

Research Update:

Ratchaburi Electricity Generating Holding Public Co. Ltd. Assigned 'BBB' Rating With Stable Outlook

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Overview

- RATCH benefits from good power purchase agreements with its largest shareholder EGAT. It also has strong and stable cash flows.
- We assigned our 'BBB' long-term corporate credit rating to RATCH.
- The stable outlook reflects our view of stable operating performance and cash flows.

Rating Action

On Nov. 19, 2010, Standard & Poor's Ratings Services assigned its 'BBB' long-term corporate credit rating to Thailand-based power generator Ratchaburi Electricity Generating Holding Public Co. Ltd. (RATCH). The outlook is stable. At the same time, we assigned our ASEAN regional scale rating of 'axA' on the company.

Rationale

The ratings reflect RATCH's strong power purchase agreements (PPAs) with Electricity Generating Authority of Thailand (EGAT: BBB+/Negative/--; ASEAN Scale axA+/axA-1), good market position, and conservative financial policy. These strengths are offset by EGAT's weaker stand-alone credit profile (SACP) of 'bbb-', RATCH's lack of diversity, and increasing country and macroeconomic risk associated with the rising exposure to operations and investments in Laos (not rated).

In our opinion, RATCH has a good market position, even though it does have some concentration risk. The company is the second-largest electricity generator in Thailand and the country's largest independent power producer (IPP). Its stand-alone production capacity is 3,647 megawatt (MW); after including proportionate shares in joint ventures, the company's capacity is 4,347 MW, which is 14.3% of Thailand's generation capacity. However, RATCH's stand-alone capacity is concentrated at a single site at Ratchaburi. The company also faces fuel supply concentration with natural gas supplied from two fields in Myanmar, both of which are operated by PTT Exploration and Production Public Co. Ltd. (BBB+/Negative/--). Nevertheless, comprehensive insurance coverage and Master Gas Sales Agreement between EGAT and PTT Group largely offset the concentration risk.

RATCH benefits from a stable operating and financial performance, in our view.

This is on account of strong PPAs with EGAT that ensure steady capacity payments in return for achieving agreed levels of availability and heat rate; the agreements protect the company from any demand side risk. The agreements also allow the company to pass on most costs, especially fuel cost, and enable it to earn a fixed return on equity. We think the company also benefits from EGAT's considerable experience of running power plants, given that it has entered into an operating and maintenance agreement with EGAT.

In our view, the company has a modest financial risk profile. The company's consistent adjusted free operating cash flows of more than Thai baht (THB) 6 billion on account of stable operating performance and investments through joint ventures in moderate size projects support its financial risk profile. In addition, the company has been consistently reducing debt over the past several years. We think the company's financial metrics are strong as a result. As of year ended Dec. 31, 2009, the company's ratio of funds from operations to total debt was 42% and debt to capital was 31%. However, these ratios could deteriorate somewhat because of the company's plans to invest in other countries in early 2011.

While RATCH's SACP is stronger than the 'BBB' rating, its relationship with EGAT tempers the rating. This is because EGAT's SACP, of 'bbb-', is lower than the 'BBB' rating on EGAT. In our opinion, although RATCH is a strategic investment for EGAT, we do not consider it to be a government-related entity. The company is Thailand's largest IPP, and there are very strong linkages between the two. EGAT is RATCH's largest shareholder at 45%, controls the company's board of directors, is its only purchaser, and is the operator of many of its power plants. As a result, the rating on RATCH is no more than one notch above the SACP of EGAT.

Liquidity

In our view, RATCH has adequate liquidity. As of Sept. 30, 2010, the company had cash and cash equivalents of about THB10.5 billion. In addition, it had strong cash flow generation with cash from operations of more than THB7 billion, compared with annual debt maturities of about THB4 billion over the next two years. We expect the company to fund its capital expenditure and investments through internal cash resources and long-term debt, if required. The company is also compliant with its debt covenants. We also believe that the company has good access to the local financial markets, although it is yet to access the global financial markets.

Outlook

The stable outlook reflects our expectation of stable operating performance and cash flows from RATCH's existing power operations.

We could raise the rating on RATCH if EGAT'S SACP is raised to at least 'bbb'. Conversely, we could lower the rating if EGAT's SACP falls to 'bb+' or lower. We could also downgrade RATCH if the company makes a larger-than-expected

debt-funded acquisition or investment, which results in a weaker financial risk profile and heightened country and macroeconomic risk.

Related Criteria And Research

- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009
- Key credit factors: Business and Financial Risks In The Investor-Owned Utilities Industry Nov. 26, 2008
- Corporate Ratings Criteria 2008, published April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

Ratings List

New Rating

Ratchaburi Electricity Generating Holding Public Co. Ltd.	
Corporate Credit Rating	BBB/Stable/--
ASEAN Scale Rating	axA/--/--

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