

PEA ENCOM INTERNATIONAL CO., LTD.

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CORPORATES

Company Rating: AAA
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on PEA ENCOM International Co., Ltd. (PEA-Encom) at “AAA” with a “stable” outlook. The rating reflects the company’s status as an investment arm of Provincial Electricity Authority (PEA, rated “AAA” with a “stable” outlook by TRIS Rating). As PEA-Encom is 100% owned by PEA, it is a state-owned enterprise under Thai law. The rating also takes into consideration the high degree of integration between PEA-Encom and PEA, as well as the strong operational and financial support PEA-Encom receives from PEA.

KEY RATING CONSIDERATIONS

Core subsidiary of PEA

PEA-Encom’s credit profile reflects the credit profile of PEA as we view PEA-Encom as a core subsidiary of PEA. PEA-Encom was established by a Cabinet resolution on 3 June 2009. The objective of PEA-Encom’s establishment was to serve as an investment arm of PEA. PEA-Encom will invest in power projects and other energy-related businesses in Thailand and abroad. In addition, PEA-Encom also provides consulting and training services for the public and private sectors.

PEA-Encom is 100% owned by PEA and is PEA’s sole subsidiary. PEA is a state-owned enterprise responsible for distributing electricity to end users in the provincial areas comprising 74 provinces in Thailand.

PEA-Encom acts an investment arm of PEA to invest in energy-related business in accordance with PEA’s business strategy. PEA has a strategy to expand its scope of business in order to offset the gradual decline in revenue from its core business of buying and selling electricity. Sales of electricity are gradually falling because of two important trends: distributed generation (DG) and the increasing number of prosumers.

High degree of integration

PEA-Encom has high degree of integration with PEA. Since PEA-Encom was established, PEA has seconded some senior management and experienced staff to PEA-Encom. PEA also appoints the board of directors of PEA-Encom.

PEA is directly involved in PEA-Encom’s investment process. Most of PEA-Encom’s investment must be approved by both the boards of directors of PEA-Encom and PEA’s. The investments, where PEA-Encom would hold more than 25% interest in a project, must be approved by the Ministry of Interior and the Cabinet.

Focus on power generation projects

As of 31 July 2019, PEA-Encom owned a 25% stake in four solar power projects. The four projects are operational and contribute 7.5 megawatts (MW) of electricity to PEA-Encom. These four projects contribute a reliable stream of dividends to PEA-Encom, worth about Bt40 million per year.

PEA-Encom’s investment also supports the objectives of the government policy. PEA-Encom has a 40% stake in the three Pracharat biomass power plants located in the three provinces in the southernmost Thailand. PEA-Encom’s equity stakes in the three projects will amount to around Bt200 million during 2019-2021. These projects are expected to commence operation by 2022.

PEA-Encom is also involved in the projects to install solar rooftops and sells the electricity to industrial users. The solar rooftop projects are covered by a private power purchase agreement (PPA). PEA-Encom targets to increase the capacity to 200 MW by 2023, up from about 12.5 MW as of July 2019. The investment will be around Bt37-Bt40 million per MW. PEA-Encom will fund this project with a mix of debt (75%) and equity (25%).

Strong support from PEA

PEA-Encom receives a high degree of support from PEA in terms of operations and finance. About 70% of PEA-Encom's manpower comes from PEA. PEA also helps PEA-Encom conduct feasibility studies for some projects. In addition, PEA has contributed equity to PEA-Encom to support the investment plans. As of 31 December 2018, PEA-Encom's paid-up capital was Bt1.44 billion. The capital was used to fund four solar power projects, three Pracharat biomass power plants, biogas power project, waste-to-energy power plant project, and the first phase of solar rooftop projects.

TRIS Rating believes PEA will continue its full support for PEA-Encom because PEA-Encom is an integral part of PEA's long-term business strategy. PEA will also outsource some non-core businesses to PEA-Encom. The non-core businesses include collecting rental fees from telecommunications service providers for the use of PEA's electricity distribution poles and recruiting temporary workers for PEA. These businesses will provide recurring revenue to PEA-Encom.

