

# PROVINCIAL ELECTRICITY AUTHORITY

No. 2/2021  
15 January 2021

## CORPORATES

Company Rating:	AAA
Outlook:	Stable

Last Review Date: 06/12/19

Company Rating History:		
Date	Rating	Outlook/Alert
21/01/19	AAA	Stable

## RATIONALE

TRIS Rating affirms the company rating on Provincial Electricity Authority (PEA) at “AAA” with a “stable” rating outlook. The rating reflects PEA’s status as a major state-owned enterprise (SOE), which has an integral linkage with the Thai government, and its critical role in distributing electricity across Thailand. The rating also takes into consideration PEA’s favorable investment cost recovery through a tariff structure and prudent financial policy, as well as strong support from the government.

## KEY RATING CONSIDERATIONS

### Integral linkage with the government

TRIS Rating assesses that PEA has an integral linkage with the Thai government. PEA is 100% owned by the Thai government, via the Ministry of Finance (MOF), and is under the supervision of the Ministry of Interior. The board of directors and the governor are appointed by the Cabinet. PEA’s strategic plan has been reviewed by the State Enterprise Policy Office, under the MOF. PEA’s capital expenditures and investment plans are subject to the approval of the Ministry of Interior, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. In addition, PEA’s debt service and borrowing plan must be submitted to the Public Debt Management Office (PDMO), under the MOF.

PEA also receives strong support from the government. According to the PEA Act B.E. 2503, the government will provide extraordinary support to PEA if revenues are insufficient to cover expenses, including interest expenses and debt repayments.

### Critical role in power distribution across Thailand

TRIS Rating views that PEA will continue to play a critical role in electrifying households and satisfying the electricity needs of the industrial and business sectors 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 while another SOE, Metropolitan Electricity Authority (MEA), covers the electricity needs in Bangkok, Samut Prakan, and Nonthaburi.

According to 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.

Under the “Enhanced Single Buyer Model” (ESB) used in 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.

### COVID-19 relief measures caused losses, but recovery is anticipated

PEA played a prominent role in helping the government implement the Coronavirus Disease 2019 (COVID-19) relief measures in 2020. The measures were intended to help people affected by the COVID-19 outbreak during March-June 2020. The measures included refunding the electricity service deposits to the end users, free electricity, reduction of electricity tariffs, and extending the due dates of electricity bills. During March-November 2020,



the refunding of deposits totaled THB8.64 billion. This amount did not impact PEA's financial profile or its liquidity, as PEA already set aside an amount in its reserve account for the refunding deposits. As of December 2019, PEA's reserve account for electricity service deposits amounted to THB30.97 billion. The provision of free electricity and reduction of electricity tariffs cost PEA about THB21 billion. As a result, PEA recorded a loss of THB10.3 billion for the first six months of 2020.

We expect PEA's loss in the first six months of 2020 to be recovered in the second half of 2020. On 2 December 2020, the Energy Regulatory Commission (ERC) resolved to recover PEA's cost of implementing relief measures of about THB19 billion by using the "Claw Back" funds. As a result, we expect PEA to record a net profit of about THB5-THB7 billion for the 2020 full-year result.

### Predictable margins on electricity sales

PEA has limited exposure to fluctuations in the cost of electricity supply from EGAT and private power producers. Under the current electricity tariff structure, any change in the electricity purchasing cost for the supply from EGAT or private producers will be passed on to end users, under the fuel adjustment charge (or the  $F_t$ ). The ERC calculates and publishes the  $F_t$  every four months. During 2013-2019, the spread between the average selling price and the average purchasing cost of PEA's electricity was in the range of THB0.55-THB0.59 per kilowatt-hour (kWh or unit).

### Growing trend of self-generated electricity among end users

Rapid advancement in technologies has enabled electricity users to become electricity producers (prosumers) themselves. 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 prosumers are less reliant on electricity from the main grid. However, PEA might be able to collect a wheeling charge from traders for grid usages. PEA may also charge a backup fee on peer-to-peer trading, if they need electricity from the main grid during downtimes.

### New business platforms under development

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 is implementing a smart city grid in Pattaya City as a pilot project. The results from the project will be analyzed and adjusted for use in other big cities in the near future.

### Prudent financial policy

PEA has a conservative financial policy to maintain a debt to equity ratio of less than 1.5 times, a self-financing ratio of more than 25%, 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 June 2020, PEA's adjusted debt was THB94.6 billion. The debt to capitalization ratio stood at a healthy 37.36%.

PEA also has a strong liquidity profile. As of June 2020, PEA had cash on hand and cash equivalents of THB12.4 billion. Its funds from operations (FFO) are forecast to be in the range of THB35-THB40 billion per year during 2021-2022. Combined, the cash and cash equivalents plus the forecast FFO are well above the amount required to cover debts due of THB5-THB8 billion per year during 2021-2022.

### 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 total about THB196 billion for the period 2020-2023. 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.

## BASE-CASE ASSUMPTIONS

- PEA's electricity sales to decline by 2.5%-3.0% in 2020 and increase by 1.7%-2.2% per annum during 2021-2023.
- PEA's earnings before interest, taxes, depreciation and amortization (EBITDA) to be about THB30 billion in 2020 and in the range of THB41-THB46 billion per annum during 2021-2023.
- Total capital expenditures to be about THB196 billion for the period 2020-2023.
- PEA's total debt to capitalization ratio to stay in the 40%-45% range 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, and its integral linkage with the government will remain unchanged in the foreseeable future.

## RATING SENSITIVITIES

A credit downside case may arise if there are changes to PEA's status as an important SOE with an integral linkage with the government.

## COMPANY OVERVIEW

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission of 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 strengthening 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 kilometers across 74 provinces in Thailand. PEA has about 20 million users connected to its distribution network.

PEA buys electricity mainly from EGAT (92%) and private power producers under the very small power producer (VSPP) scheme (8%).

The main customers of PEA are large general service users, accounting for about 40% of total electricity sales. Residential users account for 25% of sales, while the remaining 35% are sales to users in the small and medium general services, specific business services, non-profit organizations, agricultural pumping, temporary services, stand-by, plus interruptible and free electricity segments.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	234,866	519,961	499,523	483,122	456,795
Earnings before interest and taxes (EBIT)	(8,859)	16,447	23,996	30,206	29,485
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,992	38,149	44,390	50,048	48,625
Funds from operations (FFO)	1,444	34,867	40,871	46,298	44,649
Adjusted interest expense	1,566	3,279	3,519	3,750	3,976
Capital expenditures	17,808	40,495	38,434	31,816	27,005
Total assets	430,649	424,876	415,242	398,133	378,309
Adjusted debt	94,595	85,710	67,828	69,013	74,025
Adjusted equity	158,615	171,279	170,878	163,547	150,865
<b>Adjusted Ratios</b>					
EBITDA margin (%)	1.27	7.34	8.89	10.36	10.64
Pretax return on permanent capital (%)	(2.56)**	6.26	9.33	12.04	12.22
EBITDA interest coverage (times)	1.91	11.63	12.62	13.35	12.23
Debt to EBITDA (times)	5.79**	2.25	1.53	1.38	1.52
FFO to debt (%)	13.92**	40.68	60.26	67.09	60.32
Debt to capitalization (%)	37.36	33.35	28.42	29.68	32.92

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Provincial Electricity Authority (PEA)**

<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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