

## Thai Tap Water Supply Public Company Limited

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

TTW122A: Bt3,500 million senior debentures due 2012

**AA-**

TTW142A: Bt1,700 million senior debentures due 2014

**AA-**

TTW162A: Bt1,800 million senior debentures due 2016

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

28 Jan 2009

AA-/Stable

**Secured**

-

**Unsecured**

AA-

22 Aug 2008

AA-/Stable

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### Rating Rationale

TRIS Rating affirms the company and issue ratings of Thai Tap Water Supply PLC (TTW) at “AA-”. The ratings reflect the position of TTW as the largest private tap water provider in Thailand as well as 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 high barriers to entry. These strengths are partially offset by the debt burden and customer concentration risk as the Provincial Waterworks Authority (PWA) is the major customer.

TTW is the largest private tap water producer in Thailand with current production capacity of 756,000 cubic meter (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 listing on the Stock Exchange of Thailand (SET) on 22 May 2008, CK remains a major shareholder with a 35.0% stake and Mitsui Water Holdings (Thailand) Ltd. holds 25.9%. TTW operates three water treatment plants providing tap water in three service areas. The service areas covering Nakorn Pathom-Samut Sakhon provinces and Bangpa-In Industrial Estate (BIE) are operated by TTW directly while Pathum Thani Water Co., Ltd. (PTW), a 98% owned subsidiary, services Pathum Thani province. TTW supplies wholesale tap water to PWA under two Water Purchase and Sale Agreements (WPSA) covering the Nakorn Pathom-Samut Sakhon and Pathum Thani areas. The agreements cover 25 and 30 years and will mature in 2023 and 2034, respectively. Currently, PWA has committed to a minimum offtake quantity (MOQ) of 610,000 cu.m./day. The pricing formula is linked to the Consumer Price Index (CPI). TTW is now constructing a capacity expansion of 120,000 cu.m./day in Nakorn Pathom-Samut Sakhon which is expected to be completed in late 2010. MOQ for this project will increase gradually from 9,000 cu.m./day in the first year of operation to 54,000 cu.m./day in the sixth year. In addition, on 7 August 2009, TTW acquired a 30-years operating right from Bangpa-In Land and Development Co., Ltd. (BLDC) to operate and manage tap water and wastewater treatment services in BIE. The operating right costs Bt1,400 million including tap water production capacity of 48,000 cu.m./day and wastewater treatment capacity of 18,000 cu.m./day. Under the terms of the operating right, TTW will provide services directly to industrial users in BIE which help diversify its customer base. However, TTW still carries concentration risk as PWA is the major customer. The credit profile of PWA, since it is a government agency, is acceptable.

The company benefits from low operational risk compared with other utilities as water treatment technology is not complicated. However, water treatment is capital intensive since the operator is required

to invest in 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 areas. The 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. Although each water source possesses different qualities, the company is able to treat the raw water to obtain high quality tap water.

In 2008, the industrial sector contributed the largest portion of TTW's tap water sales volumes (42.6%), while the residential sector and commercial sector accounted for 32.3% and 25.1% of total sales volume, respectively. Total sales volume of all service areas grew by 9.0% and 7.4% in 2007 and 2008, respectively. However, in the first half of 2009, total sales volume increased slightly by 0.7% year-on-year (y-o-y). The sluggish growth was due to the economic downturn which adversely affected the industrial users in the Nakorn Pathom-Samut Sakhon service area. Usage in this area declined by 2% y-o-y for the first half of 2009. Nonetheless, consumption is expected to recover in the second half of 2009 as the economy improves.

TTW's solid financial performance is due to the well-structured WPSAs and continued growth in demand for water. Operating cash flow has steadily increased since the beginning of operation. TTW's total revenue increased from Bt2,590 million in 2007 to Bt3,605 million in 2008 as revenue from PTW was recognized in the second half of 2007. For the first half of 2009, total revenue increased by 14% y-o-y to Bt1,961 million. This rise was due to the high CPI adjustment which is factored into the selling price. In 2008, revenue from the Nakorn Pathom-Samut Sakhon service area contributed 66% of total revenue, while the remainder came from the Pathum Thani service area.

During the past few years, the company's ratio of earnings before interest, tax, depreciation, and amortization to sales was high, at approximately 78%-80%. The funds from operations (FFO) significantly increased from Bt1,434 million in 2007 to Bt2,099 million in 2008. For the first half of 2009, FFOs increased by 32% y-o-y to Bt1,297 million. The total debt decreased significantly from Bt13,966 million in 2007 to Bt9,310 million in 2008, after the company repaid all short-term loans with the proceeds from the initial public offering (IPO). As a result, the FFOs to total debt ratio improved from 10.5% in 2007 to 22.5% in 2008, while the total debt to capitalization ratio declined from 74.4% in 2007 to 52.8% in 2008. At the end of June 2009, the total debt climbed to Bt10,021 million due to the investment required for the capacity expansion. For the first half of 2009, the FFOs to total debt ratio was 12.9% (non-annualized) while the ratio of total debt to capitalization was 54.9%. Leverage is expected to rise as the company secured a new Bt1,500 million bank loan to acquire the operating right in BIE.

### Rating Outlook

The "stable" outlook reflects the expectation that TTW will be able to maintain its leading position as a private tap water supplier and sustain its cash flow generation capability. Further investment, 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.

For subscription information, contact

**TRIS Rating Co., Ltd., Office of the President, Tel: 0-2231-3011 ext 500**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand, [www.trisrating.com](http://www.trisrating.com)

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