EGAT International Co Ltd.

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PRIMARY CONTACT

Huili Yong
Singapore
65-65976145
hui.li.yong
@spglobal.com

SECONDARY CONTACTS

Abhishek Dangra, FRM
Singapore
65-6216-1121
abhishek.dangra
@spglobal.com

Meet N Vora
Sydney
61-2-9255-9854
meet.vora
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Core subsidiary of Electricity Generating Authority of Thailand (EGAT), with timely government support likely via the parent in extraordinary circumstances.	EGAT's smaller size relative to other regional utilities with a dominant presence.
Benefits from EGAT's dominant position in power generation and status as the sole transmission services provider in Thailand.	EGAT's fuel and customer concentration risks.
EGAT's stable cash flow and moderate leverage supported by predictable regulations.	

EGAT International Co. Ltd. (EGATi) to remain a core member of the EGAT group. We view EGATi as an extension of EGAT. The company operates as the investment arm for its parent EGAT on behalf of the Thai government. All EGATi's management, operations, capital expenditure (capex) funding, and investments are largely approved by EGAT, and Thailand's Ministry of Finance, Ministry of Energy (MOE), and Cabinet. The rating on EGATi therefore reflects our assessment of EGAT's credit profile. We believe EGATi benefits from an extremely high likelihood of extraordinary support from the Thai government if needed. The government supports EGATi via equity infusions from EGAT or the Cabinet-approved budget for EGATi.

We expect EGAT to maintain strong ties with the Thai government and keep its essential role as the country's sole transmission services provider and dominant power generator. We believe the Thai government has satisfactory oversight of EGAT and would provide timely support to help the entity deliver on its public service obligation of providing stable electricity supply. EGAT is a wholly owned government entity with active government involvement via the MOE in terms of supervision, strategy, operations, funding, and financial management. Under the Electricity Generating Authority of Thailand Act, the government is obligated to cover any deficiencies in EGAT's cash flows, including debt repayments and interest expenses. The government's obligation to prevent a financial crisis reinforces our expectation of continued majority ownership by the government.

EGAT’s regulatory framework should support earnings stability and steady recovery in financial metrics over the next three years. We believe the company's earnings will improve from increasing electricity demand, and capacity additions. In addition, earnings will also continue to be supported by EGAT’s established regulatory framework that allows full pass-through of fuel costs through fuel price adjustment every four months. We expect increasing earnings to restore the company's ratio of funds from operations (FFO) to debt to above 23%. Under our base case scenario, FFO-to-debt will recover to about 23% in 2021, and over 28% for 2022 and 2023, compared with 21% in 2020. The trough in 2020 was driven by lower sales volumes (due to COVID-19), as well as capex and equity injections to joint ventures (JVs) and associates that were higher than our estimates.

Outlook

The stable outlook on EGATi mirrors that on Thailand. It also reflects our expectation that EGATi will remain a core member of the EGAT group and continue to receive support from the Thai government through EGAT over the next 12-18 months.

The outlook also reflects our expectation that EGAT will continue to benefit from ongoing and extraordinary government support.

Downside scenario

We could lower the rating on EGATi if we see signs of a loosening of the company's ties with its parent, or if our assessment of government support for EGATi is lower, both of which we view as unlikely in the next 12-24 months.

We may also lower the rating on EGATi if we downgrade EGAT, which could happen if we lower the sovereign credit rating on Thailand.

We could lower the rating on EGAT if its stand-alone credit profile (SACP) falls to 'b+'.

We may lower our assessment of EGAT's SACP by one notch if:

- The entity departs significantly from its role as Thailand's sole transmission network provider and dominant electricity generator under the "enhanced sole buyer" model, which could weaken our assessment of EGAT's business operations and quality of earnings;
- Thailand's regulatory framework has any significant adverse change; or

EGAT's cash flow adequacy deteriorates substantially, with the ratio of FFO to debt falling below 23%.

Upside scenario

We could raise the rating on EGATi if we raise the foreign currency long-term sovereign credit rating on Thailand and SACP remains at least 'bb-'.

