

THAI TAP WATER SUPPLY PLC

Announcement no. 823

10 October 2011

Company Rating: AA-

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
28/01/09	AA-/Sta	-/AA-
22/08/08	AA-/Sta	-

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 steady water demand. The tap water business is characterized as having low operating risk and high barriers to entry. These strengths are partially offset by TTW's high leverage 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 the major shareholder with a 30.0% stake while Mitsui Water Holdings (Thailand) Ltd. (Mitsui Water) owns 26.0%.

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 operated directly 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 2011, PWA had a committed minimum offtake quantity (MOQ) of 639,000 cu.m./day. The pricing formula is linked to the Consumer Price Index (CPI). In addition, TTW has a 30-year operating rights to operate and manage tap water and wastewater treatment services in BIE which will be valid till 2039. Under the terms of the operating rights, 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 the PWA is the major customer and contributed approximately 94% of total revenue in the first half of 2011. The credit profile of PWA is acceptable since it is a state enterprise.

The company benefits from low operational risk compared with other utilities, as water treatment technology is not complicated. However, the investment is capital intensive, if the operator is required to invest in transmission and distribution networks. TTW owns the bulk transmission mains (BTM) and the 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 2010, the residential sector contributed the largest portion of TTW's tap water sales volume (39.2%), while the industrial and commercial sectors accounted for 39.0% and 21.8% of total sales volume, respectively. In 2010, total sales volume grew by 10.2% compared with 2.6% in 2009. The impressive growth was due to the economic recovery, which boosted the demand of industrial users in the Nakorn

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Pathom-Samut Sakhon service area and adding water sales at BIE. However, in the first half of 2011, total sales volume increased by only 1.0% year-on-year (y-o-y). The slower growth was due to the abnormal cool weather in March 2011, resulting in less water usage. In addition, the PWA's new filtration plant started to distribute tap water in the Nakorn Pathom-Samut Sakhon area in December 2010. The service areas somewhat overlap. Hence, TTW's sales volume in the Nakorn Pathom-Samut Sakhon area declined by 0.8% y-o-y in the first half of 2011.

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 Bt4,048 million in 2009 to Bt4,395 million in 2010, owing to the strong demand for tap water in tandem with the economic upturn and the first full year of operations in BIE. In the first half of 2011, total revenue increased by 3.7% y-o-y to Bt2,244 million. Revenue rose because the CPI adjustment was factored into the selling price. Sales in the Nakhon Pathom-Samut Sakhon service area contributed 63% of total revenue. The remainder was mostly made up by the Pathum Thani service area (33%) while the contribution of BIE was around 4%.

During the past five years, the company's ratio of operating income before depreciation and amortization to sales was high at approximately 79%-81%. Operating cash flow has steadily increased as the funds from operations (FFO) rose from Bt1,434 million in 2007 to Bt2,583 million in 2009 and to Bt2,963 million in 2010. Total debt slightly declined from Bt11,570 million in 2009 to Bt11,368 million in 2010, following the debt repayment schedule. The FFO to total debt ratio improved from 22.3% in 2009 to 26.1% in 2010. The total debt to capitalization ratio dropped from 57.1% in 2009 to 54.5% in 2010. In the first half of 2011, FFO and total debt were Bt1,479 million and Bt11,146 million, respectively. Thus, the ratio of FFO to total debt was 13.3% (non-annualized) while the total debt to capitalization ratio was 53.4%.

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 flow. 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.

Thai Tap Water Supply PLC (TTW)

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

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