



TRIS RATING

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CreditNews ข่าวเครดิต

News for Investors

Announcement No. 326

15 June 2005

Ratchaburi Electricity Generating Holding Public Company Limited

Company Rating:

AA-

Rating Outlook:

Stable

Rating History:

Company Rating

Issue Rating

Secured

Unsecured

26 Jun 2003

A+

-

-

Rating Rationale

TRIS Rating upgrades the company rating of Ratchaburi Electricity Generating Holding PLC (RATCH) to "AA-" from "A+". The rating reflects stable dividends from its wholly-owned operating subsidiary, Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN), its moderately conservative investment policy and the company's strong position to participate in an upcoming new independent power producer bidding. However, these strengths are partially offset by a structural subordination of RATCH's creditors and uncertainty about the deregulation of the power industry.

Currently, RATCH's power capacity portfolio of 3,995 MW consists of 3,645 MW from RATCHGEN and a capacity sharing of 350 MW from Tri Energy Co., Ltd. (TECO), recently increasing its ownership share to 50%. RATCH received the 2004 dividend of Bt5,796 million from RATCHGEN and Bt241 million from TECO. In addition, RATCH has many projects under development which consist of a 25% stake in Ratchaburi Power Co., Ltd. (RPC), a 15% stake in Siam Ethanol Export Co., Ltd. and renewable power plants.

RATCH's stable dividends are derived from RATCHGEN's consistent cash flow that is the result of well-designed project structures, state-of-the-art power plants, and the operator's long experience in the power sector. In 2004, the company's revenue was Bt39,714 million, up from Bt35,528 in 2003. Its net income increased from Bt5,424 million in 2003 to Bt6,487 million in 2004.

Rating Outlook

The "stable" outlook reflects the stable dividend income from RATCH's major subsidiary, RATCHGEN. The company is expected to take a prudent and conservative approach when making investment decisions.

Key Rating Considerations

Strengths/Opportunities

- Stable dividend income from RATCHGEN and TECO
- Long experience in the power industry
- Strong relationship with its major shareholder, EGAT
- Ready for upcoming IPP bidding in 2005-2006

Weaknesses/Threats

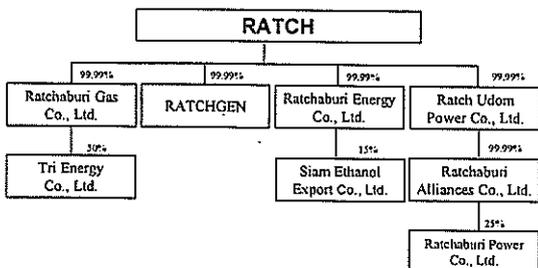
- Uncertainty of the power industry reform and EGAT's status after privatization

Corporate Overview

Ratchaburi Electricity Generating Holding PLC (RATCH) and Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN) were established in 2000 to purchase the Ratchaburi power plants from EGAT. RATCH holds 99.99% of RATCHGEN, the largest private power producer in Thailand with the total installed capacity of 3,645 MW, which represents 14.2% of Thailand's and 34% of the private sector's installed capacity as of December 2004. RATCH has expanded its power generating capacity by investing in Tri Energy Co., Ltd. (TECO), a 700 MW power plant, and Ratchaburi Power Co., Ltd. (RPC), a 1,400 MW gas-fired power plant. As of May 2005, RATCH owned 50% share in TECO and a 25% stake in RPC.

Since RATCH's establishment, the Electricity Generating Authority of Thailand (EGAT) has remained a major shareholder, owning a 45% stake as of March 2005. EGAT operates RATCHGEN's power plant under an operation and maintenance agreement (OMA) and is RATCHGEN's sole customer under power purchase agreements (PPAs). In addition, EGAT has a minimum gas off-take obligation under a master gas sales agreement (MGSA) with PTT PLC (PTT).

Table 1: RATCH's structure as of May 2005



Recent Development

- **Increased stake in TECO from 37.5% to 50%**

On 9 March 2005, Ratchaburi Gas Co., Ltd. (RATCH's subsidiary), invested US\$13.7 million to purchase additional shares of TECO. The aggregate 50% holding in TECO is worth Bt2,625 million.

▪ **Investment in Siam Ethanol Export Co., Ltd.**

Ratchaburi Energy Co., Ltd., RATCH's subsidiary, purchased a 15% stake worth Bt45 million in Siam Ethanol Export Co., Ltd. (SEEC). SEEC is an ethanol maker licensed for export with the capacity of approximately 30,000 tons per year. The plant is expected to start operation in 2006. RATCH will use waste water from the plant as raw material for its renewable power plant project.

INDUSTRY ANALYSIS

For several decades, Thailand's electricity sector has been dominated by three state-owned enterprises involved in the generation, transmission and distribution of power. EGAT has dominated electricity generation and transmission, while the Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA) have been responsible for distribution. The MEA and PEA are obligated to purchase the energy they need from EGAT.