An upgrade is contingent on EGAT maintaining strong ties with the government and continuing to benefit from an extremely high likelihood of extraordinary support from the government in case of need.

Our Base-Case Scenario

Assumptions

- Thailand's real GDP to grow about 1% in fiscal 2021, expanding further to 3%-4% over the next two years, leading to increase in electricity demand.
- EGAT's revenue to increase by about 6%-10% in 2021 and 2022, with revenue growth stabilizing at about 2% every year thereafter.
- Adjusted EBITDA margins to remain resilient at 20%-21%.

- Capex to be generally based on the Power Development Plan (PDP's) power generation target. We estimate capex of Thai baht (THB) 45 billion–THB47 billion per annum in 2021 and 2022, increasing to about THB70 billion in 2023. This includes equity injections into JVs, associates and subsidiaries of THB6 billion-THB9 billion each year.
- Average cost of funding to be about 4%.
- Dividend payout at 60% of profit before tax. This comes to about THB19 billion–THB25 billion in the next three years.

Key metrics

Electricity Generating Authority of Thailand--Key Metrics*

Mil. THB	2019a	2020a	2021e	2022f	2023f
Revenue growth (%)	6.8	(8.9)	6.0-7.0	9.0-10.0	about 2.0
EBITDA margin (%)	21.1	20.6	20.0-21.0	20.0-21.0	20.0-21.0
Funds from operations (FFO)	80,672.3	69,990.0	73,000-75,000	85,000-86,000	88,000-89,000
Capital expenditures and investments in JVs/associates	52,159.3	49,260.0	45,000-47,000	45,000-47,000	about 70,000
Debt	322,617.5	322,722.0	317,000-318,000	303,000-304,000	304,000-305,000
Debt to EBITDA (x)	2.7	3.1	2.8-2.9	2.4-2.5	2.4-2.5
FFO to debt (%)	25.0	21.7	23.0-24.0	28.0-29.0	28.0-29.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. THB--Thai baht.

Recovery in power demand from fiscal 2021 will support EGAT's EBITDA growth. We project subtle growth in electricity demand of 1%-2% in 2021, in view that key demand-driving sectors such as tourism and manufacturing are beginning to see signs of recovery since pandemic days. We expect demand recovery to pick up further in 2022 and 2023, upon the launch of 63 Vaccinated Travel Lane since November 2021 which will boost tourism, as well as our expectation of greater resumption in economic activities across the country. EGAT recorded close to a 9% decline in revenues in 2020, due to a decline in electricity prices (following lower natural gas costs), coupled with a 3% drop in demand and claw-back income to alleviate the electricity bills of end users.

Extension of government's measures to subsidize electricity bills into 2021 continue to have immaterial impact on EGAT's cash flows. In 2020, EGAT contributed THB45.4 million to subsidize electricity usage to its customers as a part of Thailand's relief measures to contain the impact of the pandemic. We consider this to be immaterial (only about 0.01% of total revenues). The government has retained some relief measures in 2021, including the subsidization of bills for eligible users; however, we continue to anticipate EGAT's contribution to these measures will remain immaterial thereby having a minimal impact on its cash flows.

Stable EBITDA margins backed by recovery in fuel costs. The tariff framework in Thailand incorporates a fuel-price adjustment, which is adjusted every four months, allowing EGAT to pass on increases in fuel costs to its consumers. This allows for timely recovery of costs, which should support stable EBITDA margins of 20%-21% over the next three years.

Power purchase agreements and high capex will keep debt elevated over the next 24 months. As EGAT begins to step up investments in line with Thailand's PDP targets, we expect EGAT's annual spending to amount to THB160 billion over the next three years. We also note that EGAT is obligated to pay for electricity from other power producers as part of its power purchase agreements, notwithstanding high reserve margins in Thailand. We have factored these obligations into EGAT's total adjusted debt as lease liabilities.

