

EDL-GENERATION PUBLIC COMPANY

No. 88/2024
30 May 2024

CORPORATES

Company Rating:	BB+
Issue Ratings:	
Senior unsecured	BB+
Outlook:	Negative

Last Review Date: 22/09/23

Company Rating History:

Date	Rating	Outlook/Alert
22/09/23	BB+	Negative
19/05/23	BBB-	Negative
20/05/22	BBB-	Stable
14/05/21	BBB-	Negative
15/05/20	BBB	Negative
28/06/19	BBB	Stable
12/06/17	BBB+	Negative
15/10/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on EDL-Generation Public Company (EDL-Gen) and the ratings on its senior unsecured debentures at “BB+”. The rating outlook remains “negative”.

The ratings on EDL-Gen continue to reflect our view of EDL-Gen as a “core subsidiary” of Electricite du Laos (EDL, rated “BB+/Negative”*), its status as a state-owned enterprise of the Lao People’s Democratic Republic (Lao PDR), and the critical role it plays in the country’s power generation.

EDL is a state-owned enterprise, fully owned and controlled by the government of Laos. EDL plays a critical role in carrying out the government’s electricity policy, owning the country’s main power generation, transmission, and distribution facilities. Consequently, EDL’s credit profile is linked to the sovereign rating on the Lao PDR.

At the same time, we have revised EDL-Gen’s stand-alone credit profile (SACP) to “bb” from “bb+” to reflect a further deterioration in its financial profile due to continued depreciation of the Lao kip (LAK), resulting in a further significant rise in debt obligation in LAK. The downward revision of the SACP also factors in the company’s delayed cash collection from EDL, thin headroom to meet financial covenants on debentures, and material refinancing risk.

The SACP continues to mirror EDL-Gen’s strong market position in the Lao PDR’s electricity generation industry, its satisfactory operating performance record, and its well-diversified portfolio. However, the SACP is constrained by the company’s heavy financial leverage, and high vulnerability to exchange rate risk caused by currency mismatches of revenue and debt obligations.

KEY RATING CONSIDERATIONS

Credit linked to EDL’s credit profile and Lao PDR’s sovereign profile

EDL-Gen’s credit standing is integrally linked to the credit profile of EDL and the sovereign profile of the Lao PDR. As a core subsidiary of EDL, EDL-Gen has taken over the role of electricity generation for the country from EDL since its inception. However, EDL remains the sole power purchaser of EDL-Gen and the sole operator of the nation’s power grid. EDL-Gen is tightly integrated with EDL under the structure.

EDL influences EDL-Gen’s business direction in many ways, such as the pursuit of growth opportunities, the structure of future power purchase agreements (PPAs), and dividend policy.

EDL is wholly owned by the Ministry of Finance of the Lao PDR (MOFL). The credit quality of EDL and EDL-Gen is underpinned by the very high likelihood that the government of Laos will provide full support to EDL and EDL-Gen in times of stress. This likelihood is reinforced by the fact that EDL and EDL-Gen fulfill a critical role in the power development plan of the Lao PDR, which is a critical part of the country’s economic and social development strategy.

Further deterioration in financial profile due to steep LAK depreciation

While most of EDL-Gen’s debts are denominated in Thai baht (THB) and US dollars (USD), nearly all of EDL-Gen’s revenue is in LAK. The considerable currency mismatch between revenues and debt has continued to weaken EDL-Gen’s financial profile, given the steep depreciation of LAK.

* The rating on EDL is assigned without participation from EDL. The assigned rating is predicated on the sovereign rating on the Lao PDR and our Government-Related Entities (GRE) Rating Methodology.

In 2023, the company's outstanding debt surged by 19.5% year-on-year (y-o-y) to LAK20.1 trillion as the LAK depreciated against the THB and USD by 18%-20%. Over the same period, about 76% of EDL-Gen's total income, comprising revenue and dividends from investments in Independent Power Producers (IPP), was denominated in LAK. The currency devaluation has also worsened its debt servicing capacity, causing the ratio of net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) to reach 12.1 times at the end of 2023.

