

RATCH GROUP PLC

No. 125/2021
5 August 2021

CORPORATES

Company Rating:	AA+
Issue Ratings:	
Senior unsecured	AA+
Outlook:	Stable

Last Review Date: 01/10/20

Company Rating History:

Date	Rating	Outlook/Alert
10/04/15	AAA	Stable
25/04/13	AA+	Stable
09/02/11	AA	Stable
15/06/05	AA-	Stable
12/07/04	A+	Stable
26/06/03	A+	-

Contacts:

Sermwit Sriyotha
sermwit@trisrating.com

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Parat Mahuttano
parat@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on RATCH Group PLC (RATCH) and the ratings on RATCH's senior unsecured debentures to "AA+", with a "stable" outlook, from "AAA". The ratings downgrade reflects our expectation that RATCH's financial leverage will continue to rise over the next three years as a result of the huge investments needed to maintain its power assets portfolio and to pursue its growth strategy.

The "AA+" ratings continue to reflect RATCH's leading position as the largest private power producer in Thailand and its diversified power portfolio. The ratings also take into consideration highly predictable cash flows from its long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable" by TRIS Rating).

The company rating on RATCH also reflects our view that RATCH is a strategically important subsidiary of EGAT. The rating incorporates a one-notch uplift from RATCH's stand-alone credit profile of "aa".

KEY RATING CONSIDERATIONS

Period of investment ahead

TRIS Rating believes that RATCH will continue to seek investment opportunities with an aim to replace a portion of its existing capacity that will cease to operate in the next few years. Currently, the power plants of Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN), its core operating subsidiary, have total installed capacity of 3,645 megawatts (MW), approximately 50% of RATCH's operating capacity. The PPAs of two thermal unit (1,470 MW) of RATCHGEN will expire in 2025 and the PPA's of three combined cycle gas turbine (CCGT) units (2,175 MW) will expire in 2027.

The company also plans to increase its electricity generating capacity to 10,000 MW by 2025. Based on its current portfolio, RATCH will have an aggregate equity capacity of 9,221 MW in 2025. This takes into account the acquisition of 45.5% stake in the "Paiton" coal-fired thermal power plants in Indonesia. The capacity shortfall puts pressure on RATCH to seek new projects, either through greenfield developments or by acquiring operating assets to achieve its targets and to offset the decline in earnings upon the cessation of RATCHGEN's power plants.

On 22 June 2021, RATCH announced that it had signed a sale and purchase agreement to acquire a 45.5% equity interest in the Paiton coal-fired thermal power plant in Indonesia. Located in East Java, Paiton is the first and one of the largest Independent Power Producers (IPP) in Indonesia. It has an installed capacity of 2,045 MW consisting of three power generating units. Paiton generates about 13,500 gigawatt-hours (GWh) of electricity per year, equivalent to about 10% of electricity demand in Java. Paiton holds PPAs with Perusahaan Listrik Negara (PLN), the Indonesian state electricity utility, which are due to expire in 2042 (21 remaining years). RATCH expects to complete the transaction by the first quarter of 2022. Once the transaction is completed, Paiton will add about 931 MW to RATCH's operating capacity.

Deteriorating financial leverage ratio

TRIS Rating forecasts a significant increase in RATCH's financial leverage ratio during 2021-2023. The anticipated rise in leverage is due to the company's planned investments, which are needed to offset a decline in earnings from

RATCHGEN. TRIS Rating expects RATCH to spend about THB54 billion during the period 2021-2023 for capital expenditures and investments. This amount covers maintenance capital expenditures for the existing plants, investments to complete projects in the pipeline, investment in the infrastructure and health care businesses, and also a committed and uncommitted budget to acquire power plants, including Paiton.

