

TTW PLC

No. 196/2019
29 November 2019

CORPORATES

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

Last Review Date: 29/11/18

Company Rating History:

Date	Rating	Outlook/Alert
22/08/08	AA-	Stable

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RATIONALE

TRIS Rating affirms the company rating on TTW PLC (TTW) and the ratings on TTW's senior unsecured debentures at "AA-" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "AA-" to TTW's proposed issue of up to Bt1 billion in senior unsecured debentures. The proceeds from the new debenture issuance are intended for refinancing existing debts, support for investments, and /or reserve for working capital.

The ratings reflect TTW's strengths as the country's largest private tap water provider with predictable cash flows, high barriers to entry for competitors, and a strong financial profile. These strengths are partially offset by customer concentration risk as revenue is predominantly contributed from sale of tap water to the Provincial Waterworks Authority (PWA), and the limited growth potential in existing operating areas.

KEY RATING CONSIDERATIONS

Largest private tap water provider with reliable cash flow

TTW's strong business profile is supported by its position as the largest private tap water provider in Thailand and its long-term water purchase and sale agreements (WPSA) with PWA. According to PWA's data, TTW is the largest water provider among 13 private companies which have agreements with PWA. TTW supplies tap water to PWA under two WPSAs which cover a committed minimum offtake quantity of 712,000 cubic meters per day (cu. m./day). The terms of the WPSAs are 25 and 30 years, and the agreements will mature in 2023 and 2034, respectively.

TTW also has the operating rights to provide tap water and wastewater treatment services at Bangpa-In Industrial Estate (BIE) for a period of 30 years. The rights will be valid through 2039.

Revenue from the Nakhonpathom-Samutsakhon and the Rangsit-Pathumthani service areas made up 64% and 31% of TTW's total revenue, respectively, in 2018. The demand for tap water gradually increased in 2018 and 2019 mainly as a result of growth in residential areas. Water sales averaged 864,000 cu. m./day during the first nine months of 2019, up from 833,000 cu. m./day in 2018.

We expect TTW's revenue to increase slightly thanks to the steady growth of communities in its service areas. Total operating revenue is expected to be in the range of Bt6.1-Bt6.4 billion annually during 2019-2022.

High barrier to entry

The barriers to entry in this industry are high in TTW's service areas. TTW's ownership of the bulk transmission mains and the local distribution networks prevents new entrants from operating in its existing service areas. To build a distribution network, new comers would need right of way in the area and substantial funds for capital investment. Sources of raw water and the concession granted by PWA are additional constraints. The prospect of PWA granting new water concessions to private companies is low.

Healthy financial profile

With stable profitability and no major capital investment, TTW's liquidity and leverage are likely to strengthen over the forecast period. Earnings before interest, tax, depreciation, and amortization (EBITDA) should hover around

Bt5 billion per year. The adjusted EBITDA margin is forecast at above 80%, the same level as the past five-year average.

Liquidity and leverage are satisfactory. The total debt to capitalization ratio is expected to fall below 40% over the next three years, after scheduled debt repayments and capital expenditure (CAPEX). The funds from operations (FFO) to net debt ratio is anticipated to rise above 80% in 2021 and 2022, up from around 50% in 2018 and (annualized, from the trailing 12 months) for the first nine months of 2019.

Cash flow protection is likely to remain strong. Internal funds from TTW's performance should be sufficient to repay debts coming due of approximately Bt3.6 billion in 2020, as well as planned CAPEX of Bt100-Bt500 million per year. Dividend payments are forecast at Bt2.4 billion per annum. In addition, TTW owns a 24.98% stake in CK Power PLC (CKP), worth Bt11.88 billion as of 18 November 2019. This valuable investment enhances TTW's financial flexibility.

Customer concentration risk and limited growth prospects

TTW is exposed to customer concentration risk. PWA is the predominant customer and also a key competitor. Tap water sold to PWA has comprised over 95% of TTW's total annual revenue annually during the past 10 years. However, PWA's credit profile is acceptable as a state enterprise. PWA is also a key competitor of TTW with its own filtration plants and tap water distribution network near TTW's service areas.

TTW's future prospects hinge on organic growth within its existing service areas, rather than expansions into new areas. PWA does not have a concrete policy regarding the business platforms of private tap water producers.

New Water Resources Act

The new Water Resources Act announced in 2018 may partly affect TTW's raw water costs in the next couple of years. Currently, TTW has permission to pump raw water from the Tha Chin and Chao Phraya Rivers with no fee. However, if the government issues a new law and starts charging a raw water price, PWA will be fully responsible for the raw water cost under one WPSA between PWA and TTW.

