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Ratings

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Summary:

Ratchaburi Electricity Generating Holding Public Co. Ltd.

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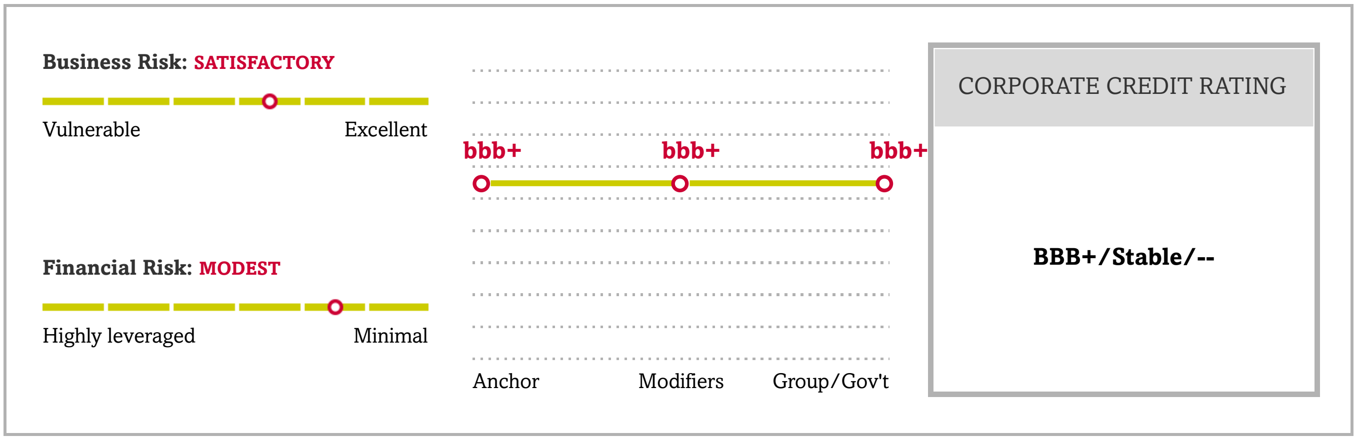

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• Sound domestic market position. • Strong power purchase agreement structures. • Solid relationship with EGAT. • Site concentration and limited fuel diversity. • Exposure to regulatory and country risks stemming from offshore expansion.	• Record of moderate on-balance sheet debt. • Increasing dividends received compensate the declining availability payments. • Sizable non-recourse project finance debt in equity-accounted joint ventures.

Outlook: Stable

The stable outlook reflects our expectation that Ratchaburi Electricity Generating Holding Public Co. Ltd. (RATCH) will maintain its current robust capital structure over the next two years, with a debt-to-EBITDA ratio below 1.5x. We do not expect the relationship between RATCH and its controlling shareholder Electricity Generating Authority of Thailand (EGAT) to change.

Downside scenario

We may lower the rating if any one of the followings occurs:

- RATCH's stand-alone balance sheet weakens, with debt-to-EBITDA approaching 3x for a prolonged period. This would probably happen in case of aggressive debt-funded expansion. Investments through joint ventures (JVs) could also weaken RATCH's balance sheet, including adverse developments in those JVs that we view RATCH will extend financial support to, or a significant increase in debt on its higher-risk JV projects that RATCH has a material interest in;
- There are negative changes in the sovereign rating of Thailand, which would weaken the credit quality of EGAT, RATCH's largest customer; or
- We consider that RATCH no longer benefits from indirect support from the government in terms of the company honoring its debt obligations or receiving power purchase agreement (PPA) payments.

If we lower RATCH's stand-alone credit profile by two or more notches, it will only result in a one-notch decline in the rating on RATCH, as long as we still believe that EGAT and the government will be incentivized to provide extraordinary financial support and the relationship between EGAT and RATCH remains the same.

Upside scenario

The potential for an upgrade is limited over the next two years because the rating on RATCH is constrained by the sovereign credit rating on Thailand, which anchors the creditworthiness of EGAT, RATCH's controlling parent and predominant PPA counterparty.

S&P Global Ratings' Base-Case Scenario

Assumptions

- GDP growth in Thailand of 3.0%-3.3% and in Australia 2.7%-2.8% in 2016/2017, which is higher than 2015. Stable electricity demand in Australia and moderate demand growth in Thailand.
- A marginal increase in RATCH's revenue--adjusted for finance lease principal repayment--because of improving energy payments offset by declining availability payment (AP).
- EBITDA margin consistently at 18%-19%--adjusted for principal repayment on financial leases and dividends from JVs--somewhat lower than previous years on lower AP, offset by higher dividends received.
- Dividends received from JVs/associates to grow to Thai baht (THB) 1.7 billion in 2016 and THB3 billion in 2017 as Hongsa starts stable contributions, which offset the lower distribution from seasoned plants including RPCL.
- Minimal maintenance capital expenditure (capex) on subsidiaries, about 50% of depreciation and amortization.
- Investment calls on approved investments to peak in 2016 at THB8.5 billion, consisting of a back-end equity infusion in Hongsa and thereafter THB2 billion-THB3 billion in 2017.
- Annual dividends fixed at THB3.3 billion, as in the past.
- No significant ventures beyond Thailand's neighboring countries.

