ELECTRICITY GENERATING AUTHORITY OF THAILAND

No. 115/2023
26 June 2023

CORPORATES

Issuer Rating:	AAA
Outlook:	Stable

Last Review Date: 30/06/22

Issuer Rating History:

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

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RATIONALE

TRIS Rating affirms the issuer rating on Electricity Generating Authority of Thailand (EGAT) at "AAA", with a "stable" rating outlook. The rating reflects EGAT's integral linkage with the Thai government and its status as a major state-owned enterprise (SOE) playing a critical role in securing electricity supplies for Thailand. The rating factors in EGAT's dominant position as the country's largest power generator and sole owner of the high-voltage power transmission system in Thailand, its solid financial profile, and strong government support under the EGAT Act B.E. 2511.

KEY RATING CONSIDERATIONS

Integral relationship with government

We assess EGAT to be integrally linked with the Thai government. The government has full ownership and tight control of EGAT. EGAT was established as an SOE under the EGAT Act B.E. 2511. It comes under the supervision of the Ministry of Energy (MOE) and the Ministry of Finance (MOF). The board of directors and governor are approved by the Cabinet. EGAT's current strategic plan was formulated in accordance with the National Strategy Plan (2018-2037), National Energy Plan 2022, and the Power Development Plan 2018 (PDP2018 Revision 1). The strategic plan was reviewed by the State Enterprise Office (SEO) under the MOF. EGAT's capital expenditure and investment plans are subject to the approval of the MOE, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. EGAT's debt service and borrowing plan must be submitted to the Public Debt Management Office (PDMO), under the MOF.

EGAT's statutory status underlines the strong support from the Thai government. Under the EGAT Act B.E. 2511, the Thai government will provide extraordinary support to EGAT in the event that EGAT's revenue is not sufficient to cover its expenses, including interest expenses and debt repayments.

Crucial role in Thailand's power sector

We believe that EGAT will continue to play a critical role in the electricity industry in Thailand. Under the enhanced single buyer model adopted in Thailand, EGAT is the sole SOE responsible for sourcing electricity supplies in bulk for the nation, via its own power plants and purchasing from private power generators, domestically and abroad. EGAT sells about 72% of the generated and procured electricity to Provincial Electricity Authority (PEA) (rated "AAA/stable") and 27% of electricity to Metropolitan Electricity Authority (MEA) (rated "AAA/stable") through the national transmission network (national grid). EGAT is also the sole owner and operator of the national grid. It operates the National Control Center (NCC) to ensure electricity supplies meet electricity demand for the whole country at reasonable prices. All power plants connected to the national grid come under the supervision of the NCC for their power generation schedule.

At the end of March 2023, the contracted capacity in EGAT's system was 49,510 megawatts (MW). EGAT owned and operated 53 power plants with a total capacity of 16,920 MW, representing 34.2% of total capacity in EGAT's system. The remainder was purchased from private power producers in Thailand (53.2%) and imported from the Lao People's Democratic Republic (Lao PDR) and Malaysia (12.6%).

Cost-plus tariff structure to protect investment return

EGAT's electricity tariff is designed to recover investment costs plus a return for investing in its power plants and transmission network. The electricity tariff also enables EGAT to pass through the fuel cost and the cost of purchasing electricity to end users via the fuel adjustment charge (F_t) components. However, the electricity tariff is regulated by the Energy Regulatory Commission (ERC), who approves and publishes F_t every four months. The F_t to end users is based on ERC's discretion as to the timing and magnitude of adjustment, which may differ from the actual F_t calculated under the tariff structure. Therefore, the stream of cash that EGAT receives from selling electricity may not match the fuel expenses during the same period. The cash received from selling electricity can be less than EGAT's revenue, if ERC delays its adjustment of F_t to end users during a period of rising fuel prices, and vice versa.

