

# WHA UTILITIES AND POWER PLC

No. 36/2018  
3 April 2018

## CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

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## RATIONALE

TRIS Rating assigns the company rating of WHA Utilities and Power PLC (WHAUP) at “A-”. At the same time, TRIS Rating assigns the rating of “A-” to WHAUP’s senior unsecured debentures worth Bt4,000 million. The ratings reflect WHAUP’s status as a “core” subsidiary of WHA Corporation PLC (WHA; “A-/Stable”), the country’s leading developer of industrial estates and built-to-suit warehouses. The ratings take into consideration WHAUP’s position as the sole utility service provider in the leading industrial estates of Thailand, recurring income from the sale of utility services, and dividend income WHAUP received from its investment in the power segment. The ratings also incorporate rising leverage from new projects in pipelines both in Thailand and overseas.

## KEY RATING CONSIDERATIONS

### Sole provider of utility services in leading industrial estates

Hemaraj Land and Development PLC (HEMRAJ), a 98.5% owned subsidiary of WHA, granted WHAUP the exclusive right, through 50-year lease agreements, to provide utilities in a number of industrial estates. The agreements cover raw water and process water for industrial use, as well as the management of wastewater treatment services. The services are offered to the industrial estates owned by WHA and its subsidiaries in Thailand and neighboring countries: Cambodia, the Lao People’s Democratic Republic (Lao PDR), Myanmar, and Vietnam, collectively called CLMV. The exclusive right lowers operational risk as it builds barriers to entry in the service areas.

### Resilient utility demand

WHAUP accepted a transfer of utility business from its parent company, HEMRAJ, in late March 2016. The volume of industrial water sold and the volume of waste water management was relatively resilient, even though the investment and production activities slowed down in the past years. Based on the past records provided by WHAUP and HEMRAJ, the volume of water and waste water declined merely by 0.6% to 94 million cubic meters (cu.m.) in 2015 and picked up by 1.6% in 2016 to 95 million cu.m. The service volume continued to increase by 4.7% to 100 million cu.m. in 2017. The resilient operation was underpinned by a continued growth in usage of industrial water needed by heavy-user customers in petrochemical and new customers in power segments, as well as a rise in demand for waste-water management services. In contrast, demand for raw water declined during the past few years. The decrease was mainly caused by lower utilization at one power plant participating in the Independent Power Producer (IPP) scheme. Augmenting this drop in demand, WHAUP has a policy to focus more on industrial water sales, especially in new industrial estates.

### Core subsidiary of WHA

WHAUP is considered as a core subsidiary of WHA, being responsible for utility services and the investments in the power segment. In 2017, WHAUP generated sales of Bt1,634 million (17% of WHA’s total sales) and Bt2,066 million in earnings before interest, tax, depreciation, and amortization (EBITDA)

(38% of WHA's EBITDA). Presently, WHA, through HEMRAJ and other subsidiaries, holds a 72% interest in WHAUP. The company's business plan and financial policy are influenced by WHA. WHAUP provides utility services in the existing industrial estates and the future industrial estates operated by WHA and its subsidiaries in Thailand and CLMV. WHA also nominates its representatives as the board of directors' member of WHAUP.

### **Moderate profitability level, but stable**

The operating margin of WHAUP hovered around 34%-41% in 2015-2017, depending on the revenue mix and revenue from excess charges. The level of profit is considered moderate compared with major utility operators because it purchased 80% of raw water from Eastern Water Resources Development and Management PLC (EASTW), sole provider of raw water in the Eastern Seaboard area. However, the profitability was quite stable because it sells utility services on a cost-plus basis.

### **Steady earnings**

In 2017, revenue in the utility service segment grew at a double-digit growth rate. The high growth rate is partly due to organizational changes made in the previous year, as well as the commercial operating of four new power plants in 2017. The revenue base in 2016 was low because HEMRAJ, the parent company, transferred the utility service business to WHAUP in late March 2016. WHAUP also earned additional revenue from excessive water charge. The excess charge is collected from the user whose consumption is higher than the threshold. Excluding the impact from the low base of revenue in 2016 and the extra revenue from excessive charge, the year-on-year (y-o-y) growth rates, by quarter, ranged from 6%-9% from the second quarter through the fourth quarter of 2017. The EBITDA in the utility service business was approximately Bt700 million per year in 2016 and 2017.

