

METROPOLITAN ELECTRICITY AUTHORITY

No. 140/2022
19 August 2022

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 22/07/21

Company Rating History:

Date	Rating	Outlook/Alert
09/07/20	AAA	Stable

Contacts:

Pravit Chaicharnapai, CFA
pravit@trisrating.com

Sermwit Sriyotha
sermwit@trisrating.com

Parat Mahuttano
parat@trisrating.com

Wiyada Pratoomsuan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Metropolitan Electricity Authority (MEA) at “AAA” with a “stable” rating outlook. The rating reflects MEA’s integral linkage with the Thai government and its critical role as a state-owned enterprise (SOE) responsible for distributing electricity in the central cities of Thailand. The rating also takes into consideration the robust demand from its service areas, reliable cash flow under the cost-plus tariff structure, solid financial profile, and conservative financial policy.

KEY RATING CONSIDERATIONS

Integral linkage with the government

TRIS Rating assesses MEA’s link with the government as being integral. MEA is wholly owned by the Thai government, via the Ministry of Finance, and operates under the supervision of the Ministry of Interior. The government can exert strong influence on MEA’s strategy through the appointment of board members and the governor.

We believe that MEA will receive timely and sufficient extraordinary support from the Thai government if MEA’s income is inadequate in meeting its operating expenses and debt service payments as stated in MEA Act B.E.2501.

Critical role in distributing power in Thailand’s metropolitan area

MEA is one of the two state-owned enterprises distributing electricity to the retail markets in Thailand. MEA is responsible for three central provinces: Bangkok, Samut Prakan, and Nonthaburi. Another SOE, Provincial Electricity Authority (PEA) (rated “AAA” by TRIS Rating), covers the remaining 74 provinces.

MEA’s credit profile reflects its critical importance to the government and the electricity distribution system in Thailand. The crucial mission of MEA is to ensure the reliability of the power system in Bangkok, Nonthaburi, and Samut Prakan provinces, which consume about 26%-27% of the electricity used in the country. MEA also has the responsibility of formulating strategic plans to support national policy and the development of electricity supply systems in Thailand.

In 2021, MEA’s service areas covered about 3,192 square kilometers. The authority operates a distribution network with a line-length of 53,660 circuit-kilometers. MEA’s revenue was THB187 billion, while the distributed electricity amounted to 49,561 gigawatt-hours (GWh). MEA purchases almost all of its electricity from the Electricity Generating Authority of Thailand (EGAT).

Robust electricity demand in the metropolitan area

MEA benefits from its services in urban areas, where electricity consumption has been substantial and consistent for over a decade. The distributed electricity was 49,561 GWh in 2021, compared to 44,167 GWh in 2011, representing an average growth rate of 1.2% per annum.

We view that a large number of consumers and diversified customer types in the metropolitan area as positive factors in enhancing MEA’s revenue stability. MEA’s customers have increased by about 2.8% annually over the last ten years, reaching approximately 4.11 million in 2021. MEA’s revenue also benefits from the high selling price of electricity, backed by population density and high electricity consumption per user.

Stable earnings from cost-plus tariff structure

The electricity tariff structure plays a vital role in protecting MEA's operations from the risk of electricity procuring costs. The electricity tariff structure in Thailand, regulated by the Energy Regulatory Commission (ERC), is designed to cover essential investments, and ensure adequate funds for the operations of all three power-related state enterprises: EGAT, PEA, and MEA. The tariff structure incorporates a variable adjustment mechanism or Ft to pass any changes in electricity costs to end consumers.

Under this tariff structure, we believe that MEA's business can generate sufficient earnings with a highly stable profit margin. MEA's gap between the electricity selling and the purchasing prices is relatively steady. During 2017-2021, the spread between the selling and purchasing electricity prices was around THB0.99-THB1.03 per kilowatt-hour (kWh).

Regulated return caps profitability

MEA's profit margin is capped by the regulations as MEA is obliged to return excess revenues to related authorities until its financial status meets the criteria set by ERC. Since MEA benefits from servicing in metropolitan areas and usually generates a significantly higher return than PEA's, ERC requires MEA to allocate part of its revenue to subsidize PEA and set aside any excess amount after the cross-subsidy, termed "clawback", to support the government measures.

During 2018-2021, MEA has transferred its surplus revenue, including that transferred to PEA and clawback, at around THB16.6-THB19.6 billion per year. With this mechanism, we assess MEA's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin as being limited to 8%-10%.

