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EGAT International Co Ltd.

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Table Of Contents

EGAT International Co Ltd.

Credit Highlights

Issuer Credit Rating
BBB+/Stable/--

Overview

Key strengths	Key risks
Core subsidiary of Electricity Generating Authority of Thailand's (EGAT) with timely government support likely via the parent in extraordinary circumstances.	EGAT's smaller size than regional utilities, with a dominant presence.
Benefit 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 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 has 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 provider of transmission services 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 Ministry of Energy (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 earnings should remain resilient amid the COVID-19 outbreak and lower electricity demand over 2020-2021. The company benefits from a stable regulatory framework and tariff structure that shields the company from volume and price risks. We do not expect EGAT's revenues to be impacted by government measures to contain the pandemic, such as reduction in electricity tariffs of 3% from April 1, 2020 to June 30, 2020, and subsidization of electricity bills for residential users. Measures are also in place that allow distribution companies such as Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA)--EGAT's main customers, to postpone partial payments. That said, we expect EGAT to receive these payments by December 2020 and maintain steady cash flows.

Outlook

The stable outlook on EGATi reflects 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 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 funds from operations (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 EGAT's stand-alone credit profile (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 contract 6.4% in 2020 and grow 5.0% in 2021, affecting overall electricity demand.
- EGAT's revenue to decline by about 8% in 2020 and 2% in 2021 due to lower power demand.

- EBITDA margins to remain resilient at about 22%.
- Capex to be generally based on the PDP's power generation target. It is likely to be about Thai baht (THB) 39 billion in fiscal 2020 (year ending Dec. 31, 2020), increasing to THB40 billion-THB44 billion over fiscals 2021-2022.
- Average cost of funding to be about 4%.
- Dividend payout to be THB15 billion-THB17 billion annually in fiscals 2020-2021.

Key metrics

Electricity Generating Authority of Thailand--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Mil. THB)	**2018a**	**2019a**	**2020a**	**2021e**	**2022f**
Revenue growth (%)	6.2	6.8	about (8.0)	about (2.0)	10.0-15.0
EBITDA margin (%)	23.5	21.1	about 22.0	about 22.0	about 22.0
Funds from operations (FFO)	82,742.1	80,672.3	75,000-77,000	72,000-74,000	85,000-87,000
Capital expenditure	57,992.2	52,159.3	about 40,000	40,000-45,000	40,000-45,000
Debt	329,198.7	322,617.5	315,000-320,000	315,000-320,000	310,000-315,000
Debt to EBITDA (x)	2.7	2.7	2.6-2.9	2.7-3.0	2.4-2.6
FFO-to-debt (%)	25.1	25.0	23.0-25.0	About 23.0	25.0-30.0

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

EBITDA margins to remain stable 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 about 22% over the next three years.

Power purchase agreements will keep debt elevated over the next 24 months. We 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 in EGAT's total debt as lease liabilities.

Company Description

EGATi is the sole energy and power investment platform for international expansion under EGAT. 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

