

# Ratch Group Public Co. Ltd.

November 24, 2023

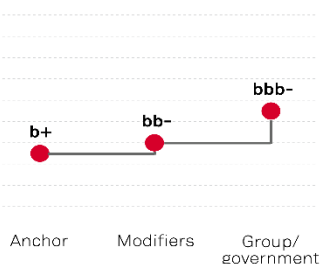
## Ratings Score Snapshot

Business risk: **Satisfactory**

Vulnerable ————— Excellent

Financial risk: **Highly Leveraged**

Highly leveraged ————— Minimal



**BBB-/Stable/--**

**Issuer credit rating**

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## Credit Highlights

### Overview

#### Key strengths

Cash flow stability, with support from strong power purchase agreements (PPAs).

Solid market position in Thailand's power sector.

Shareholder support from Electricity Generating Authority of Thailand (EGAT).

#### Key risks

Elevated leverage from acquisition appetite, growth investments, and materially higher debt tolerance.

Increasing exposure to debt and earnings from equity affiliates could lead to off-balance-sheet debt and a higher reliance on dividend income.

Some earnings volatility from non-energy infrastructure-related investments.

**Ratch Group Public Co. Ltd. will maintain high leverage over the next few years as it pursues debt-funded growth.** In our view, the company's heightened spending in the last two years indicates an increased risk appetite and a structural shift in its debt tolerance. The company still has healthy interest-servicing ability, despite its rising leverage. EBITDA interest coverage trending at 3.0x-4.0x indicates this, in contrast to similar highly-leveraged peers with a ratio ranging from 1.0x to 1.5x. We believe this will preserve its credit quality as it embarks on its growth aspirations.

Ratch will continue to expand its overseas renewables portfolio through the Nexif Energy group, which it acquired in the fourth quarter of 2022. We project capital expenditure (capex) of Thai baht (THB) 1.3 billion-THB5.4 billion annually for under-construction and development assets in the Nexif portfolio. Completion of these projects could bring the company's share of renewables in its portfolio to about 30% post 2030, from 20% currently.

Ratch will likely have to debt-fund future growth aspirations. This is because the company will use part of the THB25 billion proceeds from its preferential public offering in 2022 to fund its Paiton Energy PT acquisition in Indonesia. We estimate the company will maintain a debt-to-EBITDA ratio of 6.0x-6.2x in 2023-2025.

Following repeated delays, we now assume the completion of the Paiton Energy acquisition in 2024, versus our previous expectation of 2023. Past delays were related to the fulfilment of condition precedents, which had been fulfilled in June 2023.

Ratch has also reduced its acquiring stake to 36.3% from 45.5%, with Medco Daya Energi Sentosa PT holding the remaining stake. Due to these developments, we now estimate an acquisition cost of about THB25 billion in 2024.

**Ratch's increasing reliance on dividend income from associates and joint ventures (JVs) could create additional risks.** The company has increased minority investments in several projects in recent years. This could expose it to off-balance-sheet debt because it accounts for these investments as equity investments.

Earnings from these investments could account for about 30% of Ratch's adjusted EBITDA on average over the next three years, up from 23% in 2022. Giving a growing dependence on these investments, Ratch could have a higher propensity to support projects of strategic importance.

At this juncture, we see limited risk from these investment projects for Ratch's financial profile, with little likelihood of a need for extra support from the sponsors. Ratch has a record of largely visible and stable dividend income. However, we may reassess our approach should there be a deterioration in the quality of dividends, or likelihood of extraordinary support flowing to these minority investments.

**Favorable PPAs with EGAT underpin cash flow stability as Ratch expands overseas.** Robust long-term PPAs with EGAT, which we view as a strong counterparty, protect the company from demand-volume and fuel-cost risks. This supported cash flow stability for the company during surging fuel costs.

However, Ratch's earnings mix will change. Nexif and Paiton could each contribute 15%-20% to the company's adjusted EBITDA after their acquisitions. PPAs with EGAT could eventually contribute 35%-40%, down from about 60% in 2022.

Nonetheless, we believe Ratch continues to benefit from good earnings visibility. This is given Paiton's favorable contract terms and healthy operating performance, as well as the largely contracted nature of Nexif's operational portfolio. Ratch is also likely to contract its renewable projects in the construction or development stages with state-owned or other creditworthy counterparties.

## Outlook

The stable rating outlook reflects our view that Ratch will maintain stable operations and cash flow, including dividend income, which will support higher leverage and growth spending over the next two years. We also expect the company to manage its balance sheet as it expands, such that its debt-to-EBITDA ratio remains in the 6.0x-7.0x range over the next 12-24 months.

### Downside scenario

We may lower the rating on Ratch if:

- The company's debt-to-EBITDA ratio increases to above 7.5x on a sustained basis and if its ability to service debt declines sharply such that its EBITDA interest coverage ratio falls sustainably below 3.0x. This could be a result of continued aggressive debt-funded expansion without a commensurate increase in earnings, falling availability payments or weaker dividend contributions or a need for support from equity investments; or
- Ratch's importance to its parent, EGAT, diminishes, evident through weaker integration or a reduction in EGAT's shareholding in the company. This could result in a lack of timely and sufficient financial support from EGAT and the Thai government to preserve Ratch's creditworthiness.