Rising financial leverage to support government's policy

EGAT's financial position has deteriorated since the second half of 2021 due to the mismatching of F_t adjustment and rising fuel cost. For 2022 operation, EGAT's net cash flow from operation (adjusted for dividends received and interest paid or received) was recorded a loss of about THB26.7 billion, compared with a surplus in net operating cash flow of about THB60-THB80 billion during 2019-2021. Based on the electricity tariff structure, EGAT charged the electricity tariff at about THB4.0 per kilowatt-hour (unit) in 2022 to PEA and MEA reflecting a rise in fuel and purchasing electricity costs. However, ERC allowed EGAT to charge the electricity tariff at about THB3.27 per unit to PEA and MEA, with the aim of relieving inflationary pressure on the Thai public. A tariff shortfall of about THB0.73 per unit in 2022 and about THB0.20 per unit in 2021 had translated into the accrued F_t revenue of about THB166 billion by the end of 2022. The accrued F_t revenue gradually decreased to about THB151 billion by the end of March 2023, as ERC allowed EGAT to recover the F_t shortfall by THB0.14 per unit in electricity tariff for the first three months of 2023.

EGAT funded the accrued F_t with borrowings of about THB110 billion. At the end of March 2023, EGAT's adjusted debt increased to THB469.6 billion from THB360 billion at the end of 2021. EGAT's debt to capitalization ratio increased to 45.6% at the end of March 2023, from 41.4% at the end of 2021.

We forecast that EGAT's accrued F_t revenue will gradually decrease during 2023-2025. The recent adjustment of F_t for the May-August 2023 period indicated a recovery of the F_t shortfall by THB0.2782 per unit. If ERC continues to allow the F_t adjustment at this rate, EGAT should fully recover the F_t shortfall by August 2025. As the fuel cost has the tendency to decline in the near future, it should relieve the pressure on the electricity tariff. Therefore, we believe that ERC will gradually adjust the electricity tariff to compensate for the F_t shortfall accumulated during 2021-2022. We forecast EGAT's debt to capitalization ratio to improve to 35%-40% by 2025 from about 46% at the end of 2022.

We observed MOF's strong support for EGAT in implementing the government's policy to relieve pressure on the cost of living for the Thai public. The Cabinet approved for MOF to guarantee EGAT's debts of up to THB85 billion to support EGAT's financial liquidity. As of March 2023, EGAT had fully raised guaranteed debts of THB85 billion.

Strong financial profile

EGAT's financial profile remained strong, although deteriorating in 2022. EGAT's earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 11% year-on-year (y-o-y) to THB140.6 billion in 2022, mainly reflecting an increase in electricity sales and in dividend received from associated companies. For the first three months of 2023, EGAT's EBITDA continued to grow by 4.7% (y-o-y) to THB35.8 billion. EGAT's debt to EBITDA ratio also slightly increased to 3.3 times as of March 2023 from 2.8 times in 2021. We forecast EGAT's debt to EBITDA ratio to increase to about 4 times in 2023 before descending to 3.0-3.5 times by 2025, assuming accrued F_t revenue to be received within 2025.

EGAT has a satisfactory liquidity profile. As of March 2023, its sources of liquidity comprised cash on hand of THB131.4 billion and undrawn credit facilities of THB27 billion. We also forecast EGAT's funds from operations (FFO) of around THB80 billion for the next 12 months. We assess EGAT's sources of liquidity, including FFO, to comfortably cover debt due over the next 12 months of about THB28.4 billion, including short-term loans.

Prudent financial policy

EGAT has adopted a conservative financial policy. It has a policy to maintain a minimum cash balance of THB45 billion and has internal guidelines to ensure financial discipline. Key financial guidelines include maintaining a debt-to-equity ratio of less than 1.5 times, a self-financing ratio of more than 25%, and a debt-service coverage ratio of more than 1.5 times.

Gradually transforming electricity industry in Thailand

We observe that the electricity industry in Thailand is undergoing a gradual transformation arising from the "4D1E" trend (decarbonization, digitalization, decentralization, deregulation, and electrification). Decarbonization is leading the way for more electricity supplies from renewable sources while digitalization technology is allowing end users to produce their own electricity and connect to each other via a smart grid. These trends are seeing the electricity supply model evolve from centralized power generation toward more widely distributed power generation. Deregulation will enable peer-to-peer electricity trading over the long term. Another important trend is the electrification of vehicles and transportation, which could prove key driver for future electricity consumption.

We foresee these trends as impacting EGAT's role as the main electricity producer in the country over the long term. Despite our view that the importance of EGAT's role as an electricity producer may be diluted to some extent in the long term, we believe that EGAT will continue its critical role in securing electricity supplies for the country and maintaining the stability of the national electricity supply system.