Company Description

EGATi is the sole energy and power investment platform for international expansion under EGAT, in neighboring countries including Laos, Myanmar, China, and Cambodia. EGAT is wholly owned by the Thai government and is the sole electricity transmission service provider and the largest electricity generator in the country.

Peer Comparison

We consider Tenaga Nasional Bhd., NTPC Ltd., and Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (PLN) as EGAT's peers within the regulated utilities space. Similar to that of EGAT, the peers have dominant market positions in their respective markets.

EGAT is significantly smaller than NTPC and PLN in terms of generation capacity. While it is comparable to Tenaga which has 14.6 gigawatts (GW) of capacity, we believe Tenaga has better diversity due to its distribution business and diverse customer base comprising of residential, commercial, and industrial customers.

In our view, the regulatory framework differs for the regulated peers. Both Thailand and India benefit from stable and established regulatory frameworks with formula-based tariff adjustments and the presence of an independent regulator. In contrast, Indonesia's regulatory framework is weaker due to ad-hoc tariff adjustments and continuing dependence on subsidies, in the absence of an independent regulator. Malaysia's record of semi-annual tariff adjustment is improving, but such adjustments still require cabinet approval.

Electricity Generating Authority of Thailand—Peer Comparisons

	Electricity Generating Authority of Thailand	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Tenaga Nasional Bhd.	NTPC Ltd.
Period	Annual	Annual	Annual	Annual
Period ending	12/31/2020	12/31/2020	12/31/2020	12/31/2020
Mil.	$	$	$	$
Revenue	17,013	24,870	10,943	15,244
EBITDA	3,500	11,338	4,590	4,653
Funds from operations (FFO)	2,332	4,848	2,789	2,415
Interest	1,178	6,898	1,174	1,901
Cash interest paid	1,153	6,362	1,069	1,819
Operating cash flow (OCF)	2,116	7,466	2,841	3,189
Capital expenditure	1,641	5,626	1,602	3,186
Free operating cash flow (FOCF)	475	1,840	1,239	3
Discretionary cash flow (DCF)	(190)	1,839	(64)	(1,165)
Cash and short-term investments	2,624	3,967	3,178	470
Gross available cash	2,624	3,967	3,178	470
Debt	10,751	47,588	19,656	30,728
Equity	16,261	67,667	14,295	17,668

EBITDA margin (%)	20.6	45.6	41.9	30.5
Return on capital (%)	8.1	7.1	6.4	8.2
EBITDA interest coverage (x)	3.0	1.6	3.9	2.4
FFO cash interest coverage (x)	3.0	1.8	3.6	2.3
Debt/EBITDA (x)	3.1	4.2	4.3	6.6
FFO/debt (%)	21.7	10.2	14.2	7.9
OCF/debt (%)	19.7	15.7	14.5	10.4
FOCF/debt (%)	4.4	3.9	6.3	0.0
DCF/debt (%)	(1.8)	3.9	(0.3)	(3.8)

Business Risk

EGAT will maintain its dominant position in Thailand's power generation.

The company is the largest power producer in Thailand with installed generating capacity of about 16GW, representing about 34% of the country's total generation capacity. It is significantly larger than other power producers Ratch Group Public Co. Ltd. (7.0 GW capacity) and Global Power Synergy Public Co. Ltd. (4.7 GW capacity) in the country.

We expect EGAT to maintain its strong market position with the Enhanced Single Buyer model in Thailand, which positions the company as the sole purchaser of electricity from other generators, to supplement its own supply. It is also the sole transmission service provider in the country.

A transparent and stable regulatory framework supports earnings and cash flow stability.

EGAT benefits from a tariff mechanism that allows for timely pass-through of fuel and power purchase costs, limiting the company's exposure to fluctuations in fuel prices. The base rate component of the tariff, which is adjusted every three to five years, allows for recovery on capital spending and operating costs, with a reasonable return on investment. However, the implementation of tariff revisions is not automatic and requires approval of a government-appointed review committee.

