

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY

No. 94/2018

9 July 2018

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
17/07/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating of Neighbouring Countries Economic Development Cooperation Agency (NEDA) at “AAA”. The rating reflects NEDA’s status as a Thai government entity, carrying out government policies concerning economic development efforts in cooperation with neighbouring and other countries. NEDA receives on-going financial support from the government, in the form of subsidies as part of its ordinary operations. In TRIS Rating’s opinion, in the event of financial distress, the likelihood of NEDA receiving extraordinary support from the government is a near certainty.

KEY RATING CONSIDERATIONS

A government-related entity (GRE)

NEDA’s company rating reflects its status as a government-related entity. TRIS Rating believes the government will provide timely support to NEDA when needed. This level of support reflects NEDA’s strong link with the government and its strategic importance in carrying out foreign economic policies.

NEDA has a strong link with the government. This reflects NEDA’s status as a 100% state-owned government agency, and various forms of government supports it receives. We therefore foresee a very low possibility that NEDA will be privatised. This also reflects the country’s public debt status of NEDA’s debt.¹ An event of default by NEDA would be a major detriment to the reputation of the government. NEDA needs government approval required under the public debt management plan to borrow additional funds. Although the government does not provide an explicit guarantee of NEDA’s debt, we believe the government will support NEDA, when needed.

NEDA serves a strategic importance in carrying out government policies. It acts on behalf of the Thai government in promoting joint economic development with neighbouring and other countries. Its role thus has a direct bearing on the government’s reputation. Moreover, it is unlikely NEDA’s role will be performed by a private entity. NEDA is not designed to engage in profit-driven transactions; it does not provide financial and technical assistance on a commercial basis.

On-going government supports underpin earnings

TRIS Rating expects NEDA to continually receive various forms of on-going government supports. NEDA requires and receives operational subsidies from the government. Funding from state-owned special-purpose financial institutions (SFIs) is available to NEDA under preferential terms. Most loan agreements underlying NEDA’s borrowings offer flexible repayment terms and contain a government-support clause.² NEDA pays no taxes.

Government subsidies are treated as revenue in NEDA’s profit and loss

¹ According to the Public Debt Management Office’s website: www.pdmo.go.th

² With a government-support clause, NEDA can request additional government subsidies to meet its debt obligations, should any of its borrowers default.

statement. This may prevent a meaningful comparison of its operating performance with other financial institutions. Moreover, as a non-profit organisation providing grants and soft loans with low interest rate, NEDA is not expected to generate a profit. The subsidies NEDA receives reflect government policy as well as NEDA's future funding needs and cash balances.

For the 2017 fiscal year (FY), government subsidies made up around 70% of total revenue. Net interest income comprises nearly all of the balances. NEDA expects the subsidies from the government will increase over the next few years to fund its lending. NEDA's major expenditures are financial grants and expenses arising from the provision of technical assistance.

No impact on rating from higher leverage

Because of the support from the government, TRIS Rating foresees no impact on NEDA's rating even as leverage rises over the next 3 years. NEDA plans to raise more debt over the next few years; the debt to equity ratio will rise towards 0.5 times. NEDA has relatively low leverage at present. The ratios of equities to total assets and debt to equity were, respectively, 85% and 0.18 times at the end of September 2017³. Debt funding largely comprises borrowings from SFIs. A few portions are from commercial lender.

Liquidity risk will remain low, in our view, thanks to government support and highly predictable cash flows. NEDA can obtain government funding from the Ministry of Finance (MOF) as a source of liquidity, when needed.

Reasonably successful mission

NEDA has a distinct niche providing financial and technical assistance for basic infrastructure projects to the neighbouring and other countries. It has been reasonably successful based on the size and growth rates of its balance sheet. As of 30 September 2017, total assets were Bt8,509 million, a size comparable to a mid-sized non-bank financial institution (NBFi) in Thailand. Total loans outstanding amounted to Bt8,089 million, having grown at a compound annual growth rate (CAGR) of 12.6% over a five-year period. Total funding was Bt8,501 million, after rising at a CAGR of 7.3% over the same period⁴.

Government support limits asset quality risk

TRIS Rating foresees no impact on NEDA's rating from its high credit concentration risk in the next 3 years. NEDA has a limited number of borrowers. However, we believe the government provides NEDA with sufficient supports against potential credit losses. All NEDA's loans supported government policies, and required approval from the Cabinet. Documents supporting approval of each project contains a clause, which permits NEDA to request government subsidies to meet its debt obligations, should any of its borrowers default.

