

PROVINCIAL ELECTRICITY AUTHORITY

No. 201/2019
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CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 21/01/19

Company Rating History:

Date	Rating	Outlook/Alert
21/01/19	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating on Provincial Electricity Authority (PEA) at “AAA” with a “stable” rating outlook. The rating reflects PEA’s important role as a state-owned enterprise (SOE) responsible for distributing electricity across Thailand, as well as its favorable investment cost recovery through a tariff structure, and predictable cash flow from a large pool of diversified customers. The rating also takes into consideration PEA’s prudent financial policy, its strong financial profile, and support from the government.

KEY RATING CONSIDERATIONS

Critical role of distributing power across Thailand

PEA is one of the two SOEs responsible for distributing electricity to end users in Thailand. PEA is responsible for distributing electricity to 74 provinces across Thailand. Another SOE, Metropolitan Electricity Authority (MEA), covers Bangkok, Samut Prakan, and Nonthaburi.

Under the Enhanced Single Buyer Model (ESB) applied to Thailand’s electricity industry, the Electricity Generating Authority of Thailand (EGAT) is the main SOE responsible for procuring electricity for the whole country and selling it in bulk to PEA and MEA. PEA purchases electricity primarily from EGAT and sells it to end users in 74 provinces across Thailand.

For the first nine months of 2019, PEA supplied about 71% of the total electricity consumed in Thailand. PEA’s customers numbered around 20 million at the end of September 2019. In 2018, PEA’s total electricity revenues were worth Bt469 billion. Approximately 40% of electricity revenues were derived from large industrial users, 25% from residential users, and 29% from small and medium enterprises (SMEs).

Broad nationwide distribution network

Under the PEA Act B.E. 2503, PEA is empowered to extend its transmission and distribution networks above ground and underground into any area by paying compensation to the owners of the properties. The PEA Act signifies PEA’s critical role in distributing power to provincial areas.

As of June 2019, PEA owned and operated a distribution network with a line length of 791,780 circuit-kilometers connected with 20 million users across the country. PEA’s distribution network extends to 74,304 villages accounting for 99.99% of all villages in Thailand. PEA also owns and operates a transmission network with a line length of 12,781 circuit-kilometers connected with EGAT’s transmission network.

Predictable margin of Bt0.5 per unit of electricity sold

PEA has a limited exposure to fluctuations in the cost of electricity from EGAT and private producers. Under the current electricity tariff structure, any change in electricity purchasing cost from EGAT or private producers will be passed on to end users, under the fuel adjustment charge (or the F_t). The Energy Regulatory Commission (ERC) calculates and publishes the F_t every four months. During 2013-2018, the spread between the average selling price and the average purchasing cost of PEA’s electricity was in the range of Bt0.55-Bt0.57 per kilowatt-hour (kWh or unit).

Growing trend of self-generated electricity by end users

Rapid changes in technology have enabled electricity users to become electricity producers (prosumers). Potential changes in regulations might enable prosumers and other distributed generators to trade electricity among themselves, or via peer-to-peer trading. This trend may impact PEA's electricity sales in the long term, as the prosumers are less reliant on electricity from the main grid. However, PEA might be able to collect a wheeling charge from traders for grid usage. PEA may charge a backup fee on peer-to-peer trading, if they need electricity from the main grid during downtimes.

New business platforms to be developed

In response to the changing energy policy toward decentralized power generation, PEA is preparing to expand its business scope beyond its core activities of buying and selling electricity. PEA's new areas of business include upstream power generation, providing maintenance services to users and transforming itself into an integrated energy provider. PEA aims to be a digitalized utility provider by 2022. Digitalization will help PEA detect problems accurately, improve its distribution reliability, and prepare for implementation of smart city grids in the near future. Currently, PEA implements a smart city grid project in Pattaya City, as a pilot project. The results from implementation will be analyzed and adjusted for using in other big cities in the near future.

Prudent financial policy

PEA has a conservative financial policy. PEA has a policy to maintain a debt to equity ratio of less than 1.5 times, a self-financing ratio of more than 25.0%, and a debt service coverage ratio of more than 1.5 times. It also has an internal guideline to accumulate cash reserves for debt repayments three years prior to the due date.

