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News for Investors

Announcement No. 740

3 November 2010

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	
		Secured	Unsecured
28 Jan 2009	AA-/Stable	-	AA-
22 Aug 2008	AA-/Stable	-	-

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 its stable cash flows from long-term offtake agreements and constant water demand. The tap water business is characterized as having low operating risk 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 total production capacity of 876,000 cubic meter (cu.m.)/day. The company also operates a wastewater treatment facility which has a capacity of 18,000 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 TTW was listed on the Stock Exchange of Thailand (SET) on 22 May 2008, CK remains a major shareholder with a 30.8% stake while Mitsui Water Holdings (Thailand) Ltd. (Mitsui Water) owns 25.9%. TTW operates three water treatment plants providing tap water in three service areas. The service areas covering Nakorn Pathom and Samut Sakhon provinces and Bangpa-In Industrial Estate (BIE) are directly operated by TTW while Pathum Thani Water Co., Ltd. (PTW), a 98% owned subsidiary, services Pathum Thani province. TTW supplies wholesale tap water to the PWA under two Water Purchase and Sale Agreements (WPSA) covering the Nakorn Pathom-Samut Sakhon service area plus the Pathum Thani area. The terms of the WPSAs are 25 and 30 years and will mature in 2023 and 2034, respectively. At the end of June 2010, PWA had a committed minimum offtake quantity (MOQ) of 620,000 cu.m./day. The pricing formula is linked to the Consumer Price Index (CPI). In addition, TTW has a 30-year operating right to operate and manage tap water and wastewater treatment services in BIE which will be valid till 2039. Under the terms of the operating right, TTW will provide services directly to industrial users in BIE which will help diversify its customer base. However, TTW still carries customer concentration risk as PWA is the major customer and contributed approximately 95% of total revenue in the first half of 2010. The credit profile of PWA is acceptable since it is a government agency.

The company benefits from low operational risk compared with other utilities as water treatment technology is not complicated. However, water treatment is capital intensive, especially if the operator is required to invest in transmission and distribution networks. TTW 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 TTW's existing coverage areas. The availability of water sources and raw water quality are

important factors in tap water production. TTW's 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 2009, the residential sector contributed the largest portion of TTW's tap water sales volume (39.8%), while the industrial and commercial sectors accounted for 38.4% and 21.8% of total sales volume, respectively. TTW recorded only 2.6% growth of total sales volume in 2009 compared with 7.4% in 2008. The slower growth was due to the economic downturn which adversely affected industrial users in the Nakorn Pathom-Samut Sakhon service area. Usage in this area declined by 2% in 2009. However, in the first half of 2010, total sales volume increased by 12.6% year-on-year (y-o-y) due to the economic recovery and adding water sales at BIE.

TTW's solid financial performance is due to the well-structured WPSAs and continued growth in demand for water. TTW's total revenue increased from Bt3,605 million in 2008 to Bt4,048 million in 2009 due to the high CPI adjustment which was factored into the selling price. For the first half of 2010, total revenue increased by 10.4% y-o-y to Bt2,164 million owing to the strong demand for tap water following the economic upturn. The revenue from the Nakhon Pathom-Samut Sakhon service area contributed 64% of total revenue. The remainder was mostly made up by the Pathum Thani service area (33%) while the contribution of BIE was around 3%.

During the past few years, the company's ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) to sales was high at approximately 79%-80%. Operating cash flow has steadily increased as the funds from operations (FFO) rose from Bt1,434 million in 2007 to Bt2,099 million in 2008 and to Bt2,583 million in 2009. Total debt increased from Bt9,310 million in 2008 to Bt11,570 million in 2009 as the company secured a new Bt1,500 million bank loan to acquire the operating right in BIE. The FFO to total debt ratio was maintained at approximately 23% in 2008-2009 while the total debt to capitalization ratio increased from 52.8% in 2008 to 57.1% in 2009. For the first half of 2010, FFO increased by 16% y-o-y to Bt1,511 million and total debt was Bt11,363 million. Thus, the ratios of FFO to total debt and total debt to capitalization were 13.3% (non-annualized) and 55.6%, respectively.

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 ability to generate operating cash flows. Further investment, if any, should be prudently considered and not adversely affect the company's financial strength or liquidity. Any support to the financially weaker parent company could negatively impact the ratings.

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