

CREDIT OPINION

17 November 2022

Update



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RATINGS

Ratch Group Public Company Limited

Domicile	Thailand
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ratch Group Public Company Limited

Update to credit analysis

Summary

[Ratch Group Public Company Limited's](#) (Ratch, Baa1 stable) credit quality benefits from its strong relationship with its parent, the Electricity Generating Authority of Thailand (EGAT), which is 100% owned by the [Government of Thailand](#) (Baa1 stable). Ratch's credit profile factors in its strong and strategic position as Thailand's largest independent power producer (IPP).

Ratch's rating incorporates a two-notch uplift, reflecting our expectation that EGAT, which owns a 45% stake in Ratch, will support Ratch in times of stress. EGAT's credit profile is stronger than that of Ratch.

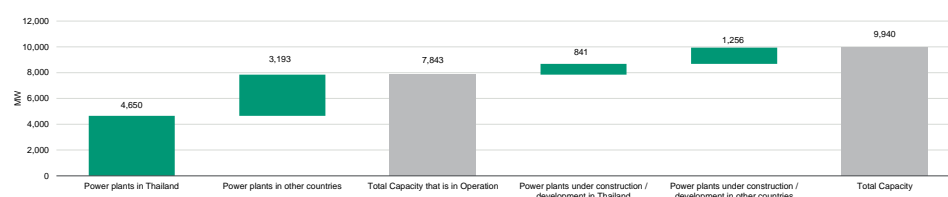
Ratch's standalone credit profile of Baa3 takes into consideration its stable Thailand operations and at the same time reflects its overseas expansion strategy, which could increase execution and development risks and strain its credit profile. Ratch's sizable debt exposure at its joint ventures (JVs) also strains its adjusted credit metrics, which incorporate Ratch's pro rata share in the JVs.

Ratch's standalone credit profile factors in its prospective capital spending program, including the successful completion of the Nexif Energy Joint Venture (NEJV) and PT Paiton Energy (PE) transactions which are likely to be completed by December 2022 and March 2023, respectively. We expect Ratch's fund from operations (FFO)/debt after pro rata share of its joint ventures (JVs) to be in the range of 8%-10% over the next 2-3 years.

Exhibit 1

Ratch's capacity (current and under construction or development)

59% of Ratch's operational capacity comes from power plants located in Thailand and 60% of its power plant developments are focused on overseas markets



Data as of September 2022.
 Source: Ratch

Credit strengths

- » Strategic importance to Thailand's power sector
- » Long-term power purchase agreements and secure fuel supply, which support stable performance
- » Close links with and expected support from its parent, EGAT, a state-owned power utility

Credit challenges

- » High financial leverage because of sizable capital spending and JV exposures
- » Uncertainties associated with expansion strategy outside Thailand and the non-power sectors

Rating outlook

The stable rating outlook reflects our expectation that there will be no significant adverse changes in the regulatory and operating environment for Ratch's assets in the next 12 to 18 months period.

Factors that could lead to an upgrade

Given the rating is on par with the sovereign, an improvement in Ratch's standalone credit profile will not automatically result in an upgrade of its rating. We could upgrade our view of Ratch's standalone credit profile if its adjusted FFO/debt rises above 15%, based on the pro rata consolidation of JVs, on a consistent basis.

Factors that could lead to a downgrade

We could downgrade Ratch's rating if its financial strength deteriorates beyond our expectations, potentially because of aggressive debt-funded investments or a significant increase in business risks, likely because of an overseas expansion or a material heightening of regulatory risks.

Metrics that we would consider for a downgrade include adjusted FFO/interest coverage below 2x and adjusted FFO/debt below 7.5% on a sustained basis.

A downgrade of Thailand's sovereign rating or a reduction in EGAT's stake in the company would also be negative for Ratch's rating.

