RATCH GROUP PLC

No. 97/2019
27 June 2019

CORPORATES

Company Rating:	AAA
Outlook:	Stable

Last Review Date: 24/07/18

Company Rating History:

Date	Rating	Outlook/Alert
10/04/15	AAA	Stable
25/04/13	AA+	Stable
09/02/11	AA	Stable
15/06/05	AA-	Stable
12/07/04	A+	Stable
26/06/03	A+	-

Contacts:

Sermwit Sriyotha

sermwit@trisrating.com

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on RATCH Group PLC (RATCH) at "AAA". The rating reflects RATCH's leading position as the largest private power producer in Thailand. The rating also takes into consideration the fact that the majority of its power purchase agreements (PPA) are with the Electricity Generating Authority of Thailand (EGAT, rated "AAA" by TRIS Rating) with high predictable cash flows, and the strong relationship between RATCH and EGAT. The rating also takes into consideration RATCH's conservative financial policy and strong financial position during its growth period.

KEY RATING CONSIDERATIONS

Largest private power producer in Thailand

RATCH has maintained its strong market position in Thailand. It continues to be the largest power producer in Thailand. As of 1 June 2019, RATCH had power generating capacity in operation of 6,938 megawatts (MW), based on the percentage ownership of each power plant. The operating capacity will increase to 7,672 MW in 2021, when all power projects currently under construction will come on line. The new capacity will keep RATCH's position as the largest private power producer in Thailand.

RATCH has a number of projects currently under construction and development. The projects include the Xe-Pian Xe-Namnoy hydropower project in the Lao People's Democratic Republic (Lao PDR), the expansion of the Navanakorn cogeneration power plant in Thailand, the Collector wind-turbine power project in Australia, the Fangchenggang nuclear power plant in China, and the Riau combined-cycle power plant in Indonesia.

Predictable cash flows from long-term PPAs

RATCH's cash flow is predictable due to the long-term power purchase agreements with EGAT. The PPAs with EGAT contain a pricing formula structured on a pay-if-available basis, which mitigates most of the market risk. The PPAs also contain mechanisms whereby fuel costs are passed through to EGAT. As a result, RATCH's cash flow is reliable as long as the company maintains its power plants in accordance with the PPA targets and keeps the plants ready for EGAT's dispatch instructions.

Most of RATCH's plants have reached the plant availability target every year for the last five years. The Hongsa power plant, one of RATCH's main power plants, has been improving after several technical issues were resolved over the past three years.

As of 1 June 2019, about 82% of RATCH's capacity currently in operation was covered by the PPAs with EGAT. Other PPA off-takers include Provincial Electricity Authority (PEA, rated "AAA" by TRIS Rating), regional utilities in Australia, Electricite du Laos in the Lao PDR, Perusahaan Listrik Negara (PLN) in Indonesia, and industrial users.

Strong relationship with EGAT

RATCH has a strong relationship with EGAT in terms of shareholding structure and plant operation. EGAT is a major shareholder of RATCH. It has owned 45% of RATCH since RATCH was founded in 2000. EGAT also operates RATCH's main power plants, such as the Ratchaburi power plant, the Hongsa power plant, and the Nam Ngum 2 hydroelectric power plant, under operation and maintenance agreements.

EGAT is also the major customer of RATCH's power plants under the independent power producer (IPP) and small power producer (SPP) schemes. EGAT's strong credit profile mitigates counterparty risk for RATCH.

New plants to replace Tri Energy power plant

In May 2019, the Committee on Energy Policy Administration (CEPA) agreed to award RATCH a contract to develop two new power projects. The new projects are specified in the Power Development Plan 2018 (PDP 2018).

According to the plan, the two new power plants with a total capacity of 1,400 MW will be located in the western region of Thailand. The first plant (700 MW) will commence operation in 2024. This plant will replace the Tri Energy power plant, which will be retired in 2020. The other plant will commence operation in 2025.

RATCH's investment cost should be lower than the cases of other companies developing the new projects because RATCH can utilize the existing common facilities to develop the new projects.

