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Ratings

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Summary:
Ratchaburi Electricity Generating Holding Public Co. Ltd.

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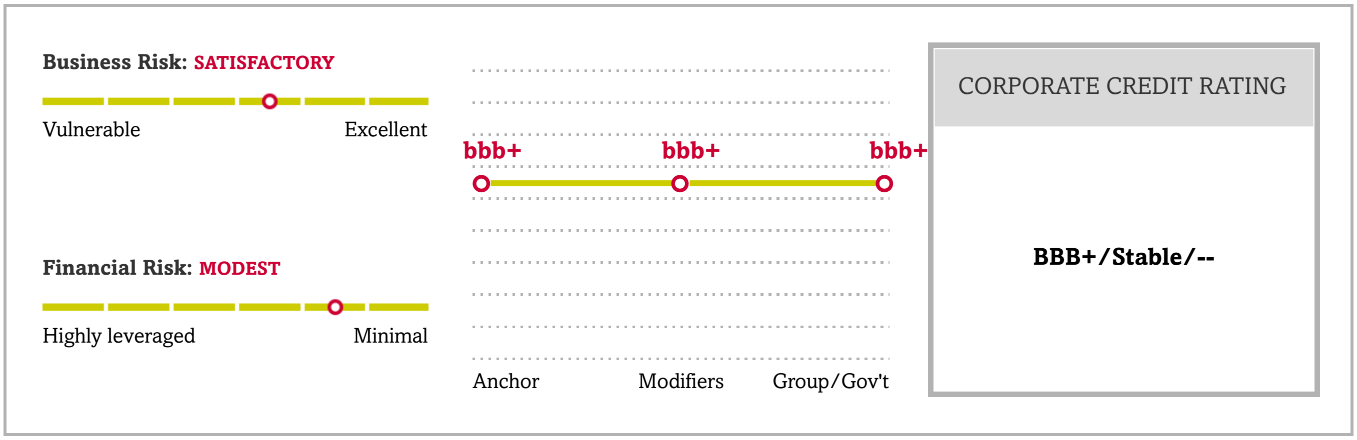

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• Sound domestic market position. • Revenue visibility on robust power purchase agreement structures. • Site concentration and limited fuel diversity. • Exposure to regulatory and country risks stemming from offshore expansion.	• Record of moderate on-balance sheet debt. • Reliance on dividends received to compensate for declining availability payments. • Sizable non-recourse project finance debt in equity-accounted joint ventures. • Growth aspirations.

Outlook: Stable

The stable outlook reflects our expectation that Ratchaburi Electricity Generating Holding Public Co. Ltd. (RATCH) will calibrate its growth aspirations to preserve its robust capital structure over the next two years. We also anticipate RATCH's relationship with, and credit quality of, its controlling shareholder Electricity Generating Authority of Thailand (EGAT) will not materially change in the period.

Downside scenario

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

- There are negative changes in the sovereign rating of Thailand, which would weaken the credit quality of EGAT, RATCH's largest customer;
- 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; or
- RATCH's stand-alone credit profile (SACP) weakens, with the debt-to-EBITDA ratio approaching 3x for a prolonged period. This would most likely happen in the case of an aggressive debt-funded expansion. Sustained investments through joint ventures (JVs) could also weaken RATCH's balance sheet. This includes cases of adverse developments in JVs where we believe RATCH will extend financial support, or a significant increase in debt on the higher-risk JV projects, which RATCH has a material interest in.

If we lower RATCH's SACP by up to four notches, this 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 in the case of distress, and that the relationship between EGAT and RATCH remains intact.

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.

Our Base-Case Scenario

Assumptions

- Thailand's GDP growth of 3.4% in 2017 and 2018, Australia's GDP growth of 2.7% in 2017 and 2.9% in 2018, resulting in resilient rise in demand for power in the country.
- A decrease in RATCH's revenue, adjusted for finance lease principal repayment--because of tumbling energy payments on lower fuel costs and declining availability payments.
- Unadjusted EBITDA generation of about 80% of energy payments on average in 2017-2018.
- Dividends received from-equity accounted ventures to exceed Thai baht (THB) 2 billion a year.
- EBITDA--adjusted for principal repayment on financial leases and dividends from JVs--at between THB11 billion and THB12 billion annually, somewhat lower than previous years on lower availability payments.
- Operating cash flows of about THB9 billion annually, depending on working capital performance.
- Maintenance capital expenditure on subsidiaries of about 50% of depreciation and amortization, and growth investments of about THB10 billion over 2017-2018, mainly directed to Australia.
- Acquisitions and equity infusions in existing projects of some THB3 billion-THB4 billion.
- Annual dividends of up to THB3.5 billion, in line with historical distributions.