Key Metrics

	2015A	2016E	2017E
Debt-to-EBITDA (x)*	1.2	1.0-1.5	1.0-1.5
EBITDA interest coverage (x)	8.1	8.0-10.0	8.0-10.0
DCF-to-debt (%)§	(0.2)	(10.0)-(20.0)	20.0-30.0

A--Actual. E--Estimate. *Key adjustment for debt includes surplus cash (75% of reported cash and short-term investments). Key adjustment for EBITDA includes the lease receivable from EGAT. §DCF--Discretionary cash flow, which is defined by operating cash flow less capex and dividends. The capex includes scheduled capital injection into joint ventures and associates.

Business Risk: Satisfactory

We expect RATCH to maintain its good domestic market position as the country's leading independent power producer and the second-largest electricity generator in Thailand. RATCH is likely to benefit from at least stable demand for power during at least the next three-to-five years.

RATCH benefits from predictable PPAs, with its controlling shareholder and key off-taker being state-owned utility EGAT. The PPAs, which include both availability and energy payments, protect RATCH from demand volatility and fuel price risks.

The concentration of the company's generation assets in one location in Thailand and lack of fuel diversity moderate this strength. As of June 30, 2016, three plants in the Ratchaburi industrial estate accounted for about 75% of the company's total equity generation capacity of 6,419 megawatts in operation. The ratio will ease somewhat to 70% once the committed under-construction projects come on stream over the next five years. Gas-fired power accounts for about 80% of RATCH's equity operational capacity, mostly in Thailand, reduced from 90% a year before, when the high stake coal-fired Hongsa project started operations. We expect RATCH's exposure to gas to continue declining as renewable and alternative energy projects come on stream. Nevertheless, the fuel availability risk could be a pronounced long-run issue given that gas supply in Thailand is on gradual decline and as Myanmar may be in need of gas for its own economic development.

We expect the company to strategically expand overseas over the next few years. RATCH is evaluating potential projects beyond its neighboring countries through project-financed JV structures. While this strategy would help RATCH increase its geographic footprint and fuel diversity, it will expose the company to higher-risk jurisdictions, where competitive and regulatory settings may not be as supportive as in Thailand.

Financial Risk: Modest

RATCH's capital structure reflects the company's stable operating performance and moderate financial policy. Strong PPA structures and a good track record in payment collection underpin the company's predictable operating cash flows.

Higher dividends from JV projects, including from the Laos-based Hongsa power plant, will offset declining AP and return on investment. The AP RATCH receives from EGAT would decline because, according to a preset schedule, return on initial capital investment would be accelerated in the first half of the PPA tenor and the later part of tenor would mainly consist of reimbursing maintenance costs.

We do not include off-balance sheet debt at the JVs because this debt is structured as project financing and is nonrecourse to the company. Also, these projects are making good progress with little likelihood of need for extra support from the sponsor. However, we remain mindful that the financing structure across debt and equity is much more aggressive for these projects compared with RATCH's balance sheet, and that any performance issue could necessitate unscheduled equity injections from the company.

We expect RATCH's EBITDA to remain stable at THB11 billion-THB12 billion annually over 2016-2017, compared with THB11.2 billion in 2015. We expect the company's leverage to increase in 2016 as it uses its cash to fund a spike in capex arising from the back-ended equity funds injection into the Hongsa project over the year. Debt should reduce in 2017 as scheduled investments decline and positive discretionary flows accrue to its balance sheet. Over both years, we expect RATCH will maintain a stable dividend payout of about THB3.3 billion a year, as it has done in the last five years.

Liquidity: Adequate

We assess RATCH's liquidity as adequate because we anticipate that the company's liquidity sources will exceed uses by 1.2x over the next 12 months. We expect the company to maintain sufficient headroom in its covenants even if EBITDA declines by 15%. RATCH has supportive banking relationships and good access to domestic and international debt markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and short-term investment of THB7.9 billion as of March 31, 2016. • Operating cash flows that we estimate at THB8.5 billion-THB9.5 billion over the next 12 months.	• Contractual debt maturities of THB4.3 billion over the next 12 months. • Committed capex of THB3.0 billion-THB3.5 billion over the next 12 months. Consistent dividends paid of close to THB3.3 billion a year.

Group Influence

We believe RATCH is strategically important to its controlling shareholder EGAT. We assess the group credit profile (GCP) of EGAT to be 'bbb+'. The GCP factors in government support because we expect the government to provide support through EGAT indirectly to RATCH in the event of financial distress. EGAT has a dominant market position in electricity generation and is the sole owner and operator of the electricity transmission system in Thailand.

EGAT owns 45% of RATCH and the balance is widely held by the public. In our view, EGAT will maintain its controlling stake in RATCH, given its objective to account directly or indirectly for at least 50% of Thailand's power generating capacity. RATCH also benefits from EGAT's considerable experience of running power plants because EGAT provides operating and maintenance services to RATCH. However, EGAT's credit profile constrains the rating on RATCH, given that EGAT is RATCH's largest customer.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)

- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Entity status within group:** Strategically important (no impact)

Related Criteria And Research

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Legal Criteria: Guarantee Criteria--Structured Finance, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-