EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 78/2017 7 July 2017

Company Rating: A+

Issue Rating:
Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/01/08	A+	Stable
20/09/07	A+	Alert Developing
12/07/04	A+	Stable
29/06/04	A+	-

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Eastern Water Resources Development and Management PLC (EASTW) and the ratings of EASTW's senior unsecured debentures at "A+". The ratings reflect EASTW's strength as the sole raw water provider with a comprehensive pipeline network in the Eastern Seaboard area, low operating risk, and reliable cash flows. These strengths are partially offset by the unpredictable effects of climate change, customer concentration risk, and a degree of regulatory risk surrounding the water resource management policies. Policy changes could affect EASTW's operations.

EASTW was established in 1992 by a Cabinet resolution. EASTW was given a mandate to be responsible for the development and management of raw water distribution systems in the Eastern Seaboard area. As of May 2017, EASTW's major shareholders were the Provincial Waterworks Authority (PWA; owning a 40.2% stake), The Electricity Generating PLC (EGCO; 18.7%), and the Industrial Estate Authority of Thailand (IEAT; 4.6%).

In 2016, EASTW extracted 309 million cubic meters (cu.m.) of raw water and supplied a total of 282 million cu.m., including internal use for tap water production. EASTW, through its subsidiary, Universal Utilities PLC (UU), provides tap water services in 13 service areas with a total production capacity of 366,660 cu.m. per day. Raw water sales accounted for 63% of the company's total revenue, while tap water services represented 33% of the total in 2016.

EASTW's strong business profile is underpinned by its status as the sole raw water provider in the Eastern Seaboard area and its reliable cash flows. The company's extensive pipeline network and raw water sourcing capability create barriers to entry for any newcomers. The pipeline network and raw water sourcing require a significant amount of capital and approvals from regulatory agencies. The low degree of operating risk helps secure EASTW's operating cash flows.

EASTW is, however, exposed to the risk of climate change and customer concentration risk. Climate change may make the supply of water more unpredictable. EASTW has to continue searching for new raw water sources to cope with increasing demand and mitigate the risk of raw water shortages. However, the new sources are subject to the approval from the Royal Irrigation Department (RID) and tend to incur higher cost due to the farther distance.

EASTW is also subject to customer concentration risk as sales to the PWA and the IEAT, two major shareholders and two key customers, comprised 60%-70% of annual sales during the last five years. EASTW's raw water sales dropped by 7% year-on-year (y-o-y) to Bt2,696 million in 2016 and by 4% y-o-y to Bt671 million in the first quarter of 2017. The drop was mainly because the PWA has increased its capacity to source raw water directly. EASTW expects that the volume of raw water sold to the PWA will decrease by 10%-12% over the next two years, dipping from around 60 million cu.m. sold in 2016 to around 55 million cu.m. sold. However, the development of the Eastern Economic Corridor (EEC) will help absorb the drop in the volume purchased by the PWA and will be EASTW's growth driver in the raw water business.

In 2016, the company's tap water sales were Bt1,393 million, jumping by 20% y-o-y, due mainly to the acquisition of Egcom Tara Co., Ltd. (Egcom Tara) by UU in August 2015. For the first quarter of 2017, revenue from the tap water segment grew marginally y-o-y to Bt347 million. In general, the demand for tap water is resilient. During the past five years, EASTW's tap water sales grew organically by an average of 5% annually. However, the prospects for expansion are modest. This is because the PWA does not incline to grant any new concessions or outsource its operations. In order to keep growing, EASTW has to seek opportunities to get contracts directly from municipalities and formulate a service model for unserved areas.

EASTW's strong financial profile reflects its high profitability and reliable cash flows. The operating margin (operating profit before depreciation and amortization, as a percentage of sales) has stayed above 54% during the past five years. Under TRIS Rating's base case scenario, we expect EASTW's revenue to grow by 1%-3% annually during 2017-2018, taking into account the lower demand for raw water from the PWA. The EEC development efforts are still at the beginning stage. We expect the operating margin of EASTW to stay healthy, holding above 54% during the same period.

The company's leverage and liquidity profile remained sound. The ratio of debt to capitalization stood at 41.7% at the end of March 2017. The ratio of funds from operations (FFO) to total debt was 24.27%, annualized from the trailing 12 months, while the earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio stood at 11.57 times for the first three months of 2017.

Over the next 12-24 months, TRIS Rating holds the view that EASTW's liquidity is adequate. Funding needs include scheduled debt repayments of Bt1,616 million, capital expenditures of Bt750-Bt1,500 million, and estimated dividend payments of Bt800-Bt900 million per annum. The sources of funds are FFO of at least Bt1,800 million annually, cash and cash equivalents of Bt627 million on hand at the end of March 2017, and a committed bank credit facility of Bt1,700 million.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that EASTW will continue to receive reliable streams of cash from its resilient operation. The credit upside depends on whether EASTW can increase operating cash flow materially without hurting the balance sheet. The credit downside case could arise from any new aggressive debt-funded investments, which would push the ratio of debt to capitalization over 50% on a sustained basis.

Eastern Water Resources Development and Management PLC (EASTW)

Company Rating:	A+
Issue Ratings:	
EASTW226A: Bt1,200 million senior unsecured debentures due 2022	A+
EASTW256A: Bt1,200 million senior unsecured debentures due 2025	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------ Year Ended 31 December -------------------				
	Jan-Mar 2017	2016	2015	2014	2013	2012
Total sales**	1,065	4,259	4,271	3,973	3,760	3,677
Gross interest expense	56	252	179	224	191	150
Net income from operations	362	1,300	1,359	1,334	1,313	1,241
Funds from operations (FFO)	609	1,811	1,821	1,721	1,629	1,500
Total capital expenditures	251	975	2,062	2,097	1,140	1,986
Total assets	19,684	19,860	19,627	15,243	13,480	12,440
Total debt	7,447	8,008	8,763	5,450	4,567	4,307
Shareholders' equity including minority interest	10,414	10,048	9,500	8,517	7,902	7,320
Operating income before depreciation and amortization as % of sales	58.93	55.67	55.10	55.95	56.69	54.38
Pretax return on permanent capital (%)	9.70 ***	9.72	11.57	13.58	14.76	15.73
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.57	9.55	13.49	10.18	11.43	13.63
FFO/total debt (%)	24.27 ***	22.62	20.78	31.58	35.67	34.82
Total debt/capitalization (%)	41.70	44.35	47.98	39.02	36.63	37.04

* *Consolidated financial statements*
** *Excluding construction revenue under concession agreements*
*** *Annualized from the trailing 12 months*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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