The Energy Regulatory Commission regulates electricity tariffs in Thailand. Significant changes to the regulatory framework are unlikely, given the commission's established tariff-setting philosophy. We expect the regulator to remain generally supportive of utilities in Thailand, which supports the low volatility in cash flows from these utilities.

EGAT faces fuel and customer concentration risks.

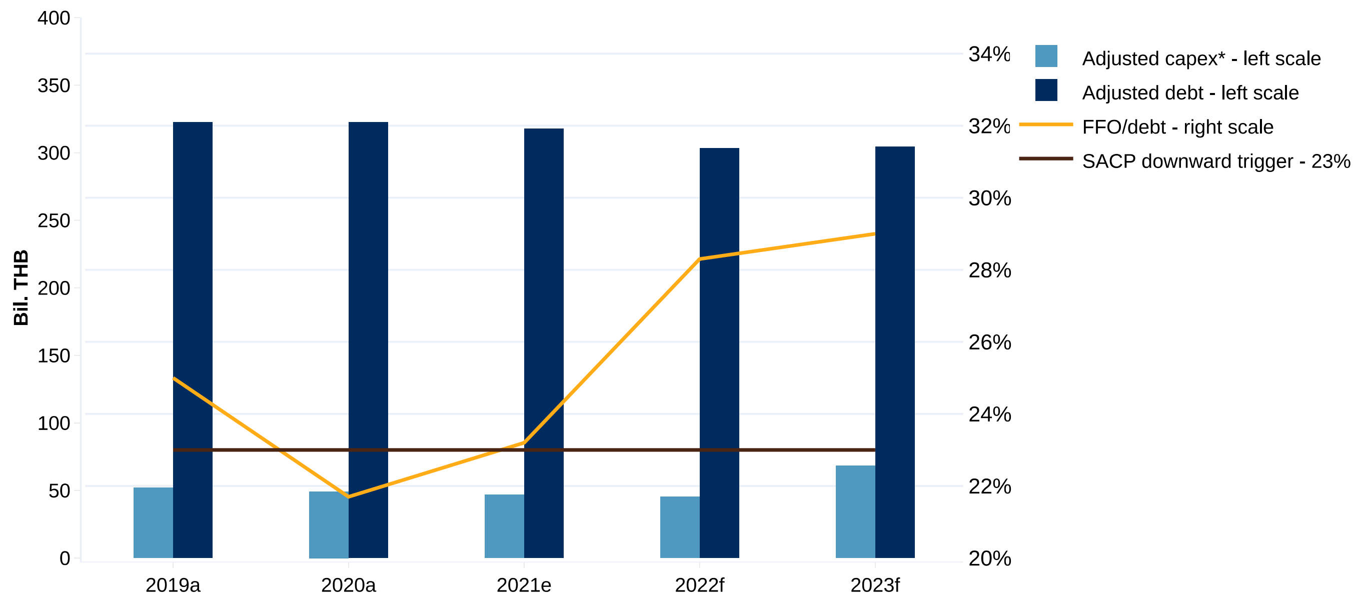
The company is dependent on natural gas as a fuel source (50% of total capacity), given gas-fired power plants are considered as sources of baseload power in Thailand. Nonetheless, with declining domestic and imported gas supply, there has been increasing policy measures by the Thai government to encourage imports of liquefied natural gas (LNG). Given the phased approval of the National Energy Policy Council’s natural gas market liberalization roadmap in 2021, we expect EGAT to continue to incorporate LNG in its long-term fuel mix. In addition, increasing investments in renewables will add to EGAT's fuel-mix diversity, in line with Thailand's PDP to reduce the use of fossil fuels over the long term.

EGAT is also exposed to customer-concentration risks as nearly all its electricity is sold to the Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA), with a marginal amount sold to direct consumers. The record is good for timely payments from the state-owned distribution companies. The MEA and PEA made full payments within 2020, despite measures which allowed distributors to postpone partial payments. As such, we expect the trend of timely payments to continue.

