TRIS RATING
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RATCH GROUP PLC

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CORPORATES

Company Rating:	AAA
Outlook:	Stable

Last Review Date: 27/06/19

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+	-

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RATIONALE

TRIS Rating affirms the company rating on RATCH Group PLC (RATCH) at “AAA”, with a “stable” rating outlook. The rating reflects RATCH’s leading position as the largest private power producer in Thailand and its diversified power portfolio. The rating also takes into consideration highly predictable cash flows from long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT, rated “AAA” with a “stable” outlook by TRIS Rating), and the strong relationship between RATCH and EGAT.

KEY RATING CONSIDERATIONS

Largest private power producer in Thailand

RATCH has been the largest private power producer in Thailand. As of 1 July 2020, RATCH’s electricity generating capacity in operation was 6,439 megawatts (MW), based on its ownership in each project. When all projects under development and construction are included, RATCH’s generating capacity comes to 8,011 MW. At the end of June 2020, RATCH’s electricity generation capacity connected to EGAT’s grid of 5,120 MW represented 11% of total installed capacity of Thailand.

About 80% of RATCH’s capacity in operation was covered by the PPAs with EGAT and the Provincial Electricity Authority (PEA). Both EGAT and PEA are rated “AAA” with “stable” outlooks by TRIS Rating. The rest of capacity was from its overseas power plants that operate under contracts with major utility entities in their respective countries. These include operating capacity under contracts with regional utilities in Australia representing 13% of the company’s total operating capacity, Electricite du Laos (EDL, 3%), and Perusahaan Listrik Negara (PLN), Indonesian electricity authority (1%).

Predictable cash flow from long-term PPAs with EGAT

RATCH’s cash flow is predictable due to the long-term PPAs it holds with EGAT. The PPAs with EGAT contain a pricing formula structured on a pay-if-available basis, which mitigates most market risk. The PPAs also contain mechanisms whereby fuel costs are passed through to EGAT. As a result, RATCH is expected to continue generating stable cash flow as long as the company maintains its power plants in accordance with the PPA targets and keeps its 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.

RATCH’s Australia portfolio has consistently contributed earnings before interest, tax, depreciation and amortization (EBITDA) of about THB1.5-THB2 billion per year to RATCH and is expected to increase its contribution to about THB2.5-THB3 billion each year from 2022 onwards once all projects in the pipeline commence operations. As of 1 July 2020, RATCH’s Australia portfolio had 873 MW of generating capacity, about 90%-95% of which was supplied under PPAs with major utility companies in Australia.

Strong relationship with EGAT

RATCH has a strong relationship with EGAT in terms of shareholding structure and plant operation. EGAT is the major shareholder of RATCH, owning a 45%

stake since the company was founded in 2000. EGAT also operates RATCH's main power plants, including 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 the counterparty risk to RATCH.

Pursuit of growth to offset plant decline

A decline in the EBITDA of Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN), one of the major power plants in RATCH's portfolio, has put pressure on RATCH's investment portfolio. RATCHGEN currently contribute about 60% of RATCH's total EBITDA. RATCHGEN's PPAs with EGAT will expire in 2025 and 2027. To offset this decline in earnings, RATCH has actively conducted a number of mergers and acquisitions (M&A), spending about THB7.2 billion during 2018-2019 to add 362 MW to its portfolio. The acquisitions include 26.61% stake in the Asahan-1 hydropower project (180 MW) in Indonesia, a 70% interest in the Yandin wind farm project (214 MW) in Australia, an almost 100% shareholding in RATCH Cogeneration Co., Ltd. (119 MW), a 49% interest in Nexif Ratch Energy Rayong Co., Ltd. (92 MW), and a number of other small infrastructure projects.

In addition, RATCH announced on 15 July 2020 plans for an initial investment of THB2.5 billion for a 49% stake in the An Binh Energy and Infrastructure Fund (ABEIF), a Vietnam-focused power sector fund. ABEIF has invested in the Thang Long Power Plant, a 620-MW operating coal-fired power plant in the north of Vietnam. Other potential investments under ABEIF include a 1,200-MW coal-fired power plant in central Vietnam, a 650-MW coal-fired power plant in northern Vietnam, and a 150-MW hydro-power plant, also in northern Vietnam. All are currently under development. Most of RATCH's M&A activities during the past two years have focused on operating assets, which helps RATCH realize immediate returns from its investments.

