

# PROVINCIAL ELECTRICITY AUTHORITY

No. 13/2019  
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## CORPORATES

**Company Rating:** AAA  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns the company rating on Provincial Electricity Authority (PEA) at “AAA” with “stable” outlook. The rating reflects PEA’s important role as a state-owned enterprise (SOE) responsible for distributing electricity across Thailand, as well as its favorable investment cost recovery through tariff structure, and predictable cash flow from a large pool of diversified customers. The rating also incorporates PEA’s prudent financial policy, its strong financial profile, and support from the government.

## KEY RATING CONSIDERATIONS

### Critical role of distributing electricity throughout Thailand

PEA is one of the two SOEs responsible for distributing electricity to end users in Thailand. PEA is responsible for distributing electricity to provincial areas, coverage 74 provinces across Thailand. Another SOE, Metropolitan Electricity Authority (MEA), covers Bangkok, Samut Prakan and Nonthaburi.

Under the Enhanced Single Buyer Model (ESB) applied for Thai electricity industry, Electricity Generating Authority of Thailand (EGAT) is the major SOE responsible for procuring electricity for the whole country and sell electricity in bulk to PEA and MEA. PEA purchases electricity largely from EGAT and sells electricity to end users in 74 provinces across Thailand.

For 2018, electricity supplied through PEA accounted for about 71% of total electricity consumption in Thailand. The numbers of PEA’s customers reached 19.4 million at the end of March 2018. For 2017, PEA’s total electricity revenue was worth Bt448,270 million. Approximately 40% of electricity revenues were from large industrial users, 25% from residential users, and 29% from small and medium enterprises (SMEs).

### Widespread distribution network across country

Under the PEA Act B.E. 2503, PEA is empowered to extend its transmission and distribution networks above ground and underground into any area by paying compensation to the owners of the properties. The PEA Act signifies PEA’s critical role in distributing electricity to the provincial areas.

As of March 2018, PEA owned and operated distribution network with the line length of 777,013 circuit-kilometers connected with 19.4 million users across the country. PEA’s distribution network extends to 74,304 villages and is accounted for 99.99% of total villages in Thailand. PEA also owns and operates a transmission network with the line length of 12,501 circuit-kilometers connected with EGAT’s transmission network.

### Investment cost recovery through electricity tariff

The electricity tariff in Thailand is regulated by Energy Regulatory Commission (ERC). To ensure the reliability of power generation and distribution to satisfy the growing electricity need throughout Thailand, the electricity tariff is structured to cover the capital expenditures required for the electricity generation and distribution in the country, and to provide sufficient returns on investment for the three SOEs namely EGAT, PEA, and MEA.

### Predictable margin of Bt0.5 per unit of electricity sold

PEA has a limited exposure to the fluctuation in the cost of purchasing electricity from EGAT and private producers. Under the current structure of the electricity tariff, any change in electricity purchasing cost from EGAT and

private producers will be passed through to end users, under the fuel adjustment charge (or the  $F_f$ ). The ERC calculates and publishes the  $F_f$  every four months. During 2013-2017, the spread between average selling price and average purchasing cost of PEA's electricity was in the range of Bt0.55-Bt0.57 per kilowatt-hour (kWh or unit).

### **Growing trend of self-generated electricity by end users**

According to the proposed Power Development Plan or PDP2018, the electricity from the independent power supply (IPS) will increase to 8,000 megawatts (MW) in 2037 from 3,800 MW in 2017. TRIS Rating expects that the users' behavior will focus more on renewable and self-generation electricity. According to the draft of PDP2018, the number of solar rooftop installations will increase to 10,000 MW. Many households and industrial users have options to install solar rooftops because the cost of a solar rooftop has decreased dramatically. Electricity users are now allowed to produce some, if not all, of the electricity they need. TRIS Rating foresee this will impact the demand for electricity supplied from PEA in the long term. Nevertheless, TRIS Rating expect PEA to continue its critical role in providing the country's backbone electricity distribution network in Thailand.

### **New business platform to be developed**

In response to the changing energy policy toward decentralized generation, PEA is preparing to expand its business scope beyond its core business activities of buying and selling electricity. PEA's new businesses include going upstream to produce electricity, providing maintenance services to users, and converting itself to be an integrated energy provider. PEA aims to be a digitalized utility provider by 2022. The digitalization will help PEA detect problems accurately, improve its distribution reliability, and prepare for the readiness of implementing smart city grid in the near future. Currently, PEA has two small pilot projects of smart micro-grid in Chiangmai and Mae Hong Son provinces. These pilot projects will be expanded to use for the big cities in the near future.