BASE-CASE ASSUMPTIONS

- Electricity sales to grow by 1%-2% per annum during 2023-2025.
- EBITDA to be about THB120-THB125 billion per year during 2023-2025.
- Capital expenditure and investment to be about THB185 billion over 2023-2025, THB134 billion to be spent by EGAT, and the rest by its subsidiaries.
- Debt to EBITDA ratio to remain at around 3-4 times during 2023-2025.

RATING OUTLOOK

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

RATING SENSITIVITIES

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

COMPANY OVERVIEW

EGAT was established in 1969, under the EGAT Act B.E. 2511, through the merger of the three SOEs responsible for supplying electricity in the country. Currently, EGAT is an SOE under the supervision of the MOE and the MOF.

EGAT is responsible for securing electricity supplies for the whole country. At the end of March 2023, EGAT owned and operated 53 power plants, with a total capacity of 16,920 MW, accounting for 34.2% of total capacity in EGAT's system. The remaining 65.8% was produced by private power producers or imported from neighboring countries, who sell electricity to EGAT under the enhanced single buyer model used in the Thai power industry.

KEY OPERATING PERFORMANCE

Table 1: EGAT's Electricity Generation Capacity Breakdown

Unit: MW

	Mar 2023	2022	2021	2020	2019	2018
EGAT's own plants	***16,920***	***16,920***	***16,082***	***16,037***	***15,131***	***15,814***
Purchase from						
IPP	17,024	16,749	15,498	14,249	14,949	14,949
SPP	9,331	9,195	9,381	9,474	9,498	8,757
Import	6,235	6,235	5,721	5,721	5,721	3,878
Total purchase	***32,590***	***32,179***	***30,600***	***29,444***	***30,168***	***27,584***
Total generation capacity	**49,510**	**49,099**	**46,682**	**45,481**	**45,299**	**43,398**
% of Total						
EGAT's own plants	***34.2***	***34.5***	***34.4***	***35.3***	***33.4***	***36.4***
Purchase from						
IPP	34.4	34.1	33.2	31.3	33.0	34.5
SPP	18.8	18.7	20.1	20.8	21.0	20.2
Import	12.6	12.7	12.3	12.6	12.6	8.9
Total purchase	***65.8***	***65.5***	***65.6***	***64.7***	***66.6***	***63.6***
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

	Jan-Mar 2023	2022	2021	2020	2019	2018
PEA	**33,402**	**140,680**	**136,266**	**131,558**	**134,607**	**131,970**
MEA	12,634	53,369	51,323	52,344	55,002	53,302
Others	568	2,641	2,639	3,463	3,729	2,117
Total sales	**46,604**	**196,690**	**190,228**	**187,365**	**193,338**	**187,389**
% of Total						
PEA	**71.7**	**71.5**	**71.6**	**70.2**	**69.6**	**70.4**
MEA	27.1	27.1	27.0	27.9	28.4	28.4
Others	1.2	1.4	1.4	1.9	2.0	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: Mil. THB

		--------------Year Ended 31 December ----------			
	Jan-Mar 2023	2022	2021	2020	2019
Total operating revenues	196,194	802,624	559,847	513,104	563,078
Earnings before interest and taxes (EBIT)	23,326	89,199	79,124	65,669	76,538
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	35,722	140,596	126,757	115,784	119,268
Funds from operations (FFO)	24,742	98,008	90,503	80,437	81,512
Adjusted interest expense	10,639	40,425	35,862	35,250	37,153
Capital expenditures	8,147	28,967	33,866	46,794	53,681
Total assets	1,346,507	1,324,661	1,100,517	994,763	1,003,951
Adjusted debt	469,622	466,908	360,134	312,979	310,478
Adjusted equity	560,162	549,178	509,004	488,141	474,653
Adjusted Ratios					
EBITDA margin (%)	18.21	17.52	22.64	22.57	21.18
Pretax return on permanent capital (%)	8.43**	8.66	8.69	7.51	8.76
EBITDA interest coverage (times)	3.36	3.48	3.53	3.28	3.21
Debt to EBITDA (times)	3.30**	3.32	2.84	2.70	2.60
FFO to debt (%)	21.01**	20.99	25.13	25.70	26.25
Debt to capitalization (%)	45.60	45.95	41.44	39.07	39.54

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Government-Related Entities Rating Methodology, 30 July 2020

Electricity Generating Authority of Thailand (EGAT)

Issuer Rating:	AAA
Rating Outlook:	Stable

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