Other than M&A activities, RATCH is developing a new 1,400-MW IPP project, the Hin Kong power plant, of which RATCH holds 51% interest in the project. This new project has been awarded to replace the Tri Energy power plant, which was decommissioned at the end of June 2020. The company is also developing a Collector wind farm (227 MW) in Australia and the Riau combined cycle gas turbine power project (296 MW) in Indonesia of which RATCH holds 49% interest in the project.

These investments will help RATCH maintain its EBITDA in the range of THB9-THB9.4 billion per year over the next three years, offsetting the decline in RATCHGEN's EBITDA.

Infrastructure project investments

Since 2017, RATCH has expanded the scope of its investment into other infrastructure projects. RATCH has invested about THB2.7 billion in the MRT Pink Line and Yellow Line rail transport projects in Bangkok, a water supply project in the Lao PDR and other small infrastructure projects in Thailand. For the period 2020-2022, RATCH has budgeted about THB970 million for investment in infrastructure projects.

Rising leverage

TRIS Rating forecasts that RATCH's leverage will increase in tandem with its growth plans. RATCH plans to spend about THB15.5 billion in 2020 for investment in projects in the pipeline and M&A activities. During 2021-2022, RATCH plans to spend about THB2.7 billion on its committed projects, excluding a nuclear project in China. Based on these investment plans, RATCH's debt to capitalization ratio is expected to increase to about 37% at the end of 2020 from 29.1% at the end of 2019. However, we expect the ratio to improve to the 30%-35% range in 2021 and 2022.

In our forecast, we expect dividend income from RATCH's investments to amount to about THB1.7-THB2 billion per year in 2020 and 2021, and increase to over THB2.5 billion in 2022. We project RATCH's EBITDA to reach THB9-THB9.4 billion per year during 2020-2022, its debt to EBITDA ratio to increase to 3-4 times during 2020-2022, from less than 2 times during the last five years.

Ample liquidity

RATCH has ample liquidity. The company's sources of funds comprised cash on hand and cash equivalents of about THB8 billion and an undrawn credit facility of about THB44 billion as of the end of March 2020. RATCH's funds from operations (FFO) over the next 12 months are forecast to be about THB7-THB8 billion. The sources of funds are sufficient to cover the planned uses. Debt coming due over the next 12 months will amount to THB1.3 billion plus about THB14 billion in capital expenditures and equity investment over the same period.

BASE-CASE ASSUMPTIONS

- RATCH's EBITDA to be THB9-THB9.4 billion per year during 2020-2022.
- Dividends received from RATCH's equity investments to be THB1.7-THB2.5 billion per year during 2020-2022.
- Capital expenditure and equity investment in projects to be about THB18.2 billion for the period 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will continue to receive reliable cash flows from its power assets secured by long-term PPAs. TRIS Rating expects RATCH's debt to EBITDA ratio to stay in the range of 3-4 times over the next three years.

RATING SENSITIVITIES

The rating downside case could occur if RATCH's financial leverage increases due to large scale, debt-funded acquisitions, causing the debt to EBITDA ratio to increase above 3.5 times for an extended period.

COMPANY OVERVIEW

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

As of 1 July 2020, RATCH's aggregate equity capacity of power projects was 8,011 MW. About 6,439 MW is in operation while the rest (1,572 MW) is in the development and construction phases. Approximately 80% of RATCH's generating capacity held PPAs with EGAT, 13% with major utility companies in Australia, and the rest of 7% had PPAs with EDL, industrial users, PEA, PLN, and Australian merchant market.

RATCH has expanded its investment scope into infrastructure projects since 2017. As of 1 July 2020, RATCH held 10% stakes in two mass rapid transit projects in Bangkok: the Pink Line and the Yellow Line. RATCH also held a 40% stake in a water supply project in the Lao PDR, a 51% stake in the underground optic fiber network project in Thailand, an 35% interest in the infrastructure for the Internet of Things project in Thailand. Currently, investments in infrastructure projects constituted less than 5% of RATCH's total assets.