MEA's performance to normalize from 2022 onwards

A recovery of electricity consumption following a gradual improvement of the COVID-19 situation underpins our expectation of improving results from 2022 onwards. Electricity demand in MEA's covered areas increased by 3.1% year-on-year (y-o-y) in the first six months of 2022 after a 2.2% contraction in 2021. MEA is less likely to incur material expenses to support government relief measures during 2022. We assess that an upward adjustment of the Ft following a surge in energy prices should have little impact on MEA's profitability under the cost-plus tariff scheme.

In our base-case forecast, given an upward adjustment of the Ft, MEA's revenue is likely to escalate from THB220 billion in 2022 to THB257 billion in 2024. MEA's EBITDA margin remain around 8%-9%, reflecting EBITDA of THB20-THB21 billion per annum over the next three years.

Strong financial profile

In our assessment, MEA's financial status remains adequately strong for its planned investment expenditures. We expect MEA's total debt will increase at an accelerating pace as MEA's annual capital expenditures escalate from THB22 billion in 2022 to THB32 billion during 2024-2025, mainly for improvements to distribution line and underground cable projects. Nonetheless, its growing EBITDA should help balance its debt to cash flows ratios, keeping its financial status solid. Over the next three years, we forecast MEA's net debt to EBITDA ratio to stay between 3-4 times and the debt to capitalization ratio to be in the range of 35%-45%.

Conservative financial policy

MEA has consistently adopted a conservative financial policy. The policy involves maintaining a debt to equity ratio of not more than 1.5 times, a self-financing ratio of not less than 25%, and a debt service coverage ratio of not less than 1.5 times.

MEA's liquidity is well-managed, as assessed from its prudent cash reserve policy. MEA has established a sinking fund for the purpose of bond redemptions for the next three to four years. MEA also makes deposits for specific purposes such as an electricity usage guarantee, employee gratuity funds, and for clawback.

BASE-CASE ASSUMPTIONS

- MEA's electricity sales to grow by 2.0%-2.5% per annum during 2022-2024.
- Revenue to grow from THB220 billion in 2022 to THB260 billion in 2024.
- EBITDA to stay between THB20-THB21 billion per annum in 2022-2024.
- Total capital expenditure to rise from THB22 billion per year to THB32 billion per year during 2022-2024.
- Remittances to the Thai government to be 50% of net profit.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that MEA’s crucial role in distributing electricity will remain unchanged, and that MEA will receive timely and sufficient extraordinary support from the government if needed.

RATING SENSITIVITIES

A rating downside case may occur if there are changes in the government policy regarding MEA’s status and its role in the Thai power industry.

COMPANY OVERVIEW

MEA is a state enterprise under the supervision of the Ministry of Interior, established in 1958 under the MEA Act B.E. 2501. MEA is responsible for electricity distribution in three provinces: Bangkok, Nonthaburi, and Samut Prakan. The organization’s area of responsibility covers 3,192 square kilometers. In 2021, about 4.11 million users were connected to its distribution network.

The bulk of electricity consumption in 2021 came from large general service users (34% of total electricity sales), followed by small and medium general service users (29%) and residential users (32%). The remainder (5%-6%) came from specific business service users, government institutions, non-profit organizations, and others.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	49,323	187,476	192,047	205,085	195,931
Earnings before interest and taxes (EBIT)	3,340	6,628	7,831	7,262	10,864
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,709	16,118	17,084	16,038	18,762
Funds from operations (FFO)	5,262	13,768	14,972	14,117	16,911
Adjusted interest expense	447	2,350	2,112	1,921	1,851
Capital expenditures	2,210	18,480	21,498	20,412	18,383
Total assets	243,516	246,051	227,937	224,843	213,876
Adjusted debt	54,895	43,787	33,783	21,515	11,436
Adjusted equity	103,429	100,536	99,961	97,999	96,101
Adjusted Ratios					
EBITDA margin (%)	11.6	8.6	8.9	7.8	9.6
Pretax return on permanent capital (%)	4.7 **	3.9	5.0	5.0	7.8
EBITDA interest coverage (times)	12.8	6.9	8.1	8.3	10.1
Debt to EBITDA (times)	3.1 **	2.7	2.0	1.3	0.6
FFO to debt (%)	28.2 **	31.4	44.3	65.6	147.9
Debt to capitalization (%)	34.7	30.3	25.3	18.0	10.6

* Consolidated financial statements

** Annualized with the trailing 12 months

RELATED CRITERIA

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

Metropolitan Electricity Authority (MEA)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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