

# EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 95/2019

26 June 2019

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

**Last Review Date:** 12/07/18

### 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+	-

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## RATIONALE

TRIS Rating affirms the company rating on Eastern Water Resources Development and Management PLC (EASTW) and the ratings of EASTW's senior unsecured debentures at "A+". The ratings reflect EASTW's strengths as key raw water provider with a comprehensive pipeline network in the Eastern Seaboard area, rising of water demand in the Eastern Economic Corridor (EEC) area, its high profitability, and highly predictable cash flows. These strengths are partially offset by the uncertainty of climate change and the new Water Resources Act.

## KEY RATING CONSIDERATIONS

### Key raw water provider in the Eastern Seaboard

EASTW's position as the key provider of raw water in the Eastern Seaboard underpins its strong business profile. Its integrated pipeline network enables the efficient allocation and channeling of water from multiple sources to service areas in Chonburi, Rayong, and Chachoengsao provinces. EASTW's comprehensive network makes it uneconomical for any newcomer to compete in the company's service areas. In addition to the large capital investment needed to build a pipeline, a new pipeline requires rights of way which would have to be approved by several government agencies.

### Rising demand from EEC

According to the government policy to support investments in EEC, the demand for raw water, industrial water and fully integrated water services is expected to rise. In the second half of 2018, EASTW signed two long-term contracts with Gulf P.D. Co., Ltd. (Gulf PD) and Amata Water Co., Ltd. (Amata water) to provide industrial water starting from 2021 onwards. The company won the bidding to provide tap water and waste water treatment to U-Tapao airport. EASTW also finds opportunity to provide services outside EEC area.

### Strong profitability and highly predictable cash flows

EASTW's strong financial profile reflects its strong profitability and reliable cash flows. The operating margin (operating profit before depreciation and amortization as a percentage of sales) has stayed above 54.0% during the past five years.

TRIS Rating assumes EASTW's revenue will grow up to 5% annually during 2019-2021, taking into account the higher demand from EEC and the higher raw water demand from the Provincial Waterworks Authority (PWA) resulting from new pricing strategy EASTW provided to PWA.

### Uncertainty of climate change and new Water Resources Act

Climate change is unpredictable and affects the water supplies. Water sources have been deteriorating during the dry season and water feeding from distant water sources increases electricity cost. Therefore, EASTW is alert to have sufficient water capital by finding extra resources, not only from the Royal Irrigation Department's (RID) sources and private ponds but also by investing in its own reservoirs.

The new Water Resources Act announced in 2018 may partly affects EASTW's raw water cost. Currently, EASTW initiates its new tariff formula to mitigate this risk since the new formula takes into account the incremental cost from

the Act.

### Investment projects push up leverage

Under TRIS Rating's base case scenario, we expect EASTW's leverage to increase over the next three years. EASTW needs secure and sufficient supplies of water to cope with rising demand from clients in the EEC areas.

EASTW plans capital expenditures of more than Bt7,000 million during the next three years. The company will use the majority of the capital expenditures to develop new pipelines, upgrade pumping stations, and enhance water development technology. We expect that EASTW's total debt to capitalization ratio could climb to 48.0% over the next three years. The ratio of funds from operations (FFO) to total debt will likely be lower than 20.0% with the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio at 8 times during 2019-2021.

At the end of March 2019, EASTW's leverage and liquidity profile remained sound. The total debt to capitalization ratio was healthy at 35.4%. The FFO to total debt ratio was 30.4%, annualized from the trailing 12 months, while the EBITDA interest coverage ratio stood at 11.6 times for the first three months of 2019.

### BASE CASE ASSUMPTIONS

- Revenues will grow by 5% annually during 2019-2021.
- The operating margins will be around 55%-57% during the forecast period.
- Capital expenditures will be Bt3,500 million annually during 2019-2020 and Bt1,050 million in 2021.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that EASTW's operation will remain resilient and continue to generate reliable streams of cash. TRIS Rating also expects the company to expand through the conservative use of leverage and maintain its financial disciplines.