The company plans to raise about THB30 billion in equity to support these investments. The capital injection is expected to take place by the first half of 2022. The investments should help increase RATCH's earnings before interest taxes, depreciation and amortization (EBITDA) to the THB12.5-THB13.5 billion per year range during 2022-2023, from about THB10.3 billion in 2019. However, the company's debt to EBITDA ratio is forecast to increase to about 6 times in 2021, before improving to about 4-5 times in 2022-2023, after equity injection. The projected debt to EBITDA ratios are a substantial rise from the 1-2 times recorded during 2017-2019. RATCH's debt to capitalization ratio is expected to increase to almost 50% at the end of 2021 before improving to the 35%-40% range in 2022-2023.

In our forecast, we expect dividend income from RATCH's investments to amount to THB1.5-THB2 billion in 2021, increasing to about THB4.5-THB6.5 billion in 2022-2023, after the company realizes full benefits from the plant acquisitions.

Largest private power producer in Thailand

RATCH continues its position as the largest private power producer in Thailand. As of 30 June 2021, RATCH's electricity generating capacity in operation was 7,053 MW, based on its ownership in each project. When all projects under development, construction, and negotiation are included, RATCH's generating capacity will come to 9,221 MW. RATCH's electricity generating capacity connected to EGAT's grid totaled 5,232 MW, representing 11% of Thailand's total installed capacity.

At the end of June 2021, about 75% of RATCH's capacity in operation was covered by PPAs with EGAT and the Provincial Electricity Authority (PEA). Both EGAT and PEA are rated "AAA" with "stable" outlooks by TRIS Rating. The rest of the company's capacity came from its overseas power plants that operate under contracts with major utility entities in their respective countries. These include operating capacity under contracts with local utilities in Australia representing 17% of the company's total operating capacity, Electricite du Laos (EDL) in the Lao's People Democratic Republic (Lao PDR) (4%), Vietnam Electricity (EVN, 2%), and PLN (1%) in Indonesia.

Highly predictable cash flow from long-term PPAs with EGAT

RATCH's cash flow is highly predictable due to the long-term PPAs it holds with EGAT. The PPAs with EGAT contain a pricing formula structured on a pay-if-available basis, which mitigates most market risk. The PPAs also contain mechanisms whereby fuel costs are passed through to EGAT. As a result, RATCH is expected to continue generating stable cash flow as long as the company maintains its power plants in accordance with the PPA targets and keeps its plants ready for EGAT's dispatch instructions. Most of RATCH's plants have reached the annual plant availability target for the last five years.

RATCH's Australia portfolio has consistently contributed EBITDA of about THB1.5-THB2 billion per year to RATCH and this contribution is expected to increase to about THB2.5-THB3 billion each year from 2022 onwards as all projects in the pipeline commence operations. As of 30 June 2021, RATCH's Australia portfolio increased to 1,250 MW of generating capacity after the "Yandin" and the "Collector" projects commenced operations in March and April 2021, respectively. About 90%-95% of RATCH's Australia capacity is contracted under PPAs with major utility companies in Australia.

Investment diversification

Since 2017, RATCH has expanded the scope of its investments into other infrastructure projects. RATCH has invested about THB3.2 billion in the MRT Pink Line and Yellow Line rail transport projects in Bangkok, a water supply project in the Lao PDR, and other small infrastructure projects in Thailand.

During the first six months of 2021, RATCH spent about THB4.3 billion to purchase a 15.5% equity interest in Bangkok Aviation Fuel Services PLC (BAFS) and a 10% interest in Principal Capital PLC (PRINC). BAFS provides aircraft refueling services at the airports, while PRINC owns and operates 11 hospitals across Thailand.

Strong liquidity

RATCH has strong liquidity. The company's sources of funds comprised cash on hand and cash equivalents of about THB5 billion and an undrawn credit facility of about THB47 billion as of the end of March 2021. RATCH's funds from operations (FFO) over the next 12 months are forecast to be about THB7-THB8 billion. Debt coming due over the next 12 months will amount to THB3.5 billion plus about THB42 billion in capital expenditure and equity investment for both committed and uncommitted projects over the same period.