### Upside scenario

We could raise the rating if we believe Ratch is committed to deleveraging, with its debt-to-EBITDA ratio improving to below 4.5x on a sustainable basis. This could happen if the company prudently manages its growth spending with sizable cash flow generation and demonstrates a record of maintaining a more conservative capital structure and financial policy.

## Our Base-Case Scenario

### Assumptions

- Ratch's revenue growth over our forecast period does not depend on Thailand's GDP growth because its revenue is largely driven by availability payments and capacity additions.
- Revenue in 2023-2024 to fall due to lower energy payments amid normalizing fuel prices.
- EBITDA, adjusted for the principal repayment of financial leases and dividends from JVs, of THB12.3 billion in 2023, increasing to THB15 billion-THB16 billion over 2024-2025.
- Capital spending of about THB5.1 billion in 2023, mainly for the Hin Kong power plant in Thailand, maintenance capex and some growth capex at various equity affiliates. Capex to rise sharply to about THB38.3 billion in 2024 due to the Paiton acquisition and the development of under-construction assets in the Nexif renewable energy portfolio.
- Dividend payout of THB3.3 billion-THB4.1 billion annually over 2023-2024 and close to THB3.5 billion in 2025.

### Key metrics

Period ending (Mil. THB)	Dec-31-2021 2021a	Dec-31-2022 2022a	Dec-31-2023 2023e	Dec-31-2024 2024f	Dec-31-2025 2025f
Revenue	39,902	77,778	50,557	45,901	45,618
EBITDA (reported)	4,695	5,749	7,820	7,814	8,167
Plus/(less): Dividends received from equity affiliates	2,152	2,784	2,106	6,014	4,338
Plus/(less): Other	2,800	3,329	2,329	2,223	2,575
EBITDA	9,647	11,861	12,255	16,051	15,080
Less: Cash interest paid	1,715	3,200	3,987	4,125	4,051
Less: Cash taxes paid	221	893	513	558	495
Funds from operations (FFO)	7,711	7,768	7,755	11,368	10,534
Capital expenditure (capex) (including investments in equity affiliates)	9,075	23,256	5,124	38,296	5,163
Dividends	3,480	4,061	4,087	3,307	3,471
Debt (reported)	59,452	95,611	98,769	102,119	94,407
Plus: Lease liabilities debt	1,667	3,365	3,365	3,365	3,365
Less: Accessible cash and liquid Investments	8,382	26,250	27,713	8,927	4,200
Debt	52,738	72,725	74,420	96,557	93,571
Cash and short-term investments (reported)	9,861	37,500	39,590	12,753	6,000
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	5.5	6.1	6.1	6.0	6.2
FFO/debt (%)	14.6	10.7	10.4	11.8	11.3
EBITDA interest coverage (x)	5.2	4.0	3.1	3.9	3.7
EBITDA margin (%)	24.2	15.3	24.2	35.0	33.1

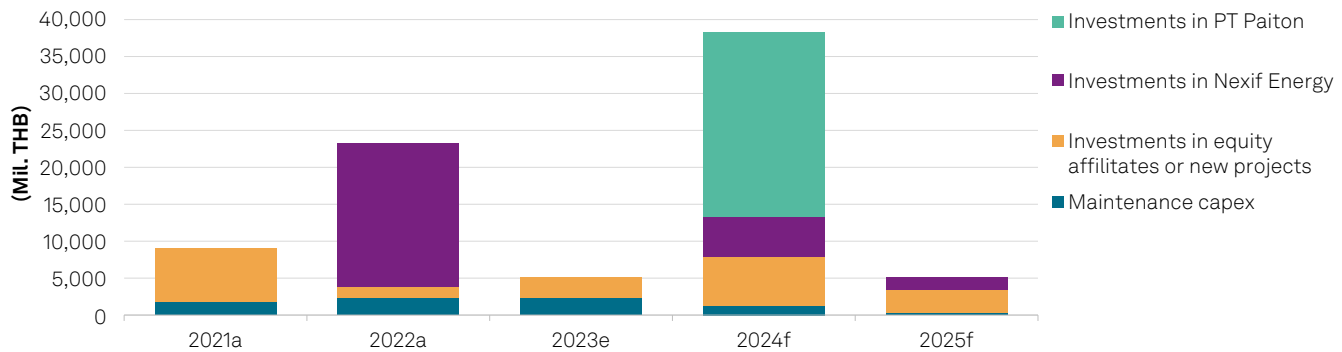
**Growth aspirations will keep Ratch's capex high.** While we project moderate capex of about THB5.1 billion in 2023 in the absence of large acquisitions, capex will spike in 2024 with the company's Paiton acquisition for about THB25 billion. This brings capex to about THB38.3 billion in 2024, which includes investments to expand Nexif's renewable portfolio and investments in various small and mid-sized equity affiliates.

Our forecasts also include about THB3 billion of investments in new projects annually from 2024, partly in non-power businesses. We project capex will moderate to THB4.7 billion-THB8.1 billion from 2025 onward.

That said, Ratch has demonstrated an appetite for higher spending, and capex or acquisitions that exceed our anticipation could put pressure on its balance sheet.