RATCH's portfolio

Table 1: RATCH's Power Projects in Operation as of 1 Jul 2020

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Term (Year)	Expiry Year
1. RATCHGEN	Thermal/CCGT	3,645	100.0	3,645	25	2025, 2027
2. RPCL	CCGT	1,490	25.0	372	25	2033
3. NN2	Hydro	615	25.0	154	25	2038
4. Hongsa	Thermal (lignite-fired)	1,878	40.0	751	25	2040
5. Solarta	Solar power	42	49.0	21	5	2019 (Auto-renewal)
6. Solar Power	Solar power	22	40.0	8	5	2020 (Auto-renewal)
7. Huay Bong 2	Wind-turbine	104	20.0	21	5	2023 (Auto-renewal)
8. Huay Bong 3	Wind-turbine	104	20.0	21	5	2022 (Auto-renewal)
9. RW Cogen	Cogeneration	234	40.0	93	25	2039, 2040
10. Songkla Biomass	Thermal (biomass)	10	40.0	4	5	2020 (Auto-renewal)
11. NNEG	Cogeneration	139	40.0	56	25	2041
12. Berkprai	Cogeneration	99	35.0	35	25	2044
13. RATCH Cogen	Cogeneration	119	99.9	119	25	2038
14. Xe Pian-Xe Namnoy	Hydro	410	25.0	103	27	2046
15. EDL-Gen	Mostly hydro	1,137	10.1	115	25-30	2041-2045
16. RAC	Gas, wind, solar	873	100.0	873	Merchant, 3-25	2021-2030
17. Asahan-1	Hydro	180	26.6	48	30	2040
Total		**11,101**		**6,439**		

Source: RATCH

Table 2: RATCH's Power Projects under Construction and Development as of 1 Jul 2020

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Terms (Year)	COD (e)
1. NNEG (expansion)	Cogeneration	60	40.0	24	25	2020
2. Fangchenggang	Nuclear power	2,360	10.0	236	30	2021
3. Riau	CCGT	296	49.0	145	20	2021
4. Collector	Wind-turbine	227	100.0	227	10	2021
5. Hin Kong	CCGT	1,400	51.0	714	25	2024/2025
6. Nexif Energy	Cogeneration	92	49.0	45	25	2022
7. IPS Korat	Cogeneration	40	40.0	16	n.a.	2023
8. Yandin	Wind-turbine	214	70.0	150	15	2020
9. Thanh Phong	Wind-turbine	30	51.0	15	20	2021
Total		**4,719**		**1,572**		

Source: RATCH

Table 3: RATCH's Infrastructure Projects Portfolio as of 1 Jul 2020

Project Name	Project Type	Project Equity Investment (Mil. THB)	RATCH Holding (%)	RATCH's Equity Investment (Mil. THB)	COD (e)
1. MRT Pink & Yellow Lines	Mass rapid transit	28,000	10.0	2,800	2021/2022
2. Sandin Water Supply	Water supply	365	40.0	180	2019/2031
3. Internet of Things	IoT network and based station	n.a.	35.0	180	2020
4. Smart Infranet	Optic fiber network	n.a.	51.0	280(e)	2018
5. Intercity Motorway (M6 & M81)	Transportation	n.a.	10.0	370(e)	2023
Total				**3,810**	

n.a. = Not available
Source: RATCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2020		2019	2018	2017	2016
			--------------Year Ended 31 December ------------			
Total operating revenues	10,500		40,035	43,603	46,339	51,280
Earnings before interest and taxes (EBIT)	2,145		8,168	8,319	7,835	8,145
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,444		10,703	10,804	11,804	12,947
Funds from operations (FFO)	1,933		8,403	8,919	9,344	10,681
Adjusted interest expense	360		1,430	1,015	1,587	1,402
Capital expenditures	1,776		2,462	5,391	4,740	1,541
Total assets	103,448		100,229	101,252	93,794	96,391
Adjusted debt	27,857		24,387	20,296	12,592	13,411
Adjusted equity	59,007		59,414	59,936	59,009	62,453
Adjusted Ratios						
EBITDA margin (%)	23.28		26.73	24.78	25.47	25.25
Pretax return on permanent capital (%)	8.32	**	8.80	9.51	9.27	9.58
EBITDA interest coverage (times)	6.78		7.48	10.65	7.44	9.23
Debt to EBITDA (times)	2.97	**	2.28	1.88	1.07	1.04
FFO to debt (%)	25.99	**	34.46	43.94	74.21	79.65
Debt to capitalization (%)	32.07		29.10	25.30	17.59	17.68

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

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

RATCH Group PLC (RATCH)

Company Rating:	AAA
Rating Outlook:	Stable

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