Debt structure

At the end of March 2021, RATCH's consolidated debt was THB43.8 billion. RATCH's priority debt consisted of THB18.7 billion in secured debts and THB2 billion in senior unsecured debts owed by RATCH's subsidiaries. The ratio of priority debt was about 47% at the end of March 2021. TRIS Rating expects RATCH to keep this ratio below 50% over the medium to long term.

Strategically important subsidiary of EGAT

EGAT has been a major shareholder with a 45% shareholding in RATCH, since the company was founded in 2000. TRIS Rating views RATCH as a strategically important subsidiary of EGAT, based on the shareholding structure and the composition of the board of directors. TRIS Rating believes that EGAT has dominating influence on RATCH's business directions via the board of directors. About half of RATCH's directors and all of RATCH's investment committee members are representatives of EGAT. TRIS Rating believes that EGAT will continue to maintain its stake in RATCH in the foreseeable future.

BASE-CASE ASSUMPTIONS

- EBITDA to be THB9-THB9.5 billion in 2021, increasing to THB12.5-THB13.5 billion per year during 2022-2023.
- Dividends received from investments to be in the THB1.5-THB2 billion range in 2021, increasing to about THB4.5-THB6.5 billion per year during 2022-2023.
- Capital expenditure and equity investment for committed and uncommitted projects to be about THB54 billion for the period 2021-2023, including the Paiton project.
- New equity of about THB30 billion to be injected in 2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will continue to receive stable cash flows from its power assets secured by long-term PPAs. We expect RATCH's debt to EBITDA ratio to stay in the range of 4-5 times over the medium term.

RATING SENSITIVITIES

The rating upside is limited over the next 12-18 months. The rating downside case could occur if the rating on EGAT is downgraded or RATCH's stand-alone credit profile is assessed to deteriorate to a level below "a+".

COMPANY OVERVIEW

RATCH is a holding company focusing its investment on power and infrastructure projects. The company was established in 2000 to purchase the "Ratchaburi" power plant from EGAT and was listed on the Stock Exchange of Thailand (SET) in the same year. EGAT remains the company's major shareholder with a 45% stake.

As of 30 June 2021, RATCH's aggregate equity capacity of power projects was 9,221 MW. About 7,053 MW was in operation, while 1,237 MW was under development and construction, and 931 MW was at the acquisition phase. Approximately 75% of RATCH's generating capacity held PPAs with EGAT, 17% with major utility companies in Australia, and the remaining 8% had PPAs with EDL, industrial users, PEA, PLN, EVN, and Australian merchant market.

RATCH has expanded its investment scope into infrastructure projects since 2017. As of 30 June 2021, RATCH held 10% stakes in two mass rapid transit projects in Bangkok: the "Pink Line" and the "Yellow Line". RATCH also held a 40% stake in a water supply project in the Lao PDR, a 51% stake in an underground optic fiber network project in Thailand, a 35% interest in the infrastructure for the "Internet of Things" project in Thailand, a 15% shareholding in BAFS, and a 10% shareholding in PRINC. Currently, investments in infrastructure projects constitute less than 7% of RATCH's total assets.

