

EDL-GENERATION PUBLIC COMPANY

No. 77/2022
20 May 2022

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Stable

Last Review Date: 04/06/21

Company Rating History:

Date	Rating	Outlook/Alert
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 “BBB-”. At the same time, we revise the outlook of EDL-Gen to “Stable” from “Negative”, following the outlook revision of the sovereign rating on the Lao People’s Democratic Republic (Lao PDR). TRIS Rating revised the outlook of the Lao sovereign rating to “Stable” from “Negative”, while affirming the Lao sovereign rating at “BBB-” on 20 May 2022.

The “BBB-” ratings continue to reflect our views on EDL-Gen’s status as a core subsidiary of Electricite du Laos (EDL), its status as a state-owned enterprise of the Lao PDR and the critical role it plays in the Lao PDR’s electricity industry. EDL is a state-owned enterprise, 100% owned by the government of Laos. EDL’s credit profile is linked to the sovereign rating on the Lao PDR.

EDL-Gen’s stand-alone credit profile (SACP) of “BBB-” reflects its strong market position in the Lao PDR’s electricity generation industry, acceptable operating performance, and its well-diversified portfolio. However, EDL-Gen’s SACP is constrained by the weakened financial position of EDL, which is the sole purchaser of the electricity produced by EDL-Gen’s wholly owned power plants.

KEY RATING CONSIDERATIONS

Link with EDL’s credit profile and Lao PDR’s sovereign profile

EDL-Gen’s credit profile is underpinned by the credit profile of EDL and sovereign profile of the Lao PDR. As a core subsidiary of EDL, EDL-Gen took over the role of electricity generation for the country from EDL at its inception. On the other hand, EDL is the sole customer of EDL-Gen and the sole owner 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 is underpinned by the very high likelihood that the government of Laos will provide full support to EDL in times of distress. 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 strategy to advance its economic and social development.

Strong market position in the Lao power sector

EDL-Gen is one of the leading power producers in Laos. As of December 2021, EDL-Gen’s equity operating capacity was 1,683 megawatts (MW), including 699 MW from wholly owned hydropower projects and 984 MW from equity investments in Independent Power Producers (IPPs) through its associates and joint ventures.

Of the total equity capacity, 926 MW (or 55%) was for the domestic market, while 705 MW (or 42%) was distributed to Thailand and 52 MW (or 3%) to Cambodia. EDL-Gen’s equity capacity accounted for about 15%-16% of total installed capacity in the Lao PDR. For the domestic market, EDL-Gen is the largest power producer, supplying about 29% of the electricity consumed in the country.

The transfer of three hydropower plants from EDL (Nam Khan 3, Xeset 3, and Nam Chiane) with total capacity of 187 MW has been delayed from the original plan due to bureaucratic procedures in Laos. However, we expect the transfer to be completed within 2022. We also expect EDL's investments in IPPs to be transferred to EDL-Gen, increasing EDL-Gen's equity capacity by 18 MW in 2022. As a result, EDL-Gen's equity capacity is projected to increase to 1,888 MW by the end of 2022, from 1,683 MW at the end of 2021.

Electricity oversupply expected to ease

At the end of 2021, the Lao PDR's power generation capacity was about 10,900 MW. About 6,400 MW of the capacity was exported directly to Thailand (96%) and Cambodia (4%). Power generation capacity for the domestic market was about 4,500 MW, while the domestic peak demand for electricity in 2021 was about 1,400-1,500 MW. Based on an average capacity factor of 50% of hydro power generation, Laos was estimated to have an oversupply of 800-1,000 MW at the end of 2021.

We believe the oversupply of electricity in the country will gradually ease. The government has a policy to attract power-intensive industries, such as data centers and bitcoin mining, into the country. Since 2019, the government has allowed IPPs to divert their domestic supply for export to Cambodia and Vietnam. Upon the completion of the cross-border transmission line to Vietnam, this regulatory change should help balance the domestic electricity supply with demand, alleviating the oversupply situation in Laos.

Satisfactory overall performance in 2021

In 2021, EDL-Gen sold 2,299 GWh of electricity to EDL, close to the 2,308 GWh sold in the previous year. The company's revenue from electricity sales, however, grew by 2.5% year-on-year (y-o-y) to LAK1.20 trillion in 2021, from LAK1.17 trillion in 2020, mainly due to a tariff increase of 1% and the depreciation of the Lao kip against the US dollar. About 30% of the electricity sold to EDL has a tariff linked with the US dollar while the Lao kip depreciated by 7.6% against the US dollar during 2021.

Shared profits from investments in IPP projects surged by 92.6% to LAK961 billion in 2021 from LAK498 billion in 2020, driven by benefits from US dollar-linked revenues and better water inflows in the key affiliated hydro power plants such as Xayaburi, Theun Hinboun, and Nam Ngum 2. Consequently, dividend income jumped by 200% to LAK475 billion in 2021, from LAK154 billion in 2020.

