

METROPOLITAN ELECTRICITY AUTHORITY

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CORPORATES

Company Rating: AAA
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on Metropolitan Electricity Authority (MEA) at “AAA” with a “stable” rating outlook. The rating reflects MEA’s important role as a state-owned enterprise responsible for distributing electricity in Thailand’s metropolitan area, robust demand from its service areas, and reliable cash flow under the cost-plus tariff structure. The rating also takes into consideration MEA’s strong financial profile, conservative financial policy, and support from the government.

KEY RATING CONSIDERATIONS

Critical role of distributing power in Thailand’s metropolitan area

MEA is a state enterprise under the supervision of the Ministry of Interior. MEA is responsible for distributing electricity to the retail markets in three major provinces, comprising Bangkok, Samut Prakan, and Nonthaburi. The key mission of MEA is to ensure the reliability of the power distribution system in Bangkok and its vicinity, which accounts for 27% of total electricity consumption in the country. MEA also performs a role in support of government policies in relation to the development of the national electricity system.

MEA’s strong business profile is derived from its important role in Thailand’s electricity distribution system. Except for some industrial areas, electricity in Thailand is distributed mostly by the two state enterprises namely MEA and Provincial Electricity Authority (PEA). MEA’s coverage area includes Bangkok and two nearby major provinces mentioned above. PEA covers the remaining 74 provinces.

In 2019, MEA’s service areas covered about 3,192 square kilometers. The authority operates a distribution network with a line-length of 54,209 circuit-kilometers. MEA’s revenue was THB204 billion and the sold electricity amounted to 53,345 gigawatt-hours (GWh). MEA purchases almost all of its electricity from the Electricity Generating Authority of Thailand (EGAT).

Benefits from servicing the metropolitan area

MEA’s business profile largely benefits from the robust demand of electricity in the metropolitan area. MEA’s power distribution volume is substantial and has grown consistently for over a decade. The distributed electricity increased to 53,304 GWh in 2019 from 41,733 GWh in 2009, representing an annual growth rate of about 2.4%. The consistently strong electricity demand ensures stable revenue and the predictability of future income.

The rating considers the large number of consumers and diversified customer types as a positive factor in supporting revenue stability. In 2019, MEA recorded approximately 3.91 million customers, a figure which grew by about 3% per year during 2009-2019. MEA also benefits from high selling price of electricity due to population density and higher-than-average electricity consumption per user.

Stable earnings from cost-plus tariff structure

MEA operates under a regulatory framework that limits uncertainty from electricity costs. Electricity tariffs in Thailand are regulated by the Energy Regulatory Commission (ERC). The structure of electricity tariffs is designed to cover essential investments, to ensure quality in electricity systems and, at the same time, to fund the operations of the three power-related state

enterprises, EGAT, PEA, and MEA. The tariff structure incorporates a variable adjustment mechanism or Ft that passes any changes in electricity costs to the end consumers. The Ft adjustment is revised every four months and may have some lag time.

MEA's spread between the selling and the purchasing prices of electricity is relatively steady and adequately meets its operating expenses. During 2015-2019, MEA's spread was in the range of THB0.90-THB1.00 per kilowatt-hour (kWh). The spread is higher than PEA as MEA's customers have higher electricity consumption than those of PEA on average and almost 100% of electricity is sourced from the low-cost power generator, EGAT.

Regulated return caps profitability

MEA has an obligation to transfer surplus revenues to ensure its financial status meets regulatory requirements. The ERC plays an important role in this regulatory mechanism, stipulating the return on invested capital MEA and PEA should receive. Normally, MEA's investment generates a significantly higher return than PEA's, given the density of economic activities in the metropolitan area. The regulator therefore requires a revenue contribution from MEA to reinforce the operations of PEA so that both entities satisfy the financial conditions set by the ERC. Any excess after the cross-subsidy is used for the benefit of electricity users in the form of a Ft reduction or to support government measures.

During 2015-2019, the revenue contribution transferred from MEA to PEA was THB14-THB20 billion per year, which limited MEA's margin of earnings before interest, tax, depreciation and amortization (EBITDA) to 10%-11%.

Temporary earnings drop due to clawback from ERC

TRIS Rating expects MEA's earnings and profit margin to decline temporarily in 2020. This is due mainly to the impact of ERC's resolution in January 2019 to retroactively call back revenue contributions from MEA after reassessing its financial status for the period 2014-2017. The clawback will result in a reduction in earnings of around THB4.19 billion in 2019 and THB3.89 billion in 2020. We expect the profit margin and EBITDA will recover to normal levels from 2021 onwards.

Strong financial profile

TRIS Rating expects MEA's financial leverage to gradually rise after taking into account the planned capital spending. During 2020-2022, budgeted capital expenditure is projected to total approximately THB73.5 billion, about 60% of which will be financed by debt instruments. The capital spending is primarily earmarked for expansion and improvement of the power distribution system and for the replacement of overhead lines by underground cables.

