

RATCHABURI ELECTRICITY GENERATING CO., LTD.

No. 74/2017

29 June 2017

Company Rating: AAA

Outlook: Stable

Company Rating History:

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

Rating Rationale

TRIS Rating affirms the company rating of Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN) at "AAA". The rating continues to reflect the predictable cash flows RATCHGEN receives from its long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), its state-of-the-art power plants, as well as the company's proven record of managing power plants and its strong balance sheet.

RATCHGEN is a wholly-owned subsidiary of Ratchaburi Electricity Generating Holding PLC (RATCH) which is rated "AAA" by TRIS Rating. RATCHGEN is the largest Independent Power Producer (IPP) in Thailand. At the end of March 2017, RATCHGEN owned and operated two power plants in Ratchaburi province, with a total capacity of 4,345 megawatts (MW). The two plants account for 10% of Thailand's total installed capacity. The Ratchaburi power plant consists of two thermal units and three combined cycle gas turbine (CCGT) units, with a total installed capacity of 3,645 MW. The 700-MW Tri Energy power plant was transferred to RATCHGEN on 1 August 2014. The Ratchaburi power plant sells electricity to EGAT under 25-year PPAs and buys natural gas from PTT PLC (PTT) under a 25-year gas sale agreement (GSA). The Tri Energy power plant holds a 20-year PPA with EGAT and a 20-year GSA with PTT.

The equivalent availability factor (EAF) and the plant's heat rate are key factors, reflecting plant's reliability and efficiency. For the Ratchaburi power plant, the EAF continued to outperform the PPA targets. In 2016, the EAF of thermal units was 97.1%, better than the PPA target of 95.4%. The heat rate of the thermal units was 10,200 BTU/kWh (British thermal units per kilowatt hour), in line with the PPA's target. The CCGT units also outperformed the targets set in the PPA, reaching an average plant availability level of 91.6% and a heat rate of 7,080 BTU/kWh. For the first three months of 2017, the thermal units reached an EAF of 100%, compared with the target of 95.5%. The heat rate was 10,899 BTU/kWh, slightly under the target of 10,100 BTU/kWh, reflecting the lower dispatch rather than the optimum level. The EAF of CCGT units was 86.3% for the first three months of 2017, higher than the target. The heat rate of CCGT units of 7,095 BTU/kWh continued to outperform the target of 7,159 BTU/kWh. The high EAF indicates that the Ratchaburi power plant realized its full Availability Payment (AP).

In 2016, the Tri Energy power plant faced some technical issues with its gas turbine rotor. This issue caused the EAF of the Tri Energy power plant to fall below the operating targets. The EAF of the Tri Energy power plant was 70.6% in 2016, compared with the target of 93.3%, and the plant heat rate was 7,211 BTU/kWh. However, the technical issue was resolved by the end of 2016. The EAF of the Tri Energy power plant increased to 99.9% and the heat rate was 7,139 BTU/kWh, for the first three months of 2017. The lower-than-expected performance of the Tri Energy power plant in 2016 barely hurt RATCHGEN's overall performance. The Tri Energy power plant makes a fairly small contribution to RATCHGEN's overall performance. In addition, the operation and maintenance (O&M) contractor absorbed those related expenses.

In 2016, RATCHGEN sold 20,228 gigawatt-hours (GWh) of electricity to EGAT, of which 17,109 GWh was generated by the Ratchaburi power plant and 3,119 GWh by the Tri Energy power plant. The amount sold increased by 5% from 19,186 GWh in 2015. Although EGAT dispatched more electricity energy from RATCHGEN,

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the company's revenue dropped by 18% to Bt45,010 million, mainly due to lower gas prices and the AP revenue as structured in the PPA. The gas price declined by 22% to Bt236 per million BTU (MMBTU). In 2016, the company's earnings before interest, tax, depreciation and amortization (EBITDA) was Bt8,282 million. RATCHGEN's capital structure is strong. At the end of 2016, the company's total debt was about Bt7,400 million, with a total debt to capitalization ratio of 22.8%.