### **Prudent financial policy**

PEA has a conservative financial policy. It has an internal guideline to accumulate cash reserves for debt repayments three years prior to the due date. PEA also has internal guidelines to maintain 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.

### **Strong financial profile**

PEA has a strong capital structure. As of June 2018, PEA's adjusted debt was Bt65,773 million. The debt to capitalization ratio was healthy at 27.86%.

PEA also has an excellent liquidity profile. As of June 2018, PEA had cash on hand and cash equivalents of Bt27,646 million. Its funds from operations (FFO) are forecast to be around Bt40,000-Bt42,000 million per year during 2019-2021. The amount of cash and cash equivalent plus the forecast FFO are well above the amounts required to cover debts due of about Bt7,800 million in 2019, Bt5,200 million in 2020, and Bt5,200 million in 2021.

### **Strong support from the government**

PEA has strong support from the government of Thailand. According to the PEA Act, the government of Thailand will provide extraordinary supports to PEA in case PEA's revenue is not sufficient to cover expenses, including interest expenses and debt repayment.

### **BASE-CASE ASSUMPTIONS**

- The real gross domestic product (GDP) growth rate is forecast at about 4.0% in 2019 and 3.0% per annum during 2020-2021.
- We expect PEA's earnings before interest, tax, depreciation and amortization (EBITDA) will be in the range of Bt45,000-Bt47,000 million per annum during 2019-2021.
- Total capital expenditures to be about Bt124,000 million spreading over 2019-2021. The expenditures mainly go to distribution network expansion to support growth demand, to improve its network reliability, and to develop electrical systems in the big cities and prepare for the smart grid.
- PEA's total debt to capitalization ratio will stay below 40% during the forecast period.

### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that PEA will continue its critical role in distributing electricity for the provincial areas of the country, with full support from the government.

## RATING SENSITIVITIES

A credit downside case may arise if PEA's status as an important SOE with full support from the government has weakened as a result of changing government policy.

## COMPANY OVERVIEW

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission from the Provincial Electricity Organization. PEA's mission is to electrify for household throughout Thailand and to satisfy the electricity need of industrial and business segments, as part of improving economy. PEA is a SOE under the supervision of the Ministry of Interior.

PEA plays a critical role in distributing electricity to end users outside Bangkok, Samutprakarn, and Nontaburi. PEA's responsible area cover 510,000 square meters across 74 provinces in Thailand. PEA has 19.4 million users connected with its distribution network.

PEA secured electricity mainly from EGAT (94%), from private power producers under the very small power producer scheme (6%), with a small portion of self-generation.

The main customers of PEA are the large general service, accounting for about 42%-43% of total electricity sales. The residential users are accounted for 23%-24%, the rest of 34%-35% are the users in the small and medium general service, specific business service, non-profit organization, agricultural pumping, temporary service, stand-by, interruptible and free electricity.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	245,932	463,906	456,795	465,828	465,024
Operating income	22,411	50,792	48,586	43,729	41,794
Earnings before interest and taxes (EBIT)	12,463	30,989	29,485	24,871	24,229
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,431	50,831	48,625	43,749	41,794
Funds from operations (FFO)	20,657	47,081	44,649	39,608	37,731
Adjusted interest expense	1,774	3,750	3,976	4,141	4,062
Capital expenditures	15,326	27,857	27,005	26,158	27,052
Total assets	407,288	398,603	378,309	367,043	348,419
Adjusted debt	65,773	69,013	74,032	79,656	79,094
Adjusted equity	170,287	164,330	150,865	139,483	132,137
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	9.11	10.95	10.64	9.39	8.99
Pretax return on permanent capital (%)	11.33 **	12.34	12.22	10.70	10.94
EBITDA interest coverage (times)	12.64	13.55	12.23	10.57	10.29
Debt to EBITDA (times)	1.34 **	1.36	1.52	1.82	1.89
FFO to debt (%)	69.12 **	68.22	60.31	49.72	47.70
Debt to capitalization (%)	27.86	29.58	32.92	36.35	37.44

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017
- Rating Methodology – Corporate, 31 October 2007

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**Provincial Electricity Authority (PEA)**

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<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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