

TTW PLC

No. 187/2018
29 November 2018

CORPORATES

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

Last Review Date :

Date	Rating	Outlook/Alert
04/12/17	AA-	Stable

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 rating on the outstanding senior unsecured debentures at "AA-". The ratings reflect the reliable cash flows from long-term offtake agreements, resilient demand for tap water, low operating risk, and strong financial profile. These strengths are weighed down partially by customer concentration risk. The Provincial Waterworks Authority (PWA) is TTW's major customer. TTW also faced limited prospects in new service areas.

KEY RATING CONSIDERATIONS

Reliable cash flows and resilient demand

TTW's strong business profile is underpinned by the water purchase and sale agreements (WPSA) it has with PWA. TTW wholesales tap water to PWA under two WPSAs. The WPSAs cover a committed minimum offtake quantity (MOQ) 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. Moreover, TTW has the operating rights to provide tap water and wastewater treatment services at Bangpa-In Industrial Estate (BIE) for 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 total revenue in 2017. The demand for tap water gradually increased in 2018 as the nearby communities grew. Water sales averaged 854,000 cu.m./day during the first nine months of 2018, up from 795,000 cu.m./day in 2017.

We expect TTW's revenue will remain steady. Total operating revenue will range between Bt5,900-Bt6,200 million annually during 2018-2021 thanks to steady growth of the communities in its service areas and a rebound in industrial activity in service areas as well.

Low operating risk from high barrier to entry

TTW's operating risk is low because barriers to entry are high. TTW owns the bulk transmission mains (BTM) and local distribution networks (LDN) in some of its service areas. Ownership of the mains and the distribution networks keeps new entrants from operating in its existing service areas. A new entrant would need a large capital investment and need to secure the rights of way to build a distribution network. A new entrant would face other obstacles as well, such as finding sources of raw water and winning a tap water concession from PWA.

Healthy financial profile

TTW's profits are strong and it faces no major capital expenditures (CAPEX) in the forecast period. These factors strengthen liquidity and leverage during the forecast period. The operating margin, defined as operating income before depreciation and amortization as percentage of sales, is forecast to stay above 80%, the same level as the five-year average. Earnings before interest, tax, depreciation, and amortization (EBITDA) will be around Bt5,000 million per year.

Liquidity and leverage are gradually improving. The total debt to capitalization ratio is expected to fall below 40% over the next three years, after scheduled debt repayments and CAPEX. The funds from operations (FFO) to total debt ratio will rise to 68% in 2021, up from 41% in 2017 and

45% (annualized, from the trailing 12 months) for the first nine months of 2018.

Over the next two years, cash flow protection is manageable. Uses of funds are debts coming due of approximately Bt1,940 million in 2019 and Bt3,600 million in 2020, as well as planned CAPEX of Bt500 million per year. TTW will maintain a high dividend payment, forecast at Bt2,400-Bt2,600 million per annum. Sources of funds are FFO of at least Bt3,700 million per annum plus cash and cash equivalents of Bt2,700 million on hand at the end of September 2018. In addition, TTW owns a 25.31% stake in CK Power PLC (CKP), worth Bt9,500 million as of 15 November 2018. This valuable investment enhances TTW's financial flexibility.

Customer concentration risk and limited prospects

TTW is exposed to customer concentration risk. PWA is the major customer and a key competitor. Tap water sold to PWA has comprised over 95% of TTW's total revenue annually during the past 10 years. However, PWA's credit profile is acceptable since it is a state enterprise. PWA is also TTW's key competitor. TTW's sales volume falls when PWA builds new filtration plants and distributes tap water near TTW's service areas.

