

# EGAT INTERNATIONAL CO., LTD.

No. 136/2019  
30 August 2019

## CORPORATES

**Company Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 31/08/18

### Company Rating History:

Date	Rating	Outlook/Alert
16/09/15	AAA	Stable

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## RATIONALE

TRIS Rating affirms the company rating on EGAT International Co., Ltd. (EGATi) at “AAA” with “stable” outlook. The rating reflects the company’s status as a wholly-owned subsidiary of Electricity Generating Authority of Thailand (EGAT, rated “AAA/Stable” by TRIS Rating) and its important role as an investment arm of EGAT for investments in power and energy-related businesses abroad. As EGATi is 100% owned by EGAT, it is a state-owned enterprise under the Thai law. The rating also takes into consideration the high degree of integration between EGAT and EGATi, plus the high level of support EGATi receives from EGAT.

## KEY RATING CONSIDERATIONS

### EGATi’s role as investment arm of EGAT

EGATi was established under a Cabinet resolution in October 2007 to be an investment arm of EGAT for investments in power and energy-related businesses abroad. Both EGAT and EGATi are state-owned enterprises under the Thai law. EGAT holds all of the shares of EGATi. As a result, EGATi’s credit profile is closely linked to EGAT’s credit profile.

Since inception, EGATi’s business direction has been aligned with EGAT’s business strategy. EGATi has represented EGAT’s interest in government-to-government (G-to-G) power projects in neighboring countries. To complement the objective of securing sufficient supply of electricity for the nation, EGATi has a policy to invest in energy projects abroad.

### Three power projects in the pipeline

EGATi’s investment portfolio consists of three power projects abroad and an investment in Adaro Indonesia, a coal mine in Indonesia. The three power projects have an aggregate capacity of 4,259 megawatts (MW), consisting of the Nam Ngiep 1 hydro-power project (Nam Ngiep 1) in the Lao People’s Democratic Republic (Lao PDR), the Quang Tri 1 coal-fired power project in Vietnam, and the Mong Ton hydro-power project in Myanmar. Of the three power projects, Nam Ngiep 1 is closest to commencement of operation.

### Delays in the Nam Ngiep 1 project

The initial plan for the Nam Ngiep 1 power project called for the commencement of operations in February 2019. However, the start-up has been delayed by 6.5 months, due to the physical movement of the main power house, causing a misalignment of the generators.

The delay will push up the cost of the project by about US\$60 million. The final project cost will rise to about US\$966 million. The project sponsors will cover most of the cost increase with an equity contingency. The project also carries insurance against delays in commencement of operation.

As of July 2019, the project was 99.76% complete. The project is now in the commissioning phase. The operation is expected to commence by the end of August 2019.

The Nam Ngiep 1 project has a 27-year power purchase agreement (PPA) with EGAT for 269 MW. EGATi expects to receive dividends of approximately Bt200-Bt300 million per year after the first full year of operation.

## Coal mining is still the main source of cash

Investment in Adaro Indonesia will continue to be the main source of revenues for EGATi over the next three years. Adaro Indonesia is one of the largest coal mining enterprises in Indonesia. It produces about 50 million tonnes of coal per year, and has proven reserves of 796 million tonnes at the end of December 2018.

EGATi has a 11.53% interest in Adaro Indonesia, taken at a cost of US\$325 million in late 2016. Since making the initial investment in Adaro Indonesia, EGATi has received dividend income of Bt4.90 billion. TRIS Rating forecasts that EGATi will receive dividends of about Bt300 million per year during 2019-2021, based on the Newcastle coal index prices at about US\$80 – US\$85 per tonne. The dividend income EGATi receives are sufficient to cover the company's operating expenses of about Bt200 million per year.

## MOU for Nam Ngum 3 hydropower power project

In August 2018, EGATi's board of directors approved an investment in the Nam Ngum 3 hydropower project (NN3HPP). The company signed a memorandum of understanding (MOU) with Chaleun Sekong Co., Ltd. (CSG) to acquire a 80% interest in NN3HPP from the Electricity Du Laos (EDL). This acquisition will give EGATi a 25% stake in the project.

NN3HPP has an installed capacity of 480 MW. It is situated on the Nam Ngum river, upstream of Nam Ngum 2 hydropower project in the Lao PDR. EDL currently owns the entire project. Construction is about 50% complete, with a scheduled completion date in 2021.

The project has proposed a tariff scheme to the subcommittee on Electric Power Cooperation between Thailand and neighboring countries (S-ECTN).

## High integration with EGAT

A key component of EGATi's credit profile is the high level of integration between itself and EGAT. Since EGATi was established, EGAT has seconded some of its senior management members to EGATi. In addition, EGAT is actively involved in EGATi's investment process. The investments approved by EGATi's board of directors are subject to EGAT's review before being forwarded to the Ministry of Energy for final approval.

TRIS Rating believes EGAT will continue to provide strong support to EGATi since it is an integral part of EGAT's long-term business strategy. EGAT has budgeted an equity contribution of Bt17 billion to support EGATi's investment plans. As of March 2019, EGAT made an equity contribution of Bt12.20 billion to EGATi, of which Bt11.31 billion was earmarked for the investments in the Nam Ngiep 1, Mong Ton, and Quang Tri 1 projects plus Adaro Indonesia.