Expansion into infrastructure projects

RATCH has expanded its investment scope into other infrastructure projects. In 2017, RATCH joined with BTS Group Holding PLC (BTS) and Sino-Thai Engineering & Construction PLC (STECON) to develop the MRT Pink Line and the MRT Yellow Line projects in Thailand. RATCH holds a minority stake of 10% in the projects. The equity investment for RATCH is worth Bt2,800 million. In 2018-2019, RATCH invested in a water supply project in Lao PDR and an underground optic fiber network project in Thailand. The investment costs of these projects are expected to be around Bt500-Bt550 million.

Strong cash flow

TRIS Rating believes RATCH will maintain its strong cash flow. Dividend income from RATCH's investments, especially the Hongsa power project, should offset the decline in revenue from the Ratchaburi power plant. RATCH has equity investments in many power projects, such as the Hongsa plant, the Xe-Pain Xe-Namnoy plant, and the small power producer (SPP) cogeneration power projects. These investments will contribute about Bt2.0-Bt3.0 billion of dividend to RATCH during 2019-2021.

TRIS Rating forecasts that the company's ratio of debt to earnings before interest, tax, depreciation and amortization (EBITDA) may increase to about 3 times in 2020-2021 from 1.9 times at the end of 2018. The increase in the debt ratio will be mainly due to the company's investment plan during the next three years.

Low leverage

TRIS Rating believes RATCH will maintain its strong capital structure as it pursues growth opportunities. At the end March 2019, the company's adjusted debt was Bt17.65 billion and the total debt to capitalization ratio was 22.5%. Based on the investment plan during 2019-2021, the debt to capitalization ratio is forecast to increase to about 35% at the end of 2020 but is projected to decline after that.

Ample liquidity

RATCH's has ample liquidity. The company's sources of funds comprise cash and cash equivalent on hand of Bt15.5 billion and an undrawn credit facility of about Bt40 billion as of the end of March 2019. RATCH's funds from operations (FFO) over the next 12 months are forecast to be about Bt7-Bt8 billion. The sources of funds are sufficient to cover the uses. Debt coming due over the next 12 months will amount to Bt4 billion plus about Bt10 billion in capital expenditures and equity investment over the same period.

Little impact from dam collapse

The commercial operations at the Xe-Pian Xe-Nmanoy project have been delayed after the collapse of a saddle dam in July 2018. The new commencement date will be in December 2019, delayed from February 2019. TRIS Rating believes the delay will have little impact on RATCH. The project carries third-party liability insurance, which will cover significant portion of the actual liability. The liquidating damages payment paid to EGAT due to the delay in commencing operation is expected to be covered by the engineering, procurement, and construction (EPC) contractor of the project.

BASE-CASE ASSUMPTIONS

- RATCH's EBITDA is forecast in the range of Bt10-Bt11 billion per year during 2019-2021.
- Dividend received from RATCH's equity investment will be about Bt2-Bt3 billion per year during 2019-2021.
- The capital expenditures and its equity investment in the projects, including high potential project, will be about Bt22 billion during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will continue to receive reliable cash flows from the power projects secured by the long-term PPAs. TRIS Rating expects RATCH's debt to capitalization ratio to stay below 35%, taking into account RATCH's growth strategy and investment plans.

RATING SENSITIVITIES

The rating downside case could occur if RATCH's financial leverage increases dramatically due to any large scale, debt-funded acquisitions.

COMPANY OVERVIEW

RATCH is a holding company focussing its investment on the power and infrastructure projects. The company was established in 2000 to purchase the Ratchaburi power plant from EGAT. RATCH was listed on the Stock Exchange of Thailand (SET) in 2000. EGAT remains the company's major shareholder with a 45% stake.

As of 1 June 2019, RATCH's aggregate equity capacity of power projects was 7,672 MW. About 6,938 MW is in operation while the rest (734 MW) is in the development and construction phases. Approximately 65% of RATCH's portfolios are power plants located in Thailand, 14% in Australia, 15% in the Lao PDR, and 6% in China and Indonesia. As of 1 June 2019, RATCH owned 13% of Thailand's installed capacity. RATCH is the largest power generator in Thailand with an equity capacity of 5,739 MW, connected with the Thai power grid.

