

EGAT INTERNATIONAL CO., LTD.

No. 137/2021
31 August 2021

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 31/08/20

Company Rating History:

Date	Rating	Outlook/Alert
16/09/15	AAA	Stable
06/12/17	BBB+	Stable
29/12/17	BBB+	Stable
31/12/17	BBB+	Developing
04/12/17	BBB+	Alert Developing
02/12/17	BBB+	Alert Stable
28/11/17	BBB+	Alert Positive
28/11/17	BBB+	Alert Stable
29/11/17	BBB+	Alert Stable
01/12/17	BBB+	Stable

Contacts:

Jarturun Sukthong

jarturun@trisrating.com

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on EGAT international Co., Ltd. (EGATi) at “AAA” with a “stable” outlook. The rating reflects the company’s status as a core subsidiary of the Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable” by TRIS Rating) due to its crucial role as an investment arm of EGAT for investments in overseas power and energy-related businesses, the high degree of integration between EGAT and EGATi, and the considerable support EGATi receives from EGAT.

KEY RATING CONSIDERATIONS

A core subsidiary of EGAT

We assess EGATi as a core subsidiary of EGAT, in consideration of its crucial role as an investment arm of EGAT in power and energy-related businesses abroad. As a wholly-owned subsidiary of EGAT, the company’s business direction has been aligned with EGAT’s business strategy. The company acts as a representative of EGAT to invest in various government-to-government (G-to-G) energy projects in neighboring countries. According to EGAT’s policy, EGATi focuses on investing in overseas energy projects to complement the objectives of securing adequate electricity supplies in Thailand and obtaining appropriate investment returns for EGAT. Both EGAT and EGATi are state-owned enterprises under Thai law.

Highly integrated with EGAT

We view that EGATi has a high level of integration with EGAT. Since the establishment of EGATi, most of the company’s board members and top managements have been seconded from EGAT. EGAT is also involved in EGATi’s investment process. Investments approved by EGATi’s board of directors are subject to the review by EGAT before being forwarded to the Ministry of Energy (MOE) for final approval.

TRIS Rating believes EGAT will continue providing vital support to EGATi as it is an integral part of EGAT’s long-term business strategy. In 2011, EGAT budgeted an equity contribution framework to EGATi of THB17 billion to support the company’s investment plans. As of March 2021, EGATi had received capital injection from EGAT amounting to THB12.2 billion, with THB11.8 billion earmarked for the operations of three power projects in neighboring countries, “Nam Ngiep1”, “Mong Ton”, and “Quang Tri”, and for the acquisition of a stake in a coal mining company, Adaro Indonesia (AI).

Investment in coal mining continues to be main source of earnings

In late 2016, EGATi acquired an 11.53% stake in AI, valued at USD325 million. Since the acquisition, EGATi has received cumulative company dividends of USD169.1 million. TRIS Rating forecasts that EGATi will receive dividends from AI of THB200-THB250 million in 2021 and THB400-THB450 million per year during 2022-2023. The forecast is based on Newcastle Coal Index prices of USD80-USD100 per tonne over the forecast period. TRIS Rating believes the investment in AI will continue to be the primary source of revenue for EGATi over the next three years. The dividend income is sufficient for the company to cover its operating expenses of about THB150-THB200 million per year.

Established in 1982, AI is one of the largest coal mining companies operating in South Kalimantan, Indonesia, with 35,520 hectares of mine area. AI’s average sales volume was about 50 million tonnes of coal per year, while its

coal reserves were 774 million tonnes as of the end of December 2020.

Nam Ngiep 1 project to contribute dividend from 2021 onwards

The Nam Ngiep 1 Power Co., Ltd. (NNP1PC) commenced commercial operation on 5 September 2019 under a 27-year power purchase agreement (PPA) with EGAT for 269 megawatts (MW) of electricity. In 2020, drought led to a water inflow of just 3,564 million cubic meters during the year, which was about 33% lower than the 50-year average. NNP1PC generated about 1,116 gigawatt hours (GWh) of electricity in 2020. As a result, the company recorded earnings before interest, taxes, depreciation, and amortization (EBITDA) of about USD64 million. We expect NNP1PC's performance to recover in 2021 as the water inflow has improved somewhat compared with the 2020 level. We expect EGATi to receive dividends of around THB100-THB150 million per year from the project from 2021 onwards.

