

TTW PLC

No. 220/2022
29 November 2022

CORPORATES

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

Last Review Date: 29/11/21

Company Rating History:

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

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on TTW PLC (TTW) and the ratings on its outstanding senior unsecured debentures at “AA-”, with a “stable” rating outlook. The ratings reflect TTW’s strong business profile as the country’s largest private tap water provider, its stable cash flows from long-term offtake agreements with the Provincial Waterworks Authority (PWA), high barriers to entry for potential competitors, and a healthy financial profile. These strengths are partially offset by the dependency on PWA’s policies and contract extensions, as well as limited growth potential in its existing operating areas.

KEY RATING CONSIDERATIONS

Largest private tap water provider with highly predictable cash flows

TTW is the largest private tap water provider in Thailand with total production capacity of 1.08 million cubic meters per day (cu.m./day).

TTW’s cash flow is stable thanks to the minimum offtake quantity (MOQ) of PWA. TTW and its subsidiary, Pathum Thani Water Co., Ltd. (PTW), is operating under long-term water purchase and sale agreements (WPSA) with PWA to supply tap water in the Nakhon Pathom-Samut Sakhon and the Rangsit-Pathum Thani service areas, for total MOQ of 712,000 cu.m./day. The contracts are due to end in 2034 and October 2023, 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 operating rights will remain valid through 2039.

For the first nine months of 2022, revenue from the Nakhon Pathom-Samut Sakhon, Rangsit-Pathum Thani, and BIE service areas made up 64%, 30%, and 6% of TTW’s total revenue, respectively.

PTW concession to end in 2023

The WPSA between PTW and PWA will end in October 2023. According to the concession agreement, PTW has the right to extend the concession for another 10 years for two times. PTW and PWA have already held discussions and the results are expected to be finalized in 2023.

In 2021, PTW’s revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB1.8 billion and THB1.4 billion, respectively, contributing approximately 30% of TTW’s revenue/EBITDA.

High barriers to entry

Barriers to entry in this industry are high due to the capital-intensive nature of the business, especially if the operator needs to invest in transmission networks including bulk transmission mains (BTM), local distribution networks (LDN), and the water plant. The construction of the transmission networks involves complex arrangements to gain right of way. The water plant also needs to be located near the raw water source.

TTW’s ownership of the mains and distribution networks effectively prevents new entrants from operating in TTW’s existing coverage areas. In addition, sources of raw water and the concession granted by PWA are additional constraints for new entrants. The prospect of PWA granting new water concessions to private companies is low.

Customer concentration risk and limited growth prospects

TTW is exposed to customer concentration risk for its dependency on PWA as the off-taker. During the past 10 years, over 95% of TTW's total annual revenue has been from tap water sold to PWA. However, PWA's credit profile as a state enterprise presents low counterparty risk. PWA itself is also a key competitor of TTW, with its own filtration plants and tap water distribution network near TTW's service areas.

Future growth prospects are limited for TTW. Revenue growth depends mainly on organic growth in existing service areas. Expansion into new areas in Thailand and overseas is under consideration. PWA maintains a concrete policy regarding the business platforms of private tap water producers and PWA's concessions are still unresolved.

Strong profitability

TTW has solid profitability. Its EBITDA has hovered around THB4.7-THB5.0 billion annually over the past five years with an EBITDA margin ranging from 81%-83%.

In our base-case assumption, we assume PTW will be able to extend the contract with PWA. The demand volume should increase by around 1% per year, driven by demand from residential expansion and a recovery of demand from commercial sector following a return to normalcy after the Coronavirus Disease 2019 (COVID-19) pandemic. The tap water price is normally adjusted yearly based on the Consumer Price Index (CPI). Thanks to the CPI growth in 2022, the tap water price in 2023 will rise 6%-7% from 2022, covering the rise in raw materials and electricity costs.

TTW's revenues are projected to reach THB5.7-THB6.0 billion in 2022-2024 with EBITDA of THB4.7-THB5.0 billion. The EBITDA margin is expected to gradually increase to 86% in 2024 from 83% in 2022.

Strong financial profile

We expect the company to maintain its strong financial profile during the forecast years. During 2022-2024, its net debt to EBITDA ratio is expected to be 0.7-1.0 times, nearly the same as the 1-2 times recorded over the past five years. In the event of PTW obtaining the contract extension, the company will need to invest approximately THB4.5 billion. Therefore, capital expenditures (CAPEX) are expected to reach THB200 million in 2022, and a total of THB5 billion during 2023-2024.

Manageable liquidity

We assess TTW to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand and short-term investment of around THB2 billion and expected funds from operations (FFO) of around THB4 billion. These should be adequate to cover bank loans and debentures of around THB1.7 billion coming due in the next 12 months. In 2023, we project the company's investments to be around THB3.2 billion.

The key financial covenant on its debentures requires the company to maintain its debt-to-equity ratio below 2.1 times. The ratio was 0.5 times as of September 2022, well below the covenant threshold. The company should have no problems complying with the financial covenant over the next 12 to 18 months

BASE-CASE ASSUMPTIONS

- Revenues to range THB5.7-THB6.0 billion during 2022-2024.
- EBITDA margin of 83% in 2022-2023, rising to 86% in 2024.
- CAPEX and investment of THB200 million in 2022 and a total of THB5 billion during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TTW's operating performance and cash generation will remain strong. We expect the company to maintain its healthy balance sheet over the forecast period.

RATING SENSITIVITIES

A rating upside could 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 material deterioration of 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 2022, 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: 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 2022.

TTW operates four water filtration plants in Bang Len, Krathum Baen, Sam Khok, and BIE, as well as a wastewater treatment plant in BIE. The company can produce 1,076,000 cu.m./day of tap water and treat up to 18,000 cu.m./day of wastewater. The tap water production capacity at the Krathum Baen plant can be expanded to 400,000 cu.m./day from the current capacity of 100,000 cu.m./day. TTW's service areas are Nakhon Pathom-Samut Sakhon, Rangsit-Pathum Thani, and BIE. Details are shown in Table 1.

KEY OPERATING PERFORMANCE

Table 1: TTW's Service Areas

Service Areas	Company	Plant(s)	Type of Contract	MOQ* (M ³ /Day)	Contract End	Water Resources
Nakhon Pathom-Samut Sakhon	TTW	Bang Len, Krathum Baen	Build-Own-Operate (BOO)	354,000	July 2034	Tha Chin River
Rangsit-Pathum Thani	PTW	Sam Khok	Build-Own-Operate-Transfer (BOOT)	358,000	October 2023	Chao Phraya River
BIE	TTW	BIE	Right (operating lease)	-	2039	BIE
BIE – wastewater	TTW	BIE	Right (operating lease)	-	2039	n.a.

* MOQ = minimum offtake quantity

Source: TTW

Table 2: Tap Water Sales by Service Area

Sales (Billion THB)	2017	2018	2019	2020	2021	9M21	9M22
Nakhon Pathom-Samut Sakhon	3.57	3.76	3.87	3.89	3.72	2.81	2.75
Rangsit-Pathum Thani	1.70	1.83	1.90	1.97	1.76	1.33	1.28
BIE	<u>0.20</u>	<u>0.21</u>	<u>0.22</u>	<u>0.20</u>	<u>0.20</u>	<u>0.15</u>	<u>0.15</u>
Total	5.47	5.80	5.99	6.06	5.68	4.29	4.18
Sales volume (mil. cu.m.)	290.1	312.7	323.9	327.1	299.4	227.4	212.4

Source: TTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Sep 2022	2021	2020	2019	2018
Total operating revenues	4,272	5,818	6,193	6,151	5,937
Earnings before interest and taxes (EBIT)	3,034	4,022	3,933	4,152	3,853
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,597	4,777	5,059	5,051	4,810
Funds from operations (FFO)	2,969	3,884	4,101	4,049	3,805
Adjusted interest expense	127	251	276	308	376
Capital expenditures	85	362	377	155	46
Total assets	20,763	22,504	22,842	23,158	23,330
Adjusted debt	4,299	4,932	5,878	7,070	7,722
Adjusted equity	13,957	14,195	13,700	13,125	12,365
Adjusted Ratios					
EBITDA margin (%)	84.20	82.12	81.69	82.11	81.02
Pretax return on permanent capital (%)	18.59 **	18.26	17.60	18.33	16.94
EBITDA interest coverage (times)	28.23	19.05	18.36	16.40	12.80
Debt to EBITDA (times)	0.91 **	1.03	1.16	1.40	1.61
FFO to debt (%)	90.59 **	78.75	69.77	57.27	49.28
Debt to capitalization (%)	23.55	25.79	30.02	35.01	38.44

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW255A: THB1,400 million senior unsecured debentures due 2025	AA-
TTW272A: THB1,000 million senior unsecured debentures due 2027	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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