### **Additional predictable cash flows in the power segment**

WHAUP's business profile is strengthened by the predictable cash flows from the power projects. WHAUP has invested in several power projects with well-known power operators. WHAUP owns equity stakes in several power producers which generate power under the IPP scheme, Small Power Producer (SPP) scheme, and Very Small Power Producer (VSPP) scheme. Currently, WHAUP has 510 megawatts (MW) of power generating capacity, based on the equity holding in each project. The capacity figure will rise to 543 MW in 2019. In 2017, WHAUP received dividends worth Bt747 million from the power projects, the equivalent of 36% of EBITDA. The amount of dividends received will continue to increase as more power projects will come on line in 2018 and 2019. Dividends are forecast to grow to approximately Bt1,400-Bt1,500 million per year once all the power projects are fully operational.

### **First footprint abroad, Vietnam**

Apart from providing utility services in Thailand, WHAUP plans to step into Vietnam to supply industrial water and waste water management services to clients in the WHA Hemaraj Industrial Zone in Nghe An province, a province in the northern part of Vietnam. WHAUP has been granted an investment registration certificate from the Vietnamese government. Development is scheduled to begin in 2018. Revenue from this investment is expected to start flowing in the second half of 2019. WHAUP plans to invest at approximately Bt40-Bt80 million per year during the next few years. This industrial estate is the first estate that WHA has developed abroad. However, the operation and contribution from this investment would be minimal over the next few years as it is in the beginning phase.

### **Leverage will continue to rise**

WHAUP's capital structure improved notably in 2017, largely attributable to a successful initial public offering (IPO) in April. WHAUP netted Bt3,181 million in proceeds from the IPO. Nearly all (about 80%) was used to pay down debt. As a result, total debt was Bt7,930 million at the end of 2017, down from Bt10,421 million in 2016. The total debt to capitalization ratio slid to 38.7% as of December 2017, from 58.4% in 2016. Going forward, leverage is expected to increase because WHAUP plans to make some sizable investments over the next three years.

WHAUP has identified a number of growth opportunities. The company plans to expand its service area abroad and broaden the scope of business in both the utility services and power generating. The projects cover municipal water, captive power plants, and solar rooftops. The company set a capital budget of approximately Bt2,000-Bt2,500 million per year during 2018-2020. About half of the total capital spending is for utility plants in Thailand and abroad, as well as investments in power plants. The other half is earmarked for several new projects. The hefty investment budget will drive leverage level higher and carry higher development risk. However, TRIS Rating forecasts that WHAUP will be able to manage debt to capitalization ratio around 40%-45% during the next three years.

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### Satisfactory liquidity profile and cash flow protection

WHAUP's liquidity profile is considered good. The earliest repayment due will be in 2020. The cash flow protection is fair. A rise in funds from operations (FFO) and a drop in debt outstanding pushed the FFO to total debt ratio to 12.1% in 2017, up from 8.6% in 2016. The EBITDA interest coverage ratio was 4.5 times in 2017, up slightly from 4.1 times in 2016. Under TRIS Rating's base case scenario, the FFO to total debt ratio is projected to stay around 15% and the EBITDA interest coverage ratio is forecast at 5-7 times during the next three years.

### RATING OUTLOOK

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The "stable" outlook reflects the expectation that WHAUP will continue to receive reliable cash flow from its resilient utility service and predictable dividend income earned from the power projects as planned.

Under TRIS Rating's base case scenario, FFO is forecast at Bt1,400-Bt1,700 million per year in 2018-2020. EBITDA is forecast at Bt2,100-Bt2,400 million over the same period. Given the projected levels of cash flow and capital expenditures, leverage should hold at a moderate level. Over the next three years, the FFO to total debt ratio is projected to stay around 15% and the EBITDA interest coverage ratio is forecast at 5-7 times.

### RATING SENSITIVITIES

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As a core subsidiary of WHA, the ratings of WHAUP are aligned with WHA's credit profile. Any change in WHA's credit rating or relationship with WHA will affect WHAUP's ratings accordingly.

### COMPANY OVERVIEW

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WHAUP, formerly named Hemaraj Clean Water Co., Ltd., was incorporated in 2008 to produce and distribute industrial water for use in industrial estates owned by HEMRAJ, a 98.5% owned subsidiary of WHA. In 2016, the utility and power segments of HEMRAJ and WHA were transferred to WHAUP. Currently, WHAUP provides utility services such as supplying raw and industrial water, as well as wastewater treatment services to customers in Hemaraj Industrial Estates.

