

ELECTRICITY GENERATING AUTHORITY OF THAILAND

No. 105/2024
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CORPORATES

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 26/06/23

Issuer Rating History:		
Date	Rating	Outlook/Alert
30/06/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Electricity Generating Authority of Thailand (EGAT) at “AAA”, with a “stable” rating outlook. The rating reflects our view of the government’s strong commitment to supporting EGAT in timely meeting its debt obligations, given its integral linkage with the government and its status as a major state-owned enterprise (SOE) playing a critical role in securing electricity supplies for Thailand. The rating also considers EGAT’s dominant position as the country’s largest power generator and sole owner of the high-voltage power transmission system in Thailand.

KEY RATING CONSIDERATIONS

Fully integral to the government

We view EGAT as integrally linked with the Thai government, given the government’s full ownership and control over EGAT. EGAT was established as a SOE under the EGAT Act B.E. 2511. It comes under the supervision of the Ministry of Energy (MOE) and the Ministry of Finance (MOF). The Cabinet approves its board of directors and governor.

We view the government will continue to control and monitor EGAT’s operations and financial position in the foreseeable future. EGAT’s business strategy and funding plan are overseen by government agencies to ensure alignment with the government’s policies.

EGAT’s statutory status underlines the almost certain likelihood of extraordinary government support in a distress scenario. Under the EGAT Act, the Thai government commits to providing extraordinary support if EGAT’s revenue is insufficient to cover its expenses, including interest expenses and debt repayments.

Maintain critical role amidst disruptive changes

EGAT continues to maintain its critical status as the sole SOE responsible for sourcing electricity supplies for the nation, via its owned power plants and purchasing from private power generators, domestically and abroad. That said, the power industry has experienced gradual transformation, which could be disruptive to EGAT’s operations over the long term. Trends such as rapid digital technology development and deregulation are likely to shift the industry from an enhanced single buyer model to more widely distributed power generation. The draft of the new Power Development Plan (PDP2024) also highlights a substantial increase in renewable energy capacity and greater private sector participation in power generation.

Despite the ongoing changes in Thailand’s power industry, we expect EGAT to maintain its critical role in ensuring sufficient electricity supply, as well as carrying out the country’s power policy. We expect EGAT will also be vital in supporting the country’s decarbonization mission. Moreover, EGAT’s mission prioritizes on grid modernization to respond to volatile power supply from renewable energy and provide backup capacity to ensure the stability of the national power supply system. We also expect EGAT’s business scope to be potentially widened, as it is exploring business opportunities to support future energy transitions such as hydrogen technology, solar panel and battery recycling, as well as carbon capture, utilization, and storage.

Dominant position in power market

We expect EGAT will maintain its dominant position in the domestic power market, given its largest shares of power generation and its status as the sole transmission service provider. At the end of March 2024, the contracted capacity in EGAT's grid was 50,801 megawatts (MW). EGAT owned and operated 53 power plants with a total capacity of 16,261 MW, representing 32% of the total capacity in EGAT's grid. The remainder of 34,540 MW was purchased from private power producers in Thailand (55.7%) and imported from the Lao People's Democratic Republic (Lao PDR) and Malaysia (12.3%).

EGAT sells about 71% of the generated and procured electricity to Provincial Electricity Authority (PEA) (rated "AAA/Stable") and 27% of electricity to Metropolitan Electricity Authority (MEA) (rated "AAA/Stable") through the national transmission network (national grid), which is solely owned and operated by EGAT.

Advantageous tariff structure

EGAT benefits from electricity tariff which is structured to cover investment costs while providing an appropriate return on investments in power plants and transmission infrastructure. The tariff structure incorporates a fuel adjustment charge (Ft) mechanism, enabling EGAT to pass through fuel costs and electricity procurement expenses to end-users. The Energy Regulatory Commission (ERC) oversees tariff regulation, approving and publishing the Ft every four months.

The ERC exercises discretion in determining the timing and magnitude of Ft adjustments for end-users, which may deviate from the calculated Ft under the established tariff structure. Therefore, EGAT's cash inflows from electricity sales may not align with fuel expenses incurred during the same period. The cash received from selling electricity could be less than EGAT's revenue if ERC delays its adjustment of Ft to end-users during a period of rising fuel prices, and vice versa.