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

RATING OUTLOOK

The "stable" outlook reflects the assumption 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

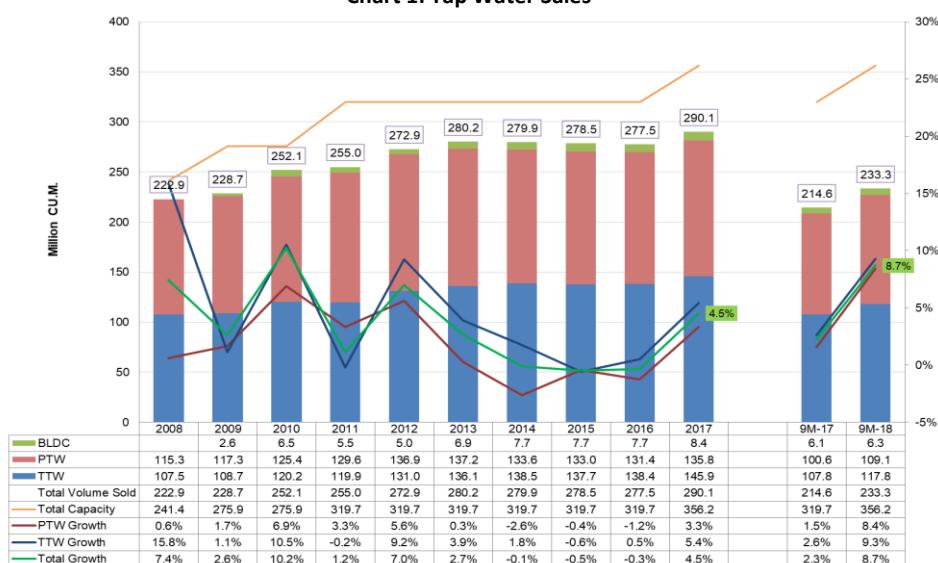
Downward pressure on the ratings would emerge if the company undertakes any sizeable debt-financed investments which will deteriorate its capital structure and financial strength.

COMPANY OVERVIEW

TTW, formerly named Thai Tap Water Supply Co., Ltd, was established in 2000. The company was listed on the Stock Exchange of Thailand (SET) on 22 May 2008. As of September 2018, CH. Karnchang PLC (CK) and affiliates, CK Group, held 38.69% of TTW through CK (19.4%) and Bangkok Expressway and Metro PLC (BEC; 19.29%). Mitsui Water Holdings (Thailand) Co., Ltd. held 25.98%.

TTW has two subsidiaries: Pathum Thani Water Co., Ltd. (PTW), holding 98%, and Thai Water Operations Co., Ltd (TWO). TTW holds 68% of TWO while PTW owns 32%. In addition, TTW owns 25.31% of CKP, a power holding company of CK Group.

TTW operates four water filtration plants 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. TTW's service areas are Nakhonpathom-Samutsakhon, Rangsit-Pathumthani, and BIE.

KEY OPERATING PERFORMANCE
Chart 1: Tap Water Sales


Source: TTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2018	Year Ended 31 December			
		2017	2016	2015	2014
Total operating revenues	4,440	5,734	5,470	5,574	5,529
Operating income	3,584	4,654	4,394	4,413	4,398
Earnings before interest and taxes (EBIT)	2,916	3,724	3,535	3,628	3,712
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,634	4,779	4,465	4,441	4,491
Funds from operations (FFO)	2,900	3,691	3,350	3,468	3,768
Adjusted interest expense	282	456	508	595	567
Capital expenditures	21	478	1,815	1,089	128
Total assets	22,663	23,277	25,765	26,644	24,627
Adjusted debt	8,466	8,940	10,085	9,352	7,241
Adjusted equity	11,696	11,878	11,535	11,430	11,390
Adjusted Ratios					
Operating income as % of total operating revenues (%)	80.72	81.17	80.33	79.17	79.55
Pretax return on permanent capital (%)	16.78**	15.59	13.84	14.57	15.50
EBITDA interest coverage (times)	12.90	10.47	8.79	7.47	7.92
Debt to EBITDA (times)	1.75**	1.87	2.26	2.11	1.61
FFO to debt (%)	44.68**	41.29	33.22	37.08	52.03
Debt to capitalization (%)	41.99	42.94	46.65	45.00	38.87

* Consolidated financial statements

** Annualized, from the trailing 12 months

RELATED CRITERIA

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

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW192A: Bt1,500 million senior unsecured debentures due 2019	AA-
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-
Rating Outlook:	Stable

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