

PROVINCIAL ELECTRICITY AUTHORITY

 No. 217/2021
 7 December 2021

CORPORATES

Issuer Rating: AAA
 Outlook: Stable

Last Review Date: 15/01/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the issuer 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 (MOI). 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 (SEPO), under the MOF. PEA’s capital expenditures and investment plans are subject to the approval of the MOI, 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 its 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.

Approximately 75% of electricity consumption in Thailand is distributed by PEA. In 2020, PEA’s service areas covered about 510,000 square kilometers with about 20 million users. The authority operates a distribution network with a line-length of 830,530 circuit-kilometers. PEA’s revenue was THB489 billion, and the distributed electricity amounted to 138,178 gigawatt-hours (GWh). PEA purchases electricity primarily from Electricity Generating Authority of Thailand (EGAT) and sells it to end users in 74 provinces across Thailand.

Expected full compensation for COVID-19 relief measures

PEA continues to play a prominent role in helping the government implement Coronavirus Disease 2019 (COVID-19) relief measures. The measures have

included refunding electricity service deposits to end users, free electricity, reduction of electricity tariffs, and extending the due dates of electricity bills. PEA's expenses in supporting the measures totaled THB20.7 billion in 2020. PEA has received adequate subsidies to fully recover the costs, turning around its financial result from a loss in mid-2020 to a profit at the end of 2020.

During the first nine months of 2021, PEA absorbed an amount of THB23.3 billion for the relief measures. The Cabinet has approved to reimburse PEA's expenditures of about THB19.6 billion, using financial support from the MOF. We expect the remaining amount will be reimbursed after the regulator completes the assessments on the financial impact of COVID-19 on the three power-related SOEs, namely EGAT, MEA, and PEA. Given its critical status in the Thai electricity distribution system, we believe that PEA will receive full compensation for expenses associated with COVID-19 relief measures within this year.

Predictable margins on electricity sales

PEA has limited exposure to fluctuations in the cost of electricity supplies from EGAT and private power producers. Under the current electricity tariff structure, any change in the electricity purchasing cost for supplies 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 2014-2020, 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).

Impact from growing trend of self-generated electricity

Rapid advancements in technologies have 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 traders 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 grids in the near future. Currently, PEA is implementing a smart grid in Pattaya City as a pilot project. The results from the project will be analyzed and adjusted for use in other major cities.

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 continues to have a strong capital structure. As of June 2021, PEA's adjusted debt was THB117.8 billion, slightly rising from THB109.6 billion at the end of 2020. However, its debt to capitalization ratio stood at a healthy 40.8%.

PEA continues to have a strong liquidity profile. As of June 2021, PEA had cash on hand and cash equivalents of THB14.6 billion. Its funds from operations (FFO) are expected to be in the range of THB40-THB46 billion per year during 2021-2024. Cash and cash equivalents plus the forecast FFO are well above the amount required to cover debts due of THB5.5-THB10.4 billion per year during 2021-2024.

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 needs, 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 THB200 billion for the period 2021-2024. 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 increase by 2.0%-2.8% per annum during 2021-2024.
- PEA's earnings before interest, taxes, depreciation and amortization (EBITDA) to be about THB40 billion in 2021 and in the range of THB41-THB46 billion per annum during 2022-2024.
- Total capital expenditures to be about THB200 billion for the period 2021-2024.
- Total debt to capitalization ratio to stay in the 40%-47% 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 power-related SOE with an integral linkage with the government.

ORGANIZATION 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 MOI.

PEA plays a critical role in distributing electricity to end users outside Bangkok, Samut Prakan, 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%).

In 2020, the main customers of PEA were large general service users, accounting for about 40% of its total electricity sales. Residential users accounted for 27% of its total sales, while the remaining 33% were 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

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	245,089	490,248	519,961	499,523	483,122
Earnings before interest and taxes (EBIT)	1,927	13,012	16,447	23,996	30,206
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	14,002	36,898	38,149	44,390	50,048
Funds from operations (FFO)	12,207	33,532	34,867	40,871	46,298
Adjusted interest expense	1,786	3,374	3,279	3,519	3,750
Capital expenditures	18,061	49,790	40,495	38,434	31,816
Total assets	468,047	453,716	424,876	415,242	398,133
Adjusted debt	117,823	113,364	85,710	67,828	69,013
Adjusted equity	171,105	173,775	171,279	170,878	163,547
Adjusted Ratios					
EBITDA margin (%)	5.7	7.5	7.3	8.9	10.4
Pretax return on permanent capital (%)	8.4 **	4.6	6.3	9.3	12.0
EBITDA interest coverage (times)	7.8	10.9	11.6	12.6	13.3
Debt to EBITDA (times)	2.5 **	3.1	2.2	1.5	1.4
FFO to debt (%)	37.6 **	29.6	40.7	60.3	67.1
Debt to capitalization (%)	40.8	39.5	33.4	28.4	29.7

* 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)

Issuer Rating:	AAA
Rating Outlook:	Stable

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