

METROPOLITAN ELECTRICITY AUTHORITY

No. 145/2024
19 August 2024

CORPORATES

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 18/08/23

Issuer Rating History:

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

RATIONALE

TRIS Rating affirms the issuer rating on Metropolitan Electricity Authority (MEA) at “AAA” with a “stable” rating outlook. The rating reflects MEA’s integral linkage with the government and its critical role as a state-owned enterprise (SOE) responsible for distributing electricity in Thailand’s metropolitan area. The rating also considers the robust demand in its service areas, reliable cash flow underpinned by the cost-plus tariff structure, solid financial profile, and disciplined financial policy.

KEY RATING CONSIDERATIONS

Integral linkage with the government

We assess MEA as integrally linked with the government. MEA was established as an SOE under the MEA Act B.E. 2501, fully owned by the government via the Ministry of Finance and operated under the supervision of the Ministry of Interior. The government’s significant influence on MEA’s business and financial strategies is evident through the authority to appoint board members and the governor. We believe that there is near-certainty likelihood that MEA will receive timely and adequate extraordinary support from the government to cover any operating expenses and debt services in the event of income shortfalls as stated in the above-mentioned Act.

Critical role in distributing power in metropolitan area

The credit profile of MEA reflects its critical role as the sole electricity distributor to retail market in the metropolitan area, covering Bangkok, Samut Prakan, and Nonthaburi. The distribution of electricity for the remaining 74 provinces is carried out by Provincial Electricity Authority (PEA, rated “AAA/Stable”).

MEA is vital for maintaining the reliability of the power system in these areas, which consume about 26%-27% of the country’s electricity. Also, MEA is responsible for formulating strategic plans that align with national policies to improve the country’s electricity supply systems.

In 2023, MEA’s service areas covered about 3,192 square kilometers. It distributed 53,936 gigawatt-hours (GWh) of electricity, generating THB256.6 billion in revenue. MEA purchases electricity almost entirely from the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable”).

Robust electricity demand in metropolitan area

MEA’s power distribution business has benefited from growing electricity consumption and dense urban populations with high electricity consumption per capita. The metropolitan area’s large and varied customer base further ensures stable revenue.

Over the past decade, MEA’s electricity distribution increased steadily, reaching 53,936 GWh in 2023, close to the pre-pandemic level. Also, the customer base has expanded at an average annual rate of 2.6%, totaling around 4.26 million customers in 2023.

The MEA’s electricity distribution added up to 28,963 GWh in the first half of 2024, marking an 8.1% increase year-on-year (y-o-y). Extreme heat boosted residential and commercial demand, while industrial consumption also increased due to higher energy usage in food refrigeration systems and air conditioning. However, the manufacturing sector, accounting for over 40% of

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power consumption, is facing challenges due to declining production indexes, which could dampen overall power demand growth in the second half of the year.

Stable earnings from cost-plus tariff structure

MEA operates under a regulated tariff structure that helps stabilize the spread between electricity tariffs and procurement costs. This tariff structure is overseen by the Energy Regulatory Commission (ERC), which incorporates an adjustment mechanism to ensure that electricity tariffs provide adequate returns on investment and sufficient operational funds for MEA. As a result, MEA has been able to maintain a stable spread on electricity sales, ranging from THB1.01 to THB1.03 per kilowatt-hour (kWh) from 2019 to 2023. With this stable profitability, MEA can maintain efficient operation while ensuring reliable electricity distribution to its customers.

Profitability capped by regulations

MEA is obligated to return surplus earnings to the relevant authorities to ensure its financial status aligns with the ERC criteria, which stipulate the electricity tariff structure. Due to the dense population in the metropolitan areas, MEA has higher profit and return on investment than PEA. Therefore, the ERC mandates that a portion of MEA's earnings is allocated to support PEA. Any surplus, which is referred to as "Clawback" will be sent to ERC to support government's measures. From 2019 to 2023, MEA had transferred surplus earnings totaling around THB16.1-THB19.6 billion annually, including contributions to PEA and Clawback amounts. Under this mechanism, MEA's EBITDA margin is assessed to be limited to 8%-10%.