We have not incorporated potential earnings from new growth projects. This is given the limited visibility of the nature of these investments and their earnings profile. In our view, Ratch has some flexibility in growth spending, which is dependent on market opportunities. The company will also evaluate them in line with its investment criteria.

### Acquisition of Paiton will keep Ratch's capex elevated in 2024



a--actual. e--estimate. f--forecast. Capex--capital expenditure. Paiton--PT Paiton Energy. THB--Thai baht. Source: S&P Global Ratings.

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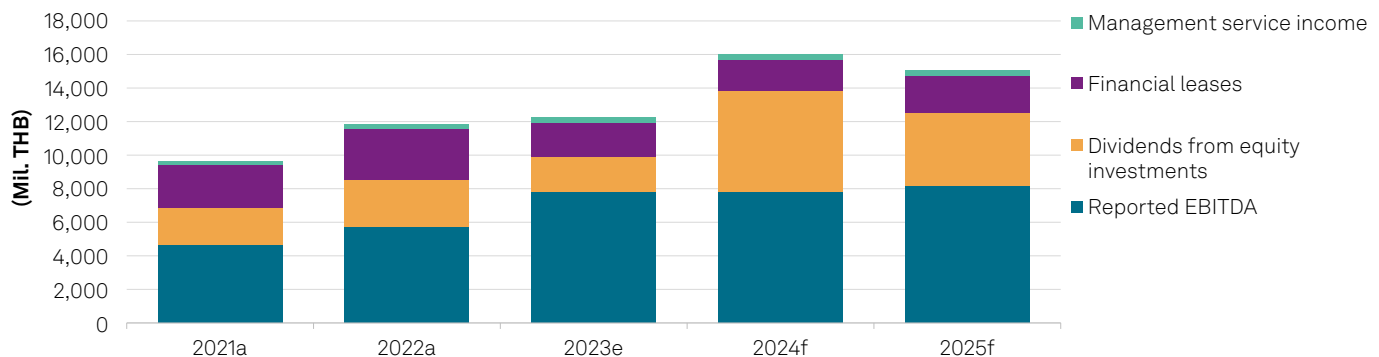
### Steady dividend contributions from equity affiliates will be key to the quality of EBITDA and earnings.

We expect dividend income from equity affiliates of about THB2.1 billion in 2023, before increasing to THB4.3 billion-THB6.0 billion from 2024 as the company receives dividends from Paiton after its acquisition.

We estimate dividend income of THB2.1 billion-THB3.6 billion annually from Paiton. Paiton will also likely contribute an average of 15%-20% to Ratch's adjusted EBITDA over 2024-2025. Any decrease in dividend income from Paiton and other equity investments (possibly due to changes in capex and the debt payment schedule) could weigh on Ratch's cash flow.

That said, we believe Ratch has good diversity. The company's equity investments are spread across various countries, which should continue to support stable dividends and a stable earnings profile as the investments ramp up.

### Ratch's adjusted EBITDA will be increasingly supported by dividend income from equity affiliates



a--actual. e--estimate. f--forecast. THB--Thai baht. Source: S&P Global Ratings.

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**Ratch’s adjusted EBITDA margin will improve over the next three years.** We expect higher adjusted margins due to moderating fuel costs, lower availability payments from EGAT, and increasing dividend income from equity investments. EBITDA margins will likely improve to historical levels of above 20% in 2023, and further to 30%-35% from 2024. This is after a decline to 15% in 2022 due to high fuel costs.

Fuel costs could fall by close to 50% in 2023 due to significantly lower generation volumes amid lower dispatch to EGAT. Such costs are a passthrough component under Ratch’s PPAs with EGAT.

Meanwhile, availability payments will decline because return on initial capital investment is skewed toward the first half of the PPA tenor, according to a preset schedule. The latter part of the tenor mainly consists of reimbursing maintenance costs. Higher margins from Nexif’s renewable assets and higher dividend income from 2024 (following the inclusion of Paiton) will also improve margins.

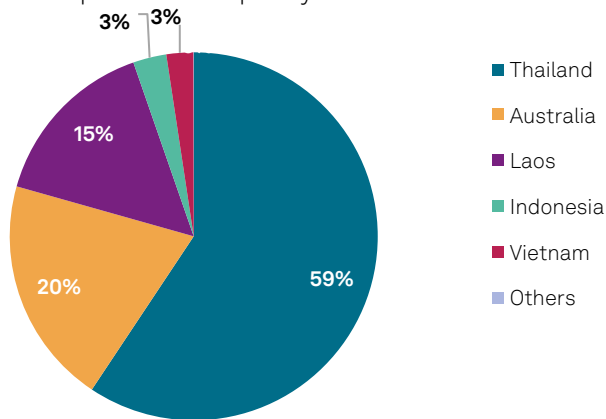
## Company Description

Ratch is the second-largest power generator in Thailand after EGAT, with operations mainly in Thailand, Australia, and Laos. The company had total operational capacity of about 7,889 megawatts (MW) as of Oct. 30, 2023. This comprised 6,323 MW of conventional capacity and 1,566 MW of renewable capacity. We expect Ratch to complete its acquisition of a 36.3% stake in Paiton in 2024.

EGAT owns 45% of Ratch.

