

TTW PUBLIC COMPANY LIMITED

No. 167/2017

4 December 2017

Company Rating: AA-**Issue Ratings:**
Senior unsecured AA-**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
28/01/09	AA-	Stable
22/08/08	AA-	Stable

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wiyada@trisrating.com**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating and the senior unsecured debenture ratings of TTW PLC (TTW) at "AA-". The ratings reflect TTW's strong business profile as the largest private tap water provider in Thailand, low operating risk, plus reliable cash flows secured by long-term offtake agreements and resilient demand for tap water. However, these strengths are partially offset by high leverage and customer concentration risk, as the Provincial Waterworks Authority (PWA) is TTW's major customer.

Since establishment in 2000, CH. Karnchang PLC (CK) and affiliates, CK Group, have continued to be TTW's controlling shareholders. As of August 2017, CK Group held 38.85% of TTW through Bangkok Expressway and Metro PLC (BEM; 19.45%) and CK (19.40%). Mitsui Water Holdings (Thailand), Ltd. held 25.98% of TTW's total shares.

TTW is the largest private tap water producer in Thailand with a total production capacity of 1,076,000 cubic meters (cu.m.) per day. Currently, TTW operates four water filtration plants which provide tap water in three service areas: Nakhon Pathom-Samut Sakhon, Pathum Thani, and Bangpa-In Industrial Estate (BIE). The company also operates a wastewater treatment facility at BIE which has a capacity of 18,000 cu.m./day. In addition, TTW owns 25.31% of CK Power PLC (CKP), which is the flagship power holding company of the CK Group. Currently, CKP's portfolio mainly consists of hydro power plants in the Lao People's Democratic Republic (Lao PDR).

TTW's strong business profile is underpinned by a secured cash flow stream derived from well-structured Water Purchase and Sale Agreements (WPSA) and the low operating risk from barriers to entry. TTW wholesales tap water to the PWA under two WPSAs. Taken together, the two WPSAs have a committed minimum offtake quantity (MOQ) of 712,000 cu.m./day. The terms of the WPSAs are 25 and 30 years, and the agreements will mature in 2023 and 2034, respectively. The pricing formulas in the WPSAs are linked to the Consumer Price Index (CPI). At BIE, TTW has 30-year operating rights to provide tap water and wastewater treatment services. The rights will be valid through 2039. The majority of TTW's revenue comes from selling water in the Nakhon Pathom-Samut Sakhon and Pathum Thani service areas, contributing 64% and 31% of total revenue in the first nine months of 2017, respectively.

TTW's operating risk is low from barriers to entry. TTW owns the bulk transmission mains (BTM) and the local distribution networks (LDN) in some of its service areas. Ownership of the mains and the distribution networks hinders new entrants to operate in its existing coverage areas as a new entrant would need a large capital investment and right of ways to build a distribution network. The sourcing of raw water is another constraint to operators seeking to enter into the business. However, prospects for expansion are modest, depending on the PWA's policy on granting tap water concessions.

TTW is exposed to customer concentration risk as the PWA is its major customer and a key competitor. During the past 10 years, tap water sold to the PWA comprised over 95% of TTW's total revenue. However, since the PWA is a state enterprise, its credit profile is acceptable. The PWA is also TTW's key

competitor. TTW's sales volume will be affected when the PWA builds new filtration plants and distributes tap water in areas near TTW's service areas. However, the risk is partly alleviated by the minimum offtake quantities committed by the PWA under the WPSAs.

TTW's solid financial profile is supported by reliable and stable cash flows plus resilient demand for water in its service areas. For the first nine months of 2017, TTW reported a 2.6% growth in revenue to Bt4,157 million, compared with the same period last year. The rise was driven mainly by volume growth in all service areas, especially in Nakhon Pathom-Samut Sakhon service areas where industrial activities are recovering. Profitability remained healthy. The operating income before depreciation and amortization as a percentage of sales stayed at 80.9% for the first nine months of 2017. Under TRIS Rating's base case scenario, TTW's revenue is expected to grow by 2%-3% on average per annum during 2017-2020. The growth will be driven mainly by growth momentum of industrial activities in Nakhon Pathom-Samut Sakhon service areas, a second Bangpa-In-Cogeneration power plant at BIE which started operations in June 2017, and rising demand from community expansion in the company's service areas. Operating margin is expected to stay healthy at above 78%.

TTW's leverage is high but expected to gradually improve. At the end of September 2017, TTW's capital structure, as measured by the ratio of total debt to capitalization, was at 52.51%. The leverage is expected to continue improving, following the scheduled debt repayments. In addition, the company has no major investment plan. The ratio of total debt to capitalization is expected to fall below 50% over the next three years. The ratio of funds from operations (FFO) to total debt was 28.77% (annualized, from the trailing 12 months) for the first nine months of 2017. The ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage held at 11.79 times during the same period.

Over the next 12-24 months, TTW's liquidity is ample, considering its sources and uses of funds. Uses of funds are debt coming due of approximately Bt2,130 million in 2018 and Bt2,430 million in 2019, as well as planned capital spending mainly for a tap water project in Myanmar, totalling approximately Bt400-Bt500 million over the period. TTW is expected to maintain a high dividend payment, forecast at Bt2,400-Bt2,600 million per annum. TTW's sources of funds are forecast FFO of at least Bt3,500 million per annum plus cash and cash equivalents of Bt3,481 million on hand at the end of September 2017. In addition, TTW's 25.31% stake in CKP was worth Bt7,575 million as of 28 November 2017, which enhances TTW's financial flexibility.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will maintain its strong operating performance and ability to generate cash. As TTW's operations are stable with moderate growth prospects, the ratings are likely to be maintained during the medium term. However, TTW's credit quality could be negatively affected if there are any additional debt-funded investments that adversely affect its capital structure and financial strength.

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW182A: Bt1,000 million senior unsecured debentures due 2018	AA-
TTW192A: Bt1,500 million senior unsecured debentures due 2019	AA-
TTW202A: Bt500 million senior unsecured debentures due 2020	AA-
TTW222A: Bt2,000 million senior unsecured debentures due 2022	AA-
TTW255A: Bt1,400 million senior unsecured debentures due 2025	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Sales	4,157	5,379	5,430	5,383	5,182	4,925
Gross interest expense	297	433	550	566	615	608
Net income from operations	1,986	2,476	2,681	2,971	2,461	2,338
Funds from operations (FFO)	2,628	3,351	3,702	3,715	3,307	3,414
Capital expenditures	416	1,744	1,047	128	200	13
Total assets	24,348	25,765	26,644	24,627	24,525	24,672
Total debt	12,522	13,492	14,561	12,413	13,087	13,574
Shareholders' equity including minority interests	11,173	11,535	11,430	11,390	11,011	10,660
Operating income before depreciation and amortization as % of sales	80.92	79.85	78.57	78.97	76.21	77.56
Pretax return on permanent capital (%)	15.22 **	13.93	14.65	15.59	15.06	14.56
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.79	10.23	8.22	8.13	7.33	6.88
FFO/total debt (%)	28.77 **	24.83	25.42	29.93	25.27	25.15
Total debt/capitalization (%)	52.51	53.91	56.02	52.15	54.31	56.01

* Consolidated financial statements

** Annualized, from the trailing 12 months

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