Steady improvement in financial position and liquidity

EGAT's financial position and liquidity have strengthened, following the ERC's tariff adjustment in 2023, which enabled EGAT to start collecting its considerable accrued Ft revenue. As a result, EGAT's accrued Ft revenue, reflecting accumulated electricity subsidies since 2021, decreased to about THB101 billion at the end of March 2024 from a peak of THB150 billion at the end of 2022. This enabled EGAT to repay its loans previously incurred to support its liquidity position. As of March 2024, EGAT's adjusted net debt fell to THB421 billion. The debt to capitalization ratio dropped to 42%.

TRIS Rating assesses that the current Ft reflects the ERC's intention to gradually reduce EGAT's huge subsidy load, while also minimizing impact on consumers. From January to August this year, the Ft surcharge for retail electricity price has been consistently set at 39.72 satang per kilowatt-hour (kWh). Part of this is appropriated for EGAT's reimbursement.

We project EGAT's financial position to continue to improve in anticipation of regulatory tariff adjustment that aligns with fuel price changes and maintains the compensation to EGAT. However, we note that the pace of accrued Ft revenue collection is subject to the government's discretion on tariff adjustment amidst several downside risks of the economy. Our base-case forecast assumes fuel cost to continue softening while the Ft and electricity tariff should be adjusted accordingly. We conservatively assume a slower pace of collecting accrued Ft revenue. We project EGAT's accrued Ft revenue to gradually decrease, leading to improved cash inflows and enhanced liquidity over the medium term. The debt to capitalization ratio should reduce further to 30%-35% by 2026.

Reviving credit metric

EGAT's cash flow from operation turned positive in 2023 after the collection of accrued Ft revenue began. EGAT arrived at THB153.6 billion in EBITDA, suggesting a 9% increase year-over-year (y-o-y). Over the first quarter of 2024, EBITDA grew by 14.7% y-o-y to THB41 billion. EGAT's financial leverage was also restored, with the debt to EBITDA ratio (annualized with trailing 12 months) decreasing to 2.7 times at the end of March 2024 from 3.3 times at the end of 2022.

We anticipate EGAT's EBITDA to continue benefiting from a 2.5%-3% growth of electricity consumption in Thailand over 2024-2026. We forecast EBITDA to range between THB140-THB150 billion per year over the period. EGAT's capital expenditure is revised with a much lower amount than our previous assessment. We anticipate further improvement in EGAT's debt to EBITDA ratio, dropping to below 2 times by 2026.

Prudent financial policy

EGAT's conservative financial policy largely helps in sustaining financial stability. It has a policy to maintain a minimum cash balance of THB45 billion and has internal guidelines to ensure financial discipline. EGAT also has internal guidelines to ensure financial disciplines, for instance, maintaining a debt to equity ratio of less than 1.5 times, a self-financing ratio of more than 25%, and a debt service coverage ratio of more than 1.5 times.

Ample liquidity

We assess EGAT as having ample liquidity. As of March 2024, its sources of liquidity comprised large amounts of cash on hand and cash equivalent of THB185.5 billion and forecasted funds from operations (FFO) of around THB97 billion over the next 12 months. These should enable EGAT to comfortably meet near-term debt obligations, including short-term loans, of THB57.3 billion.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for EGAT's operations during 2024-2026 are as follows:

- Domestic electricity consumption to grow by 2.5%-3% per annum.
- EGAT's annual sales volume to range about 210,000 gigawatt-hour (GWh) to 221,000 GWh.
- Average electricity tariff for MEA and PEA to decrease and range THB3.1-THB3.27 per kWh.
- EBITDA margin to range between 3.3%-4.0%.
- Capital expenditures and investment to be about THB168 billion, of which THB108 billion to be spent by EGAT, and the rest by its subsidiaries.

RATING OUTLOOK

The "stable" outlook reflects our expectation that EGAT will continue its critical role in Thailand's power industry. As such, we expect EGAT to obtain extraordinary support from the government in times of stress.