Strong financial profile

PEA has a strong capital structure. As of March 2019, PEA's adjusted debt was Bt65.53 billion. The debt to capitalization ratio stood at a healthy 27.38%.

PEA also has an excellent liquidity profile. As of March 2019, PEA had cash on hand and cash equivalents of Bt24.98 billion. Its funds from operations (FFO) are forecast to be in the range of Bt39-Bt44 billion per year during 2019-2022. Combined, the cash and cash equivalents plus the forecast FFO are well above the amounts required to cover debts due of Bt5.0-Bt5.5 billion per year during 2020-2022.

Investment cost recovery through tariff structure

Electricity tariffs in Thailand are regulated by the ERC. To ensure the reliability of power generation and distribution to satisfy Thailand's growing electricity need, the electricity tariff is structured to cover the capital expenditures required for electricity generation and distribution in the country, and to provide sufficient returns on investment for the three SOEs, namely EGAT, PEA, and MEA.

PEA's capital expenditures are expected to be about Bt192 billion, spending over 2019-2022. The expenditures will mainly go to distribution network expansion to support growth in demand, improve network reliability, and develop electrical systems in the big cities in preparation for the introduction of smart grids.

Strong government support

PEA receives strong support from the government of Thailand. According to the PEA Act, the government of Thailand will provide extraordinary support to PEA in the event that revenues are insufficient to cover expenses, including interest expenses and debt repayments.

BASE-CASE ASSUMPTIONS

- PEA's electricity sales are forecast to grow by 1.5%-2.5% per annum during 2019-2022.
- We expect PEA's earnings before interest, tax, depreciation and amortization (EBITDA) to be in the range of Bt44-Bt50 billion per annum during 2019-2022.
- Total capital expenditures to be about Bt192 billion over the period of 2019-2022.
- PEA's total debt to capitalization ratio to stay below 40% during the forecast period.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PEA will continue its critical role in distributing electricity to provincial areas of the country, with full support from the government.

RATING SENSITIVITIES

A credit downside case may arise if PEA's status as an important SOE with full support from the government weakens as a result of changing government policy.

COMPANY OVERVIEW

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission from the Provincial Electricity Organization. PEA's mission is to electrify households throughout Thailand and satisfy the electricity needs of the industrial and business segments, as part of the overall aim of improving the national economy. PEA is an SOE under the supervision of the Ministry of Interior.

PEA plays a critical role in distributing electricity to end users outside Bangkok, Samut Prakarn, and Nonthaburi. PEA's area of responsibility covers 510,000 square meters across 74 provinces in Thailand. PEA has about 20 million users connected to its distribution network.

PEA buys electricity mainly from EGAT (94%), and private power producers under the very small power producer (VSPP) scheme (6%).

The main customers of PEA are large general service users, accounting for about 42%-43% of total electricity sales. Residential users account for 23%-24% of sales, while the remaining 34%-35% are sales to users in the small and medium general service, specific business service, non-profit organization, agricultural pumping, temporary service, stand-by, interruptible and free electricity segments.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	125,818	499,523	483,122	456,795	465,828
Earnings before interest and taxes (EBIT)	6,025	23,996	30,206	29,485	24,871
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,133	44,390	50,048	48,625	43,749
Funds from operations (FFO)	10,299	40,871	46,298	44,649	39,608
Adjusted interest expense	834	3,519	3,750	3,976	4,141
Capital expenditures	6,045	38,434	31,816	27,005	26,158
Total assets	428,406	415,242	398,133	378,309	367,043
Adjusted debt	65,527	67,828	69,013	74,025	79,656
Adjusted equity	173,762	170,878	163,547	150,865	139,483
Adjusted Ratios					
EBITDA margin (%)	8.85	8.89	10.36	10.64	9.39
Pretax return on permanent capital (%)	9.61 **	9.33	12.04	12.22	10.70
EBITDA interest coverage (times)	13.35	12.62	13.35	12.23	10.57
Debt to EBITDA (times)	1.44 **	1.53	1.38	1.52	1.82
FFO to debt (%)	64.09 **	60.26	67.09	60.32	49.72
Debt to capitalization (%)	27.38	28.42	29.68	32.92	36.35

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017

Provincial Electricity Authority (PEA)

Company Rating:	AAA
Rating Outlook:	Stable

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