BASE-CASE ASSUMPTIONS

- PEA will outsource rent collection and recruiting activities to PEA-Encom, bringing in revenue of Bt2.50-Bt3.00 billion per year beginning in 2021.
- During 2019-2021, PEA-Encom will invest Bt800 million to Bt1.00 billion per year in solar rooftops, Pracharat biomass projects, waste-to-energy power project, and energy storage project.
- Dividend income from equity investment is forecast at Bt40-Bt50 million per year during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PEA-Encom will remain a core subsidiary of PEA and continue to play an important role as the investment arm of PEA and an integral part of PEA's business strategy.

RATING SENSITIVITIES

The downside factors for PEA-Encom's rating include deterioration in PEA's credit profile, a significant change in PEA-Encom's relationship with PEA, or a material weakening of the support from PEA.

COMPANY OVERVIEW

PEA-Encom was founded by a Cabinet resolution dated 3 June 2009, with the objective to serve PEA as an investment arm to invest in power projects and other energy-related businesses both domestically and internationally. The company was formally established in October 2009, with registered capital of Bt100 million. PEA-Encom is held 100% by PEA. PEA-Encom is a state-owned enterprise under the Thai law. During 2013-2018, PEA injected additional equity totally Bt1.34 billion to support PEA-Encom's investment plans. As of 31 December 2018, PEA-Encom's paid-up capital was Bt1.44 billion.

Currently, PEA-Encom's businesses are to sell energy saving equipments, provide engineering and training services, and invest in the power generation and energy-related businesses. For its investment portfolio, PEA-Encom invests in eight power projects, which have aggregate capacity of 48.14 MW or contribute 14.44 MW to PEA-Encom, based on its equity interest in the projects. PEA-Encom also aims to sell electricity generated by solar rooftops to industrial users under private PPAs. PEA-Encom has targeted to increase the contracted capacity to 200 MW by 2023 from about 12.5 MW as of 31 July 2019.

PEA-Encom's Power Portfolio

Project Name	Plant Type	Project Capacity (MW)	PEA-Encom's Holding (%)	PEA-Encom's Capacity (MW)	PPA Terms (Years)	COD	Status
1. SPC (Loei2)	Solar power	7.46	25	1.87	5 (Auto-renewal)	Apr 2014	Operating
2. SPC (Khonkaen10)	Solar power	7.46	25	1.87	5 (Auto-renewal)	May 2014	Operating
3. SPC (Surin 1)	Solar power	7.46	25	1.87	5 (Auto-renewal)	Jun 2014	Operating
4. SPC (Surin2)	Solar power	7.46	25	1.87	5 (Auto-renewal)	Jun 2014	Operating
5. Bacho Biogas	Biogas	2.40	25	0.60	20	Jul 2019	Operating
6. Pracharat biomass (Narathiwat)	Biomass	9.90	40	3.96	20	Within 2022	Developing
7. Pracharat biomass (Yala)	Biomass	3.00	40	1.20	20	Within 2021	Developing
8. Pracharat biomass (Pattani)	Biomass	3.00	40	1.20	20	Within 2021	Developing
Total		48.14		14.44			

Source: PEA-Encom

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	209	187	56	20	13
Operating income	(10)	4	(4)	(7)	(9)
Earnings before interest and taxes (EBIT)	67	80	69	62	23
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	39	48	39	16	(6)
Funds from operations (FFO)	37	48	39	16	(7)
Adjusted interest expense	0	0	0	0	0
Capital expenditures	272	1	1	0	0
Total assets	1,804	1,094	719	624	440
Adjusted debt	0	0	0	0	0
Adjusted equity	1,703	978	673	520	432
Adjusted Ratios					
Operating income as % of total operating revenues (%)	(4.70)	2.25	(7.85)	(33.65)	(65.26)
Pretax return on permanent capital (%)	5.01	9.64	11.47	13.00	6.18
EBITDA interest coverage (times)	559.41	424.11	246.44	84.51	(33.19)
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* Equity-method
n.m. Not meaningful

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017
- Group Rating Methodology, 10 July 2015

PEA ENCOM International Co., Ltd. (PEA-Encom)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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