

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 111/2019
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FINANCIAL INSTITUTIONS

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 09/07/18

Issuer Rating History:

Date	Rating	Outlook/Alert
17/07/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA) at “AAA”. The rating reflects NEDA’s status as a Thai government entity, carrying out government policies concerning economic development efforts in cooperation with neighbouring and other countries. NEDA receives on-going financial support from the Thai government, in the form of subsidies, as part of its ordinary operations. In TRIS Rating’s opinion, in the event of financial distress, the likelihood of NEDA receiving extraordinary support from the government is a near certainty.

KEY RATING CONSIDERATIONS

A government-related entity (GRE)

NEDA’s issuer rating reflects its status as a government-related entity. TRIS Rating believes the Thai government will provide timely support to NEDA when needed. This level of support reflects NEDA’s strong link with the government and its strategic importance in carrying out foreign economic policies.

The strong link with the government reflects NEDA’s status as a 100% state-owned government agency and various forms of the government supports it receives. We therefore foresee a very low possibility that NEDA will be privatised. This also reflects the country’s public debt status of NEDA’s debt.¹ An event of default by NEDA would be a major detriment to the reputation of the government. Under the public debt management plan, NEDA needs government approval to borrow additional funds. Although the government does not provide an explicit guarantee of NEDA’s debt, we believe the government will support NEDA when needed.

NEDA serves as a strategically important agency in carrying out the government policies. It acts on behalf of the Thai government in promoting joint economic development with neighbouring and other countries. Its role thus has a direct bearing on the government’s reputation. Moreover, it is unlikely that NEDA’s role will be performed by a private entity. NEDA is not designed to engage in profit-driven transactions; it does not provide financial or technical assistance on a commercial basis.

On-going government supports underpin earnings

TRIS Rating expects NEDA to continually receive various forms of on-going government supports. NEDA requires and receives operational subsidies from the government. Funding from state-owned special-purpose financial institutions (SFIs) is available to NEDA under preferential terms. Most loan agreements underlying NEDA’s borrowings offer flexible repayment terms and contain a government-support clause.² NEDA pays no taxes.

NEDA’s profit and loss statement treats government subsidies as revenue. This may prevent a meaningful comparison of its operating performance with other financial institutions. Moreover, as a non-profit organisation providing grants

¹ According to the Public Debt Management Office’s website: www.pdmo.go.th

² With a government-support clause, NEDA can request additional government subsidies to meet its debt obligations, should any of its borrowers default.

and soft loans with low interest rates, NEDA is not expected to generate a profit. The subsidies NEDA receives reflect government policy as well as NEDA's future funding needs and cash balances.

From 2016 to 2018 fiscal years (FY), the government subsidies made up around 80% of NEDA's total revenue. Net interest income comprised nearly all of the balance. NEDA's major expenditures were financial grants and expenses from the provision of technical assistance, in addition to staff costs and general operating expenses.

Leverage to remain low

Because of the support from the government, TRIS Rating foresees no impact on NEDA's rating even as leverage rises over the next three years. NEDA still has room to raise its leverage before its debt-to-equity ratio meets an internal limit of 0.5 times. NEDA has relatively low leverage at present. The ratios of equities to total assets and debt to equity were, respectively, 82% and 0.2 times at the end of September 2018³. Debt funding largely comprises borrowings from SFIs. A few portions are from commercial lenders.

Liquidity risk will remain low, in our view, thanks to the government supports and NEDA's highly predictable cash flows. NEDA can obtain the government funding from the Ministry of Finance (MOF) as a source of liquidity, when needed as well. NEDA's plan to issue bonds to refinance some of its existing debts will also help mitigate maturity mismatch over the next three years.

Reasonably successful mission

NEDA has a distinct niche providing financial and technical assistance for basic infrastructure projects to neighbouring and other countries. It has been reasonably successful based on the size and growth rates of its balance sheet, in our opinion. As of 31 September 2018, total assets were Bt8,721 million. Total loans outstanding amounted to Bt8,327 million, having grown at a compound annual growth rate (CAGR) of 11.3% over a five-year period. Total funding, including shareholders' equity, was Bt8,708 million, expanding at a CAGR of 12.3% over the same period⁴.

In the future, NEDA expects to better meet the different needs of each recipient country by increasing choices of its offerings. This may include more variety of loan products, different areas to provide technical assistance, and mutual forms of cooperation, such as public-private partnerships (PPP).

Government support limits asset quality risk

TRIS Rating foresees no impact on NEDA's rating from its high credit concentration risk in the next three years. NEDA has a limited number of borrowers. As of September 2018, its borrowers comprised the governments of the Lao People's Democratic Republic (Lao PDR) (92% of total loans) and Cambodia (8%)⁵. NEDA has never experienced any credit loss, nor set aside any loan loss provisions.