### Ratch has a geographically diversified portfolio

Breakdown of operational capacity



As of Oct. 30, 2023. Source: Company data, S&P Global Ratings.

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## Peer Comparison

We view Cikarang Listrindo Tbk. PT and Sarawak Energy Bhd. (SEB) as Ratch’s closest peers since they sell electricity under long-term PPA contracts to bulk users. Ratch's operations

under the quasi-regulatory structure result in good cash flow stability. This is also the case for Cikarang.

Both benefit from robust contract terms and minimal price risk under their PPAs, which help to alleviate their exposure to fluctuations in fuel costs. SEB, on the other hand, does not benefit from a cost recovery mechanism and has limited pricing power. We believe the company is exposed to socio-political pressures to keep electricity affordable.

Ratch benefits from better earnings quality than peers with a similar business risk profile, in our view. This is due to the company's strong PPA contracts and greater diversity as it pursues offshore expansion.

Cikarang bears the largest volume risk among the peers. This is because the company has the highest exposure to industrial users, at about 87% of revenue as of Dec. 31, 2022. It also does not have take-or-pay clauses in its contracts.

In comparison, Ratch's favorable PPA terms protect the company from volume risks, although a part of its renewable capacity in Australia faces resource risk and variable volumes. We consider SEB to be more exposed to cash flow risks because the state government controls domestic electricity tariffs as a socio-economic policy tool. Being independent power producers, Ratch and Cikarang are able to exercise their pricing power.

Ratch has a larger scale and better diversity than Cikarang (1,144 MW) and SEB (about 6,100 MW). The company has established operations in overseas markets such as Australia, Indonesia, and Laos. The peers mainly concentrate their operations in their domestic markets.

Ratch also has better asset diversity than regional peers. The company has exposure to both fossil fuels (80%) and renewables (20%). Cikarang only has exposure to coal and natural gas, while SEB is considerably less diverse with predominantly hydro capacity.

Ratch has lower profitability than its peers. We expect the company to improve its EBITDA margin to 30%-35% from 2024, slightly below the margins of Cikarang (consistently above 35%). SEB has a higher margin of more than 50% because of its lower generation cost as a hydro player and cost benefits from vertical integration, despite low and ad-hoc tariffs.

Ratch's earnings are also exposed to volatility in dividend income from minority investments, since the investees pay the dividends only after meeting debt obligations at the project level.

Both Ratch and SEB have higher leverage due to continued growth spending and high capex. In contrast, Cikarang has lower leverage due to moderate capex needs, despite the potential for elevated shareholder distributions.

## Ratch Group Public Co. Ltd.--Peer Comparisons

	Ratch Group Public Co. Ltd.	Cikarang Listrindo PT.	Sarawak Energy Bhd.
Foreign currency issuer credit rating	BBB-/Stable/--	BB+/Stable/--	A-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--	BB+/Stable/--	A-/Stable/--
Period	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31
Mil.	THB	THB	THB
Revenue	77,778	19,028	54,970
EBITDA	11,861	7,181	29,522
Funds from operations (FFO)	7,768	5,562	19,753

**Ratch Group Public Co. Ltd.--Peer Comparisons**

Interest	2,977	978	6,631
Cash interest paid	3,200	957	7,444
Operating cash flow (OCF)	7,434	5,066	19,725
Capital expenditure	23,256	1,352	14,169
Free operating cash flow (FOCF)	(15,822)	3,714	5,556
Discretionary cash flow (DCF)	(19,884)	1,368	5,556
Cash and short-term investments	37,500	14,388	31,457
Gross available cash	37,500	14,388	31,457
Debt	72,725	8,639	111,565
Equity	107,403	24,190	113,187
EBITDA margin (%)	15.3	37.7	53.7
Return on capital (%)	7.8	16.5	10.7
EBITDA interest coverage (x)	4.0	7.3	4.5
FFO cash interest coverage (x)	3.4	6.8	3.7
Debt/EBITDA (x)	6.1	1.2	3.8
FFO/debt (%)	10.7	64.4	17.7
OCF/debt (%)	10.2	58.6	17.7
FOCF/debt (%)	(21.8)	43.0	5.0
DCF/debt (%)	(27.3)	15.8	5.0

## Business Risk

**Ratch's good market position in Thailand's power sector supports its competitive position.**

We expect the company to remain one of the largest power producers in Thailand, after EGAT. It will likely continue to account for about 10% of the country's total generation capacity.

We believe Ratch will maintain its market position because Thailand's power market is mature. This makes fast growth difficult, given high barriers to entry in the domestic IPP market and high reserve margins.

EGAT is the dominant player with a stand-alone capacity of 16,237 MW. The company has approximately 35% of generation capacity and is the sole operator of the transmission network in Thailand.

Other IPPs in the country have lower operational capacity than Ratch, which had domestic operational capacity of 4,681 MW as of Sept. 30, 2023. The number will increase to 5,491 MW by 2025 with the company's completion of its Hin Kong power plant, REN Korat Energy cogeneration power plant, and expansion of its existing Nava Nakorn Plant.

However, Gulf Energy's domestic capacity could reach about 7,358 MW by 2025 with the completion of under-construction and development assets. Setting up new large thermal capacity will remain challenging in Thailand due to environmental and social pressures.

