

EGAT INTERNATIONAL CO., LTD

No. 153/2024
5 September 2024

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 11/09/23

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” rating outlook. The rating reflects the company’s status as a core subsidiary of Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable”) based on its important role as the investment arm of EGAT for power and energy-related businesses abroad, the high integration with the parent, and a very high likelihood of EGATi receiving extraordinary support in times of financial stress.

KEY RATING CONSIDERATIONS

Core subsidiary of EGAT

In our view, EGATi’s status as a core subsidiary of EGAT is underpinned by its strategic role as EGAT’s international investment arm for power and energy-related ventures. The importance of EGATi to EGAT is further emphasized by shared reputation, EGAT’s 99.9% ownership stake in EGATi, and the intrinsic alignment of EGATi’s goals with EGAT’s overall growth strategy. Being a representative of EGAT for overseas investments, EGATi emphasizes participating in government-to-government (G-to-G) investment projects so as to ensure adequate electricity supply and generating favorable returns on investment for EGAT. Both EGAT and EGATi are state-owned enterprises, having strong linkage with the government.

Highly integrated with EGAT

The governance structure of EGATi demonstrates high integration with EGAT. Most of EGATi’s board members and top executives have been seconded from EGAT. In addition, EGAT has direct influences on EGATi’s strategic direction, financial policy, and investment decision-making process. Investment proposal approved by EGATi’s board of directors must be reviewed and approved by EGAT before submission to the Ministry of Energy (MOE) for final endorsement.

We expect a very high likelihood that EGATi will receive extraordinary support from the government via EGAT, given the integral role in EGAT’s long-term strategic objectives. This support is evidenced by EGAT’s commitment to providing a THB17 billion equity contribution for EGATi’s investment obligations. At the end of June 2024, EGATi had received a capital injection of about THB11.8 billion from EGAT. The remaining equity will be used to reinforce future investments.

Core dividend income continues from coal mining business

Investment in PT Adaro Indonesia (Adaro), a major coal mining operator in Indonesia, continues to be a significant source of dividend income for EGATi. Since initiating its investment in Adaro in 2016, EGATi has benefited from substantial dividend, driven by Adaro’s robust performance during several coal price upcycles.

Dividend receipts from Adaro remain substantial and serve as a critical funding source for EGATi’s new ventures. Dividend income amounted to THB2.4 billion in 2023 and about THB800 million received in the first quarter of 2024, compared to the initial investment cost of THB11.6 billion. We anticipate EGATi to receive large dividend income from Adaro in 2024, before normalizing to approximately THB1.0 billion per annum during 2025-2026.

We maintain our view that coal price risk, the cyclical nature of the coal industry and regulation risk in Indonesia are negative factors to Adaro's long-term performance and EGATi's future dividend receipts. The concentration risk from this investment continues to hinder EGATi's overall earnings profile. As of March 2024, EGATi's equity investments totaled THB14.7 billion, with around 76% allocated to Adaro.

More diversified portfolio expected

EGATi's portfolio is expected to grow and further diversify, which will be crucial in mitigating concentration risk and enhancing the company's earnings stability. EGATi's investment plan for 2024-2028 targets THB26 billion with the aim to expand its portfolio with a 60:40 split between power generation and non-power generation assets. In the power generation, EGATi's objective was to add 800 megawatts (MW) of new equity capacity, with at least 50% derived from renewable sources. Non-power generation will pursue new S-curve businesses such as hydrogen fuel, related products in electric vehicle (EV) or battery value chain, and an electricity trading platform.

Nonetheless, we note that the company's project development progress has been slower than expected due to a multi-tiered approval process and economic uncertainties in target countries. Some of EGAT's investment plans could not follow schedule due to delays in appointing the Governor and Board of Directors of EGAT during the transition to a new government in 2023. The economic downturn in the Lao People's Democratic Republic (Lao PDR) has also caused delays to EGATi's investments in Nam Ngum 3 and heightened risk for potential new investments in the country.

Strong financial profile to sustain

We anticipate that the combination of THB11.4 billion in current cash reserves as of March 2024, THB5.2 billion in remaining equity commitments from EGAT, and robust dividend inflows from Adaro, should adequately support EGATi's funding need for planned investments while maintaining very strong credit metrics. Our projections indicate that EGATi's debt to EBITDA ratio will likely remain below 1.0 time throughout 2024-2026.