We believe the government provides NEDA with sufficient supports against potential credit losses. All NEDA's loans supported government policies and required approval from the Cabinet. Documents supporting approval of each project contains a clause, which permits NEDA to request the government subsidies to meet its debt obligations, should any of its borrowers default. However, without government support, NEDA will suffer a major deterioration in asset quality should the credit profiles of these borrowers weaken.

The management is well aware of the high loan concentration risk and will seek to gradually diversify NEDA's exposure, in our view.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that NEDA will maintain its status as a public organisation under the law. NEDA will continue its role as a government body, carrying out the government policies, with on-going financial support from the government as needed.

³ Based on unaudited financial statements as of 31 December 2018, these values remained the same.

⁴ Based on unaudited financial statements as of 31 December 2018, total asset size, total loans outstanding, and total funding were, respectively, Bt8,453 million, Bt8,296 million, and Bt9,315 million.

⁵ NEDA's loan portfolio consisted entirely of all long-tenor unsecured term loans with fixed repayment schedules. The principal repayment periods ranged 20-30 years. These loans charged fixed lending rates not exceeding 2.5% per annum.

RATING SENSITIVITIES

The credit rating and/or outlook of NEDA could change if our view on the importance of NEDA's role changes with respect to the government's foreign economic policy, or if the support it receives from the government changes

OVERVIEW

NEDA was established on 17 May 2005 under the Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548, announced in the Royal Gazette, Volume 122, Part 39A, dated 16 May 2005.

NEDA is a public agency which, according to the Public Organisation Act, B.E. 2542, has its organisational objective as providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and function of NEDA are stipulated in Section 7 of the Royal Decree. They are: 1) to provide neighbouring countries and other countries with financial and technical assistance; 2) to cooperate with neighbouring countries in economic development; 3) to conduct studies and provide recommendations on cooperation policies and measures; and 4) to coordinate with concerned organisations to integrate cooperation. Financial assistance typically takes the form of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects.

Structurally, NEDA is under the supervision of the MOF. Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives from the government agencies that are directly involved in joint economic cooperation with neighbouring and other countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed by the government. The NEDB oversees implementation of the cooperative efforts.

NEDA primarily relies on the government subsidies to fund its operations. The financial and technical assistance to neighbouring and other countries are provided on a non-commercial basis, and NEDA is not designed to engage in profit-driven transactions. As a result, NEDA is not designed to financially operate on its own independence from the government. Although the government does not provide guarantees to back up NEDA's obligations, NEDA's debt constitutes part of the country's public debt. All of NEDA's borrowings require the government approval.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Fiscal Year Ended 30 September -----				
	2018	2017	2016	2015	2014
Total assets	8,721	8,509	7,936	7,252	6,888
Average assets	8,615	8,222	7,594	7,070	6,825
Investment in securities	56	51	101	138	691
Loans and receivables	8,359	8,122	7,499	6,748	5,685
Borrowings and interest payables	1,533	1,290	792	830	848
Shareholders' equities	7,182	7,217	7,134	6,414	5,966
Average equities	7,200	7,175	6,774	6,190	5,855
Total revenue	180	327	1,033	755	585
Net interest income	96	99	103	97	107
Revenue from government subsidies	78	227	929	656	475
Gains (losses) on investment in joint ventures	5	0	(2)	(3)	0
Other operating income	1	1	4	5	3
Expenses related to grants, subsidies, and technical assistance	153	187	253	241	304
Operating expenses	63	57	60	67	60
Net profit	(35)	83	720	448	221

Unit: %

	----- Year Ended 30 September -----				
	2018	2017	2016	2015	2014
Earnings					
Return on average assets	(0.41)	1.01	9.48	6.33	3.24
Return on average equities	0.00	1.16	10.63	7.23	3.77
Net interest margins	1.11	1.20	1.35	1.37	1.56
Government subsidy/total revenue	43.34	69.53	89.91	86.86	81.30
Net interest income/total revenue	94.03	99.06	98.36	97.25	97.51
Gains on trading/total revenue	4.52	0.00	(1.95)	(2.55)	0.00
Other income/total revenue	1.45	0.94	3.59	5.30	2.49
Operating expenses/total revenue	34.89	17.47	5.77	8.86	10.23
Capitalisation					
Shareholders' equity/total assets	82.35	84.82	89.89	88.44	86.61
Shareholders' equity/total loans	86.25	89.22	95.47	95.38	105.29
Funding & Liquidity					
Total loans/total assets	95.48	95.07	94.15	92.73	82.26
Liquid assets/total assets	3.96	4.44	5.38	6.76	17.14

RELATED CRITERIA

- Rating Methodology – Government-Related-Entity, 6 June 2017

Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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