NNP1PC was established in 2013 to develop the Nam Ngiep 1 hydropower project. The project is located on the Nam Ngiep river, Bolikhamxay province, Lao People's Democratic Republic (Lao PDR), and has an installed capacity of 290 MW.

Four power projects under development

EGATi currently has four power projects under development, with aggregate capacity of 4,488 MW. The first is the Quang Tri coal-fired power project in Vietnam with an installed capacity of 1,320 MW. EGATi is currently negotiating the electricity tariff with Vietnam Electricity (EVN) and intends to establish a joint-venture company with its partner this year. The company also plans to inject equity into the project after signing a PPA with EVN. The Mong Ton hydropower project in Myanmar has been postponed due to uncertainty over the political situation in the country. For the Nam Ngum 3 hydropower project in the Lao PDR, EGATi is currently negotiating the electricity tariff and PPA with EGAT and EGATi will invest about THB4.3 billion in the project after the PPA is signed. In August 2021, EGATi spent about THB196 million to acquire an 18.75% interest in floating solar projects in Taiwan. This investment is expected to contribute 7 MW of generating capacity and dividends of about THB12 million per year to EGATi.

Having debt-free balance sheet until 2022

During 2021-2023, EGATi plans to make investments in the Quang Tri, Nam Ngum 3, an additional investment in AI, floating solar projects in Taiwan, and investments in renewable power and technology projects. The capital expenditure for the investment plan totals THB17.8 billion over 2021-2023 (including committed and uncommitted projects). The primary sources of fund will be the equity commitment from EGAT of about THB8.3 billion, together with cash and cash equivalents, and borrowings in 2023. As of March 2021, EGATi had cash and cash equivalents of THB6 billion.

BASE-CASE ASSUMPTIONS

- EGATi's share of profits from AI, Nam Ngiep 1, and floating solar projects to be around THB1-THB1.1 billion per year during 2021-2023.
- Dividend income to be about THB300-THB350 million in 2021 and about THB600-THB800 million per year during 2022-2023.
- Investments to be about THB17.8 billion during 2021-2023 (including committed and uncommitted projects).
- Capital expenditures will cover investment in the Quang Tri and Nam Ngum 3 projects, AI, floating solar projects, and investments in renewable power and technology projects.

RATING OUTLOOK

The "stable" outlook reflects our expectation that EGATi will maintain its status as a core subsidiary of EGAT and continue its important role as an investment arm of EGAT for electricity and related businesses abroad.

RATING SENSITIVITIES

A credit downgrade scenario could materialize if there is a material deterioration in EGAT's credit profile that leads to a downward revision on the credit rating on EGAT, or there are material changes in EGATi's role and importance to EGAT that change our view on EGATi's status as a core subsidiary of EGAT.