We estimate EGATi's capital expenditures to range between THB17-THB17.5 billion during 2024-2026. This investment primarily covers a large operating coal-fired power plant, investment obligations in Adaro, and the capacity expansion of renewable energy business in Taiwan. Meanwhile, investment in Nam Ngum 3 project will be delayed due to the expiration of Tariff Memorandum of Understanding (MOU). The project partners are currently discussing the next steps.

BASE-CASE ASSUMPTIONS

- Dividend income to be about THB2.3-THB2.5 billion in 2024, THB3.7 billion in 2025, and THB2.2-2.3 billion in 2026.
- Investments to be about THB17-THB17.5 billion during 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects the outlook on EGAT. This rests on our expectation that EGATi's status as a core subsidiary of EGAT will remain intact.

RATING SENSITIVITIES

The rating and outlook on EGATi will move in tandem with those on EGAT, given the core subsidiary status. Although very unlikely, a downgrade scenario could materialize if we lower the rating on EGAT, or we see a weakening role as an investment arm of EGAT or a lower degree of extraordinary support from EGAT.

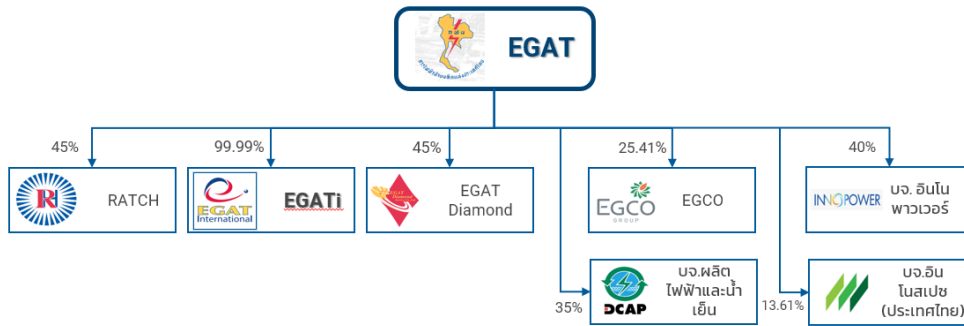
COMPANY OVERVIEW

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.

EGATi's investment portfolio currently comprises hydropower projects in Lao PDR, floating solar plants and battery energy storage projects in Taiwan, and a coal mine in Indonesia. As of June 2024, the aggregate capacity of the power projects is 805 MW, while its equity capacity was 213 MW. EGATi has a policy of holding a 25%-40% interest in each project. The Nam Ngiep 1 project commenced commercial operations in September 2019. The floating solar projects in Taiwan began commercial operations in 2021-2022. The company acquired shares in Indonesian coal mining in 2016.

KEY OPERATING PERFORMANCE

Chart 1: EGAT's Group Structure as of 31 Dec 2023



Source: EGAT
Illustrated by TRIS Rating

Table 1: EGATi's Portfolio as of 30 Jun 2024

Project Name	Location	Plant Type	Project Capacity (MW)	EGATi's Holding (%)	EGATi's Capacity (MW)	PPA Terms (Years)	COD
Power Generation Projects							
1. Nam Ngiep 1	Lao PDR	Hydro power	287	30.00	86	27	Sep 2019
2. Nam Ngum 3	Lao PDR	Hydro power	480	25.00	120	n.a.	Postponed
3. Hou Ju Energy Technology Corporation	Taiwan	Solar	38	18.75	7	20	2021-2022
Total			805		213		

Company	Location	Business Type	EGATi's Holding (%)	EGATi's Investment (Mil.THB)
Other Investments				
1. Adaro Indonesia	Indonesia	Coal mining	11.53	11,603
2. Hou Ju Energy Technology Corporation	Taiwan	Battery Storage	25.00	420
Total				12,023

Source: EGATi

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	3	12	13	11	4
Earnings before interest and taxes (EBIT)	994	3,076	6,337	1,741	140
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,271	2,870	6,405	29	596
Funds from operations (FFO)	993	2,282	5,306	(323)	522
Adjusted interest expense	0	0	0	0	0
Capital expenditures	5	1	10	41	25
Total assets	26,985	24,553	23,253	20,221	17,627
Adjusted debt	0	0	0	0	0
Adjusted equity	23,875	21,747	19,707	14,682	12,697
Adjusted Ratios					
EBITDA margin (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Pretax return on permanent capital (%)	13.3 **	14.8	36.8	12.7	1.1
EBITDA interest coverage (times)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to EBITDA (times)	0.0 **	0.0	0.0	0.0	0.0
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.0	0.0	0.0	0.0	0.0

* Equity-method

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

EGAT International Co., Ltd. (EGATi)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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