

EGAT INTERNATIONAL CO., LTD

No. 146/2022
26 August 2022

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 31/08/21

Company Rating History:

Date	Rating	Outlook/Alert
16/09/15	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating on EGAT international Co., Ltd. (EGATi) at “AAA” with a “stable” outlook. The rating reflects the company’s status as a core subsidiary of the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable” by TRIS Rating) due to its important role as the investment arm of EGAT for power and energy-related businesses abroad, the high integration between EGAT and EGATi, and the strong support EGATi receives from EGAT.

KEY RATING CONSIDERATIONS

Core subsidiary of EGAT

We assess EGATi as a core subsidiary of EGAT. This status is based on its important role as EGAT’s investment arm in power and energy-related businesses abroad. EGATi is a wholly owned subsidiary of EGAT with its business direction aligned with EGAT’s business strategy. As an investment arm of EGAT, the company invests in various government-to-government (G-to-G) energy projects in neighboring countries. According to EGAT’s policy, EGATi focuses on investing in overseas energy projects to complement the objectives of securing adequate electricity supplies in Thailand and obtaining appropriate investment returns for EGAT. Both EGAT and EGATi are state-owned enterprises under Thai law.

Highly integrated with EGAT

We view EGATi as having a high level of integration with EGAT. Since the establishment of EGATi, most of the company’s board members and top management have been seconded from EGAT. EGAT is also involved in EGATi’s investment process. Investments approved by EGATi’s board of directors are subject to review by EGAT before being forwarded to the Ministry of Energy (MOE) for final approval.

TRIS Rating believes EGAT will continue providing vital support to EGATi as it is an integral part of EGAT’s long-term business strategy. In 2011, EGAT budgeted an equity contribution framework to EGATi of THB17 billion to support the company’s investment plans. As of June 2022, EGATi had received capital injection from EGAT amounting to THB12.2 billion, of which THB11.8 billion is earmarked for investing in three power projects in neighboring countries: “Nam Ngiep1”, “Mong Ton”, and “Quang Tri”, as well as in the coal mining company Adaro Indonesia (Adaro).

Coal mining: major investment, main contributor

Currently, most of EGATi’s earnings are derived from the return from the Adaro investment. Over 2016-2020, EGATi received a cumulative dividend from Adaro of USD169 million (THB5.61 billion). In 2021, Adaro announced a dividend of USD33.56 million (THB1.12 billion) to EGATi, an increase of 172% from 2020. The greater contribution was mainly due to the higher coal prices. We forecast Adaro to pay dividend of about THB1.1-THB1.2 billion to EGATi in 2022, reflecting the continued high coal price environment. We expect coal prices to decline over the forecast period and the dividend received from Adaro would drop to around THB600-THB650 million per year in 2023-2024. The dividend income from Adaro is sufficient to cover all of EGATi’s operating expenses of about THB150-THB200 million per year.

EGATi acquired an 11.53% stake in Adaro, valued at USD325 million in late 2016. EGATi has already paid USD163.5 million to the seller on the transaction date and agreed to pay the remaining USD161.5 million over 2022-2027. The expected dividend received from Adaro plus the company's cash and cash equivalent of THB6.89 billion (USD207 million), as of March 2022, should be sufficient to cover the remaining share purchase payments. Adaro is one of the largest coal mining companies operating in South Kalimantan, Indonesia, with 35,520 hectares of mining area. Adaro's average sales volume is about 50 million tonnes of coal per year.

Drought year for Nam Ngiep 1 project

The Nam Ngiep 1 Power Co., Ltd. (NNP1PC) experienced low water inflow for two successive years, causing NNP1PC to start 2022 operations with the lowest level of reservoir water. NNP1PC was at risk of breaching its obligation concerning minimum electricity generation for 2022, under the power purchase agreement (PPA) with EGAT. Therefore, NNP1PC declared 2022 a drought year under the PPA to exempt the company from such obligation. This will also allow NNP1PC to gradually increase the water level in its reservoir to normal levels by the end of 2022.