Key indicators

Exhibit 2

Ratch Group Public Company Limited

	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21 [#]
(CFO Pre-W/C + Interest) / Interest (3 year average)	8.4x	8.4x	8.1x	7.0x	6.4x	4.4x
(CFO Pre-W/C) / Debt (3 year average)	43.8%	43.1%	35.3%	28.3%	21.9%	12.2%
RCF / Debt (3 year average)	28.8%	27.6%	22.6%	17.6%	13.4%	5.5%

All ratios are based on adjusted financial data and incorporate Moody's global standard adjustments for nonfinancial corporations. The ratios do not account for the pro rata share in the JVs.

[#] 31-Dec 21 ratios do not include lease receivables as a part of CFO Pre-W/C; if we add lease receivables back to CFO Pre-W/C the respective ratios would be 5.8x, 17.3% and 10.6%

Source: Moody's Financial Metrics™

Profile

Founded and listed on the Stock Exchange of Thailand in 2000, Ratch Group Public Company Limited (Ratch) was established to purchase power plants from its parent, Electricity Generating Authority of Thailand. As of September 2022, Ratch's key operations were in Thailand, Laos and Australia, with a total installed operating capacity of 7.8 gigawatts (GW), of which 4.6 GW was from power plants in Thailand.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

EGAT, which owns a 45% stake, is Ratch's largest shareholder and the sole off-taker of its power generation capacity. EGAT is fully owned by the Thailand government and is mainly involved in the generation and transmission of energy throughout the country.

[RH International \(Singapore\) Corp. Pte. Ltd.](#) (Baa1 stable, RHIS) is a wholly owned indirect subsidiary of Ratch. RHIS was incorporated with limited liability under the laws of the Republic of Singapore in September 2010. RHIS is an investment holding company and Ratch's investments and offshore projects in the power generation sector are primarily undertaken by RHIS. RHIS is also involved in raising funds to meet the capital requirements of Ratch. RHIS' medium term notes program and outstanding senior unsecured notes are both guaranteed by Ratch.

Detailed credit considerations

Strategic importance to Thailand's power sector

Ratch will continue to benefit from its strategic importance to the country's power sector because of its position as the largest IPP in Thailand by installed capacity and its established operations. Thailand's growing energy needs have led to an increase in reliance on IPPs and energy imports from neighboring countries, and Ratch is likely to benefit from the projected steady growth in electricity demand over the next three to five years.

The growth in domestic generation capacity has slowed in recent years as a result of COVID-19 pandemic and import of electricity. In 2020, electricity output for Thailand declined by 5.4% year-on-year, and in 2021 it further registered a marginal year-on-year decline of 0.1%. As of August 2022, around 13% of total capacity was imported from neighboring countries. This figure will rise as projects in neighboring countries commence commercial operations.

Thailand's Power Development Plan (PDP 2018-37) focuses on increased contribution from gas-fired power generation and reduced reliance on coal power generation. Ratch's operations are key to Thailand achieving the targets set under PDP 2018-37. The plan targets to increase the country's generating capacity to 77.2 GW by year-end 2037.

As of June 2022, Ratch's attributable generation capacity accounted for around 11% of Thailand's total capacity. Furthermore, Ratch's expansion to the neighboring countries also supports the government's promotion of imported electricity.

Long-term power purchase agreements and secure fuel supply, which support stable performance

Ratch's long-term PPAs and secure fuel supply will remain the key credit strengths of its rating. The PPAs are robustly structured to limit the impact of fluctuations in both fuel costs and foreign-exchange rates, as well as changes in demand and the company's debt-servicing ability. The unique characteristics embedded in PPAs differentiate Ratch from other unregulated power companies that we rate, which usually exhibit high exposure to wholesale price volatilities. However, 1.47 GW of Ratch's PPAs will expire in 2025 and another 2.17 GW in 2027 Ratch is adding capacity in Thailand and overseas to replace some of this capacity over next 3-5 years.

As for its fuel supply, the company has secured stable gas supplies to meet its obligations under the PPAs, through gas sales agreements with [PTT Public Company Limited](#) (Baa1 stable). Currently, more than 80% of Ratch's capacity is secured by EGAT under long-term PPAs, ranging between four and 26 years. The renewable PPAs can be automatically renewed every five years. In addition, 93.6% and 6.4% of capacity from the Hongsa thermal power plant has been contracted to EGAT and the state-owned Electricite du Laos, respectively, under 25-year PPAs.

