected to be around Bt73,000 million. On the other hand, EGAT had an amount of debt due over the next 12 months, comprising long-term loans and bonds, of around Bt7,552 million.

TRIS rating's base case scenario forecasts that EGAT's earnings before interest, tax, depreciation and amortization (EBITDA) will be in the range of Bt110,000-Bt140,000 million per year during 2018-2020. This forecast is based on the assumption of the real gross domestic product (GDP) growth rate of about 4.1% in 2018 and 3.4% per annum during 2019-2020. EGAT budgets its capital expenditures and investments of about Bt200,000 million over 2018-2020. The expenditures cover the committed investments in upgrading the transmission network and developing new power generating units to replace retired plants. With the expected EBITDA, TRIS Rating believes that EGAT's total debt to capitalization ratio will stay below 50.0% during the forecast period.

Strong support from the government

EGAT has strong support from the government of Thailand. Under the EGAT Act B.E. 2511, the government of Thailand will provide extra supports to EGAT in case EGAT's revenue is not sufficient to meet expenses, including interest expenses and debt repayment.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that EGAT will continue to play a critical role in the power industry in Thailand.

RATING SENSITIVITIES

A credit downside case may arise if EGAT's state-owned enterprise status or its role in the Thai power industry weakens as a result of changes in government policy.

COMPANY OVERVIEW

EGAT was established in 1969, under the EGAT Act B.E. 2511, by merging the three state-owned enterprises responsible for supplying electricity to the country. Currently, EGAT is a state-owned enterprise under the supervision of the Ministry of Energy and the Ministry of Finance.

EGAT is responsible for securing the electricity supply for the whole country. At the end of March 2018, EGAT owns and operates 47 power plants, with a total capacity of 15,757 MW, accounting for 37.2% of the total installed capacity in Thailand. The remaining 62.8% is owned by private power producers and imported from neighboring countries, who sell electricity to EGAT under the enhanced single buyer model used in the Thai power industry.

Almost all of EGAT's revenue comes from bulk electricity sales. In 2017, revenue from the sale of electricity to PEA accounted for 69.1% of EGAT's total revenue, MEA accounted for 28.0%, and 1.8% came from EGAT's direct customers, including exports to the Lao PDR, Malaysia, and Cambodia, and other adjustment. In addition to electricity sales, EGAT also has revenue from providing operations and maintenance services to private power plants, telecommunication services and

others. These services accounted for 1.1% of EGAT's total revenue in 2017.

KEY OPERATING PERFORMANCE

Table 1: EGAT's Electricity Generation Capacity Breakdown

Unit: MW

	2013	2014	2015	2016	2017	Mar 2018
EGAT's own plants	15,010	15,482	15,548	16,385	16,071	15,757
Purchase from						
IPP	12,742	13,167	14,767	14,949	14,949	14,949
SPP	3,525	3,615	5,137	6,345	7,536	7,806
Import	2,405	2,405	3,387	3,878	3,878	3,878
Total purchase	18,672	19,187	23,291	25,172	26,363	26,633
Total generation capacity	33,682	34,669	38,839	41,557	42,434	42,390
% of Total						
EGAT's own plants	44.6	44.7	40.0	39.4	37.9	37.2
Purchase from						
IPP	37.8	38.0	38.0	36.0	35.2	35.3
SPP	10.5	10.4	13.2	15.3	17.8	18.4
Import	7.1	6.9	8.7	9.3	9.1	9.1
Total purchase	55.4	55.3	60.0	60.6	62.1	62.8
Total generation capacity	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

Table 2: EGAT's Customer Breakdown

Unit: GWh

	2013	2014	2015	2016	2017	Jan-Mar 2018
PEA	116,793	120,200	124,376	125,798	130,238	31,604
MEA	49,624	50,044	51,577	56,586	52,646	12,725
Others	3,113	3,360	3,584	2,663	2,247	555
Total Sales	169,530	173,604	179,537	185,047	185,131	44,884
% of Total						
PEA	68.9	69.2	69.3	68.0	70.3	70.4
MEA	29.3	28.8	28.7	30.6	28.4	28.4
Others	1.8	1.9	2.0	1.4	1.2	1.2
Total sales	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	494,119	496,883	546,480	557,080	536,913
Gross interest expense	42,172	42,701	32,062	26,005	26,288
Net income from operations	41,812	42,282	43,128	38,111	39,190
Funds from operations (FFO)	95,020	95,509	90,001	86,743	85,799
Earnings before interest, tax, depreciation, and amortization (EBITDA)	132,244	132,744	116,722	105,831	106,879
Capital Expenditures	55,994	50,057	35,254	34,768	26,587
Total assets	986,306	963,020	876,493	734,965	709,427
Total debts	395,233	412,181	363,561	233,298	219,493
Shareholders' equity	431,014	403,055	380,673	372,863	351,543
Operating income before depreciation and amortization as % of sales	24.4	24.9	20.3	17.6	18.7
Pretax return on permanent capital (%)	10.7	11.3	11.5	11.6	12.7
EBITDA interest coverage (times)	3.1	3.1	3.6	4.1	4.1
FFO/total debt (%)	24.0	23.2	24.8	37.2	39.1
Total debt/capitalization (%)	47.8	50.6	48.9	38.5	38.4

* Consolidated financial statements

Electricity Generating Authority of Thailand (EGAT)

Company Rating:	AAA
Rating Outlook:	Stable

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