EDL's financial position to gradually recover

Overdue payments for the electricity sold to EDL have been an important challenge for EDL-Gen, as all electricity generated by EDL-Gen's wholly owned power plants is sold to EDL. EDL's financial position has weakened over the past several years due to the electricity oversupply situation in the country and the strain of the investment needed to upgrade the country's transmission lines. The overdue payments have resulted in a persistent rise in EDL-Gen's accounts receivable since 2019, increasing from LAK0.54 trillion at the end of 2019 to LAK1.97 trillion at the end of 2021.

However, we expect EDL's liquidity situation to improve gradually, as assessed from the continuing growth of electricity consumption in Laos and the important steps taken by EDL to address its liquidity issues. The steps taken include a plan to increase domestic electricity tariffs, efforts to export electricity to neighboring countries, and restructuring of its debt. In addition, EDL is in the process of transferring its transmission lines to EDLT, a joint-venture company between Southern China Power Grid (90%) and EDL (10%). This transaction is expected to bring USD500-USD700 million in capital into EDL and MOFL. We expect EDL-Gen's accounts receivable may decline significantly following EDL-Gen's plan to offset overdue electricity payments from EDL with loans owed to EDL.

Foreign exchange exposure

EDL-Gen's foreign exchange exposure from the currency mismatch between revenues and expenses continues to constrain its business risk profile and financial performance. The majority (51%) of EDL-Gen's income is denominated in Lao kip, followed by US dollars (44%) and Thai baht (5%), while its obligations are mostly in US dollars and Thai baht. At the end of 2021, about 42% of total outstanding debts was denominated in Thai baht, 57% in US dollars and the rest in euros.

In 2021, the Lao kip depreciated 7.6% against the US dollar and 4.8% against the Thai baht. EDL-Gen recorded a foreign exchange loss of LAK612.9 billion in 2021 while its outstanding debt climbed to LAK16.1 trillion in 2021 from LAK14.6 trillion in 2020.

Moderate investment during 2022-2024

EDL-Gen's capital expenditure is estimated to total about LAK8.9 trillion during 2022-2024. The expenditure is earmarked for annual maintenance costs (LAK0.31 trillion), purchase of power plants from EDL (LAK6.1 trillion, already paid), and purchases of stakes in IPP companies from EDL (LAK0.1 trillion, already paid). The rest is for construction of new plants plus direct investments in other IPP companies.

High financial leverage

We expect EDL-Gen's total outstanding debt to increase during 2022-2024 from the consolidation of project loans for new hydro power plants acquired from EDL. We estimate debts of about LAK4.5-LAK5.0 trillion to be consolidated during 2022-2024, resulting in an increase of outstanding debts to LAK19-LAK20 trillion over the period. EDL-Gen's leverage, as measured by the total debt to capitalization ratio, is expected to stay high in a range of 60%-65% over the next three years.

However, the new hydropower plants are expected to contribute earnings before interest, taxes, depreciation, and amortization (EBITDA) of about LAK400-LAK500 billion per year to EDL-Gen. We also expect EDL-Gen to receive higher dividends from its investments in IPPs over the next three years, mainly from the 260-MW Donsahong plant and a ramp-up of power production in other IPP projects.

In our base-case scenario, we project EBITDA to rise and stay around LAK2.0-LAK2.2 trillion during 2023-2024 from LAK1.5 trillion in 2021. The credit ratios are expected to gradually improve but leverage is likely to remain high, with EDL-Gen's net debt to EBITDA ratio improving to 9-10 times during 2022-2024, from about 11 times in 2021. The funds from operations (FFO) to net debt will likely hover around 5% over the same period, up from 3.9% in 2021.

As of December 2021, EDL-Gen's total outstanding debt was LAK17.2 trillion. About LAK253 billion was senior unsecured debt owed by EDL-Gen's subsidiaries. This translates to a priority debt to total debt ratio of 1.5% at the end of 2021.

Refinancing as a key part of liquidity

EDL-Gen's debt coming due over the next 12 months will total LAK1.045 trillion, including a LAK466 billion term loan repayment to EDL and about LAK409 billion (or THB1.08 billion) in maturing Thai baht debentures. Based on its past record of debenture issuance, EDL-Gen should be able to refinance the debentures that will mature toward the end of July 2022.

We believe that, given the important role of EDL-Gen in power generation in Laos, MOFL will provide full support to EDL-Gen should it experience any shortfalls from the planned new debenture issuance.

BASE-CASE ASSUMPTIONS

- Revenue from electricity sales in the range of LAK1.5-LAK1.9 trillion per year during 2022-2024.
- Operating margin to stay around 80% during the forecast period.
- Capital expenditure during 2022-2024 to total about LAK8.9 trillion.

RATING OUTLOOK

The "stable" outlook reflects the outlook of the sovereign rating on the Lao PDR. TRIS Rating expects that the business model and the level of integration between EDL and EDL-Gen will remain unchanged, and that EDL will continue holding a majority interest in EDL-Gen and receiving full support from the government of Laos.

RATING SENSITIVITIES

A change in the sovereign rating or outlook on the Lao PDR will impact the rating or outlook on EDL-Gen. The rating on EDL-Gen reflects the credit profile of EDL and sovereign rating profile of the Lao PDR.