Table 1

Electricity Generating Authority of Thailand--Peer Comparison				
Industry sector: Electric				
	Electricity Generating Authority of Thailand	**Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara**	**Tenaga Nasional Bhd.**	**NTPC Ltd.**
	--Fiscal year ended--			
	Dec. 31, 2019	**Dec. 31, 2019**	**Dec. 31, 2019**	**March 31, 2020**
(Mil. $)				
Revenue	18,831.6	25,891.6	12,439.3	14,536.8
EBITDA	3,966.6	7,549.2	4,524.1	4,341.1
Funds from operations (FFO)	2,710.7	4,606.9	3,017.6	2,082.7
Interest expense	1,239.3	3,602.9	1,231.2	1,677.4
Cash interest paid	1,227.7	2,707.0	1,113.5	1,779.4
Cash flow from operations	1,132.1	3,292.2	3,707.2	1,494.6
Capital expenditure	1,752.6	7,650.0	2,373.7	2,421.0
Free operating cash flow (FOCF)	(620.5)	(4,357.8)	1,333.6	(926.4)
Discretionary cash flow (DCF)	(1,501.5)	(4,646.0)	596.6	(1,427.7)
Cash and short-term investments	3,013.7	3,379.2	3,350.6	227.9
Debt	10,840.3	45,117.3	18,680.1	28,031.6
Equity	15,948.8	66,915.4	14,476.5	16,222.4
Adjusted ratios				
EBITDA margin (%)	21.1	29.2	36.4	29.9
Return on capital (%)	10.0	3.9	7.2	9.9
EBITDA interest coverage (x)	3.2	2.1	3.7	2.6
FFO cash interest coverage (x)	3.2	2.7	3.7	2.2
Debt/EBITDA (x)	2.7	6.0	4.1	6.5
FFO/debt (%)	25.0	10.2	16.2	7.4
Cash flow from operations/debt (%)	10.4	7.3	19.8	5.3
FOCF/debt (%)	(5.7)	(9.7)	7.1	(3.3)
DCF/debt (%)	(13.9)	(10.3)	3.2	(5.1)

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

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 35% of the country's total generation capacity. It is significantly larger than Ratch Group Public Co. Ltd. (6.6GW capacity) and Global Power Synergy Public Co. Ltd. (4.7 GW capacity).

We expect EGAT to maintain its strong market position due to 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 (ERC) regulates electricity tariffs in Thailand. Significant changes to the regulatory framework are unlikely, given ERC'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 (for about 50% of total capacity), given gas-fired power plants are considered as sources of baseload power in Thailand. With declining domestic gas supply, there is a shift toward liquefied natural gas (LNG) imports, and we expect EGAT to procure LNG gradually over the next three years. In addition, increasing investments in renewables will add to EGAT's fuel mix diversity, in line with Thailand's Power Development Plan (PDP) 2018 to reduce the use of fossil fuel-based fuels over the long-term.

EGAT is also exposed to customer concentration risks as nearly all its electricity is sold to MEA and PEA, with a marginal amount sold to direct consumers. That said, we believe the company has a good record of timely payments from the state-owned distribution companies, and we expect this trend will 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. EGAT's leverage will likely remain stable over the period, supported by slightly moderating capex. We anticipate EGAT's FFO-to-debt ratio will be 23%-24% over 2020-2021, increasing to about 28% in 2022 as electricity demand and economic growth recover.

We estimate EGAT will have capex of THB39 billion in 2020 and THB40 billion-THB44 billion over 2021-2022, as it continues to invest into generation and transmission assets. Spending will largely be geared towards transmission as the company embarks on network improvement projects in Thailand.

EGAT should generate positive free operating cash flows of THB30 billion-THB40 billion annually over the next three years, supporting deleveraging.

We could proportionally consolidate additional debt for EGAT should we assess the likelihood of EGAT providing support to the joint-venture projects of its subsidiaries or associated companies, such as Ratch and Electricity Generating Public Co. Ltd.

