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CreditNews ข่าวเครดิต

News for Investors**Announcement No. 567****22 August 2008**

Thai Tap Water Supply Public Company Limited

Company Rating:**AA-****Rating Outlook:****Stable**

Rating Rationale

TRIS Rating assigns the company rating of “AA-” to Thai Tap Water Supply PLC (TTW). The rating reflects the company’s position as the largest private tap water provider in Thailand, its stable cash flow from long-term offtake agreements, favorable growth prospects for the tap water business, and low operating risk. The rating also takes into consideration the company’s capable management team and a high barrier to entry. These strengths are partially offset by a moderate debt burden to fund initial investment in a water treatment plant and distribution network, cash flow totally depending on the Provincial Waterworks Authority (PWA) performance and the pending Waterworks Act.

TTW, formerly named VKCS (Thailand) Ltd., is the largest private tap water operator in Thailand with current aggregate production capacity of 628,000 cubic meters per day (cu.m./day). The company was established by CH. Karnchang PLC (CK) and Thames Water International (Thailand) Ltd. (Thames Water) with equal stake in 2000. Presently, CK is a major shareholder, owing 35.3% of the company’s shares while Mitsui Water Holding (Thailand) Co., Ltd. (Mitsui) holds 25.9%. TTW was listed on the Stock Exchange of Thailand (SET) on 22 May 2008. TTW provides tap water to two service areas. The service area covering Nakorn Pathom and Samut Sakhon provinces is operated by TTW directly. The second service area covers Pathum Thani province and is operated by Pathum Thani Water Co., Ltd. (PTW), a 98% owned subsidiary. TTW’s production capacity is 320,000 cu.m./day, while PTW operates a 308,000 cu.m./day production facility. The company’s revenue is secured under the long-term commitment from the PWA with minimum offtake quantity and the company also owns bulk transmission main (BTM) and some part of local distribution network (LDN) which hinders the new comers to operate in its servicing area. On 21 September 2000, TTW entered into the Water Purchase and Sale Agreement (WPSA) with the PWA for a period of 30 years, from 21 July 2004 to 20 July 2034, to operate and supply tap water on a Build-Own-Operate (BOO) basis. PTW also has a WPSA with the PWA for a contract term of 25 years, from 15 October 1998 to 14 October 2023, on a Build-Own-Operate-Transfer (BOOT) basis. On 15 September 2006, PTW signed another WPSA with the PWA to increase the tap water supply by an additional volume of 70,000 cu.m./day. The WPSAs guarantee a minimum volume to be purchased by the PWA with the pricing formula linked to the Consumer Price Index (CPI). The company is assured stable revenue generation under those long-term contracts, but faces a concentration of risk with the PWA as its sole customer. In terms of credit perspective, PWA is the government agency responsible for tap water services in provincial areas nationwide. It has consistently generated profit, with reported net profit of Bt260-Bt994 million during the last five year. Total asset and equity of the PWA as the end of fiscal year of 2007 was Bt54,881 million and Bt35,759 million, respectively.

The operation was initially supported by Thames Water, and since its inception has had continuously high performance, even after Thames Water’s departure in 2005. Since the technology for tap water production is not complex, TTW and PTW face low operational risk compared with other utilities. Most of the operating disruption is from electricity outages, which interrupts water distribution; however, this accounted for disruption of less than 0.5% of total operating hours for both companies during the last four years, as they have backup electric generating facilities. Sufficient water sources and quality are important factors in tap water production. Two key water sources for the company are the Tha Chin and Chao Phraya Rivers, which have sufficient source of raw water. Both water sources possess different qualities which the company is able to treat to obtain high quality tap water. Benefiting from the government policy to

terminate ground water usage, the sales volume of the company in both servicing areas has seen significant growth. TTW began supplying tap water in Nakorn Pathom and Samut Sakhon in 2004. Water sales volume grew 23.7% and 11.8% in 2006 and 2007, respectively, and is expected to achieve double digit growth in 2008. PTW commenced its operation back in 1998 and was acquired by TTW in mid 2007. PTW's sales volume had a compound annual growth rate of 12.3% during 2002-2007, however, in 2008 the growth rate may be sluggish as some industrial estates have built their own tap water production facilities.

TTW's solid financial performance is due to a favorable agreement with the PWA and strong water demand. Its internal cash generation has steadily increased since it began operation. In 2007, due to the acquisition of PTW in the second quarter, coupled with strong demand in the industrial sector in Samut Sakhon, TTW's total revenue increased by 53% to Bt2,590 million. In the first half of 2008, TTW's sales contributed 65% of its total revenue, with the remainder coming from PTW. Water consumption growth has mainly been due to conversion from using ground water to tap water because of a deterioration of ground water quality and new-home development in servicing areas. From 2006 through the first half of 2008, the company's ratio of earnings before interest, tax, depreciation, and amortization to sales was high, at approximately 79%. Funds from operations (FFO) in 2007 was Bt1,434 million, compared with Bt532 million in 2004. In the first half of 2008, FFO was Bt981 million. The company's total debt increased sharply to Bt13,678 million at the end of 2007 from Bt6,720 million at the end of 2006, because of debt consolidation of PTW and the need to borrow Bt4,000 million to acquire 98% ownership of PTW. The FFO to total debt decreased from 13.8% in 2006 to 10.5% in 2007, while the ratio of total debts to capitalization weakened from 63.3% in 2006 to 74.4% in 2007. The company's financial status improved drastically after the listing on the SET. At the end of June 2008, the company's total debts dramatically decreased to Bt10,048 million, after the company repaid Bt3,000 million loan with the proceeds from an initial public offering (IPO). In the first half of 2008, TTW's total debt to capitalization and FFO to total debt was 55.1% and 9.8%, respectively. The company's leverage in the medium term is not expected to improve significantly as TTW will fund its 100,000 cu.m./day capacity expansion with debt and plans to extend the repayment schedule of its existing long-term loan to exploit the benefit of the PWA's long-term commitment under the WPSAs.

Rating Outlook

The "stable" outlook reflects the expectation that TTW will be able to maintain its leading position in the private tap water business and sustain its cash flow generation capability. Its business operations should not be adversely impacted by the new Waterworks Act. Investment opportunity in the future, if any, should be prudently considered and should not deteriorate its financial position and liquidity. Any support to the financially weaker parent company could negatively impact the rating.

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