For the first three months of 2017, the company's revenue declined by 27% to Bt9,228 million, mainly due to a 20% lower dispatch of electricity from EGAT to 4,102 GWh. The lower dispatch did not impact the company's cash flow generation, as it relied on the ability of the plant to be available rather than the amount of electricity sold. As a result, the company still received the full amount of AP revenue as its EAF was higher than the target. The company's EBITDA was Bt2,261 million for the first three months of 2017, compared with Bt2,360 million for the first three months of 2016. At the end of March 2017, the company's total debt was Bt6,200 million. The total debt consisted of short-term loans from its parent company, RATCH, worth about Bt4,200 million, plus debentures of Bt2,000 million, issued in 2015. The company's debt to capitalization ratio was 19.8% at the end of March 2017. RATCHGEN's cash flow protection is very strong. For the first three months of 2017, the EBITDA interest coverage ratio was 36.3 times, while the ratio of funds from operations (FFO) to total debt was 114.9% (annualized with trailing 12 months).

Looking forward, TRIS Rating expects that RATCHGEN will generate EBITDA of about Bt6,000-Bt7,000 million per year during 2017-2019. The EBITDA will gradually decline as structured in the PPA before its expiration in 2027.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that RATCHGEN will maintain the availability of its plants and keep its operating performance in line with the PPA's targets. TRIS Rating also expects RATCHGEN to generate reliable streams of revenue throughout the life of the PPAs, which will end in 2027.

A credit rating downside may occur if RATCHGEN's financial leverage deteriorates dramatically due to any large-scale, debt-funded investment. A severe underperformance of the Ratchaburi power plant for a sustained period could also impact the company's credit profile.

Ratchaburi Electricity Generating Co., Ltd. (RATCHGEN)

Company Rating:

AAA

Rating Outlook:

Stable

Performance Statistics of Ratchaburi Power Plant

	Unit	Jan-Mar 2017 (Target)	Jan-Mar 2017 (Actual)	2016	2015	2014
Thermal Units						
Net electrical output	GWh	702	112	3,043	3,778	2,852
Dispatch factor	%	23.6	3.6	24.8	34.3	22.8
EAF* avg. 12 months	%	95.5	100	97.1	87.3	99.4
Plant heat rate	BTU/kWh	10,100	10,899	10,200	9,947	10,352
Dependable capacity	MW	1,440	1,440	1,440	1,440	1,440
Planned outage	Hours	-	-	-	1,920	-
Forced outage	Hours	-	-	38	80	-
Maintenance outage	Hours	194	-	256	109	105
CCGT Units						
Net electrical output	GWh	2,274	2,948	14,066	11,893	10,747
Dispatch factor	%	65.1	79.4	87.0	80.1	67.6
EAF avg. 12 months	%	82.6	86.3	91.6	84.3	90.3
Plant heat rate	BTU/kWh	7,159	7,095	7,080	7,137	7,178
Dependable capacity	MW	1,990	1,990	2,010	2,010	2,010
Planned outage	Hours	720	720	1,208	2,297	1,854
Forced outage	Hours	-	40	280	943	263
Maintenance outage	Hours	397	116	592	466	421

* Equivalent Availability Factor (EAF)

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Jan-Mar *	Year Ended 31 December				
	2017	2016 *	2015 *	2014 *	2013 *	2012
Revenue	9,228	45,010	54,618	48,822	46,353	51,794
Gross interest expense	62	323	428	512	485	554
Net income from operations	945	3,678	3,884	4,139	5,323	4,867
Funds from operations (FFO)	2,026	6,931	7,284	7,933	7,031	7,335
Earnings before interest, tax, depreciation, and amortization (EBITDA)	2,261	8,282	9,001	9,396	8,790	9,364
Capital expenditures and investments	4	477	548	774	189	19
Total assets	37,105	38,571	41,846	50,648	47,885	42,956
Total debt	6,186	7,386	8,360	14,225	12,090	14,700
Shareholders' equity	25,050	24,940	25,599	25,578	26,850	20,795
Operating income before depreciation and amortization as % of sales	20.4	16.4	15.2	17.6	18.1	17.8
Pretax return on permanent capital (%)	14.3**	15.1	14.9	14.7	17.9	19.8
EBITDA interest coverage (times)	36.3	25.6	21.0	18.3	18.1	16.9
FFO/total debt (%)	114.9**	93.8	87.1	55.8	58.2	49.9
Total debt/capitalization (%)	19.8	22.8	24.6	35.7	31.0	41.4

* FFO, EBITDA, and all financial ratios are adjusted with lease receivable from related party.

** Annualized with trailing 12 months

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