▪ **Privatization scheme encourages private investment in the power sector**

Privatization of the power sector began in the electricity generating sector by encouraging private companies to produce and sell electricity to EGAT. The small power producer (SPP) scheme was introduced in 1992, followed by the independent power producer (IPP) scheme in 1994. Both IPPs and SPPs have 20- to 25-year power purchase agreements (PPA) with EGAT. The PPAs are well designed to mitigate the market risk of the operators, leaving mainly operating risk to be managed. Private producers under the IPP scheme are obligated to sell all electricity output to EGAT, while the private power producers under the SPP scheme can sell electricity either to EGAT or to industrial users. EGAT sold two of its power plants to Electricity Generating Company PLC (EGCO) in 1995 and 1996, and then sold the Ratchaburi power plant to RATCHGEN in 2000. EGAT is moving from being a power producer to a power purchaser.

As of December 2004, Thailand had combined installed electricity generating capacity of 26,056 MW. EGAT had 59% of the total, followed by EGAT's affiliates and IPPs (31%), SPPs (8%), and power imported from Laos (2%).

EGAT's share of power generation capacity has decreased from 100% before 1995 to 82% in 1999 and to 59% by December 2004. Electricity generation from private producers sharply increased by 2,870 MW (17%) in 2000 when the first two IPPs, TECO and Independent Power (Thailand) Co., Ltd., began their commercial operations in July and August 2000 respectively. The first two units of the Ratchaburi power plant started operation in the same year.

▪ ***Strong electricity demand may result in decreasing reserve margin***

Electricity demand in Thailand has been very strong over the past several decades. Although the economic crisis in the late 1990s caused electricity consumption to decline by 1% per annum in 1998 and 1999, electricity consumption grew approximately 7% per annum during 2000 to 2004. According to the Load Forecast Committee study completed in January 2004, under a moderate economic recovery scenario, electricity consumption will expand at an average rate of 7.53% from 2004 to 2008, 6.79% from 2009 to 2013, and 6.43% from 2014 to 2015.

Despite a recovery in electricity demand since 2000, growth has not absorbed the sharp increase in supply, resulting in an oversupply. As of December 2004, the reserve margin was 26.8%, much higher than the targeted plan of 15% to 20%. The oversupply is expected to be absorbed in 2005-2006 when demand recovers further and the reserve margin drops to an acceptable range. According to the latest Power Development Plan (PDP-2004) made by EGAT, the reserve margin is expected to drop to 13.7% in 2006.

▪ ***EGAT retains an important role in new power industry model***

The power pool system, which aims to promote competition in electricity supply, was officially cancelled by a cabinet resolution on 9 September 2003, due partly to the unfavorable experience of utilities in many countries including the United States and the United Kingdom. The new power industry model namely the Enhanced Single Buyer or ESB system has been implemented under a cabinet resolution on 9 December 2003. The ESB model is expected to have less impact on existing PPAs than the power pool system because EGAT continues to be the single power purchaser buying from all power producers. However, the implementation of this model, its impact on existing players, and EGAT's role in the electricity generation business remain to be seen.

BUSINESS ANALYSIS

RATCH's business profile is above average. Its current business is dominated by its largest subsidiary, RATCHGEN. As of December 2004, RATCHGEN's investment constituted 90% of RATCH's total investment while dividends received from RATCHGEN contributed 96% of total revenues.

▪ ***EGAT continues to be RATCH's major shareholder***

RATCH was established and listed on the Stock Exchange of Thailand in 2000. The establishment of RATCH to purchase the Ratchaburi power plant from EGAT is one part of EGAT's privatization.

EGAT holds a 45% stake in RATCH, with a strong interest in RATCH in terms of dividends received and operation provided. As of March 2005, 45% of RATCH was owned by EGAT, followed by the BANPU group (14.99%), the Social Security Office (2.89%) and the Government Savings Bank (2.62%). Although EGAT is in the process of privatization, its privatization should have no significant impact on RATCH's business risk.

▪ ***Reliable dividend from RATCHGEN***

The majority of RATCH's cash flow is highly dependent on dividend income from RATCHGEN. This income source is relatively stable as a result of RATCHGEN's well-designed project structures, state-of-the-art power plants, and the operator's long experience in the power sector.

RATCHGEN has 25-year power purchase agreements (PPAs) with EGAT that are well structured to protect RATCHGEN from fluctuations in power demand and supply. The pay-if-available payment structure of the PPAs provides stable cash flow to RATCHGEN, while the revenue adjustment mechanism limits foreign exchange rate risk and inflation rate risk. Fuel risk is limited through the structure of the energy payments in the PPAs and through a 25-year gas sale agreement (GSA) with PTT where EGAT has an obligation to take a minimum level of gas under the take-or-pay GSA.