EGAT has a strong track record of meeting its PPA obligations. As a result, demand is assured and market competition is limited for Ratch's existing operations. Moreover, under energy payment provisions, Ratch is insulated from fluctuations in fuel input prices, allowing the company to pass through any increases in fuel costs, as long as its plants meet the agreed heat rates.

Most of Ratch's EBITDA comes from availability payments, which cover the fixed operational and maintenance costs and interest costs, plus an agreed return on equity. Availability payments are irrespective of the dispatch of electricity, as long as the power plants are available at the agreed capacity. Given this feature of Ratch's PPAs, its financial performance was not significantly affected by the coronavirus pandemic in 2020 and 2021.

Ratch has a solid track record of maintaining high levels of availability, often exceeding plant-specific targets and it has also regularly met targeted heat rates for its power projects.

Ratch's shareholders approved the acquisition of a 45% equity stake in PE in October 2021, which operates a 2,045 MW coal-based project in Indonesia. This project has long-term PPAs with [Perusahaan Listrik Negara \(P.T.\)](#) (Baa2 stable) with a remaining PPA period of about 20 years. PE's tariff structure allows for the recovery of capital costs and pass-through of foreign-exchange and coal costs.

On 17 August 2022, Ratch announced the signing of share purchase agreement to acquire NEJV, which owns a portfolio of battery energy storage, renewable and gas-fired projects, totaling 1,515.8 MW of attributable capacity, of which 450.5 MW is operational. The projects are located in Australia, Thailand, Vietnam and Philippines, which have PPAs with various offtakers and some of them have merchant exposure.

Close links with and expected support from its parent, EGAT, a state-owned power utility

Our assessment of support from EGAT to Ratch in times of need results in a two-notch uplift to Ratch's rating. We expect Ratch to maintain its close links with EGAT because the parent is Ratch's single-largest shareholder and the sole off-taker of its existing domestic capacity, as well as its capacity for its plants in Laos. We expect EGAT to support Ratch in times of need because of the latter's strategic importance to Thailand's power sector. EGAT also provides operating and maintenance services for most of Ratch's plants and supports the company in environmental management. Ratch's power plants maintain high performance standards, with minimal forced outages, because of the strong operational support from EGAT.

Another indication of the close links between the two entities is the fact that six of Ratch's 12 board members, including its chairman and CEO, are EGAT representatives. A number of Ratch's key management officers have also previously worked for EGAT.

During the Asian financial crisis of 1997-98, for instance, EGAT and the Thai government ensured the performance stability and debt-servicing ability of IPPs by restructuring their PPAs to avoid huge foreign-exchange losses.

EGAT also has a strong ability to provide support because of its strong credit profile, which is supported by its role as a strategic state-owned enterprise. This means that EGAT's credit profile is closely linked with that of the sovereign.

High financial leverage because of sizable capital spending and JV exposures

We expect Ratch's financial metrics, including the pro rata share from its JVs, to be weaker than historical performance because of its sizable debt exposures at the JV level and its plans to develop offshore projects.

Ratch's financial profile, excluding JV adjustments, is sound because of its stable cash flow from established operations. However, the consolidated financial profile does not fully reflect Ratch's debt exposure as a JV partner. Ratch's JV debt exposures totaled around THB61 billion as of year-end 2021 and is likely to increase to around THB92 billion by the end of December 2023 when the PE acquisition is completed.

We have included Ratch's JV debt in our assessment of its rating, even though the debt is non-recourse, to reflect the company's potential exposure as a JV partner, particularly in instances where a project is of strategic importance to the company.

We expect the company's projected credit metrics to be more appropriate for its standalone Baa3 credit profile over the next two to three years. Projected FFO interest coverage after the pro rata share of its JVs will be 2.9x-3.6x and projected FFO/debt will be 8%-10%, compared with 3.9x-4.4x and 12%-17% over 2019-21, respectively.