TRIS Rating expects MEA's financial profile to remain at a strong level over the forecast period. In our projection, we project MEA's EBITDA to drop to THB15 billion in 2020 due largely to lower sale volumes as affected by the COVID-19 pandemic and the ERC's clawback of excess revenues. After that the EBITDA is projected to rise to THB20-THB22 billion per year during 2021-2022. The net debt to EBITDA ratio is expected to stay below 3 times.

Conservative financial policy

MEA has a prudent financial policy, 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.

MEA's liquidity is well-managed, assessed from a prudent cash reserve policy. MEA has established a sinking fund for the purpose of bond repayments. MEA has set aside a debt service reserve for the next three to four years. MEA also makes deposits for specific purposes such as for an electricity usage guarantee, employee gratuity funds, and revenue contributions.

Little liquidity impact from the COVID-19 outbreak

We assess MEA to have adequate liquidity to support the government's electricity relieve measures to alleviate economic hardship caused by the COVID-19 outbreak. The liquidity need to support the measures is estimated to amount about THB22 billion.

The electricity relieve measures involve the refund of the electricity usage guarantee, estimated at THB13 billion. We expect the cash outflow from this measure will have no impact on MEA's financial profile since MEA has cash reserves of over THB17 billion for this purpose. The measures also involve allowance for delayed electricity bill payments from electricity users which will be offset by MEA's request for an electricity cost payment extension to EGAT. Sources of funds for the remaining measures, such as a 3% cut in electricity bills and electricity bill discounts for households, will come from accumulated revenue contribution which is estimated to reach about THB7.5 billion this year.

Additionally, MEA had cash on hand of THB17.5 billion at the end of May 2020 and has borrowed Bt4 billion from a financial institution in June 2020 to enhance its liquidity.

Strong government support

We believe MEA will receive timely and sufficiently extraordinary support from the Thai government when needed. According to the MEA Act, in the event that MEA's income is inadequate to meet its operating expenses and debt service payments and MEA cannot find other sources of financing, the Thai government will provide financial support to cover the shortfall.

BASE-CASE ASSUMPTIONS

- MEA's electricity sales to drop by 3.5% in 2020 before rebounding by 2%-3% per annum during 2021-2022.
- Revenue to fall to THB197 billion in 2020 before rising to THB215 billion in 2022.
- EBITDA to be about THB15 billion in 2020 and between THB20-THB22 billion per annum in 2021-2022.
- Total capital expenditure to be about THB73.5 billion over the period 2020-2022.
- Remittance to the Thai government to be at the rate of 45% of net profit.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that MEA's crucial role in distributing electricity will remain unchanged, and that MEA will receive timely and sufficient extraordinary support from the government if needed.

RATING SENSITIVITIES

A rating downside case may occur if there are changes in government policies that adversely affect the state enterprise status of MEA or weaken the support that MEA receives from the government.

COMPANY OVERVIEW

MEA is a state enterprise under the supervision of the Ministry of Interior, established in 1958 under the MEA Act B.E. 2501. MEA is responsible for electricity distribution in three provinces, Bangkok, Nonthaburi, and Samut Prakan. The organization's area of responsibility covers 3,192 square kilometers. About 3.9 million users are connected to its distribution network.

The bulk of electricity consumption comes from large general service users (36% of total electricity sales), followed by small and medium general service users (34%) and residential users (25%). The remainder (5%-6%) comes from specific business service users, government institutions, non-profit organizations, and others.

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

	-----Year Ended 31 December-----				
	2019	2018	2017	2016	2015
Total operating revenues	205,085	195,931	189,743	191,373	198,752
Earnings before interest and taxes (EBIT)	7,667	11,246	13,131	13,569	13,370
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,443	19,144	20,619	20,841	20,163
Funds from operations (FFO)	14,592	17,370	18,854	19,119	18,598
Adjusted interest expense	1,851	1,774	1,764	1,723	1,565
Capital expenditures	20,412	18,383	14,849	12,671	12,867
Total assets	224,842	213,876	201,200	191,126	189,680
Adjusted debt	21,515	11,436	5,285	3,697	1,171
Adjusted equity	97,999	96,101	92,576	87,768	83,328
Adjusted Ratios					
EBITDA margin (%)	8.0	9.8	10.9	10.9	10.1
Pretax return on permanent capital (%)	5.3	8.1	9.9	10.7	11.2
EBITDA interest coverage (times)	8.9	10.8	11.7	12.1	12.9
Debt to EBITDA (times)	1.3	0.6	0.3	0.2	0.1
FFO to debt (%)	67.8	151.9	356.7	517.1	1,588.4
Debt to capitalization (%)	18.0	10.6	5.4	4.0	1.4

* Consolidated financial statements

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government Related Entity, 6 June 2017

Metropolitan Electricity Authority (MEA)

Company Rating:	AAA
Rating Outlook:	Stable

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