Technology and operating risks are mitigated by the operation and maintenance agreement (OMA) with EGAT. With over 30 years of operating experience, EGAT has developed a strong reputation for running its power plants. EGAT has a nine-year contract to operate and maintain RATCHGEN's entire plant on a daily

basis. The 12-year supply contract with GE for major gas turbine parts helps minimize operational risk as it mitigates price risk and major parts availability risk.

RATCHGEN's operation in 2004 was satisfactory because the company could maintain the equivalent availability factor (EAF) of the thermal units at 96.2% which is slightly better than the target. The availability factor of the combined cycle units improved from 85.7% in 2003 to 91.7% in 2004.

▪ ***Investment focuses on power related businesses***

RATCH has a corporate policy to invest in power projects and power related businesses in Thailand and in the region. The company's investment policy is moderately conservative. Although RATCH has a broad investment policy, its priorities for future investment will be the acquisition of existing power projects holding long-term PPAs with EGAT, followed by brownfield and greenfield projects. In addition to RATCHGEN's power plant, the company has invested in two IPP projects, namely TECO and RPC, formerly named the Hin Krut project.

▪ ***TECO investment provided annual dividend income of Bt241 million in 2004***

In 2003, the company took a 37.5% ownership stake in TECO with an investment of Bt2,100 million. TECO is a 700 MW gas-fired combined cycle IPP located in Ratchaburi province. Its location adjacent to RATCHGEN's power plant benefits both plants through cooperation. TECO commenced commercial operations in July 2000 under 20-year PPAs with EGAT. In 2004, TECO maintained its EAF at 93.6%, slightly better than RATCHGEN's average EAF for the combined cycle units. RATCH acquired an additional 12.5% stake in TECO for US\$13.7 million in March 2005. TECO's shareholders comprise Ratchaburi Gas Co., Ltd. (50%), which is RATCH's wholly-owned subsidiary and Texaco Thailand Energy Company I (50%).

▪ ***RPC project progress on track***

RATCH held 25% in RPC with an initial investment of Bt416 million as of March 2005. RPC is an IPP power project, formerly known as the Hin Krut project. After strong opposition from the local community, the project changed its fuel from coal to natural gas and relocated from Prachuap Khiri Khan province to the RATCHGEN site. RPC is a two-block combined cycle power plant with total generating capacity of

1,400 MW. The total cost of this project is approximately US\$890 million and the project's debt financing is roughly 75%. RATCH will inject the equity portion worth approximately Bt2,000 million during 2005-2007. RPC plans to close financing and start construction in the first quarter of 2006 with commercial operations scheduled to start in 2008.

▪ ***Small hydro projects: pending***

Ratchaburi Energy Co., Ltd. (RE), established in 2001, is another investment arm of RATCH. RE plans to develop four small hydro power projects with the total capacity of 36.7 MW at four dams of the Royal Irrigation Department. These four projects require a total investment of around Bt1,500-Bt2,000 million, with 30% funded through equity and 70% funded through debt. However, the construction has not yet started due to the policy changes by the Royal Irrigation Department regarding hydro power plants.

FINANCIAL ANALYSIS

As a holding company, most of RATCH's cash flow comes from dividends received from its investments.

▪ ***Reliable dividend income from RATCHGEN and TECO***

With an investment of approximately Bt18,275 million in RATCHGEN, RATCH received Bt5,796 million in dividend income in 2004. RATCHGEN has a clear policy to pay out 100% of its net profit after it meets a DSCR coverage ratio of 1.2 times and fully funds its debt reserve account. Dividends from RATCHGEN will remain a dependable source of cash flow to RATCH given its solid project structures.

An investment of Bt2,625 million in TECO was funded through RATCH's internal cash flow. RATCH received Bt220 million in dividends from TECO in 2003 and Bt241 million in 2004. Given its much smaller size relative to RATCHGEN, the dividend contribution from TECO accounts for only 5%-7% of RATCH's total dividends received.

▪ ***RATCH's internal cash flow is sufficient to fund investments***

RATCH's total dividends from its power plants approximately Bt6,000 million a year is more than sufficient to fund its planned investments of Bt2,400 million (Bt2,000 million in the RPC project and Bt400 million in the

hydro projects) during 2005-2007. For the investments in the new round of the IPP projects biddings during 2005-2007, the company may need external financing for its equity investment.