RATCH's portfolio
Table 1: RATCH's Power Portfolio as of 30 Jun 2021

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Term (Year)	Expiry year
Projects in operation						Expiry year
1. RATCHGEN	Thermal/CCGT	3,645	100.0	3,645	25	2025, 2027
2. RPCL	CCGT	1,490	25.0	372	25	2033
3. NN2	Hydro	615	25.0	154	25+2	2038
4. Hongsra	Thermal (lignite-fired)	1,878	40.0	751	25	2040
5. Solarta	Solar power	42	49.0	21	5	2021,2022 (Auto-renewal)
6. Solar Power	Solar power	22	40.0	8	5	2022 (Auto-renewal)
7. Huay Bong 2	Wind-turbine	104	20.0	21	5	2023 (Auto-renewal)
8. Huay Bong 3	Wind-turbine	104	20.0	21	5	2022 (Auto-renewal)
9. RW Cogen	Cogeneration	234	40.0	93	25	2039, 2040
10. Songkla Biomass	Thermal (biomass)	10	40.0	4	5	2020 (Auto-renewal)
11. NNEG	Cogeneration	199	40.0	79	25	2041
12. Berkprai	Cogeneration	99	35.0	35	25	2044
13. RATCH Cogen	Cogeneration	119	99.9	119	25	2038
14. Xe Pian-Xe Namnoy	Hydro	410	25.0	103	27	2046
15. EDL-Gen	Mostly hydro	1,836	10.1	186	25-30	2041-2045
16. RAC	Gas, wind, solar	1,250	100.0	1,250	Merchant, 3-25	2021-2036
17. Asahan-1	Hydro	180	26.6	48	30	2040
18. Thang Long	Thermal (coal-fired)	620	22.1	137	25	2043
19. BAFS	Solar power	36	15.5	6	n.a.	n.a
Sub Total		12,893		7,053		
Projects under development						Expected COD
1. Fangchenggang	Nuclear power	2,360	10.0	236	30	2021
2. Riau	CCGT	296	49.0	145	20	2021
3. Ecowin Wind-Turbine	Wind-turbine	30	51.0	15	20	2021
4. Nexif RATCH Energy	Cogeneration	92	49.0	45	25	2022
5. Nexif Ben Tre	Wind-turbine	80	50.0	40	20	2022
6. RATCH Cogen (exp)	Cogeneration	30	100.0	30	n.a.	2022
7. R E N Korat	Cogeneration	30	40.0	12	n.a.	2023
8. Hin Kong	CCGT	1,400	51.0	714	25	2024/2025
Sub Total		4,318		1,237		
Grand Total		17,211		8,290		

n.a. = Not available

Source: RATCH

Table 2: RATCH's Infrastructure Portfolio as of 30 Jun 2021

Project / Company Name	Business Type	RATCH Holding (%)	RATCH's Investment (Mil. THB)	COD (e)
1. MRT Pink & Yellow Lines	Mass rapid transit	10.0	2,380	2022
2. Sandin Water Supply	Water supply	40.0	180	2018/2031
3. Internet of Things	IoT network and based station	35.0	180	In operation
4. Smart Infranet	Optic fiber network	51.0	280	In operation
5. Intercity Motorway (M6 & M81)	Transportation	10.0	185	2023
6. Bangkok Aviation Fuel Service PLC	Aviation fuel service	15.5	2,712	In operation
7. Principal Capital PLC	Healthcare business	10.0	1,558	In operation
Total			7,475	

n.a. = Not available

Source: RATCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	7,902	38,047	40,035	43,603	46,339
Earnings before interest and taxes (EBIT)	2,253	7,692	8,168	8,319	7,835
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,600	10,256	10,703	10,804	11,804
Funds from operations (FFO)	2,169	8,677	8,403	8,919	9,344
Adjusted interest expense	411	1,551	1,430	1,015	1,587
Capital expenditures	435	4,633	2,462	5,391	4,740
Total assets	116,915	112,132	100,229	101,252	93,794
Adjusted debt	37,949	35,684	24,387	20,296	12,592
Adjusted equity	64,964	60,522	59,414	59,936	59,009
Adjusted Ratios					
EBITDA margin (%)	32.90	26.96	26.73	24.78	25.47
Pretax return on permanent capital (%)	7.60 **	7.85	8.80	9.51	9.27
EBITDA interest coverage (times)	6.33	6.61	7.48	10.65	7.44
Debt to EBITDA (times)	3.64 **	3.48	2.28	1.88	1.07
FFO to debt (%)	23.49 **	24.31	34.46	43.94	74.21
Debt to capitalization (%)	36.87	37.09	29.10	25.30	17.59

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

RATCH Group PLC (RATCH)

Company Rating:	AA+
Issue Ratings:	
RATCH23NA: THB1,000 million senior unsecured debentures due 2023	AA+
RATCH25NA: THB1,500 million senior unsecured debentures due 2025	AA+
RATCH30NA: THB1,500 million senior unsecured debentures due 2030	AA+
RATCH35NA: THB4,000 million senior unsecured debentures due 2035	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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