BASE CASE ASSUMPTIONS

- Revenues to grow by 2%-3% annually during 2019-2022.
- The EBITDA margins to be around 81% during the forecast period.
- Capital expenditures to be Bt100-Bt500 million annually during 2019-2022.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TTW's operating performance and ability to generate cash will remain strong. The ratings are likely to be maintained over the next two to three years because TTW has modest growth prospects and operations are very stable.

RATING SENSITIVITIES

A rating upside can occur if TTW can increase operating cash flow materially without weakening its balance sheet. A rating downside, on the other hand, could arise from overly aggressive, debt-funded investments, resulting in a deteriorating capital structure.

COMPANY OVERVIEW

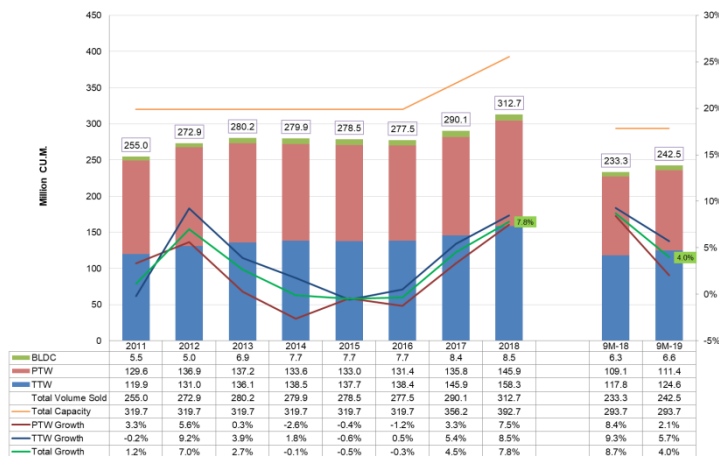
TTW, formerly named Thai Tap Water Supply Co., Ltd, was established in 2000 and listed on the Stock Exchange of Thailand (SET) on 22 May 2008. As of September 2019, CH. Karnchang PLC (CK) and affiliates, CK Group, held 37.87% of TTW through CK (19.4%) and Bangkok Expressway and Metro PLC (BEM; 18.47%). Mitsui Water Holdings (Thailand) Co., Ltd. held 25.98%.

TTW has two subsidiaries: Pathum Thani Water Co., Ltd. (PTW), with a 98% shareholding, and Thai Water Operations Co., Ltd (TWO). TTW holds 68% of TWO while PTW owns 32%. In addition, TTW owned 24.98% of CKP, a power holding company of the CK Group as of September 2019.

TTW operates four water filtration plants at Banglen, Kratumban, Samkok, and BIE and a wastewater treatment plant. The company can produce 1,076,000 cu. m./day of tap water and can treat up to 18,000 cu. m./day of wastewater. The capacity to produce tap water at the Kratumban plant can be expanded to 400,000 cu. m./day from current capacity of 100,000 cu. m./day. TTW's service areas are Nakhonpathom-Samutsakhon, Rangsit-Pathumthani, and BIE.

KEY OPERATING PERFORMANCE

Chart 1: Tap Water Sales



Sources: TTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Bt million

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	4,606	5,937	5,734	5,470	5,475
Earnings before interest and taxes (EBIT)	2,981	3,853	3,724	3,535	3,628
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,811	4,810	4,779	4,465	4,441
Funds from operations (FFO)	3,038	3,818	3,691	3,350	3,468
Adjusted interest expense	230	376	456	508	595
Capital expenditures	102	46	478	1,815	1,089
Total assets	22,154	23,330	23,277	25,765	26,644
Adjusted debt	7,907	7,722	8,940	10,085	9,352
Adjusted equity	12,179	12,365	11,878	11,535	11,430
Adjusted Ratios					
EBITDA margin (%)	82.74	81.02	83.35	81.62	81.11
Pretax return on permanent capital (%)	17.87 **	16.94	15.59	13.84	14.57
EBITDA interest coverage (times)	16.57	12.80	10.47	8.79	7.47
Debt to EBITDA (times)	1.59 **	1.61	1.87	2.26	2.11
FFO to debt (%)	50.04 **	49.45	41.29	33.22	37.08
Debt to capitalization (%)	39.37	38.44	42.94	46.65	45.00

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
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-
Up to Bt1,000 million senior unsecured debentures due within 8 years	AA-
Rating Outlook:	Stable

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