**Ratch benefits from high revenue visibility but faces moderate PPA renewal risk.** Despite increasing dividend income from equity affiliates, favorable long-term PPAs with EGAT will continue to form at least 35% of the company's adjusted EBITDA annually over the next two to three years. Tariffs under these PPAs encompass both availability and energy payments,



protecting the company from demand-volume and fuel-cost risks. This enhances earnings stability by allowing it to earn quasi-regulated returns.

In our view, Ratch's declining availability payments and renewal risk of expiring PPAs are the key risks to its cash flow visibility. The company faces moderate PPA renewal risk, given that close to 20% of its current equity operating capacity (about 1,470 MW) is due for renewal by 2025.

EGAT has allowed some PPAs to expire during renewal in view of the high reserve margins in Thailand. That said, Ratch has secured new PPAs with EGAT, including 25-year PPAs for both its Nexif Ratch Energy Rayong power plant (commissioned in 2022) and 51%-owned Hin Kong power plant, which the company could commission over 2024-2025.

We expect Ratch's strong links with EGAT to offer it a comparative advantage in renewing and securing new PPAs with the latter. Moreover, Ratch's growing investments in overseas power plants, will partly offset its PPA renewal risk and support cash flow visibility. These plants have contracted most of their capacity to state-owned utilities or corporate offtakers,

**Improving diversity from rising overseas investments supports Ratch's earnings quality.**

Ratch's acquisition of Nexif in 2022 and upcoming acquisition of Paiton in 2024 will increase earnings contributions from Australia and Indonesia, respectively. The bulk of Nexif's operational portfolio is in Australia and Ratch continues to enjoy stable earnings contribution from its wholly owned Australian business, Ratch Australia Corp.

Reflecting this, Ratch's Australia operations could account for 35%-40% of the company's adjusted EBITDA on average over the next three years, up from about 30% in 2022. This will support good earnings visibility due to favorable contract terms such as fixed tariffs and offtake volumes, although about 15% of the company's Australia capacity is exposed to the merchant market. Ratch has a policy of contracting at least 80% of its portfolio, which will provide earnings stability.

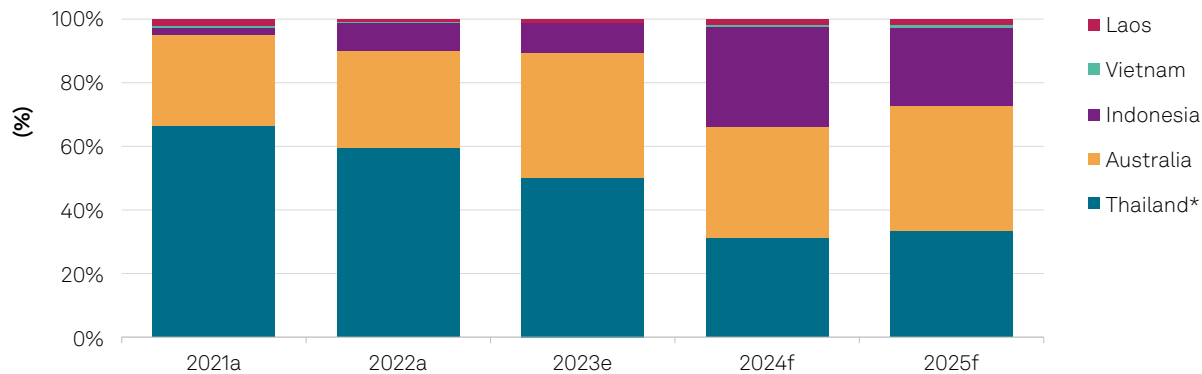
Ratch's committed offshore expansion plans will steadily improve its geographic diversification. That said, overseas expansion could also expose the company to higher regulatory risks in countries such as Indonesia, Vietnam, and Laos than the stable regulatory environment in Thailand.

Still, we expect favorable PPAs that support long-term cash flow visibility and stability to mitigate such risks. For instance, Paiton benefits from long-term PPAs with Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (BBB/Stable/--). These PPAs provide availability-based payments with full passthrough of operating and fuel costs, protecting Paiton from volume and fuel cost risks.

In Vietnam, Ratch also has long-term PPAs with the state-owned utility, Vietnam Electricity. Ratch also typically prefers to hold equity stakes in projects in countries with less-established regulatory framework and will form strategic partnerships with experienced international or local investors to manage these risks.

### Ratch's overseas expansion will further improve geographic diversification

% of adjusted EBITDA contribution by country



\*Includes dividend income from equity affiliates that have PPAs with EGAT. a- -actual. e- -estimate. f- -forecasts. PPAs--Power purchase agreements. Source: S&P Global Ratings.

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### Ratch's diversification into non-energy infrastructure-related sectors could pose some risks to earnings and cash flow stability.

The company has invested in infrastructure projects, including telecommunications, healthcare, and transportation projects, in Thailand. It plans to make additional investments in these sectors, which it expects to form up to 10% of the company's revenue eventually. These investments may have different cash flow and risk profiles from availability-based power assets. Some execution risks exist, given Ratch's lack of expertise and track record of operating projects outside the power sector.