Financial summary

Table 2

Electricity Generating Authority of Thailand--Financial Summary

Industry sector: Electric

	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. THB)					
Revenue	560,446.1	524,767.9	493,934.2	496,883.0	546,480.3
EBITDA	118,050.4	123,227.7	127,967.6	128,628.5	113,296.0
Funds from operations (FFO)	80,672.3	82,742.1	84,116.6	85,046.7	79,775.2
Interest expense	36,884.3	39,554.0	42,762.6	43,151.8	32,552.7
Cash interest paid	36,536.6	39,101.1	42,089.8	42,643.8	31,772.9
Cash flow from operations	33,693.7	45,541.6	44,740.0	89,263.8	76,926.7
Capital expenditure	52,159.3	57,992.2	54,931.4	49,012.6	34,417.9
Free operating cash flow (FOCF)	(18,465.7)	(12,450.6)	(10,191.3)	40,251.2	42,508.8
Discretionary cash flow (DCF)	(44,685.2)	(34,688.2)	(34,541.2)	14,353.0	15,425.4
Cash and short-term investments	89,690.3	113,278.2	108,154.0	100,639.8	103,050.7
Gross available cash	89,690.3	113,278.2	108,154.0	100,639.8	103,050.7
Debt	322,617.5	329,198.7	327,338.4	349,149.5	298,568.9
Equity	474,653.6	452,444.7	426,557.3	403,055.1	380,673.2
Adjusted ratios					
EBITDA margin (%)	21.1	23.5	25.9	25.9	20.7
Return on capital (%)	10.0	11.5	11.7	12.3	12.7
EBITDA interest coverage (x)	3.2	3.1	3.0	3.0	3.5
FFO cash interest coverage (x)	3.2	3.1	3.0	3.0	3.5
Debt/EBITDA (x)	2.7	2.7	2.6	2.7	2.6
FFO/debt (%)	25.0	25.1	25.7	24.4	26.7
Cash flow from operations/debt (%)	10.4	13.8	13.7	25.6	25.8
FOCF/debt (%)	(5.7)	(3.8)	(3.1)	11.5	14.2
DCF/debt (%)	(13.9)	(10.5)	(10.6)	4.1	5.2

THB--Thai baht.

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2019--							
Electricity Generating Authority of Thailand reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	133,672.7	441,611.3	109,790.7	65,234.8	35,093.1	118,050.4	106,725.7	53,487.9
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(841.5)	--	--
Cash interest paid	--	--	--	--	--	(35,208.0)	--	--
Reported lease liabilities	241,278.3	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	12,185.0	--	3,316.0	3,316.0	462.6	--	--	--
Accessible cash and liquid investments	(67,267.8)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	1,328.6	(1,328.6)	(1,328.6)	(1,328.6)
Dividends received from equity investments	--	--	4,943.7	--	--	--	--	--
Asset-retirement obligations	2,749.2	--	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	10,516.2	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(29,308.7)	--
Noncontrolling interest/minority interest	--	33,042.3	--	--	--	--	--	--
Working capital: Other	--	--	--	--	--	--	(7,186.8)	--
Operating cash flow: Other	--	--	--	--	--	--	(35,208.0)	--
Total adjustments	188,944.8	33,042.3	8,259.7	13,832.2	1,791.2	(37,378.1)	(73,032.0)	(1,328.6)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	322,617.5	474,653.6	118,050.4	79,067.1	36,884.3	80,672.3	33,693.7	52,159.3

THB--Thai baht.

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 Dec. 31, 2020, and the subsequent year. 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	Principal liquidity uses
• Cash and liquid investments of about THB90 billion as of Dec. 31, 2019. • Cash flow from operations of about THB60 billion over the 12 months to Dec. 31, 2020, assuming limited fluctuations in working capital.	• Debt maturities of about THB9.0 billion over the 12 months to Dec. 31, 2020. • Capex of THB 40 billion in 2020. This is in line with the PDP's power generation target. • Dividends of THB16 billion-THB17 billion over the period.

Debt maturities

Table 4

Electricity Generating Authority of Thailand--Debt Maturities*

Debt due in	Amount (Mil. THB)
2020	9,038.0
2021	8,938.1
2022	5,038.3
2023	7,038.5
2024	9,018.7
After 2024	94,601.0

*As of Dec. 31, 2019. THB--Thai baht.

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
- 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 | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of December 16, 2020)*	
EGAT International Co Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Issuer Credit Ratings History	
15-Apr-2020	BBB+/Stable/--
11-Dec-2019	BBB+/Positive/--

Ratings Detail (As Of December 16, 2020)*(cont.)	
20-Dec-2018	BBB+/Stable/--
Related Entities	
Ratch Group Public Co. Ltd.	
Issuer Credit Rating	BBB+/Negative/--
Senior Unsecured	BBB+
RH International (Singapore) Corp. Pte. Ltd.	
Senior Unsecured	BBB+

*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.