Key Metrics

	2016A	2017E	2018E
EBITDA margin (%)	24.4	23.0-25.0	22.0-24.0
Debt/EBITDA (%)*	1.3	1.7-2.0	1.8-2.2
FOCF/Debt(%)*	9.8	0	Up to 5%

*Fully adjusted. 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 and dividends received from equity accounted subsidiaries. FOCF--Free Operating Cash Flow, defined as cash flow from operations minus gross capital expenditures minus acquisitions and equity infusions in existing projects. A--Actual. E--Estimated.

Business Risk: Satisfactory

We expect RATCH to maintain its good domestic market position. The company is likely to benefit from at least stable demand for power during the next three to five years. RATCH was set up in 2000 to take over power plants from its parent, the state-owned power generation company, EGAT. EGAT is its largest shareholder with a 45% stake (the balance listed on the Stock Exchange of Thailand), and the sole off-taker of RATCH's power generation. As of March 2017, RATCH has an equity, total installed capacity of 6.5 gigawatts (GW) across Thailand (76%), Laos (16%) and Australia (8%). RATCH currently has 0.9GW under various projects to be commissioned by 2021.

With an installed capacity of 4.9GW, the company is the country's leading independent power producer and the second-largest electricity generator in Thailand behind EGAT (16.1GW), and ahead of Glow Energy Public Co. Ltd. (2.9GW) and The Electricity Generating Public Co. Ltd. (2.7GW).

RATCH benefits from predictable PPAs, with its controlling shareholder and key off-taker, 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 these strengths. As of March 31, 2017, two plants in the Ratchaburi industrial estate accounted for 72% of the company's total equity generation capacity in operation. While the ratio will ease toward 60% once the committed under-construction projects come on stream over the next five years, Thailand will still account for the bulk of the company's generation capacity. Likewise, gas-fired power accounts for 82% of RATCH's equity operational capacity, mostly in Thailand, with coal accounting for 12% and renewables 6%. 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 in gradual decline and 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 neighboring countries through project-financed JV structures. While this strategy would help RATCH increase its geographic footprint and fuel diversity, it would potentially expose the company to higher-risk jurisdictions, where competitive and regulatory settings may not be as supportive as in Thailand.

Financial Risk: Modest

We believe in the company's ability and willingness to maintain a moderate capital structure, on cautious undertakings and resilient operating cash flows underpinned by predictable PPA structures.

We anticipate that higher dividends from JV projects, including from the Laos-based Hongsa power plant, will offset declining availability payments and returns on investment. The availability payments RATCH receives from EGAT will decline because, according to a preset schedule, return on initial capital investment is skewed toward the first half of the PPA tenor, while the later part of the tenor mainly consists of reimbursing maintenance costs.

We do not consolidate the equity-accounted JVs financial liabilities, because these debts are structured as project financing and nonrecourse to the company. Also, these projects are largely de-risked 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. Should RATCH undertake more equity-accounted projects, we would review ownership and standing of co-shareholders, materiality and execution risks, and the reputational impact of an absence of support in the case of financial distress, to assess the pertinence of a pro rata consolidation.

Our view of the company's growth aspirations weighs on its credit quality, as we believe RATCH is keen to offset structurally declining availability payments by adding new earnings-contributing assets to its portfolio.

Liquidity: Adequate

We assess RATCH's liquidity as adequate because we anticipate that the company's funding sources will cover uses by 1.2x over the next 12 months. RATCH has supportive banking relationships and good access to domestic and international debt markets, given its market position and indirect connection to the government through EGAT.

We expect the company to maintain sufficient headroom in its covenants even if EBITDA declines by 15%.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of THB16.1 billion as of March 31, 2017; and • Cash flow from operations that we estimate at THB9 billion over the period.	• Short-term debt maturities of THB3.8 billion; • Consolidated capital spending of up to THB18 billion over the next two years; and • Dividend payments of up to THB3.5 billion per annum.

Group Influence

We believe RATCH is strategically important to its controlling shareholder EGAT. EGAT has a dominant market position in electricity generation and is the sole owner and operator of the electricity transmission system in Thailand. 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.

In our view, EGAT will maintain its 45% 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 in 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 the company'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

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 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
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial 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-