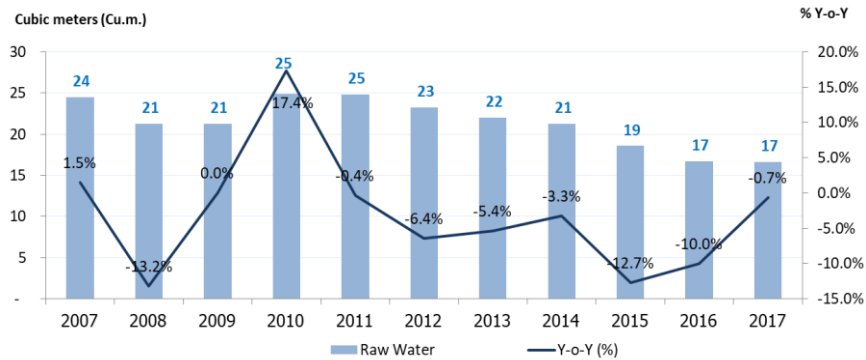
WHAUP was listed on the Stock Exchange of Thailand (SET) in April 2017. Currently, WHA, through HEMRAJ and other subsidiaries, holds a 72% interest in WHAUP. WHAUP is a core subsidiary of WHA as it is responsible for two key businesses: utility services and the investments in the power segment.

WHAUP supplies water in nine of HEMRAJ's industrial estates in Chonburi, Rayong, and Saraburi provinces. Apart from the existing locations, WHAUP also has exclusive rights to expand its service area to new industrial estates, operated by WHA in Thailand and neighboring countries. In 2017, WHAUP provided 16.5 million cu.m. of raw water, 49.1 cu.m. of process water, and 27.5 cu.m. of waste water management services.

In the power segment, WHAUP invested in several power projects with well-known power producers, such as GLOW Energy PLC (GLOW), B. Grimm Power PLC (B. Grimm), Gulf Energy Development PLC (Gulf), and Suez S.A. (Suez). WHAUP owns equity stakes of different size in a number of power producers. The power generators operate under the IPP, and SPP schemes. WHAUP holds stakes ranging between 5%-35% in these ventures. WHAUP also holds stakes greater than 25% in the power plants operated under the VSPP schemes. Based on the equity holding in each project, WHAUP has a total contracted capacity of 543 MW, covering 510 MW of power projects currently in operation, and another 33 MW under construction, slated for completion in 2019.

**KEY OPERATING PERFORMANCE**

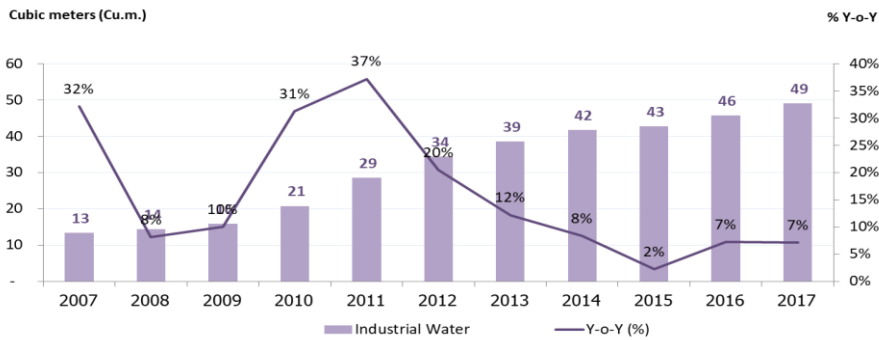
**Chart 1: Volume of Raw Water**



Note: HEMRAJ transferred the utility service business to WHAUP in late March 2016.

Sources: WHAUP, HEMRAJ

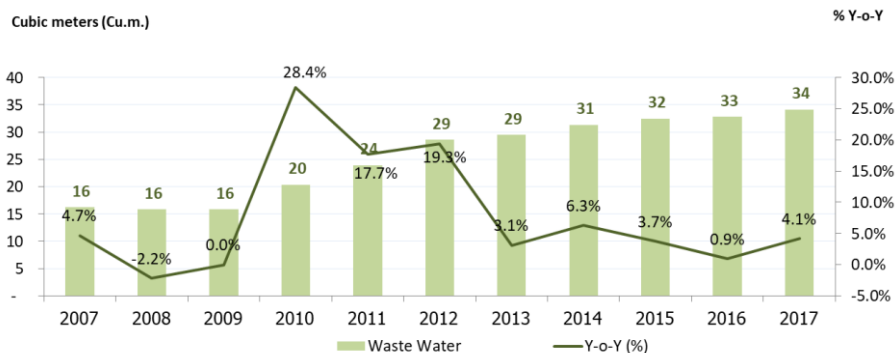
**Chart 2: Volume of Industrial Water**



Note: HEMRAJ transferred the utility service business to WHAUP in late March 2016.