A partial risk mitigation is Ratch's strategy of collaborating with experienced partners with good technical capabilities and investing through minority stakes. Moreover, EBITDA contribution from these investments will be limited, at less than 5% annually over the next five years. We also believe the company will prudently evaluate investments based on their earnings profiles and payback periods.

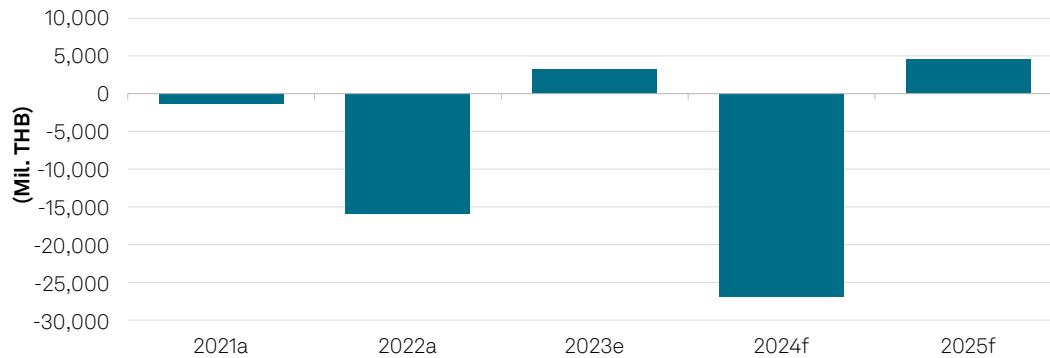
## Financial Risk

Ratch could maintain high leverage over the next three years as it continues to pursue growth investments. We expect the company to fund these largely with debt. The increase in spending will outpace earnings growth, because Ratch will also spend on assets under construction and development. These do not immediately generate cash flow.

In view of the heavy capex plans and the absence of any meaningful plans to deleverage, Ratch's debt-to-EBITDA ratio could stay at 6.0x-6.2x over the next two to three years. We project negative free operating cash flow for 2024 due to the Paiton acquisition. This could persist if the company undertakes additional capex beyond our base case.

Furthermore, the debt-to-EBITDA and EBITDA interest coverage ratios of Ratch could come under pressure if the company undertakes additional spending on similar scale as its Nexif or Paiton acquisition, without any commensurate increase in earnings. However, it has some flexibility to control leverage, depending on the cash flow profile of its new investments, the pace of its capital spending, and its financial policy.

### Heavy capex will keep Ratch's free operating cash flow negative in some years



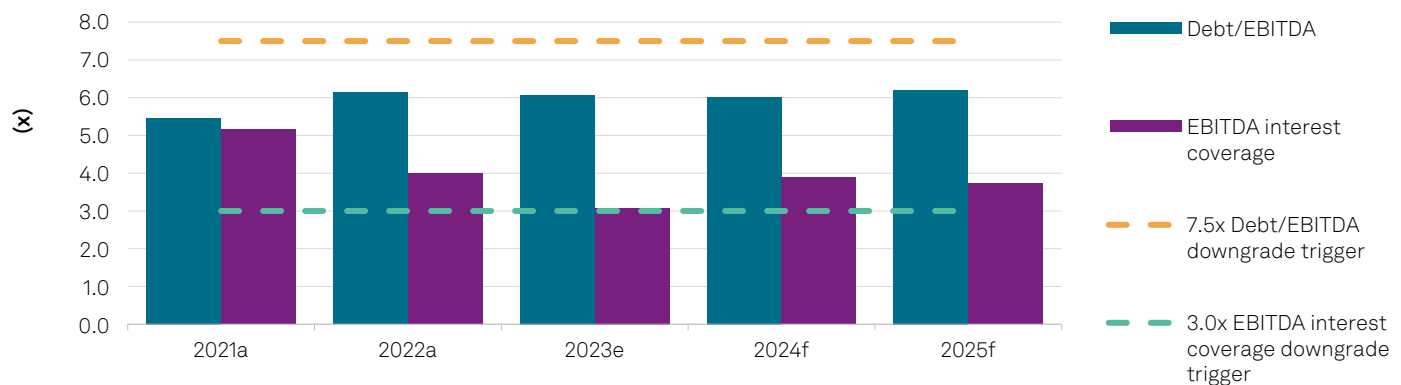
a--actual e--estimate. f--forecast. THB-- Thai baht. Source: S&P Global Ratings.

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We do not consolidate the debt of associates and equity-accounted joint ventures because such debt is project financing and nonrecourse to the company. Also, the operational projects are largely de-risked, with little likelihood of a need for extra support from the sponsor. This is evident from Ratch's record of largely visible and stable dividends. However, we may revisit our assessment should there be a deterioration in the quality of dividends, or incidences of extraordinary support flowing to these minority investments.

In light of Ratch's growing investments in equity affiliates, we will continually assess the effect on the company's financials by reviewing the ownership and standing of the co-shareholders, materiality and execution risks, and the reputational impact of an absence of support in the case of financial distress.