Financial Risk

We see high cash flow visibility for EGAT over the next three years because the entity's revenue is underpinned by regulated earnings. We expect EGAT's leverage to improve over the period, supported by cash flows from recovering electricity demand and gradual capacity additions. We anticipate EGAT’s FFO-to-debt ratio to recover to about 23% in 2022 from 21% in 2021 and improve to over 28% in 2023 and 2024. The slight trough in 2020 was driven by capex and equity injections to JVs and associates, which were higher than our expectations.

EGAT's Leverage to Gradually Improve Despite Elevated Capex



* Capex includes investments and equity injections into associates and subsidiaries. THB--Thai baht. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.

EGAT's gradual capacity additions should drive the company's growth and support its earnings profile. As EGAT invests in generation and transmission assets in line with the country’s PDP targets, we expect EGAT’s annual spending to be higher at THB160 billion over the next three years, from THB130 billion of initial projections. This also includes our expectations of equity injections toward JVs and associates over the next few years, largely to support overseas projects in which EGAT has stakes. While elevated, these investments should continue to drive capacity growth and support earnings growth over the next three years. In our opinion, EGAT can adequately manage project-execution risks given its track record. That said, cash flows will be hurt if capacity additions are not executed in a timely manner.

EGAT should generate positive free operating cash flows of about THB20 billion–THB40 billion each year, over the next three years, supporting deleveraging.

Debt maturities

Electricity Generating Authority of Thailand--Debt Maturities*

Debt due in	Amount (Mil. THB)
2021	832.7
2022	5,767.9
2023	7,837.8
2024	10,149.0
2025	7,140.2
After 2025	71,042.8
Total debt	102,770.4

*As of Sept. 30, 2021. THB--Thai baht

Electricity Generating Authority of Thailand--Financial Summary

Period ending	Dec-31-2015	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020
Reporting period	2015a	2016a	2017a	2018a	2019a	2020a
Display currency (mil.)	THB	THB	THB	THB	THB	THB
Revenues	546,480	496,883	493,934	524,768	560,446	510,707
EBITDA	113,296	128,629	127,968	123,228	118,050	105,067
Funds from operations (FFO)	79,775	85,047	84,117	82,742	80,672	69,990
Interest expense	32,553	43,152	42,763	39,554	36,884	35,369
Cash interest paid	31,773	42,644	42,090	39,101	36,537	34,614
Operating cash flow (OCF)	76,927	89,264	85,784	83,428	68,902	63,520
Capital expenditure	34,418	49,013	54,931	57,992	52,159	49,260
Free operating cash flow (FOCF)	42,509	40,251	30,853	25,435	16,742	14,260
Discretionary cash flow (DCF)	15,425	14,353	6,503	3,198	(9,477)	(5,715)
Cash and short-term investments	103,051	100,640	108,154	113,278	89,690	78,765
Gross available cash	103,051	100,640	108,154	113,278	89,690	78,765
Debt	298,569	349,150	327,338	329,199	322,618	322,722
Common equity	347,102	403,055	426,557	452,445	474,654	488,141
Adjusted ratios						
EBITDA margin (%)	20.7	25.9	25.9	23.5	21.1	20.6
Return on capital (%)	12.7	12.3	11.7	11.5	10.0	8.1
EBITDA interest coverage (x)	3.5	3.0	3.0	3.1	3.2	3.0
FFO cash interest coverage (x)	3.5	3.0	3.0	3.1	3.2	3.0

Debt/EBITDA (x)	2.6	2.7	2.6	2.7	2.7	3.1
FFO/debt (%)	26.7	24.4	25.7	25.1	25.0	21.7
OCF/debt (%)	25.8	25.6	26.2	25.3	21.4	19.7
FOCF/debt (%)	14.2	11.5	9.4	7.7	5.2	4.4
DCF/debt (%)	5.2	4.1	2.0	1.0	(2.9)	(1.8)

Reconciliation Of Electricity Generating Authority of Thailand Reported Amounts With S&P Global Adjusted Amounts (Mil. THB)

