TRIS RATING
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PROVINCIAL ELECTRICITY AUTHORITY

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CORPORATES

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 01/12/23

Issuer Rating History:

Date	Rating	Outlook/Alert
21/01/19	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Provincial Electricity Authority (PEA) at "AAA" with a "stable" rating outlook. The rating continues to reflect PEA's status as a major state-owned enterprise (SOE), which has integral linkage with the government and plays a critical role in distributing electricity across Thailand. We view there is a near-certain likelihood that PEA will receive necessary government support in times of need. The rating also considers PEA's stable earnings from electricity distribution, investment cost recovery through a regulated tariff structure and compensation mechanism, and its prudent financial policy.

KEY RATING CONSIDERATIONS

Integral linkage with government

We assess PEA as being integrally linked to the government. Established as a SOE under the PEA Act B.E. 2503, PEA is wholly owned by the government through the Ministry of Finance (MOF) and operates under the supervision of the Ministry of Interior (MOI). The government exerts substantial influence over PEA's business and financial strategies, with the cabinet responsible for appointing the board of directors and the governor.

Additionally, key government agencies are involved in approval processes for PEA's plans. The State Enterprise Policy Office (SEPO) under MOF reviews PEA's strategic plan, while PEA's capital expenditure and investment plans require approval from MOI, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. Additionally, the Public Debt Management Office (PDMO) under MOF monitors PEA's debt service and borrowing plans.

Given the inherent link, we anticipate that PEA will continue to receive strong support from the government. The PEA Act B.E. 2503 also stipulates that the government will support PEA to ensure it meeting all expenses, including interest expenses and debt repayments.

Critical role in power distribution across Thailand

PEA is one of the two SOEs responsible for distribution of electricity to end users in Thailand. PEA operates in 74 provinces, while the Metropolitan Electricity Authority (MEA) oversees electricity distribution for Bangkok, Samut Prakan, and Nonthaburi. PEA is accountable for distributing around 75% of the electricity consumed in Thailand.

In 2023, PEA's service area covered roughly 510,000 square kilometers, serving approximately 22 million users. The authority distributed 148,976 gigawatt-hours (GWh) of electricity to end users, generating revenue of THB660 billion. PEA primarily sources its electricity from Electricity Generating Authority of Thailand (EGAT), which provides about 93% of its supply, with the remaining 7% coming from private power producers under the very small power producer (VSPP) scheme.

Protected investment returns through favorable tariff structure

PEA's financial strength is supported by favorable tariff structure. The Energy Regulatory Commission (ERC) oversees the Thai electricity tariff structure to ensure cost recovery and suitable returns on investments for three key SOEs, EGAT, PEA, and MEA. To manage any discrepancies in returns, compensation and clawback mechanisms are implemented, aligning these SOEs' year-end financial outcomes with ERC's criteria.

From 2024 to 2026, PEA plans to invest approximately THB36-THB42 billion annually. These funds will primarily be used to expand the distribution network, enhance network reliability, and upgrade electrical systems in major cities in preparation for smart grid implementation.

Cost pass-through mechanism stabilizes margins

Thailand's electricity tariff structure incorporates a fuel charge adjustment mechanism (Ft), which allows PEA to pass on the costs of purchasing electricity from EGAT to end users. This mechanism ensures that PEA can maintain consistent margins between the selling price and the purchase cost of electricity. From 2018 to 2023, this margin remained stable, ranging between THB0.56 and THB0.61 per kilowatt-hour (kWh).

Strong demand growth for electricity continues

In 2024, PEA's operations continued to benefit from robust growth in electricity demand across Thailand. The demand growth in 2024 has been primarily fueled by the ongoing economic recovery, and extreme summer weather. During the first nine months of 2024, PEA's electricity sales increased by 5.36% to 118,312 GWh. That said, total revenue for the same period was THB513 billion, reflecting a 4.8% year-on-year (y-o-y) decline, mainly due to lower electricity tariffs following a decrease in the Ft and energy prices.

Going forward, we expect Thailand's electricity demand to rise steadily, driven by several factors such as urbanization, industrial expansion, the revival of tourism industry, and growing use of electric vehicles. We project PEA's electricity sales to grow by 4.5%-5% in 2024 and maintain an annual growth rate of 2.8%-3.0% during 2025-2026.

High earnings from compensation revenue

PEA's cash flow and earnings are projected to be exceptionally high in 2024, largely due to significant revenue compensation. In August 2024, the ERC approved the final financial assessment of PEA's year-ended operations in 2022 and approved to the transfer of THB6.85 billion to compensate for earnings that fell below the criteria. This compensation, along with robust electricity sales, significantly boosted PEA's earnings, with EBITDA increasing to THB50.3 billion for the first nine months of 2024, representing a 59% y-o-y growth.