### High debt funded spending will drive Ratch's leverage



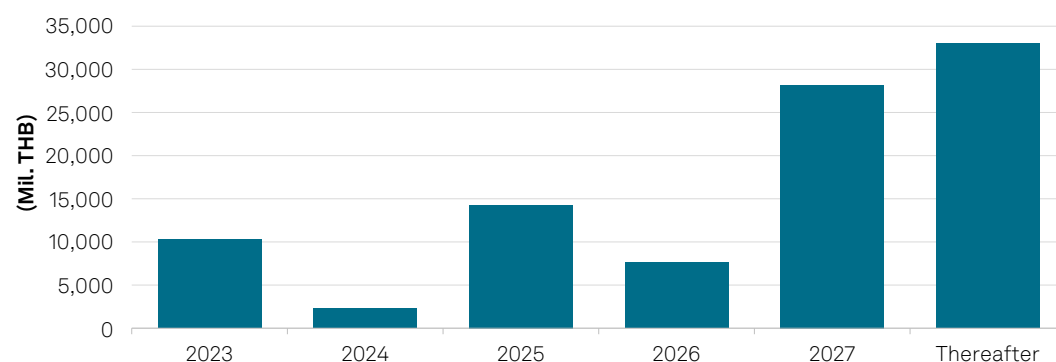
a--actual e--estimate. f--forecast. Source: S&P Global Ratings.

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Ratch has currency risk from its foreign-denominated debt, including U.S. dollar, Australian dollar, and Japanese yen-denominated debt. Such debt formed about 58% of the company's reported debt as of Sept. 30, 2023. However, the company has fully hedged its foreign-denominated debt via cross-currency swaps. Earnings from its Australia's operations also act as a natural hedge for its Australian dollar-denominated debt.

## Debt maturities

### Ratch has well-spread debt maturities



Data as of Dec. 31, 2022. THB-- Thai baht. a--actual e--estimate. f--forecast. Source: S&P Global Ratings.

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### Ratch Group Public Co. Ltd.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	THB	THB	THB	THB	THB	THB
Revenues	45,916	43,175	39,724	37,552	39,902	77,778
EBITDA	11,341	10,227	10,296	9,958	9,647	11,861
Funds from operations (FFO)	8,763	7,860	8,159	8,191	7,711	7,768
Interest expense	1,502	1,337	1,428	1,551	1,868	2,977
Cash interest paid	1,398	1,354	1,402	1,409	1,715	3,200
Operating cash flow (OCF)	9,519	8,581	8,106	8,028	7,814	7,434
Capital expenditure	6,444	10,486	6,195	10,813	9,075	23,256
Free operating cash flow (FOCF)	3,075	(1,904)	1,911	(2,785)	(1,261)	(15,822)
Discretionary cash flow (DCF)	(404)	(5,384)	(1,569)	(6,265)	(4,742)	(19,884)
Cash and short-term investments	10,011	13,924	9,369	8,614	9,861	37,500
Gross available cash	10,011	13,924	9,369	8,614	9,861	37,500
Debt	14,424	22,710	24,173	35,811	52,738	72,725
Common equity	59,009	59,936	59,414	60,522	77,810	107,403
<b>Adjusted ratios</b>						
EBITDA margin (%)	24.7	23.7	25.9	26.5	24.2	15.3
Return on capital (%)	15.7	15.4	11.5	12.3	10.5	7.8

**Ratch Group Public Co. Ltd.--Financial Summary**

EBITDA interest coverage (x)	7.5	7.6	7.2	6.4	5.2	4.0
FFO cash interest coverage (x)	7.3	6.8	6.8	6.8	5.5	3.4
Debt/EBITDA (x)	1.3	2.2	2.3	3.6	5.5	6.1
FFO/debt (%)	60.7	34.6	33.8	22.9	14.6	10.7
OCF/debt (%)	66.0	37.8	33.5	22.4	14.8	10.2
FOCF/debt (%)	21.3	(8.4)	7.9	(7.8)	(2.4)	(21.8)
DCF/debt (%)	(2.8)	(23.7)	(6.5)	(17.5)	(9.0)	(27.3)

**Reconciliation Of Ratch Group Public Co. Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. THB)**

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	95,611	98,029	74,725	5,749	2,660	2,977	11,861	7,505	4,061	2,386
Cash taxes paid	-	-	-	-	-	-	(893)	-	-	-
Cash interest paid	-	-	-	-	-	-	(3,200)	-	-	-
Lease liabilities	3,365	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(26,250)	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	2,784	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	6,402	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(71)	-	-
Noncontrolling/minority interest	-	9,375	-	-	-	-	-	-	-	-
Revenue: other	-	-	3,053	3,053	3,053	-	-	-	-	-
EBITDA: other	-	-	-	275	275	-	-	-	-	-
EBIT: other	-	-	-	-	(275)	-	-	-	-	-
Capex: other	-	-	-	-	-	-	-	-	-	20,870
Total adjustments	(22,885)	9,375	3,053	6,113	9,455	-	(4,093)	(71)	-	20,870
<b>S&amp;P Global Ratings adjusted</b>	<b>Debt</b>	<b>Equity</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>
	72,725	107,403	77,778	11,861	12,114	2,977	7,768	7,434	4,061	23,256

**Liquidity**

We assess Ratch's liquidity as adequate because we expect the company's funding sources to cover uses by more than 1.2x over the 12 months ending Sept. 30, 2024. The company 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 Ratch to maintain sufficient headroom under its covenants even if EBITDA declines by 15%.