We expect NNP1PC's operations to recover in 2023 and start to pay dividend of about THB90-THB100 million per year to EGATi. NNP1PC was established in 2013 to develop the Nam Ngiep 1 hydropower project. The project is located on the Nam Ngiep River, Bolikhamxay province, Lao People's Democratic Republic (Lao PDR), and has an installed capacity of 290 megawatts (MW). NNP1PC holds a 27-year PPA with EGAT for 269 MW of electricity. During 2020-2021, the volume of water flowed into NNP1PC's reservoir was around 3,000-3,500 million cubic meters (MCM) per year, lower than the 50-year historical average of about 5,342 MCM. NNP1PC generated electricity of 1,075 GWh and 1,124 GWh in 2020 and 2021, respectively. This level of generation was below the target of 1,546 GWh per year.

More investment in renewables

EGATi budgets about THB5.7 billion for investing in renewable energy during 2022-2024 as follows: of THB4.36 billion for the Nam Ngum 3 hydro power project (NN3HPP), THB319 million for expanding the floating solar power project in Taiwan, and THB1.0 billion for uncommitted projects.

EGATi expects to hold a 25% stake in NN3HPP, and it plans to inject its equity portion of THB306 million in 2023 and the rest of THB4.05 billion in 2024. Located in Lao PDR, NN3HPP has an installed capacity of 480 MW. Currently, the project has a tariff MOU with EGAT. The project is expected to commence operation in late 2024.

The company acquired an 18.75% stake in the floating solar projects in Taiwan worth THB195 million in August 2021. The projects have an installed capacity of 37.6 MW, which contributes about 7 MW to EGATi. The company and partners have a plan to expand their floating solar power portfolio in Taiwan to about 187.6 MW (35.2 MW to EGATi) in 2025. This portfolio is expected to contribute about THB40 million in dividend per year when the project commences operation for the full year.

Debt-free balance sheet until 2024

During 2022-2024, EGATi plans to invest in Nam Ngum 3, additional investment in Adaro as well as the floating solar projects in Taiwan, and in renewable power and technology projects. The capital expenditure for the investment plan totals THB9.68 billion over 2022-2024 (including committed and uncommitted projects). The primary sources of funds will be equity injection from EGAT, the dividend received from Adaro, cash and cash equivalent, and borrowings in 2024. As of March 2022, EGATi had cash and cash equivalents of THB6.89 billion.

EGATi plans to terminate the investment in the Quang Tri project in Vietnam and to suspend the investment in the Mong Ton project in Myanmar. The incurred development costs of THB102 million for the Quang Tri project is likely to be impaired in 2022.

BASE-CASE ASSUMPTIONS

- Dividend income to be about THB1.0-THB1.3 billion in 2022 and about THB700-THB800 million per year during 2023-2024.
- Investments to be about THB9.68 billion during 2022-2024 (including committed and uncommitted projects).

RATING OUTLOOK

The "stable" outlook reflects our expectation that EGATi will maintain its status as a core subsidiary of EGAT and continue its important role as an investment arm of EGAT for electricity and related businesses abroad.

RATING SENSITIVITIES

A credit downgrade scenario could materialize if there is a material deterioration in EGAT’s credit profile that leads to a downward revision of EGAT’s credit rating, or there are material changes in EGAT’s role and its importance to EGAT that change our view on EGAT’s status as a core subsidiary of EGAT.