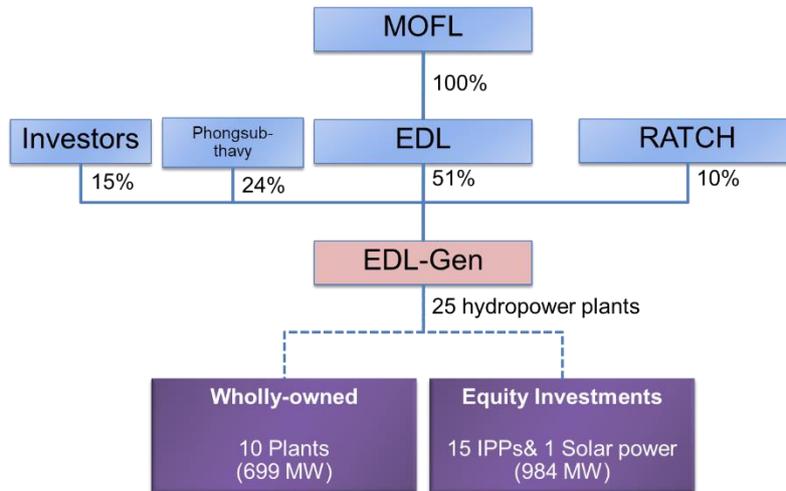
COMPANY OVERVIEW

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, 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, from power generation, transmission lines, and the distribution of electricity to end-users. EDL also owned stakes in several IPPs operating in the Lao. Notwithstanding the transfer of its electricity generating assets to EDL-Gen, EDL remains the single buyer of electricity in the Lao and the dominant electricity distributor. EDL owns almost all of the power grids in the Lao.

As of March 2022, EDL held a 51% stake in EDL-Gen with 24% held by Phongsabthavy Group and 10% by RATCH Group. 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 March 2022, EDL-Gen's aggregate equity capacity was 1,683 MW, comprising 699 MW from its 10 wholly-owned hydropower plants and 984 MW from equity investments in 15 IPPs and one small solar power project.

Chart 1: EDL-Gen Group's Structure



Source: EDL-Gen, illustrated by TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. LAK

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	1,251,956	1,211,467	1,248,800	1,163,906	1,245,535
Earnings before interest and taxes (EBIT)	1,473,950	945,075	851,800	1,088,865	1,026,593
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,509,164	1,117,102	1,362,002	1,438,909	1,390,299
Funds from operations (FFO)	652,009	374,859	618,398	834,238	868,609
Adjusted interest expense	857,155	742,243	743,604	604,671	505,747
Capital expenditures	87,526	98,009	142,711	226,917	987,895
Total assets	26,552,167	24,702,826	23,656,378	22,553,171	19,619,193
Adjusted debt	16,635,269	14,738,657	13,082,815	11,754,784	8,377,012
Adjusted equity	9,230,594	9,293,720	9,290,405	9,353,869	9,208,819
Adjusted Ratios					
EBITDA margin (%)	120.5	92.2	109.1	123.6	111.6
Pretax return on permanent capital (%)	5.8	3.9	3.8	5.3	6.2
EBITDA interest coverage (times)	1.8	1.5	1.8	2.4	2.7
Debt to EBITDA (times)	11.0	13.2	9.6	8.2	6.0
FFO to debt (%)	3.9	2.5	4.7	7.1	10.4
Debt to capitalization (%)	64.3	61.3	58.5	55.7	47.6

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019

EDL-Generation Public Company (EDL-Gen)

Company Rating:	BBB-
Issue Ratings:	
EDLGEN227A: THB1,085.5 million senior unsecured debentures due 2022	BBB-
EDLGEN237A: THB4,078.1 million senior unsecured debentures due 2023	BBB-
EDLGEN247A: THB1,660.7 million senior unsecured debentures due 2024	BBB-
EDLGEN247B: THB2,099.4 million senior unsecured debentures due 2024	BBB-
EDLGEN249A: THB837.1 million senior unsecured debentures due 2024	BBB-
EDLGEN24DA: THB3,000 million senior unsecured debentures due 2024	BBB-
EDLGEN257A: THB1,443.1 million senior unsecured debentures due 2025	BBB-
EDLGEN259A: THB2,690.3 million senior unsecured debentures due 2025	BBB-
EDLGEN287A: THB1,897.9 million senior unsecured debentures due 2028	BBB-
EDLGEN307A: THB809.8 million senior unsecured debentures due 2030	BBB-
EDLGEN311A: THB1,093.4 million senior unsecured debentures due 2031	BBB-
EDLGEN337A: THB1,621.2 million senior unsecured debentures due 2033	BBB-
EDLGEN239A: USD51 million senior unsecured debentures due 2023	BBB-
EDLGEN269A: USD166 million senior unsecured debentures due 2026	BBB-
EDLGEN289A: USD95 million senior unsecured debentures due 2028	BBB-
Rating Outlook:	Stable

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