EGAT provides manpower, systems, and knowledge transfers to EGATi in addition to financial support. EGAT also shares its experience with EGATi. EGATi's top managements and members of the board of directors are appointed by EGAT.

## BASE-CASE ASSUMPTIONS

- EGATi's share of profits from Adaro Indonesia and Nam Ngiep 1 is forecast at around Bt600-Bt900 million per year during 2019-2021.
- Dividend income is forecast to be Bt400-Bt600 million per year.
- Total capital spending is projected at about Bt2.30 billion in 2019, Bt360 million in 2020 and Bt3.20 billion in 2021.
- The capital expenditures will cover the investment in the Nam Ngiep 1, Quang Tri, and Nam Ngum 3 projects and cover the acquisition of renewable power projects.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that EGATi will remain a wholly-owned subsidiary of EGAT and continue to play an important role as an investment arm of EGAT for international projects.

## RATING SENSITIVITIES

The downside factors for EGATi's rating include deterioration in EGAT's credit profile, a significant change in EGATi's relationship with EGAT, or a material reduction in support from EGAT.

## COMPANY OVERVIEW

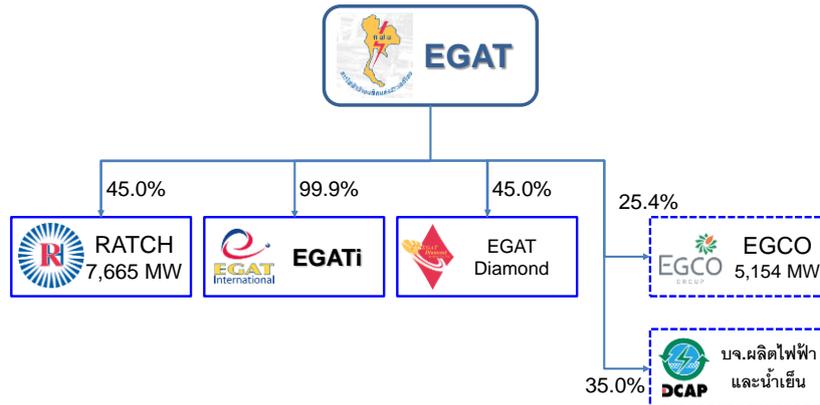
EGATi was founded by a Cabinet resolution dated 30 October 2007, with an initial objective to serve as EGAT's representative in the G-to-G power projects in neighboring countries. The company was formally established in December 2007, with registered capital of Bt50 million. EGATi is wholly owned by EGAT. EGAT received approval from the Ministry of Energy to inject Bt17 billion in equity into EGATi to make investments abroad. In addition to this budget, EGAT pays

EGATi's operating expenses through additional equity injections. As of March 2019, EGATi's paid-up capital was Bt12.20 billion, of which Bt11.31 billion was earmarked for the investment in the Nam Ngiep 1 hydropower project, the development of the Mong Ton hydropower project, and the investment in Adaro Indonesia and the Quang Tri 1 project.

EGATi's investment portfolio comprises three power projects and a coal mine in Indonesia. The aggregate capacity of the three power projects is 4,259 MW. The three projects are located in the Lao PDR, Vietnam, and Myanmar. EGATi has a policy of holding 30%-40% interest in a project. Of the three projects, the Nam Ngiep 1 project exhibits the most progress. EGATi expects the Nam Ngiep 1 project to commence operation in 2019. Other projects are in the feasibility study and development phases.

## KEY OPERATING PERFORMANCE

EGAT's Group Structure as of 30 Jun 2019



Illustrated by TRIS Rating

EGATi's Portfolio as of 30 Jun 2019

Project Name	Location	Plant Type	Project Capacity (MW)	EGATi's Holding (%)	EGATi's Capacity (MW)	PPA Terms (Years)	Expected COD
<b>Power projects</b>							
1. Nam Ngiep 1	Lao PDR	Hydro power	289	30	87	27	Aug 2019
2. Quang Tri 1	Vietnam	Coal-fired	1,320	40	528	25	2024-2025
3. Mong Ton	Myanmar	Hydro power	2,650	30	795	40	2028-2030
4. Nam Ngum 3	Lao PDR	Hydro power	480	25	120	n.a.	2021
<b>Total</b>			<b>4,739</b>		<b>1,530</b>		
Company	Location	Business Type	EGATi's Holding (%)	EGATi's Investment (Bt Mil.)			
<b>Other investments</b>							
1. Adaro Indonesia	Indonesia	Coal mining	11.53	11,160			
<b>Total</b>				<b>11,160</b>			

Source: EGATi

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	1	7	10	13	12
Equity income from investment	160	1,379	1,338	28	57
Earnings before interest and taxes (EBIT)	166	1,344	1,289	(115)	(14)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	297	1,553	2,873	(141)	(69)
Funds from operations (FFO)	275	1,255	2,246	(158)	(69)
Adjusted interest expense	0	0	0	0	0
Capital expenditures	0	1	1	0	0
Total assets	18,565	18,583	17,675	17,570	5,977
Adjusted debt	0	0	0	0	0
Adjusted equity	13,362	13,267	12,282	11,640	5,911
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Pretax return on permanent capital (%)	10.33 **	10.52	10.78	(1.31)	(0.29)
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**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017
- Group Rating Methodology, 10 July 2015

**EGAT International Co., Ltd. (EGATi)**
**Company Rating:**

AAA

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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