RATCH has expanded its investment scope into infrastructure projects. As of 1 June 2019, RATCH invested 10% stakes in two mass rapid transit projects in Bangkok: the Pink Line and the Yellow Line. RATCH also held 40% stake in the water supply project in Lao PDR and 51% stake in the underground optic fiber network project in Thailand.

RATCH's Portfolio

RATCH's Projects in Operation as of 1 Jun 2019

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Term (Years)	Expiry Year
1. RATCHGEN	Thermal/CCGT	3,645	100.0	3,645	25	2025, 2027
2. TECO	CCGT	720	100.0	720	20	2020
3. RPCL	CCGT	1,490	25.0	372	25	2033
4. NN2	Hydro	615	25.0	154	25	2038
5. Hongsa	Thermal (Lignite-fired)	1,878	40.0	751	25	2040
6. Solarta	Solar power	42	49.0	21	5	2019 (Auto-renewal)
7. Solar Power	Solar power	22	40.0	9	5	2020 (Auto-renewal)
8. Huay Bong 2	Wind-turbine	104	20.0	21	5	2023 (Auto-renewal)
9. Huay Bong 3	Wind-turbine	104	20.0	21	5	2022 (Auto-renewal)
10. RW Cogen	Cogeneration	234	40.0	93	25	2039, 2040
11. Songkla Biomass	Thermal (biomass)	10	40.0	4	20	2035
12. NNEG	Cogeneration	139	40.0	56	25	2041
13. Berkprai	Cogeneration	99	35.0	35	25	2044
14. EDL-Gen	Mostly hydro	1,137	10.1	115	25-30	2041-2045
15. RAC	Gas, Wind, Solar	873	100.0	873	Merchant, 12-25	2021-2030
16. Asahan-1	Hydro	180	26.6	48	30 years	2040
Total		**11,292**		**6,938**		

Source: RATCH

RATCH's Projects Under Construction and Development as of 1 Jun 2019

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Terms	COD (e)
Power Project						
1. NNEG (expansion)	Cogeneration	60	40.0	24	25 years	2020
2. Xe Pia –Xe Namnoy	Hydro	410	25.0	102	27 years	2019
3. Fangchenggang	Nuclear Power	2,360	10.0	236	30 years	2021
4. Riau	CCGT	296	49.0	145	20 years	2021
5. Collector	Wind-Turbine	227	100.0	227	n.a.	2020
Total		**3,353**		**734**		

Project Name	Project Type	Project Equity Investment (Bt Mil.)	RATCH Holding (%)	RATCH's Equity Investment (Bt Mil.)	COD(e)
Other Project					
1. MRT Pink & Yellow Lines	Mass Rapid Transit	28,000	10.0	2,800	2021
Total		**28,000**		**2,800**	

n.a. = Not available
Source: RATCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	2018	2017	2016	2015
		-----------------Year Ended 31 December			------------
Total operating revenues	10,094	39,816	42,418	47,967	57,537
Operating income	2,132	7,891	9,106	9,484	10,076
Earnings before interest and taxes (EBIT)	2,485	8,188	7,835	8,145	7,020
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,773	10,672	11,804	12,947	11,684
Funds from operations (FFO)	2,991	8,787	9,344	10,681	8,890
Adjusted interest expense	481	1,015	1,587	1,402	1,386
Capital expenditures	140	5,391	4,740	1,541	164
Total assets	103,186	101,252	93,794	96,391	92,605
Adjusted debt	17,651	20,296	12,592	13,411	11,319
Adjusted equity	60,664	59,936	59,009	62,453	60,420
Adjusted Ratios					
Operating income as % of total operating revenues (%)	20.28	18.15	19.65	18.49	16.53
Pretax return on permanent capital (%)	9.62 **	9.36	9.27	9.58	8.45
EBITDA interest coverage (times)	7.84	10.52	7.44	9.23	8.43
Debt to EBITDA (times)	1.49 **	1.90	1.07	1.04	0.97
FFO to debt (%)	54.40 **	43.29	74.21	79.65	78.54
Debt to capitalization (%)	22.54	25.30	17.59	17.68	15.78

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

RATCH Group PLC (RATCH)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000