RATING SENSITIVITIES

We could lower the rating on EGAT if we see any adverse regulatory change, that substantially reduces EGAT's role in the Thai power industry or weakens its linkage with the government. We view the likelihood of such a scenario is remote.

ORGANIZATION OVERVIEW

EGAT was established in 1969, under the EGAT Act B.E. 2511, through the merger of the three SOEs responsible for supplying electricity in the country. Currently, EGAT is an SOE under the supervision of the MOE and the MOF.

EGAT is responsible for securing electricity supplies for the whole country. At the end of March 2024, EGAT owned and operated 53 power plants, with a total capacity of 16,261 MW, accounting for 32.0% of the total capacity in EGAT's grid. The remaining 68.0% was produced by private power producers or imported from neighboring countries, who sell electricity to EGAT under the enhanced single buyer model used in the Thai power industry.

EGAT's current strategic plan aligns with the National Strategy Plan, National Energy Plan, and Power Development Plan. The strategic plan was reviewed by the State Enterprise Office (SEO) under the MOF. EGAT's capital expenditures and investment plans require approval from the MOE, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. EGAT's debt service and borrowing plan must be submitted to the Public Debt Management Office (PDMO), under the MOF.

KEY OPERATING PERFORMANCE

Table 1: EGAT's Electricity Generation Capacity Breakdown

Unit: MW

	Mar 2024	2023	2022	2021	2020	2019
EGAT's own plants	16,261	16,237	16,920	16,082	16,037	15,131
Purchase from						
IPP	18,974	17,649	16,749	15,498	14,249	14,949
SPP	9,331	9,483	9,195	9,381	9,474	9,498
Import	6,235	6,235	6,235	5,721	5,721	5,721
Total purchase	34,540	33,367	32,179	30,600	29,444	30,168
Total generation capacity	50,801	49,604	49,099	46,682	45,481	45,299
% of total						
EGAT's own plants	32.0	32.7	34.5	34.4	35.3	33.4
Purchase from						
IPP	37.3	35.6	34.1	33.2	31.3	33.0
SPP	18.4	19.1	18.7	20.1	20.8	21.0
Import	12.3	12.6	12.7	12.3	12.6	12.6
Total purchase	68.0	67.3	65.5	65.6	64.7	66.6
Total generation capacity	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

Table 2: EGAT's Customer Breakdown

Unit: GWh

	Jan-Mar 2024	2023	2022	2021	2020	2019
PEA	37,100	145,380	140,680	136,266	131,558	134,607
MEA	14,302	55,483	53,369	51,323	52,344	55,002
Others	1,847	2,905	2,641	2,639	3,463	3,729
Total sales	53,249	203,768	196,690	190,228	187,365	193,338
% of total						
PEA	69.7	71.4	71.5	71.6	70.2	69.6
MEA	26.9	27.2	27.1	27.0	27.9	28.4
Others	3.4	1.4	1.4	1.4	1.9	2.0
Total sales	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	184,594	746,844	809,372	559,847	513,104
Earnings before interest and taxes (EBIT)	28,056	95,949	89,627	79,124	65,669
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	40,965	153,621	141,035	126,757	115,784
Funds from operations (FFO)	29,031	107,664	98,447	90,503	80,437
Adjusted interest expense	11,463	44,577	40,425	35,862	35,250
Capital expenditures	6,383	31,598	29,410	33,866	46,794
Total assets	1,400,063	1,331,144	1,324,758	1,100,517	994,763
Adjusted debt	421,312	403,027	466,908	360,134	312,979
Adjusted equity	586,063	568,684	549,583	509,004	488,141
Adjusted Ratios					
EBITDA margin (%)	22.2	20.6	17.4	22.6	22.6
Pretax return on permanent capital (%)	8.5 **	8.5	8.7	8.7	7.5
EBITDA interest coverage (times)	3.6	3.4	3.5	3.5	3.3
Debt to EBITDA (times)	2.7 **	2.6	3.3	2.8	2.7
FFO to debt (%)	26.6 **	26.7	21.1	25.1	25.7
Debt to capitalization (%)	41.8	41.5	45.9	41.4	39.1

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Electricity Generating Authority of Thailand (EGAT)

Issuer Rating:	AAA
Rating Outlook:	Stable

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