In our base-case scenario, we anticipate PEA's annual EBITDA to range between THB60-THB63 billion in 2024, before decreasing to THB55-THB58 billion in 2025-2026. An upside to PEA's earnings in 2025 could arise from potential revenue compensation based on the financial assessment of its 2023 operations, which has not yet been included in our projections. PEA's critical role in implementing government's measures to reduce electricity costs for residential users is expected to have no significant impact on its financial standing as the respective costs will be fully reimbursed.

Disruptive risks from self-generated electricity and free electricity trading

We view the rising trend of prosumers, end-users that can both consume and produce electricity, to continue posing risk for PEA's long-term business prospects. This shift has been accelerated by the decreasing costs of solar panels and national policy shift towards green energy and private power generation. If future regulatory changes enable free trade of electricity among prosumers, PEA could face reduced demand for its distribution services, potentially impacting its financial strength.

However, this risk is to some extent addressed by PEA's business diversification plan. PEA is developing new businesses and services to align with the prosumer trend. These include load aggregator services, wheeling charges for using PEA's grid, and backup electricity fees for prosumer groups.

Prudent financial policy with stronger financial profile

We expect PEA to uphold prudent financial policies to support its financial stability and liquidity. These include keeping the debt to equity ratio below 1.5 times, self-financing ratio above 25%, and debt service coverage ratio over 1.5 times. Additionally, PEA adheres to an internal policy of accumulating cash reserves to cover debt repayments coming due in the next three years.

As of September 2024, PEA's credit metrics indicate stronger debt servicing capabilities and capital structure with a debt to EBITDA ratio reduced to 2.6 times and debt-to-capitalization ratio hanging at around 45%.

PEA's liquidity is adequate, considering its large cash reserve and solid cash flow, which is higher than its debt repayment obligation over 2024-2026. The liquidity is backed by its cash and cash equivalents totaling THB11.6 billion at the end of September 2024, a sinking fund for debt repayments of THB12.4 billion, and undrawn bank credit lines of THB3 billion. We estimate PEA's funds from operations (FFO) to be about THB50-THB55 billion per year in 2024-2026, sufficiently covering its debt obligations of around THB13-THB14 billion per year over the same period.

BASE-CASE ASSUMPTIONS

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

- Annual growth rate of electricity sales of 4.5%-5.0% in 2024 and 2.8%-3.0% in 2025-2026.
- EBITDA to range from about THB60-THB63 billion in 2024, and THB55-THB58 billion per annum during 2025-2026.
- Total capital expenditure of about THB36-THB42 billion per annum.
- Total debt to capitalization ratio to stay in the 40%-45% range.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PEA will continue its critical role in distributing electricity to provincial areas of the country, and its integral linkage with the government will remain unchanged in the foreseeable future.

RATING SENSITIVITIES

Although very unlikely, a downgrade scenario may arise if we see PEA's role as the country's sole provincial electricity distribution erode or weakening linkage with the government.

ORGANIZATION OVERVIEW

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission of the Provincial Electricity Organization. PEA's goal is to electrify households throughout the country and satisfy the electricity needs of the industrial and business segments, as part of the overall aim of strengthening the national economy. PEA is an SOE under the supervision of the MOI.

PEA plays a critical role in distributing electricity to end users in provinces other than Bangkok, Samut Prakan, and Nonthaburi. PEA's area of responsibility covers 510,000 square kilometers across 74 provinces. PEA has about 22 million users connected to its distribution network. PEA buys electricity mainly from EGAT (93%) and private power producers under the VSPP scheme (7%).

In 2023, PEA's main customers were large general service users, accounting for about 38% of its total electricity sales. Residential users accounted for 28% of total sales, while the remaining 34% were sales to users in the small and medium general services, specific business services, non-profit organizations, agricultural pumping, temporary services, stand-by, plus interruptible and free electricity segments.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024		------------Year Ended 31 December ---------- 2023	2022	2021	2020
Total operating revenues	514,052		689,593	606,544	509,442	489,528
Earnings before interest and taxes (EBIT)	26,989		18,930	15,494	17,432	13,012
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	50,266		47,216	41,971	42,289	36,652
Funds from operations (FFO)	46,279		42,088	37,479	38,301	33,286
Adjusted interest expense	3,984		5,128	4,491	3,978	3,374
Capital expenditures	35,519		51,780	53,698	50,259	49,545
Total assets	587,506		545,464	524,876	486,580	456,596
Adjusted debt	172,255		165,450	146,966	129,067	113,365
Adjusted equity	207,064		194,970	188,773	185,658	173,775
Adjusted Ratios						
EBITDA margin (%)	9.8		6.8	6.9	8.3	7.5
Pretax return on permanent capital (%)	9.2	*	5.2	4.5	5.5	4.6
EBITDA interest coverage (times)	12.6		9.2	9.3	10.6	10.9
Debt to EBITDA (times)	2.6	*	3.5	3.5	3.1	3.1
FFO to debt (%)	35.0	*	25.4	25.5	29.7	29.4
Debt to capitalization (%)	45.4		45.9	43.8	41.0	39.5

* *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

Issuer Rating:	AAA
Rating Outlook:	Stable

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