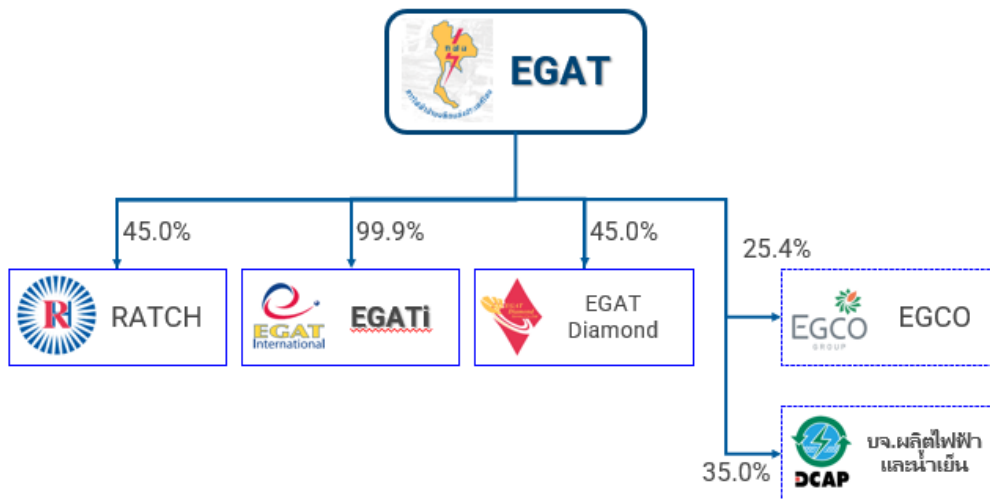
COMPANY OVERVIEW

EGATi was founded by a cabinet resolution dated 30 October 2007. Its initial objective was to serve as EGAT’s representative in G-to-G power projects in neighboring countries. The company was formally established in December 2007, with a registered capital of THB50 million. EGATi is wholly owned by EGAT. EGAT received approval from the MOE to inject THB17 billion in equity into EGATi for the purpose of making investments abroad. In addition to this budget, EGAT paid EGATi’s operating expenses through additional equity injections. As of March 2022, EGATi’s paid-up capital was THB12.2 billion. Of this amount, THB11.83 billion has been earmarked for investment in the Nam Ngiep 1 hydropower project, the Mong Ton hydropower project, an investment in AI and the Quang Tri project.

EGATi’s investment portfolio comprises five power projects in the Lao PDR, Vietnam, Myanmar, and Taiwan and a coal mine in Indonesia. The aggregate capacity of the five power projects is 4,775 MW. EGATi has a policy of holding a 25%-40% interest in each project. Of the five projects, the Nam Ngiep 1 project commenced commercial operations in September 2019. The floating solar projects in Taiwan began commercial operations in 2021-2022.

KEY OPERATING PERFORMANCE

Chart 1: EGAT’s Group Structure as of 30 Jun 2022



Source: EGATi
Illustrated by TRIS Rating

Table 1: EGATI's Portfolio as of 30 Jun 2022

Project Name	Location	Plant Type	Project Capacity (MW)	EGATI's Holding (%)	EGATI's Capacity (MW)	PPA Terms (Years)	COD
Power projects							
1. Nam Ngiep 1	Lao PDR	Hydro power	287	30	86	27	Sep 2019
2. Quang Tri	Vietnam	Coal-fired	1,320	40	528	25	To be terminated
3. Mong Ton	Myanmar	Hydro power	2,650	30	795	40	To be suspended
4. Nam Ngum 3	Lao PDR	Hydro power	480	25	120	n.a.	2026(e)
5. Floating Solar	Taiwan	Solar	38	19	7	20	2021-2022
Total			4,775		1,536		
Company	Location	Business Type	EGATI's Holding (%)	EGATI's Investment (Mil.THB)			
Other investments							
1. Adaro Indonesia	Indonesia	Coal mining	11.53	11,160			
Total				11,160			

Source: EGATI

e = estimation

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	3	11	4	5	7
Earnings before interest and taxes (EBIT)	456	1,741	140	270	1,344
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,011	29	596	392	1,553
Funds from operations (FFO)	901	(177)	522	309	1,255
Adjusted interest expense	0	0	0	0	0
Capital expenditures	5	41	25	23	21
Total assets	20,868	20,464	17,627	17,720	18,583
Adjusted debt	0	0	0	0	0
Adjusted equity	15,381	14,925	12,697	12,778	13,267
Adjusted Ratios					
EBITDA margin (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Pretax return on permanent capital (%)	14.34 **	12.59	1.10	2.07	10.52
EBITDA interest coverage (times)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* Equity-method

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Government-Related Entities Rating Methodology, 30 July 2020

EGAT International Co., Ltd. (EGATi)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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