

THAI TAP WATER SUPPLY PLC

No. 9/2012

7 February 2012

Company Rating: AA-

Outlook: Stable

New Issue Rating: AA-

Rating History:

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

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Rating Rationale

TRIS Rating affirms the company and current senior debenture ratings of Thai Tap Water Supply PLC (TTW) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to TTW's proposed issue of up to Bt3,500 million in senior debentures. The proceeds from the proposed debentures will be used to refinance TTW's maturing debentures. The ratings reflect TTW's position 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% stake while Mitsui Water Holdings (Thailand) Ltd. (Mitsui Water) owns 26%.

TTW operates three water treatment plants which provide tap water in three service areas. The service areas cover Nakorn Pathom-Samut Sakhon, Pathum Thani, and Bangpa-In Industrial Estate (BIE). TTW supplies tap water as a wholesaler to the PWA under two Water Purchase and Sale Agreements (WPSA) which have a committed minimum offtake quantity (MOQ) of 648,000 cu.m./day. The terms of the WPSAs are 25 and 30 years and will mature in 2023 and 2034, respectively. 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 in 2039. TTW carries customer concentration risk as the PWA is the major customer and contributed approximately 94% of total revenue in 2011. However, 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. These facilities 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 2011, total sales volume grew by only 1.2%, compared with 10.2% in 2010. The growth rate was lower as all of the company's service areas were flooded and the filtration plant in BIE was shut down during October to November 2011. In addition, PWA's new filtration plant started to distribute tap water in the Nakorn

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CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

Pathom-Samut Sakhon area in December 2010, which overlaps somewhat with TTW's service areas.

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 Bt4,395 million in 2010 to Bt4,546 million in 2011. The increase was partly due to the higher CPI which was figured into the selling price adjustment. Sales in the Nakhon Pathom-Samut Sakhon service area contributed 63% of TTW's total revenue. The remainder was mostly comprised sales in the Pathum Thani service area (33%); the contribution from sales to BIE customers 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%. Funds from operations (FFO) was maintained at approximately Bt3,000 million per year during 2010 and 2011. Total debt slightly declined from Bt11,368 million in 2010 to Bt11,136 million, following the debt repayment schedule. The FFO to total debt ratio slightly increased from 26.1% in 2010 to 26.9% in 2011. The total debt to capitalization ratio improved to 52.2% in 2011 from 54.5% in 2010. TTW has an investment strategy in the medium term for growth opportunities. Recently, the company joined with CK to invest in CK Power Ltd. TTW purchased 30% of the total amount of shares, worth approximately Bt2,700 million. CK Power plans to own 45% of Southeast Asia Energy Co., Ltd.'s (SEAN) total shares. SEAN operates a 615-megawatt (MW) hydro power plant under a 25-year build-own-operate-transfer (BOOT) concession from the government of the Lao PDR. TRIS Rating expects that the leverage level of TTW will not be lower than the current level. If the leverage is significantly increased and sustained, the rise would be a negative factor for TTW's ratings.

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-
Up to Bt3,500 million senior debentures due within 2022	AA-
Rating Outlook:	Stable

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