Delayed electricity payments from EDL

EDL-Gen's operating cash flow did not improve as we expected, mainly due to delayed payments from EDL in the second half of 2023. Overall, EDL-Gen was able to collect about 56% of the total invoiced amount in cash from electricity sales in 2023, a noticeable decline from the 66%-69% range during 2021-2022. Hence, the company's accounts receivable increased to LAK1.06 trillion at the end of 2023, from LAK0.401 trillion at the end of 2022. As a result, EDL-Gen reported negative operating cash flow.

The delay in electricity payments by EDL was due to its operational losses. As the sole operator of the Laos national grid, EDL is responsible for procuring sufficient electricity to meet the nation's demand. The ongoing depreciation of the LAK has inflated EDL's purchasing cost. EDL procures more than 60% of its electricity from IPP and imports, which are based on USD or USD-linked tariffs, while charging end users in LAK.

Despite the Laos government's approval of several significant increases in electricity tariffs charged to end users in 2022 and 2023, these adjustments proved insufficient to counterbalance the impact of the LAK depreciation. Both the government and EDL are currently studying reform of the national electricity tariff structure to mitigate foreign exchange risks. Under the proposed reforms, the new tariff structure would likely be USD-based, targeting commercial and industrial users. The restructuring is anticipated to bolster EDL's financial performance, thereby improving its capacity to fulfill electricity payments to EDL-Gen. However, the outcomes of these reforms necessitate close monitoring to assess their efficacy.

Asset divestiture to reduce debt burden

EDL-Gen has been working to materialize planned divestments of some of its assets. The proceeds from these asset sales will be used to repay loans and debentures due within this year, with the aim of restoring the company's financial strength.

The company embarked on its divestment plan in late 2023 with the sale of its 20% ownership in the 260-megawatt (MW) Don Sahong hydropower project. The transaction yielded proceeds of USD85 million (equivalent to LAK1.745 trillion), the majority of which was utilized to settle debt in 2023 through the first quarter of 2024. The company is currently in the process of divesting its shareholding in another IPP, with an expected sale value of about USD85 million. However, the divestment transaction remains uncertain and is subject to the government's approval.

Strong market position in the Lao power sector

EDL-Gen is one of the leading power producers in Laos. As of December 2023, EDL-Gen's equity operating capacity was 1,737 MW, including 717 MW from wholly owned hydropower projects and 1,020 MW from equity investments in IPP projects through its associates and joint ventures.

Of the total equity capacity, 954 MW (or 55%) is allocated to the domestic market, while 783 MW (or 45%) is distributed to Thailand. EDL-Gen's equity capacity represents approximately 14%-16% of the total installed capacity in the Lao PDR. Domestically, EDL-Gen serves as the largest power producer, supplying 30%-40% of the country's electricity needs.

Hydropower output expected to normalize

EDL-Gen's power plant operations benefited from heavy rainfall during 2022-2023. Its electricity sales in 2023 increased by 5.4% to a record 2,945 GWh (gigawatt-hours). At the same time, the company's revenue increased by 11.3% y-o-y, reaching LAK1.41 trillion. Dividend income was approximately LAK454 billion, about the same level as the previous year's LAK467 billion.

In our base-case scenario, we expect total electricity sales to revert to historical averages, or approximately 2,500 GWh-2,600 GWh per annum. We factor in the possibility of increased electricity tariffs for EDL-Gen's wholly owned power plants as part of the national electricity tariff structure reform to offset the enlarged debt payments caused by the weakened LAK. EDL-Gen's revenue is projected to reach LAK1.3 trillion in 2024 before increasing to LAK1.6 trillion in 2026. We expect that dividends from IPP investments will amount to between LAK600 and LAK700 billion per annum. We have ceased incorporating the potential for additional revenue from new assets due to uncertainties of the timeline of the transferring process from EDL.

Financial leverage to remain high

We anticipate EDL-Gen's financial leverage will remain at a high level despite significant debt reduction efforts. We expect the company to prioritize cost saving, minimizing capital expenditure, and cutting dividend payments, to restore its liquidity. We project the company's EBITDA to range from LAK1.7-LAK2.0 trillion per annum during 2024-2026. The debt to EBITDA ratio is likely to remain above 8 times, with the funds from operations (FFO) to debt ratio hovering around 5%.

Reliance on MOFL and local banks to support bond repayments

The maturing debentures amounting to THB4.1-THB7.6 billion per annum during 2024-2028 will put pressure on EDL-Gen's credit profile. Apart from asset divestitures, EDL-Gen will be heavily reliant on local funding sources such as domestic banks and MOFL to cover repayments of maturing debentures during this period.

Debentures coming due in 2024 total THB7.6 billion (about LAK4.6 trillion or USD200 million). EDL-Gen intends to meet the obligations through various sources, including the remaining proceeds from the Don Sahong divestment, the proceeds from an upcoming divestment, a large sum of cash received from EDL's electricity payments supported by MOFL, and loans obtained from local banks. Any shortfall is expected to be covered by EDL-Gen's internal cash flow and dividend income from its IPP investments. The downside risk of this funding plan lies in the uncertainty regarding the divestment since the Lao government has not approved yet. Nevertheless, we believe MOFL will provide financial support to EDL-Gen to meet its obligation.

Thin headroom for bond covenant

EDL-Gen is obligated to maintain an interest-bearing debt (IBD) to equity ratio of below 2.0 times. The ratio was 1.92 times at the end of December 2023 and 1.86 times at the end of first quarter 2024. There is a possibility that the ratio may rise further over the next three years due to potential realized foreign exchange (FX) losses each time debenture payments are made. We forecast the company's FX losses to range from LAK1.3-LAK2.8 trillion per annum over 2024-2026. Nonetheless, EDL-Gen's plan to reduce debt and potential gains from asset divestments should assist in keeping the ratio below the required threshold for the next two years. EDL-Gen's ability to stay compliant with the covenant may hinge on the degree of potential further LAK depreciation in the future. A covenant breach could trigger a negative rating action.

Debt structure

At the end of December 2023, EDL-Gen's total outstanding debt was LAK20.1 trillion. The priority debt ratio was 0%.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for EDL-Gen's operations during 2024-2026:

- Total electricity sold from wholly owned power plants of 2,500 GWh-2,600 GWh per annum.
- Revenue from electricity sales of LAK1.3 trillion in 2024, rising to LAK1.6 trillion per annum in 2026.
- Dividend income from IPP investments to total between LAK600 and LAK700 billion per annum.
- Operating margin to stay around 70%-77%.
- Capital expenditure to remain below LAK0.1 trillion per annum.
- No dividend payment

RATING OUTLOOK

The "negative" outlook reflects the outlook of the sovereign rating on the Lao PDR. TRIS Rating expects the linkage between EDL and EDL-Gen to remain intact. We also expect that EDL will continue holding a majority interest in EDL-Gen and receiving full support from the government of Laos.

RATING SENSITIVITIES

The ratings on EDL-Gen are linked to the credit profile of EDL, which is tied to the sovereign rating on the Lao PDR. Therefore, a change in the sovereign rating or outlook on the Lao PDR will impact those on EDL-Gen, accordingly.

An upward revision to EDL-Gen's SACP is unlikely over the next 12-18 months. Contrarily, we could lower the SACP should EDL-Gen's financial profile deteriorate further, possibly from persistent depreciation of the LAK or if the company is unable to reduce outstanding debt as planned.

