

Rating Action: Moody's assigns first-time Baa1 rating to RATCH

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Hong Kong, November 19, 2010 -- Moody's Investors Service has assigned a first-time Baa1 corporate family rating to Ratchaburi Electricity Generating Holding Public Company Limited ("RATCH").

The outlook for the rating is stable.

The Baa1 corporate family rating reflects Moody's opinion of RATCH's ability to honour its financial obligations as if it had a single class of debt and as if it were a single consolidated legal entity.

If any of RATCH's senior unsecured debt obligations are rated in the future, the senior unsecured debt rating would potentially be notched down from the Baa1 level to reflect legal and structural subordinations, depending on the proportion of secured and project level debt versus total debt and total assets.

RATINGS RATIONALE

"The Baa1 corporate family rating reflects RATCH's solid market position as the largest independent power producer in Thailand and sound credit profile with stable cash flow generating from its operating plants," says Kaven Tsang, a Moody's AVP/Analyst.

"RATCH's stable cash flow is supported by secured and long-term power purchases agreements with EGAT (100% government owned integrated utility, unrated) and gas sales agreements PTT Public Company Limited (A3/stable). The cost pass-through mechanism built into the tariffs also mitigates the company's exposure to any volatility in fuel prices," says Tsang.

"Though RATCH will have to raise more debt to fund both new investments and the construction of new plants at the project level as it continues to expand, Moody's expects RATCH's adjusted FFO interest coverage will continue to exceed 7x and its FFO/adjusted debt above 30% for the next three years. These ratios are considered strong for its Baa1 rating," adds Tsang.

RATCH owns a majority of its power plants through joint ventures and hence all the JV debt is off its balance sheet. Moody's has consolidated (pro-rata) such off-balance sheet debt and interest expenses of the JVs to more accurately assess RATCH's financial profile.

At the same time, the Baa1 corporate family rating reflects Moody's view that RATCH's credit profile is closely linked to EGAT's, as the latter is the largest shareholder and the sole off-taker for RATCH's existing generation capacity.

The rating also reflects RATCH and EGAT's close linkage to Thailand (Baa1/stable) in view of the two companies' strategic positions in the country's power generation and electricity sectors.

Additionally, the rating takes into account the execution risk and financing needs for RATCH's future expansion. Overseas expansion would also bring forth regulatory uncertainties as RATCH will have to work in legal and regulatory environments different from Thailand's.

Partly mitigating these concerns is the strong recurring cash flow from RATCH's operating plants, which provide the company a buffer against some of these uncertainties. Moody's also expects RATCH to exercise prudent financial management and maintain a sound financial profile while pursuing its expansion, and hence the stable outlook.

The stable outlook also reflects Moody's expectation that there will be no material adverse changes in the regulatory environment for Thailand's electricity market over the near to medium term.

Because RATCH's financial metrics are already comparable to those of its high Baa- or low A-rated utility peers and its operations and credit profile are closely linked to EGAT's, and thus to Thailand's sovereign rating, a sovereign upgrade could trigger an upgrade to its rating.

The rating could be downgraded if RATCH's credit strength deteriorates substantially, such that its adjusted FFO/interest coverage falls below 3-4x and FFO/adjusted debt falls below 15-20% over the cycle. This could be a result of more aggressive than expected acquisitions or investments funded predominantly by debt.

In addition, a downgrade to Thailand's sovereign rating or a material reduction of EGAT's stake in the company would also be negative for RATCH's rating.

The principal methodology used in this rating was Moody's Rating Methodology for Global Regulated Electric Utilities, published in August 2009.

Ratchaburi Electricity Generating Holding Public Company Limited was founded in 2000 as a holding company to purchase power plants from the Electricity Generating Authority of Thailand. RATCH currently has investments in four operating power plants with a total installed capacity of 4,346.75 megawatts, approximately 14.3% of the country's total capacity. The company is listed on the Stock Exchange of Thailand, with EGAT as its largest shareholder (holding a 45% stake) and as the sole off-taker of RATCH's existing power generation capacity.

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