	Debt	Shareholder equity	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Capital expenditure
Financial year	Dec-31-2020							
Company reported amounts	137,444	454,673	101,373	54,879	33,783	105,067	102,125	44,350
Cash taxes paid	-	-	-	-	-	(463)	-	-
Cash interest paid	-	-	-	-	-	(33,528)	-	-
Reported lease liabilities	229,742	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation	11,749	-	343	343	500	-	-	-
Accessible cash and liquid investments	(59,074)	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	1,086	(1,086)	(1,086)	(1,086)
Dividends received from equity investments	-	-	3,351	-	-	-	-	-
Asset-retirement obligations	2,861	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	10,290	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	(29,197)	-
Noncontrolling interest/minority interest	-	33,468	-	-	-	-	-	-
Working capital: Other	-	-	-	-	-	-	(8,322)	-
Capital expenditure: Other	-	-	-	-	-	-	-	5,996
Total adjustments	185,278	33,468	3,694	10,633	1,586	(35,077)	(38,605)	4,910
S&P Global Ratings adjusted	**Debt**	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Capital expenditure**
	322,722	488,141	105,067	65,512	35,369	69,990	63,520	49,260

Liquidity

In our view, EGATi's liquidity and funding are dependent on EGAT. We assess EGAT's liquidity as strong and forecast that the company's sources of funds will cover its needs by more than 1.5x over the 12 months to Sept. 30, 2022, and by more than 1.0x over the subsequent 12 months. We believe net sources would be sufficient to cover uses even if EGAT's EBITDA declines by 30%. In addition, EGAT benefits from generally prudent risk management, well-established relationships with banks, and a generally high standing in credit markets through domestic bond issuances.

Principal liquidity sources

- Cash and cash equivalents of about THB84.7 billion as of Sept. 30, 2021.
- Cash flow from operations of about THB84.3 billion over the 12 months ending Sept. 30, 2022.

Principal liquidity uses

- Debt maturities of about THB3.8 billion over the 12 months ending Sept. 30, 2022.
- Capex of about THB38.5 billion and equity injections into EGAT's associates and subsidiaries of THB8.3 billion, over the next 12 months.
- Dividend payout of 60% of profit before tax, estimated at about THB22.5 billion over the period.

Environmental, Social, And Governance

E-2	S-2	G-2
N/A	N/A	N/A

ESG factors have no material influence on our credit rating analysis of EGAT International Company Limited (EGATi). We view EGATi's ESG risks as an extension of its parent EGAT's.

ESG Credit Indicators

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Group Influence

We assess EGATi as a core member of the EGAT Group. We view EGATi as an extension of EGAT, given it operates as the international investment arm of EGAT on behalf of the Thai government. EGATi is wholly owned by EGAT, with 99.99% shareholding.

All EGATi's management, operations, capex funding, and investments are largely approved by EGAT, Thailand's Ministry of Finance, MOE, and Cabinet. The government has an approved budget for EGATi to facilitate strategic international investments over the next few years. EGATi receives such funding support in the form of equity injection from the government via EGAT. EGAT also has strong supervision and oversight over EGATi through its representation on the board of directors and financial management.

Government Influence

We believe EGATi has an extremely high likelihood of receiving timely extraordinary support from the Thailand government via EGAT.

EGAT has a very important role in Thailand's power sector. It implements the country's energy policies and plays an essential role in maintaining the electricity generation capacity and supply, ensuring the security and stability of power in Thailand. EGAT is the largest power producer in the country with about 35% of the country's total installed capacity. It is also the sole purchaser of electricity from other generators and transmission service provider in Thailand. EGAT has a policy to maintain at least 50% of total generating capacity in Thailand, both directly and indirectly via equity stakes in subsidiaries.

EGAT is integral to the Thai government, being a wholly owned government entity with active government involvement via the MOE in terms of supervision, strategy, operations, funding and financial management. Under the Electricity Generating Authority of Thailand Act, the government is obligated to cover deficiencies in EGAT's cash flows, including debt repayments and interest expenses. The Thai government's obligation to prevent a financial crisis reinforces our expectation of continued majority ownership by the government.

Related Criteria

- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- 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