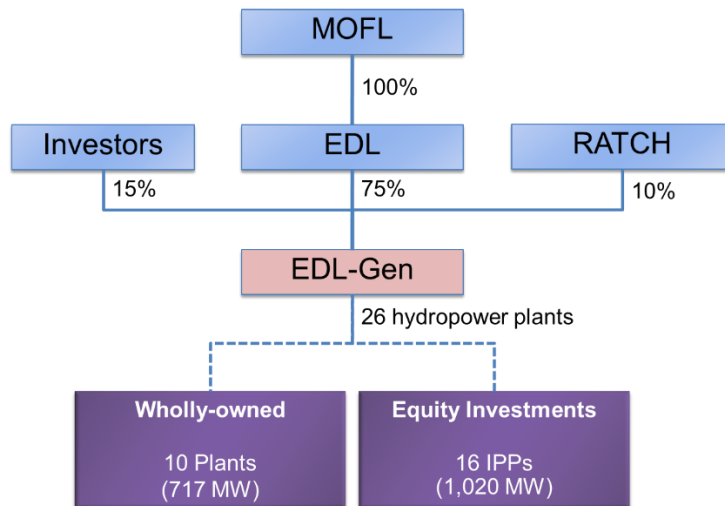
COMPANY OVERVIEW

EDL-Gen was founded in 2010 and listed on the Lao Securities Exchange (LSX) in 2011. The incorporation of EDL-Gen was part of the restructuring of the power sector in the Lao PDR, which called for EDL-Gen to purchase current and future power generating assets from EDL. Before EDL-Gen was set up, EDL was the sole vertically integrated electric power utility, dominating all aspects of the sector in the Lao PDR, from power generation, transmission lines, to the distribution of electricity to end-users. EDL also owned stakes in several IPPs operating in the Lao PDR. Notwithstanding the transfer of its electricity generating assets to EDL-Gen, EDL remains the single buyer of electricity in the Lao PDR and the dominant electricity distributor. EDL owns almost all of the power grids in the Lao PDR.

As of December 2023, EDL held a 75% stake in EDL-Gen with 10% held by RATCH Group PLC. EDL-Gen owns and operates hydropower assets developed by EDL. EDL-Gen also invests in IPP hydropower projects previously held by EDL. Each of EDL-Gen’s power generating assets operates under a PPA and concession covering 30 years.

As of December 2023, EDL-Gen’s aggregate equity capacity was 1,737 MW, comprising 717 MW from its 10 wholly-owned hydropower plants and 1,020 MW from equity investments in 16 IPPs.

Chart 1: EDL-Gen Group’s Structure



Source: EDL-Gen, illustrated by TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. LAK

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	231,194	1,496,622	1,355,843	1,235,936	1,211,467
Earnings before interest and taxes (EBIT)	125,225	1,848,722	1,963,575	1,473,950	945,075
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	157,512	1,596,360	1,533,523	1,509,164	1,117,102
Funds from operations (FFO)	(167,659)	362,018	403,002	652,009	374,859
Adjusted interest expense	325,171	1,233,223	1,050,074	857,155	742,243
Capital expenditures	11,434	348,638	57,705	87,526	98,009
Total assets	31,599,227	32,120,934	29,669,222	26,552,167	24,702,826
Adjusted debt	19,338,076	19,384,518	16,921,382	16,626,897	14,731,697
Adjusted equity	10,524,967	10,432,204	11,585,568	9,230,594	9,293,720
Adjusted Ratios					
EBITDA margin (%)	68.1	106.7	113.1	122.1	92.2
Pretax return on permanent capital (%)	5.6 **	6.2	7.2	5.8	3.9
EBITDA interest coverage (times)	0.5	1.3	1.5	1.8	1.5
Debt to EBITDA (times)	14.7 **	12.1	11.0	11.0	13.2
FFO to debt (%)	0.0 **	1.9	2.4	3.9	2.5
Debt to capitalization (%)	64.8	65.0	59.4	64.3	61.3

* Consolidated financial statements

** Annualized with 12 months trailing

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

EDL-Generation Public Company (EDL-Gen)

Company Rating:	BB+
Issue Ratings:	
EDLGEN247A: THB1,660.7 million senior unsecured debentures due 2024	BB+
EDLGEN247B: THB2,099.4 million senior unsecured debentures due 2024	BB+
EDLGEN249A: THB837.1 million senior unsecured debentures due 2024	BB+
EDLGEN24DA: THB3,000 million senior unsecured debentures due 2024	BB+
EDLGEN257A: THB1,443.1 million senior unsecured debentures due 2025	BB+
EDLGEN259A: THB2,690.3 million senior unsecured debentures due 2025	BB+
EDLGEN268A: THB137.4 million senior unsecured debentures due 2026	BB+
EDLGEN271A: THB972.4 million senior unsecured debentures due 2027	BB+
EDLGEN271B: THB2,489.5 million senior unsecured debentures due 2027	BB+
EDLGEN271C: THB646.3 million senior unsecured debentures due 2027	BB+
EDLGEN27NA: THB303 million senior unsecured debentures due 2027	BB+
EDLGEN287A: THB1,897.9 million senior unsecured debentures due 2028	BB+
EDLGEN307A: THB809.8 million senior unsecured debentures due 2030	BB+
EDLGEN311A: THB1,093.4 million senior unsecured debentures due 2031	BB+
EDLGEN337A: THB1,621.2 million senior unsecured debentures due 2033	BB+
EDLGEN269A: USD166 million senior unsecured debentures due 2026	BB+
EDLGEN289A: USD95 million senior unsecured debentures due 2028	BB+
Rating Outlook:	Negative

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