Sources: WHAUP, HEMRAJ

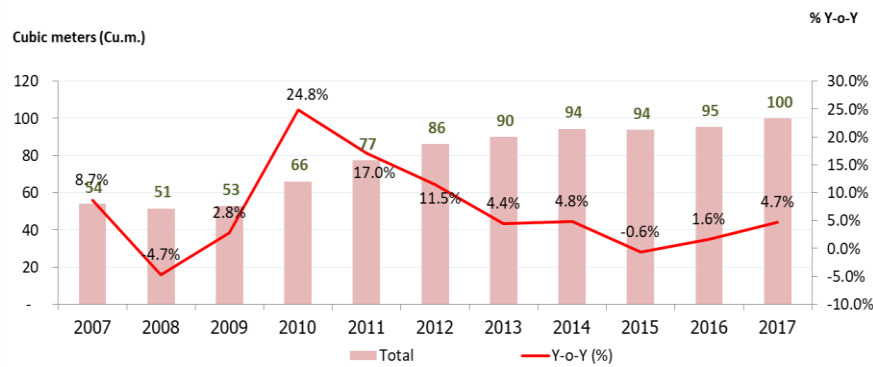
**Chart 3: Volume of Waste Water Management Service**



Note: HEMRAJ transferred the utility service business to WHAUP in late March 2016.

Sources: WHAUP, HEMRAJ

**Chart 4: Total Volume of Water and Waste Water**



Note: HEMRAJ transferred the utility service business to WHAUP in late March 2016.  
Sources: WHAUP, HEMRAJ

**Table 1: WHAUP's Investment in Power Segment**

Portfolio Summary	Project Name	Type	JV Partner	Location	Contracted Capacities (MW)	WHAUP Portion	Equity MW	COD	
	<b>Operating Phase</b>								
	Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660.0	35.00%	231.0	Q3'12
	Glow IPP	IPP	Gas Combined Cycle	Glow	HCIE	713.0	5.00%	35.7	Jan-03
	Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152.0	12.75%	19.4	Sep-99
	GJP NLL	SPP	Gas Co-gen	Gulf JP	HRIL	122.5	25.01%	30.6	May-13
	Gulf Solar	VSPP	Solar	Gulf	HLP1, HCIE, HESIE, ESIE	0.6	25.01%	0.2	Jun-14 – Jan-15
	WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5	Apr – Jul-14
	BGWHA-1	SPP	Gas Co-gen	B Grimm	HCIE	121.0	25.01%	30.3	Nov-16
	GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	May-17
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	Jul-17	
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	Sep-17	
GTS3	SPP	Gas Co-gen	Gulf MP	HESIE	125.0	25.01%	31.3	Nov-17	
GTS4	SPP	Gas Co-gen	Gulf MP	HESIE	125.0	25.01%	31.3	Jan-18	
<b>Total</b>					<b>2,412.4</b>		<b>509.6</b>		
<b>Construction Phase</b>									
WHA KM.3 Solar	VSPP	Solar	-	Samutprakan	0.9	100.0%	0.9	Q1-18	
GNULL2	SPP	Gas Co-gen	Gulf MP	HRIL	120.0	25.01%	30.0	Jan-19	
CCE	VSPP	Waste-to-energy	Glow& Suez	HCIE	6.9	33.33%	2.3	2019	
<b>Total</b>					<b>127.8</b>		<b>33.2</b>		

Note: WHAUP accepted, through a share transfer, the power companies owned by HEMRAJ and WHA in May 2016.  
Source: WHAUP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	----- Year Ended 31 December -----		
	2017	2016	2015
Revenue	1,634	1,468	853
Gross interest expense	460	404	47
Net income from operations	1,407	363	157
Funds from operations (FFO)	962	898	271
Earnings before interest, tax, depreciation, and amortization (EBITDA)	2,066	1,657	1,296
Capital expenditures & Investments	1,709	11,149	537
Total assets	21,378	18,652	11,593
Total debts	7,930	10,421	1,273
Shareholders' equity	12,577	7,419	10,100
Operating income before depreciation and amortization as % of sales	34.88	41.07	34.43
Pretax return on permanent capital (%)	9.83	10.25	10.63
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.49	4.10	27.70
FFO/total debt (%)	12.12	8.61	21.33
Total debt/capitalization (%)	38.67	58.41	11.19

Note: HEMRAJ transferred the utility service business to WHAUP in late March 2016  
WHAUP accepted, through a share transfer, the power companies owned by HEMRAJ and WHA in May 2016.

\* Consolidated financial statements

**WHA Utilities and Power PLC (WHAUP)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
WHAUP208A: Bt3,200 million senior unsecured debentures due 2020	A-
WHAUP208B: Bt800 million senior unsecured debentures due 2020	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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