▪ *Profitability improved slightly in the first quarter of 2005*

RATCH's revenues increased 11.8% to Bt39,714 million in 2004. Energy payments (EP) were up 20% but availability payments (AP) decreased by 4%. RATCH's operating margin before depreciation and amortization was 27.0%

in the first quarter of 2005, up from 24.5% in 2004. The company's leverage and liquidity improved as long-term debt was repaid, and the cost of debt fell from MLR-1.5% to MLR-2.5%. Its debt to capitalization ratio improved from 61.0% at the end of 2003 to 53.4% at the end of the first quarter of 2005 as the company has not yet made any large investments. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio for 2004 improved to 8.5 times from 5.7 times in 2003.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	3/2005	Year ended 31 December				
		2004	2003	2002	2001	2000
Electricity sales	10,660	39,714	35,528	27,493	17,423	2,764
Total operating costs	8,455	32,668	28,634	21,256	13,180	2,405
Operating profit	2,205	7,046	6,894	6,237	4,243	359
Interest expense	287	1,225	1,703	1,967	1,386	247
Net profit	2,149	6,487	5,424	4,729	3,060	204
Funds from operations (FFO)	2,719	8,750	7,892	6,573	4,347	353
Capital expenditures	16	125	2,401	27,050	92	29,336
Total assets	68,629	69,494	67,144	67,784	39,850	36,947
Total debt	35,028	35,765	38,652	40,896	18,267	18,482
Shareholders' equity	30,617	28,468	24,736	22,574	19,295	16,236
Operating income before depre. and amort. as % of sales	27.0	24.5	26.7	29.5	31.4	20.5
Pretax return on permanent capital (%)	3.8 **	12.1	11.3	13.7	13.1	1.1
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	11.0	8.5	5.7	4.5	4.3	2.4
FFO/total debt (%)	7.8 **	24.5	20.4	16.1	23.8	1.9
Total debt/capitalization (%)	53.4	55.7	61.0	64.4	48.6	53.2

* Consolidated financial statements

** Non-annualized

RATCH's Portfolio*

Unit: Bt million

	3/2005	Year ended 31 December				
		2004	2003	2002	2001	2000
Electricity Generation Capacity (MW)						
RATCHGEN**	3,645	3,645	3,645	3,645	1,470	1,470
TECO (RATCH portion)	350	263	263	-	-	-
RPC (RATCH portion)***	350	350	-	-	-	-
Investment (cost method)						
RATCHGEN**	18,275	18,275	18,275	18,275	16,000	16,000
TECO	1,809	1,284	1,284	-	-	-
RPC***	416	416	-	-	-	-
Investment (equity method)						
RATCHGEN**	21,316	22,244	21,780	21,891	18,829	16,123
TECO	2,806	2,166	1,965	-	-	-
RPC***	371	381	-	-	-	-
Dividend received						
RATCHGEN**	n.a.	5,796	5,615	3,888	-	-
TECO	n.a.	241	220	-	-	-
RPC***	-	-	-	-	-	-

* Consolidated financial statements

** Based on stand-alone financial statements

*** Commercial operations will start in 2008

Rating Symbols and Definitions

TRIS Rating uses letter rating symbols for announcing credit rating results for long-term debt instruments. Ratings range from AAA, the highest rating, to D, the lowest rating. The definitions are:

- AAA** the highest rating with smallest degree of credit risk, extremely strong capacity to pay interest and repay principal on time, and unlikely to be affected by adverse changes in business, economic or other external conditions.
- AA** the debt instrument with very low degree of credit risk, very strong capacity to pay interest and repay principal on time, but somewhat more susceptible to the adverse changes in business, economic, or other external conditions than the AAA rated issues.
- A** the debt instrument with low credit risk, strong capacity to pay interest and repay principal on time, but more susceptible to the adverse changes in business, economic or other external conditions than debt in higher rated categories.
- BBB** the debt instrument with moderate credit risk, moderate capacity to pay interest and repay principal on time, but more vulnerable to adverse changes in business, economic or other external conditions which is likely to weaken the capacity to pay interest and repay principal than debt in higher rated categories.
- BB** the debt instrument with high credit risk, less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions with lower creditors' protection than provided by higher ratings.
- B** the debt instrument with very high credit risk, low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions would lead to lack of ability or willingness to pay interest and repay principal.
- C** the debt instrument with highest risk of default than debt in higher rated categories, significant inability to pay interest and repay principal on time and dependent upon favourable business, economic or other external conditions in order to meet its obligations.
- D** the debt instrument in which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

The ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies. Therefore, the ratings are not capped by the (foreign currency) sovereign ceiling of Thailand, which are assigned by international credit rating agencies.

TRIS Rating also assigns "Rating Outlooks" to reflect the potential direction of a company's credit ratings over the medium to long term. In formulating these outlooks, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. Rating outlooks will be announced in conjunction with company credit ratings, and new outlooks will be generated as circumstances warrant. In most cases, outlook assigned to a company will apply to all debt obligations issued by the company.

The categories for "Rating Outlooks" are as follows:

- Positive** the rating may be raised
- Stable** the rating is not likely to be changed
- Negative** the rating may be lowered
- Developing** the rating may be raised, lowered or remain unchanged

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