Uncertainties associated with expansion strategy outside Thailand and non-power sectors

Ratch's strategy to expand overseas is mainly driven by the lack of opportunities to expand in Thailand. Ratch's plan to grow its overseas portfolio will provide diversification benefits, but the increased exposure, especially to developing countries such as Laos, Indonesia and Vietnam, will introduce uncertainties to its credit profile, including execution risks, higher levels of regulatory risk and increasing capital requirements.

The funding structure of Ratch's updated investment plan will be an influential factor in gauging its impact on the rating. Sizable debt exposures at Ratch's JVs will strain the company's adjusted credit metrics, which incorporate its pro rata share in the JVs. Ratch's credit profile will be strained further if its new investment plan requires aggressive debt funding or is such that it represents a significant increase in Ratch's business risk profile.

Ratch intends to increase its generating capacity to 10 GW by 2025 via both organic and inorganic routes — mergers and acquisitions — mostly in overseas markets. Ratch currently has 2.1 GW of generation capacity under construction and development, which will take its installed capacity base to 9.9 GW.

In addition to the NEJV acquisition, Ratch established a subsidiary with two business partners to support the investment in the Xekong 4A and 4B hydroelectric power project in Laos on 8 July 2022, with total capacity around 355 MW, which is expected to start its commercial operations in 2033.

We expect Ratch's business portfolio to exhibit slightly greater geographic diversification by 2025. However, the company's Thai operations will remain the cornerstone of its business, providing stable cash flow to fund its growing overseas businesses. As of 2021, around 89% of its revenue (excluding revenue from lease contracts) was generated through domestic electricity generation.

As of June 2022, Australia was Ratch's second-largest market, accounting for 16% of its capacity. Laos is the next largest market at 14%. The new projects in Laos are exposed to higher regulatory risk than projects in Thailand and Australia because the political, regulatory and economic environment in Laos is less developed. Any changes in the legal system in Laos that hurt the Ratch's project company's operations and ability to service its liabilities will constitute a political force majeure event. In such a scenario, Ratch's project company can terminate its contract and is entitled to compensation from the [Government of Laos](#) (Caa3 stable) under the concession agreements and EGAT's PPA. Ratch's exposure to Laos and its large capital spending obligations are further mitigated by the fact that Ratch has set up JVs with partners and local governments.

In addition to the power projects, Ratch has participated in other nonpower projects such as the MRT Pink Line Project and the MRT Yellow Line Project — through its 10% stake in the BSR JV — and underground fiber-optic network project in Thailand. In 2021, Ratch has also announced investments in hospitals, intercity motorway and an investment in an aviation fuel company.

ESG considerations

Ratch Group Public Company Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

ESG Credit Impact Score

CIS-2

Neutral-to-Low

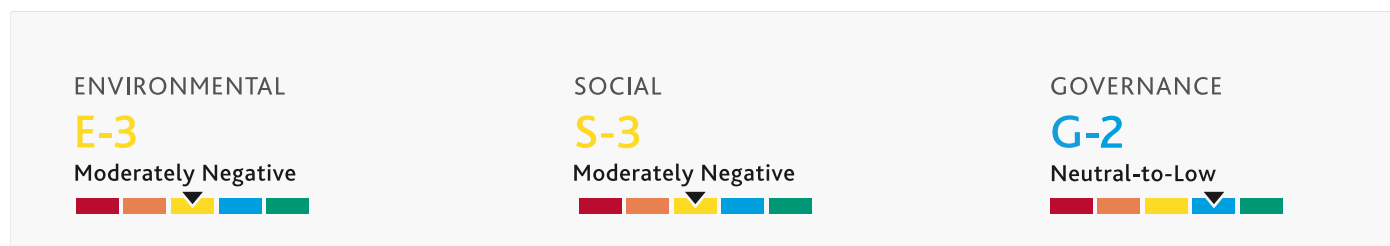
For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Ratch Group Public Company Limited's (Ratch) ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting moderate environmental and social risks and low governance risks. The effect of these considerations on the rating is mitigated by the expectation that the Electricity Generating Authority of Thailand (EGAT), which is 100% owned by the Government of Thailand, would support the company, if this were to become necessary.