Sales and earnings growth expected to continue

We believe that MEA's performance will remain strong, primarily supported by the consistent growth of electricity demand within urban areas. During 2024-2026, we project MEA's power distribution to elevate with an annual rate of 2.5%-3.0%. MEA's selling tariff is projected to slightly decline, following our forecast of the declining trend of the Fuel Adjustment Charge (Ft). As a result, MEA's revenue is expected to range between THB240-THB250 billion per year. MEA is anticipated to financially support PEA and pay for Clawback at about THB18-THB20 billion per annum. We estimate MEA's annual EBITDA to rise to the THB23-THB25 billion range, with EBITDA margin hovering about 10%.

Strong financial profile continues

We forecast MEA's financial profile to remain strong, underpinned by our expectation of modest capital expenditures. This is due to delays in the government's budget approval last year. MEA's revised capital spending was budgeted to be approximately THB19-THB22 billion during 2024-2025, before rising to THB29 billion in 2026. The majority of these investments will be supported by debt financing.

Despite the expected increase in financial leverage, we anticipate that MEA's stronger EBITDA will help protect its credit metrics from sharp deterioration. We project MEA's debt to EBITDA ratio to gradually rise but remain below 3.0 times over the next three years. Additionally, the debt to equity ratio is expected to stay between 0.5 and 0.8 times.

Disciplined financial policy with sizable sinking fund for bond payments

MEA adopts a prudent financial approach, abiding by its well-defined policy. The policy sets clear targets of 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 has demonstrated its disciplined liquidity management, supported by a prudent cash reserve policy. MEA has set up a sinking fund, allocated for bond redemptions for the next three to four years. Furthermore, MEA allocates deposits for specific purposes such as an electricity usage guarantee, employee gratuity funds, and for Clawback.

BASE-CASE ASSUMPTIONS

Key assumptions underpinning our base case for MEA's 2024-2026 operations include:

- Revenue to drop by 5% in 2024 due to decline in Ft and modestly grow by 1%-2% per annum during 2025-2026.
- Spread between electricity tariff and electricity cost of about THB1.00-THB1.02 per kWh.
- Total annual capital expenditure to rise from THB19 billion in 2024, THB22 billion in 2025 and THB29 billion in 2026
- Remittances to the government equivalent to 45% 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

Although unlikely, we could downgrade the rating if there are changes in the government’s policy that weaken MEA’s status and its role in electricity distribution.

ORGANIZATION 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 2023, about 4.26 million users were connected to its distribution network.

The bulk of electricity consumption in 2023 came from large general service users (33% of total electricity sales), followed by small and medium general service users (30%) and residential users (30%). The remainder (5%-7%) came from specific business service users, government institutions, non-profit organizations, and others.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	60,404	257,472	223,421	187,475	192,047
Earnings before interest and taxes (EBIT)	3,894	12,346	11,859	6,628	7,831
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,544	22,850	22,011	16,118	17,084
Funds from operations (FFO)	6,101	20,171	19,511	13,768	14,972
Adjusted interest expense	443	2,679	2,500	2,350	2,112
Capital expenditures	2,738	19,758	18,493	18,480	21,498
Total assets	288,895	279,825	269,537	246,051	227,937
Adjusted debt	46,644	50,355	44,790	43,787	33,783
Adjusted equity	111,442	109,698	104,926	100,536	99,961
Adjusted Ratios					
EBITDA margin (%)	10.8	8.9	9.9	8.6	8.9
Pretax return on permanent capital (%)	7.0 **	6.4	6.5	3.9	5.0
EBITDA interest coverage (times)	14.8	8.5	8.8	6.9	8.1
Debt to EBITDA (times)	1.9 **	2.2	2.0	2.7	2.0
FFO to debt (%)	46.6 **	40.1	43.6	31.4	44.3
Debt to capitalization (%)	29.5	31.5	29.9	30.3	25.3

* 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)

Issuer Rating:	AAA
Rating Outlook:	Stable

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