### RATING SENSITIVITIES

A rating upside depends on whether EASTW can increase operating cash flow materially without weakening the balance sheet. A rating downside, on the other hand, could come from overly aggressive, debt-funded investments, resulting in the debt to capitalization ratio staying over 50.0% on a sustained basis.

### COMPANY OVERVIEW

EASTW was established in 1992 by a Cabinet resolution. The government gave EASTW a mandate to be responsible for the development and management of raw water distribution systems in the Eastern Seaboard area. As of May 2019, EASTW's major shareholders were the PWA (owning a 40.2% stake); Manila Water Company, Inc. (MWC; 18.7%), acquired from Electricity Generating Public Company Limited (EGCO) on 14 March 2018; and the Industrial Estate Authority of Thailand (IEAT; 4.6%).

In 2018, EASTW extracted 263 million cubic meters (cu.m.) of raw water and supplied a total of 250 million cu.m., including internal use for tap water production. Currently, EASTW provides raw water in Chonburi, Rayong, and Chachoengsao provinces. The company has a strategy to focus on a comprehensive water solution. These include raw water, industrial water, waste water management, and recycled water.

EASTW, through its subsidiary Universal Utilities PLC (UU), provides tap water service in 13 service areas with a total production capacity of 399,060 cu.m. per day. Raw water sales accounted for 60.0% of the company's total revenue excluding construction revenue under concession agreement, while tap water services represented 36.0% of the total in 2018. In the second half of 2018, EASTW signed 25-year contract with Gulf PD and 30-year contract with Amata water to provide industrial water of 21.9 million cu.m. per year and 5.5 million cu.m. per year, respectively. The revenue from these industrial water contracts expects to be recognized from 2021 onwards. Moreover, the company won the bidding to provide tap water and waste water treatment to U-Tapao airport under 25-year concession.

**KEY OPERATING PERFORMANCE**
**Table 1: EASTW's Total Revenue Breakdown by Line of Business**

Line of Business		2014	2015	2016	2017	2018	Jan-Mar 2019
Raw water	%	65	66	62	57	57	60
Tap water	%	23	27	32	33	34	31
Engineering services and rental	%	5	5	4	4	4	4
Construction revenue under concession agreement	%	6	2	3	6	6	5
<b>Total</b>	<b>%</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Revenue from sale & service	Bt mil.	4,242	4,367	4,377	4,308	4,221	1,165

Sources: EASTW

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS \***

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues **	1,170	4,235	4,335	4,395	4,400
Operating income	651	2,290	2,346	2,424	2,439
Earnings before interest and taxes (EBIT)	445	1,542	1,666	1,761	1,872
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	653	2,297	2,353	2,434	2,471
Funds from operations (FFO)	525	1,805	1,812	1,849	1,899
Adjusted interest expense	56	231	240	258	186
Capital expenditures	182	796	849	1,108	2,127
Total assets	20,278	20,141	19,483	19,860	19,627
Adjusted debt	6,120	6,511	7,131	7,420	7,963
Adjusted equity	11,149	10,805	10,430	10,048	9,500
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	55.65	54.08	54.12	55.16	55.43
Pretax return on permanent capital (%) ***	8.77	8.54	9.23	9.62	11.51
EBITDA interest coverage (times)	11.61	9.95	9.82	9.44	13.25
Debt to EBITDA (times) ***	2.58	2.83	3.03	3.05	3.22
FFO to debt (%) ***	30.40	27.72	25.41	24.92	23.85
Debt to capitalization (%)	35.44	37.60	40.61	42.48	45.60

\* Consolidated financial statements

\*\* Including construction revenue under concession agreements

\*\*\* Annualized from the trailing 12 months

**RELATED CRITERIA**

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

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**Eastern Water Resources Development and Management PLC (EASTW)**

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

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**TRIS Rating Co., Ltd.**

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