Exhibit 4

ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Ratch's moderate environmental risk (**E-3** issuer profile score) reflects moderate risk of carbon transition, water management and physical climate risk. Ratch's recent acquisitions has further increased its overall coal exposure

Social

Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the higher risk of demographics and societal trends owing to a risk that public concern over environmental or social issues could lead to adverse regulatory political intervention. These risks are balanced by neutral to low risk to human capital, health and safety, customer relationships and responsible production

Governance

Governance is broadly in line with other utilities and does not pose specific risks (**G-2** issuer profile). This is supported by neutral-to-low scores for organizational structure and compliance & management credibility and track record. These attributes are counterbalanced by the moderately negative score on the company's board structure, policies and procedures

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Other considerations

We do not make a downward adjustment to the senior unsecured ratings because of structural subordination, based on:

- » our expectation that EGAT will likely support Ratch directly — in case of financial distress — as the holding company, thereby improving the position of holding company creditors over operating company creditors
- » the highly diverse nature of Ratch's subsidiaries and JV investments, which have independent and non-recourse financing
- » Ratch's plans to raise more debt at the holding company or at the RHIS level, or both, which would decrease the overall concentration of priority debt over time
- » the fair recovery expectation for creditors through Ratch's major operating subsidiary (RatchGen), which is conservatively leveraged

Liquidity analysis

Ratch will have inadequate liquidity over next 12 months and will need to raise external financing. As of June 2022, its cash sources comprised cash holdings of THB32.3 billion. We expect its operating cash flow to be around THB8 billion-THB9 billion for the next 12 months. On the other hand, we expect the company's projected cash outlay for the next 12 months to include capital spending of around THB56 billion (including the NEJV and PE acquisitions), debt repayments of THB6.2 billion and THB3.7 billion of dividend payments.

Methodology and scorecard

When mapped to our [Unregulated Utilities and Unregulated Power Companies](#) rating methodology (May 2017), Ratch's business profile is closer to that of an unregulated power company because its business is governed by PPAs, based on bilateral negotiations with off-takers. The company's scorecard-indicated outcome is Ba1 under the methodology, according to the three-year projected credit metrics (2022-24), which incorporate the pro rata JV adjustments. The standalone credit profile of Baa3, which is higher than scorecard indicated outcome, reflects high share of long term PPAs with a fuel cost pass through in its revenue mix.

Exhibit 5

Rating factors

Ratch Group Public Company Limited

Unregulated Utilities and Unregulated Power Companies Industry Scorecard [1]			Moody's 12-18 Month Forward View As of Nov 2022 [2]	
	FY2021			
Factor 1 : Scale (10%)	Measure	Score	Measure	Score
a) Scale (USD Billion)	Ba	Ba	Ba	Ba
Factor 2 : Business Profile (35%)				
a) Market Diversification	Baa	Baa	Baa	Baa
b) Hedging and Integration Impact on Cash Flow Predictability	Aa	Aa	Aa	Aa
c) Market Framework & Positioning	Baa	Baa	Baa	Baa
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability				
Factor 3 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	2.8x-4.2x	Ba	2.8x-4.2x	Ba
b) (CFO Pre-W/C) / Debt (3 Year Avg)	12%-20%	Ba	5%-12%	B
c) RCF / Debt (3 Year Avg)	8%-15%	Ba	3%-8%	B
Rating:				
a) Scorecard-indicated Outcome		Baa3		Ba1
b) Standalone credit profile assigned				Baa3
c) Actual Rating Assigned				Baa1

[1] All ratios are based on adjusted financial data and incorporate Moody's global standard adjustments for nonfinancial corporations. The ratios also account for investments in JVs.

[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
RATCH GROUP PUBLIC COMPANY LIMITED	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured MTN	(P)Baa1
RH INTERNATIONAL (SINGAPORE) CORP. PTE. LTD.	
Outlook	Stable
Bkd Senior Unsecured	Baa1
Bkd Senior Unsecured MTN	(P)Baa1

Source: Moody's Investors Service

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