

## Thai Tap Water Supply Public Company Limited

**Company Rating:**
**AA-**
**Issue Rating:**

Up to Bt7,000 million senior debentures due within 2016

**AA-**
**Rating Outlook:**
**Stable**
**Rating History:**
**Company Rating**
**Issue Rating**
**Secured**
**Unsecured**

28 Jan 2009

AA-/Stable

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AA-

22 Aug 2008

AA-/Stable

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**Rating Rationale**

TRIS Rating affirms the company rating of Thai Tap Water Supply PLC (TTW) at "AA-". At the same time, TRIS Rating also affirms the "AA-" rating of TTW's proposed issue in senior debentures, following an increase in the debenture size to be up to Bt7,000 million from the original Bt6,700 million. The Bt300 million increase in proposed senior debentures would have no impact on the previously-assigned ratings of TTW. The proposed debentures will be used to refinance TTW's existing bank loans of approximately Bt6,000 million. The remainder will be used to partially finance its 120,000 cubic meters per day (cu.m./day) capacity expansion at the Banglen plant with the project cost of Bt1,300 million. Since TTW's existing loans are secured by the company's assets, the issue rating assigned is based on the success of the refinancing and subsequent release of those assets.

The ratings reflect the company's position as the largest private tap water provider in Thailand, stable cash flow from long-term offtake agreements with minimum purchase commitments, and low operating risk. The ratings also take into consideration the company's capable management team and a high barrier to entry. These strengths are partially offset by the debt burden for the water treatment plants and distribution network investment, plus customer concentration risk as the Provincial Waterworks Authority (PWA) is the sole customer. The impact of pending Water Resource Act remains to be seen.

TTW is the largest private tap water operator in Thailand with current production capacity of 708,000 cu.m./day. The company was established as a joint venture by CH. Karnchang PLC (CK) and Thames Water International (Thailand) Ltd. in 2000. After the listing on the Stock Exchange of Thailand (SET) on 22 May 2008, CK remains a major shareholder with a 35.0% stake; Mitsui Water Holdings (Thailand) Ltd. holds 25.9%. TTW operates two water treatment plants providing tap water in two service areas. The service area covering Nakorn Pathom and Samut Sakhon provinces is operated by TTW directly while Pathum Thani Water Co., Ltd. (PTW), its 98% owned subsidiary, services Pathum Thani province. TTW supplies tap water as a wholesale to PWA under two Water Purchase and Sale Agreements (WPSA). The agreements cover 25 and 30 years and maturing in 2023 and 2034, respectively. Currently, PWA has committed to a minimum offtake quantity (MOQ) of 630,000 cu.m./day. The pricing formula is linked to the consumer price index. TTW is now constructing a capacity expansion of 120,000 cu.m./day which is expected to be completed in early 2010. MOQ for this project will increase from 9,000 cu.m./day in the first year of the operation to reach 54,000 cu.m./day in the sixth year. Though this poses a concentration risk on PWA as the sole customer, PWA's credit profile as governmental agency is acceptable.

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The company benefits from low operational risk compared with other utilities as the water treatment technology is not complicated. However, water treatment is capital intensive since the operator is required to invest in the transmission and distribution networks. TTW also owns bulk transmission mains (BTM) and local distribution networks (LDN) in some of its service areas which hinder the ability of new entrants to operate in its coverage area. Availability of water sources and raw water quality are important factors in tap water production. Two key water sources are the Tha Chin and Chao Phraya Rivers, which have sufficient volumes of raw water. Though each water source possesses different qualities, the company is able to treat the raw water to obtain high quality tap water.

The company's revenue has been quite stable and growing because the revenue stream is secured by the MOQ and growing demand in the service areas. Total water sales volume of all service areas grew by 9.0% and 7.4% in 2007 and 2008, respectively. In 2009, growth is expected to be slower, especially from the industrial segment which will likely be affected by the emerging economic crisis. The major consumers in the Nakorn Pathom and Samut Sakhon service areas are industrial users.

TTW's solid financial performance is due to the well-structured schemes of WPSAs and strong water demand. Operating cash flow has steadily increased since the beginning of operation. For the first nine months of 2008, TTW's total revenue increased by 50% year-on-year (y-o-y) to Bt2,646 million as revenue from PTW was recognized only in the second half of 2007. TTW's sales contributed 66% 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 the deterioration of ground water quality and new home development in service areas. During the past few years, the company's ratio of earnings before interest, tax, depreciation, and amortization to sales was high, at approximately 78%-79%. For the first nine months of 2008, funds from operations (FFO) increased by 52% y-o-y to Bt1,541 million. At the end of September 2008, the company's total debt dramatically decreased to Bt9,781 million from Bt13,678 million at the end of 2007 after the company repaid a Bt3,000 million loan with the proceeds from the initial public offering. For the first nine months of 2008, the FFO to total debt ratio was 15.8% while the ratio of total debt to capitalization improved from 74.4% in 2007 to 53.4% in the third quarter of 2008.

### 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. The Water Resource Act is not expected to impact operations. Investment opportunities in the future, if any, should be prudently considered and not adversely affect the company's financial position or liquidity. Any support to the financially weaker parent company could negatively impact the ratings.

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