### Principal liquidity sources

- Cash and short-term investments of about THB42.1 billion as of Sept. 30, 2023.
- Undrawn long-term committed facilities of about THB35.4 billion as of Sept. 30, 2023.
- Cash flow from operations of about THB8.7 billion over the 12 months to Sept. 30, 2024.
- Working capital inflow of THB1.9 billion over the period.

### Principal liquidity uses

- Debt maturities of THB37.7 billion over the 12 months to Sept. 30, 2024.
- Consolidated capital spending, including investments in affiliates, of about THB26.5 billion over the period, which we view as committed spending. This includes the acquisition cost of Paiton.
- Dividend payments of about THB3.5 billion over the period.

## Covenant Analysis

### Requirements

#### Ratch Group Public Co. Ltd.--Covenant Analysis

	Covenant	Limit	Actual (as of Dec. 31, 2022)
Private placement	Net debt/equity	<1.3x	0.54x

Source: Company disclosure.

### Compliance expectations

Ratch remains in compliance with its financial covenants and maintains sufficient headroom for such compliance. We expect the company to maintain its sufficient headroom even if its EBITDA falls by more than 15%.

## Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Ratch. The company uses natural gas as the source for about 60% of its fuel. This is a bridge fuel as it transitions from fossil fuels to renewables.

However, Ratch's proposed acquisition of a 36.3% stake in Paiton (741.5 MW equity capacity in a coal-fired plant in Indonesia) would increase the company's exposure to coal to about 20% of overall equity operating capacity. This would delay its energy transition efforts.

Ratch has about 20% of capacity in renewables and aims to increase this to 25% by 2025. This could potentially improve the company's carbon exposure and fuel diversity. Long-term contracts without volume and fuel price risks will support this.

Environmental and social risks exist for some hydro projects, as seen in a joint-venture dam project in Laos. Although the financial impact of a break at this dam was insignificant, adverse

public opinion or geopolitical resistance can affect Ratch's growth plans and execution capabilities.

## Group Influence

Our ratings on Ratch benefit from a three-notch uplift from the stand-alone credit profile, based on our view of group support from EGAT.

We believe Ratch is strategically important within the EGAT group. EGAT maintains a 45% stake in Ratch and has a policy to keep at least 50% of total generating capacity in Thailand, including equity stakes in subsidiaries.

We believe Ratch benefits from indirect government support via its parent EGAT in times of financial distress, given its systemic importance in fulfilling power demand in Thailand. Ratch's key subsidiary Ratchaburi Electricity Generating Co. Ltd. supplies critical electricity to the western region of Thailand.

We believe EGAT will continue to support Ratch in its growth aspirations, as well as provide financial support, if needed. This is evident from EGAT's subscription to the company's equity issuance of THB25 billion in 2022, to help fund its sizable investments.

We believe Ratch is the preferred subsidiary of EGAT when it comes to overseas sourcing of power for Thailand on private projects. This is because of the company's experience and financial strength. EGAT's governor sits on Ratch's board and participates in the approval of such investments.

Nonetheless, we will continue to monitor the importance of Ratch to EGAT, given its expanding footprint outside Thailand.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

As of June 30, 2023, Ratch's capital structure consisted of about THB97.7 billion of total debt. The company had US\$300 million (THB10.7 billion) of 4.5% senior unsecured notes due on March 27, 2028, and ¥15 billion (THB3.7 billion) of 2.72% senior unsecured bonds due on Aug. 24, 2026.

RH International (Singapore) Corp. Pte. Ltd., a wholly owned subsidiary of Ratch, issued both bonds, which Ratch irrevocably and unconditionally guarantees.

### Analytical conclusions

We equalize the issue ratings on Ratch's guaranteed unsecured notes and bonds with the issuer credit rating on the company because the ratio of priority debt to total debt was 41% as of June 30, 2023. This is below our threshold of 50% for notching down the issue rating.

As Ratch's capital structure continues to evolve with its business growth, we will monitor for any subordination risks in its unsecured debt relative to other debt in the company's consolidated capital structure.

We do not include RH International (Singapore) Corp. Pte. Ltd.'s unsecured debt as part of the priority debt because we consider the debt to rank equally with that of the parent company, which guarantees the notes.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB-/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BBB-/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Highly Leveraged</b>
Cash flow/leverage	Highly Leveraged
<b>Anchor</b>	<b>b+</b>
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	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>bb-</b>
<b>Group credit profile</b>	<b>bbb+</b>
<b>Entity status within group</b>	<b>Strategically important (+3 notches)</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013



Ratch Group Public Co. Ltd.

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Asia-Pacific Utilities Outlook 2024: Earnings Recovery Should Temper Higher Transition Spending, Nov. 15, 2023
- Asia-Pacific's Different Pathways To Energy Transition, March 30, 2023

Ratings Detail (as of November 21, 2023)\*

Ratch Group Public Co. Ltd.

Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

Issuer Credit Ratings History

16-Sep-2022	BBB-/Stable/--
23-Sep-2021	BBB/Stable/--
14-Dec-2020	BBB+/Negative/--

Related Entities

EGAT International Co. Ltd.

Issuer Credit Rating	BBB+/Stable/--
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RH International (Singapore) Corp. Pte. Ltd.

Senior Unsecured	BBB-
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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