As of September 2017, NEDA's borrowers comprised the government of the Lao PDR (91% of total loans) and Cambodia (9%).⁵ Without government support, the high loan concentration means NEDA will suffer a major deterioration in asset quality should the credit profiles of these borrowers weaken. NEDA has never experienced any credit loss, nor set aside any loan loss provisions.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation that NEDA will maintain its status as a public organisation under the law. NEDA will continue its role as a government body, carrying out government policies, with on-going financial support from the government as needed.

RATING SENSITIVITIES

The credit rating and/or outlook of NEDA could change if our view on the importance of NEDA's role changes with respect to the government's foreign economic policy, or if the support it receives from the government changes.

³ Based on unaudited financial statements as of 31 March 2018, these values were, respectively, 85% and 0.17times.

⁴ Based on unaudited financial statements as of 31 March 2018, total asset size, total loan outstanding, and total funding were, respectively, Bt8,559 million, Bt8,041 million, and Bt8,550 million.

⁵ NEDA's loan portfolio consisted entirely of all long-tenor unsecured term loans, with fixed repayment schedules. The principal repayment periods ranged from 20-30 years. These loans charged fixed lending rates not exceeding 2.5% per annum.

OVERVIEW

NEDA was established on 17 May 2005 under the Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548, announced in the Royal Thai Government Gazette, Volume 122, Part 39A, dated 16 May 2005.

NEDA is a public organisation which, according to the Public Organisation Act, B.E. 2542, has its organisational objective as providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and function of NEDA are stipulated in Section 7 of the Royal Decree. They are: 1) to provide neighbouring countries and other countries with financial and technical assistance; 2) to cooperate with neighbouring countries in economic development; 3) to conduct studies and provide recommendations on cooperation policies and measures; and 4) to coordinate with concerned organisations to integrate cooperation. Financial assistance typically takes the form of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects.

Structurally, NEDA is under the supervision of the MOF. Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives from the government agencies that are directly involved in joint economic cooperation with neighbouring and other countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed by the government. The NEDB oversees implementation of the cooperative efforts.

NEDA primarily relies on government subsidies to fund its operations. The financial and technical assistance to neighbouring and other countries are provided on a non-commercial basis, and NEDA is not designed to engage in profit-driven transactions. As a result, NEDA is not designed to financially operate on its own independence from the government. Although the government does not provide guarantees to back up NEDA's obligations, NEDA's debt constitutes part of the country's public debt. All of NEDA's borrowings require government approval.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	----- Fiscal Year Ended 30 September -----				
	2017	2016	2015	2014	2013
Total assets	8,509	7,936	7,252	6,888	6,762
Average assets	8,222	7,594	7,070	6,825	6,498
Investment in securities	51	101	138	691	1,544
Loans and receivables	8,122	7,499	6,748	5,685	4,887
Borrowings and interest payables	1,290	792	830	848	849
Shareholders' equities	7,217	7,134	6,414	5,966	5,745
Average equities	7,175	6,774	6,190	5,855	5,511
Total revenue	327	1,033	755	585	701
Net interest income	99	103	97	107	113
Revenue from government subsidies	227	929	656	475	586
Gains (losses) on investment in joint ventures	0	(2)	(3)	0	0
Other operating income	1	4	5	3	2
Expenses related to grants, subsidies and technical assistance	187	253	241	304	184
Operating expenses	57	60	67	60	49
Net profit	83	720	448	221	468

Unit: %

	----- Year Ended 30 September -----				
	2017	2016	2015	2014	2013
Earnings					
Return on average assets	1.01	9.48	6.33	3.24	7.20
Return on average equities	1.16	10.63	7.23	3.77	8.49
Interest spread	1.16	1.29	1.33	1.55	1.67
Net interest margins	1.20	1.35	1.37	1.56	1.75
Government subsidy/total revenue	69.53	89.91	86.86	81.30	83.55
Net interest income/total revenue	99.06	98.36	97.25	97.51	98.28
Gains on trading/total revenue	0.00	(1.95)	(2.55)	0.00	0.00
Other income/total revenue	0.94	3.59	5.30	2.49	1.72
Operating expenses/total revenue	17.47	5.77	8.86	10.23	6.96
Capitalisation					
Shareholders' equity/total assets	84.82	89.89	88.44	86.61	84.96
Shareholders' equity/total loans	89.22	95.47	95.38	105.29	117.92
Funding & Liquidity					
Total loans/total assets	95.07	94.15	92.73	82.26	72.04
Liquid assets/total assets	4.44	5.38	6.76	17.14	27.39

Neighbouring Countries Economic Development Cooperation Agency (NEDA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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