COMPANY OVERVIEW

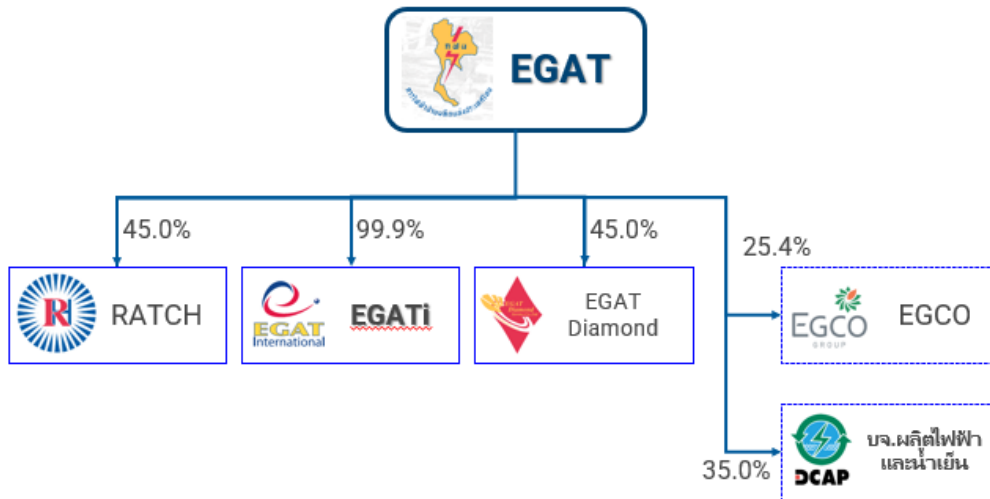
EGATi was founded by a Cabinet resolution dated 30 October 2007. Its initial objective was to serve as EGAT's representative in G-to-G power projects in neighboring countries. The company was formally established in December 2007, with a registered capital of THB50 million. EGATi is wholly owned by EGAT. EGAT received approval from the MOE to inject THB17 billion in equity into EGATi for the purpose of making investments abroad. In addition to this budget, EGAT paid EGATi's operating expenses through additional equity injections. As of March 2021, EGATi's paid-up capital was THB12.2 billion. Of this amount, THB11.83 billion has been earmarked for investment in the Nam Ngiep 1 hydropower

project, the Mong Ton hydropower project, an investment in AI and the Quang Tri project.

EGATi's investment portfolio comprises five power projects in the Lao PDR, Vietnam, Myanmar, and Taiwan and a coal mine in Indonesia. The aggregate capacity of the five power projects is 4,775 MW. EGATi has a policy of holding a 25%-40% interest in each project. Of the five projects, the Nam Ngiep 1 project commenced commercial operations in September 2019. The first two projects of the floating solar projects in Taiwan have started commercial operation in April 2021 and the rest two projects are expected to start commercial operation within 2021. At the same time, other projects are in the feasibility study and development phases.

KEY OPERATING STATISTICS

Chart 1: EGAT's Group Structure as of 30 Jun 2021



Source: EGAT
Illustrated by TRIS Rating

Table 1: EGATi's Portfolio as of 30 Jun 2021

Project Name	Location	Plant Type	Project Capacity (MW)	EGATi's Holding (%)	EGATi's Capacity (MW)	PPA Terms (Years)	COD
Power projects							
1. Nam Ngiep 1	Lao PDR	Hydro power	287	30	86	27	Sep 2019
2. Quang Tri	Vietnam	Coal-fired	1,320	40	528	25	2024-2025(e)
3. Mong Ton	Myanmar	Hydro power	2,650	30	795	40	Pending
4. Nam Ngum 3	Lao PDR	Hydro power	480	25	120	n.a.	2026(e)
5. Floating Solar	Taiwan	Solar	38	19	7	20	2021
Total			4,775		1,536		
Company	Location	Business Type	EGATi's Holding (%)	EGATi's Investment (Mil.THB)			
Other investments							
1. Adaro Indonesia	Indonesia	Coal mining	11.53	11,160			
Total				11,160			

Source: EGAT
e = estimation

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
Total operating revenues	2	4	5	7	10
Earnings before interest and taxes (EBIT)	145	140	270	1,344	1,289
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(17)	596	392	1,553	2,873
Funds from operations (FFO)	(17)	523	309	1,255	2,246
Adjusted interest expense	0	0	0	0	0
Capital expenditures	3	25	23	21	22
Total assets	18,365	17,627	17,720	18,583	17,675
Adjusted debt	0	0	0	0	0
Adjusted equity	13,209	12,697	12,778	13,267	12,282
Adjusted Ratios					
EBITDA margin (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Pretax return on permanent capital (%)	(0.44) **	1.10	2.07	10.52	10.78
EBITDA interest coverage (times)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* Equity-method

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

EGAT International Co., Ltd. (EGATi)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria