

# WHA UTILITIES AND POWER PLC

No. 35/2019  
22 March 2019

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

**Last Review Date:** 18/05/18

### Company Rating History:

Date	Rating	Outlook/Alert
03/04/18	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on WHA Utilities and Power PLC (WHAUP) and its issue ratings at “A-”. The ratings reflect its status as a core subsidiary of WHA Corporation PLC (WHA; “A-/Stable”), Thailand’s leading developer of industrial estates and fully integrated logistics.

The ratings also take into consideration WHAUP’s position as the sole utility service provider in a number of large industrial estates in Thailand and neighboring countries, recurring income from its investment in power segment, and strong financial profile.

## KEY RATING CONSIDERATIONS

### A core subsidiary of WHA

WHAUP is a core subsidiary of WHA, responsible for utility services and the investments in the power segment. In 2018, WHAUP generated revenues of Bt1,871 million (22% of WHA’s total revenues) and Bt1,279 million in earnings before interest, tax, depreciation, and amortization or EBITDA (30% of WHA’s EBITDA).

Currently, the WHA Group holds a 74% interest in WHAUP. WHA has a significant influence over the strategic and financial policy decisions WHAUP makes. In addition, WHA Industrial Development PLC (WHAID) grants WHAUP a 50-year, exclusive right lease agreement. The agreement makes WHAUP the sole provider of utility services in WHAID’s existing industrial estates plus estates the WHAID will build in the future. The agreement covers Thailand and four neighboring countries: Cambodia, the Lao People’s Democratic Republic (Lao PDR), Myanmar, and Vietnam. The exclusive right lowers WHAUP’s operational risk as it builds barriers to entry in WHAUP’s service areas.

### Utility services segment shows strong growth

Revenue in the utility services segment is expected to grow mainly from the continued growth in petrochemical and power businesses as well as the expansion of WHA industrial estate in Vietnam. Moreover, the expansion to the non-WHA industrial estates and the new product innovation such as demineralized water and reclaimed water are in the negotiation process.

In 2018, revenue from the utility services segment grew by 5% from 2017 because revenue from five new Small Power Producer (SPP) power plants was recognized for their first full year after the commercial operation date. EBITDA in the utility services segment was Bt700-Bt800 million per year, accounting for 50%-60% of WHAUP’s EBITDA in 2016-2018. From 2019 to 2021, yearly revenue and EBITDA from the utility services segment are forecast at Bt1,900-Bt2,400 million and Bt900-Bt1,000 million, respectively.

### Reliable cash flows in the power segment

Predictable cash flows are from power projects with several strategic partners, all of which are well-known power companies. WHAUP owns equity stakes in several power producers which generate power under the Independent Power Producer (IPP), SPP, and Very Small Power Producer (VSPP) schemes. At present, WHAUP has 552 installed megawatts (MW), based on the ownership percentages of the joint projects. The capacity will rise to 570 MW by the end of 2019.

In 2018, the power projects paid Bt532 million in dividend to WHAUP, 42% of EBITDA. The dividends will continue to increase as more power projects open up in 2019-2021. Dividends are forecast to range between Bt1,500-Bt1,800 million per year.

### **Stable profitability**

The profitability of utility services segment is quite stable since selling prices are on a cost-plus basis. The operating margin of WHAUP ranged from 41%-45% during 2016-2018. This level is considered moderate compared with major utility companies because WHAUP purchased 80% of raw water from Eastern Water Resources Development and Management PLC (EASTW). The operating margin will hold at 41%-42% during the forecast period.

### **Leverage stays steady**

Leverage has fallen recently. Debt to capitalization in 2017 and 2018 was about 37%, down from 59% in 2016. The ratio dropped after a successful initial public offering (IPO) in April 2017. Nearly all (80%) of the IPO proceeds were used to repay debt. Total adjusted debt as of December 2018 was Bt8,333 million.

The company plans to broaden its scope of business in its two main lines of business: utility services and power. New products under discussion include new water solution (non-industrial estate product), municipal water, solar rooftops, waste to energy, and natural gas. The budget for capital expenditures and investments in power business will range from Bt1,900-Bt2,800 million per year during 2019-2021. However, the debt to capitalization ratio will hold around 37% over the next three years.

### **Manageable liquidity and debt serviceability**

WHAUP has ample liquidity and should be able to service its debts. There are no short term obligations coming due in 2019 but Bt4,000 million in outstanding debentures will mature in 2020. The primary source of funds is funds from operations (FFO). High EBITDA and acceptable financial leverage translate into satisfactory ability to service the outstanding debts. Refinancing, if needed, would be a secondary source of funds. WHAUP has reasonably easy access to external sources of funds because of its strong financial status and favorable performance.

### **BASE CASE ASSUMPTIONS**

- Revenues will grow by 9%-14% during 2019-2021 due to additional demand from new petrochemical and power projects.
- The operating margins before depreciation and amortization will be around 41% during the forecast period.
- Capital expenditures and investment will range from Bt1,900-Bt2,800 million per annum, based on WHAUP's information.

### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's belief that WHAUP will continue to receive reliable cash flows from the utility services segment and predictable dividends from the power projects.

### **RATING SENSITIVITIES**

As a core subsidiary of WHA, the ratings of WHAUP are aligned with WHA's credit profile. Any changes in WHA's credit rating, or relationship with WHA, will affect WHAUP's rating accordingly.

### **COMPANY OVERVIEW**

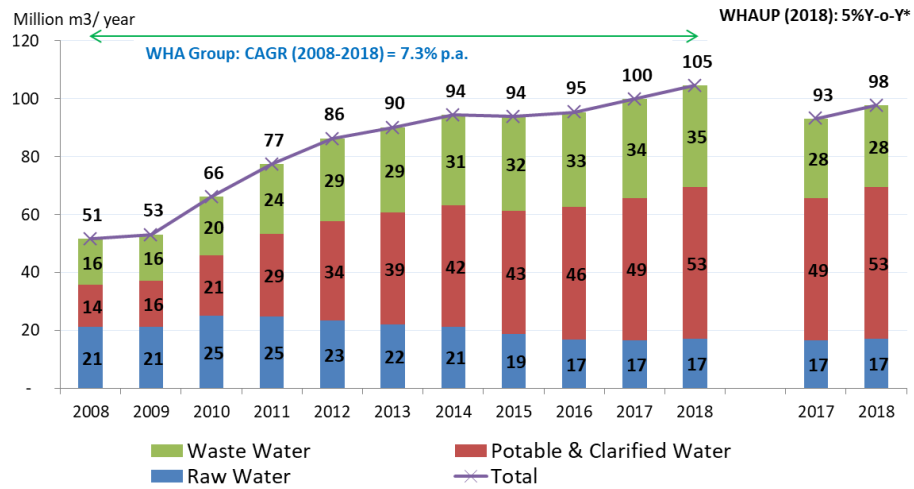
WHAUP, formerly named Hemaraj Clean Water Co., Ltd., was incorporated in 2008 to produce and distribute industrial water for use in industrial estates owned by WHAID (formerly named Hemaraj Land and Development PLC), a 98.5% owned subsidiary of WHA. In 2016, the utility and power segments of WHAID and WHA were transferred to WHAUP. Currently, WHAUP provides utility services such as supplying raw water and industrial water, as well as wastewater treatment and reclaimed water services, to customers within WHAID's industrial estates.

WHAUP supplies water in nine of WHAID's industrial estates covering Chonburi, Rayong, and Saraburi provinces. In 2018, WHAUP provided 16.9 million cubic meters (cu.m.) of raw water, 52.6 million cu.m. of industrial water, and 28.2 million cu.m. of wastewater treatment services.

In the power segment, WHAUP invested in several power projects with well-known power producers such as GLOW Energy PLC (GLOW), B. Grimm Power PLC (B. Grimm), Gulf Energy Development PLC (Gulf), and Suez S.A. (Suez). WHAUP holds stakes ranging between 5%-35% in IPP and SPP projects but holds stakes greater than 25% in VSPP projects.

**KEY OPERATING PERFORMANCE**

**Chart 1: Total Volume of Water and Waste Water**



Note: WHAID transferred the utility business to WHAUP in late March 2016,

\* WHAUP excluded wastewater treatment service at ESIE volume of which WHAUP received in form of management fees.

Sources: WHAID, WHAUP

**Table 1: WHAUP's Investment in Power Segment**

Project Name	Type	JV Partner	Location	Installed Capacities (MW)	WHAUP Portion	Equity MW	COD	
<b>Operating Phase</b>								
Gheco-1	IPP	Coal	Glow	Map Ta Phut IE	660	35.00%	231	Q3'12
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713	5.00%	36	Jan-03
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19	Sep-99
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31	May-13
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2	Jun-14 – Jan-15
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5	Apr – Jul-14
BGIWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33	Nov-16
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34	May-17
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Jul-17
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Sep-17
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Nov-17
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Jan-18
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32	Jan-19
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	1.8	100.0%	1.8	May'18-Feb'19
<b>Total</b>					<b>2,576</b>		<b>552</b>	
<b>Construction Phase</b>								
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	14.6	100.0%	14.6	Q1-Q3'19
CCE	VSPP	Waste-to-energy	Glow& Suez	WHA CIE 1	8.6	33.33%	2.9	Q4'19
<b>Total</b>					<b>23</b>		<b>17</b>	

Source: WHAUP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	-----Year Ended 31 December -----			
	2018	2017	2016	2015
Total operating revenues	1,871	1,768	1,559	853
Operating income	822	714	705	294
Earnings before interest and taxes (EBIT)	2,677	2,467	1,507	1,209
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,279	1,402	1,339	323
Funds from operations (FFO)	854	915	886	256
Adjusted interest expense	376	468	408	47
Capital expenditures	322	352	160	211
Total assets	23,773	21,378	18,652	11,593
Adjusted debt	8,333	7,624	10,537	1,179
Adjusted equity	14,049	12,577	7,419	10,100
<b>Adjusted Ratios</b>				
Operating income as % of total operating revenues (%)	43.94	40.41	45.19	34.46
Pretax return on permanent capital (%)	12.16	12.69	10.22	10.62
EBITDA interest coverage (times)	3.40	2.99	3.28	6.90
Debt to EBITDA (times)	6.51	5.44	7.87	3.65
FFO to debt (%)	10.25	12.01	8.41	21.70
Debt to capitalization (%)	37.23	37.74	58.68	10.45

**RELATED CRITERIA**

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

**WHA Utilities and Power PLC (WHAUP)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
WHAUP208A: Bt3,200 million senior unsecured debentures due 2020	A-
WHAUP208B: Bt800 million senior unsecured debentures due 2020	A-
WHAUP216A: Bt2,390 million senior unsecured debentures due 2021	A-
WHAUP236A: Bt1,290 million senior unsecured debentures due 2023	A-
WHAUP256A: Bt1,320 million senior unsecured debentures due 2025	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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