

THAI TAP WATER SUPPLY PLC

No. 89/2012

6 November 2012

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 senior debenture 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 demand for water. The tap water business is characterized as having low operating risk and high barriers to entry. However, these strengths are partially offset by TTW’s high leverage and customer concentration risk as the Provincial Waterworks Authority (PWA) is the major customer.

CH. Karnchang PLC (CK) and Thames Water International (Thailand) Ltd. established TTW in 2000. The company was set up as a joint venture (JV) to bid for concession of waterworks in Nakorn Pathom and Samut Sakhon provinces. Currently, CK is TTW’s major shareholder, with a 30% stake, while Mitsui Water Holdings (Thailand) Ltd. (Mitsui Water) owns 26%. Currently, TTW is the largest private tap water producer in Thailand with total production capacity of 876,000 cubic meters (cu.m.)/day. The company also operates a wastewater treatment facility which has a capacity of 18,000 cu.m./day. In addition, TTW holds 30% of CK Power Co., Ltd. (CKP), which owns a 54.8% stake in SouthEast Asia Energy Ltd. (SEAN). SEAN operates a 615-megawatt (MW) hydro power plant in the Lao People’s Democratic Republic.

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 formulas in the WPSAs are linked to the Consumer Price Index (CPI). For BIE, TTW has the 30-year operating rights to operate tap water and wastewater treatment services which will be valid through 2039. TTW carries customer concentration risk as the PWA is the major customer and contributed approximately 97% of TTW’s total revenue in 2011. However, the credit profile of PWA is acceptable since it is a state enterprise.

TTW benefits from low operational risk compared with other utilities, as water treatment technology is not complicated. However, the business could be capital intensive if the water treatment 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 from both sources to obtain high quality tap water.

In 2011, TTW’s total sales volume grew by only 1.2%, compared with 10.2% in 2010. The growth rate in 2011 was lower as all of the company’s service areas were flooded and the filtration plant in BIE was shut down during October and November 2011 due to the severe flooding in late 2011. 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 area of the PWA overlaps somewhat

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Thiranart Napapruekchart
thiranart@trisrating.com

Rungtip Charoenvisuthiwong
rungtip@trisrating.com

WWW.TRISRATING.COM

with TTW's service areas. However, in the first half of 2012, total sales volume of TTW picked up by 6.6% year-on-year (y-o-y) in tandem with the strong recovery in demand in the Nakorn Pathom-Samut Sakhon service area.

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, mainly because of the higher CPI adjustment factored into the selling price. In the first half of 2012, total revenue increased by 7.5% y-o-y to Bt2,412 million as demand for tap water rose and the selling price rose as well. Sales in the Nakhon Pathom-Samut Sakhon service area contributed 64% of total revenue. The remainder mostly comprised sales in the Pathum Thani service area (33%). The contribution from the BIE plant was around 3% of total revenue. Although the flood in late 2011 caused the BIE plant to shut down, the effect of the shutdown was minimal. The BIE plant contributes a small amount to total revenue and there was no property damage. Both of the filtration plants in Nakhon Pathom and Pathum Thani provinces could operate and distribute tap water normally during the flood.

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 (FFOs) was approximately Bt2,990 million during 2010 and 2011, and stood at Bt1,700 in the first half of 2012. Total debt slightly decreased from Bt11,368 million as of December 2010 to Bt11,136 as of December of 2011. However, total debt rose to Bt13,655 million as of June 2012, due to the investment in CKP. The FFOs to total debt ratio slightly improved from 26.1% in 2010 to 26.9% in 2011 and stood at 12.4% (non-annualized) in the first half of 2012. The total debt to capitalization ratio dropped from 54.5% in 2010 to 52.2% in 2011 and then rose to 56.7% in the first half of 2012. TTW is looking for growth opportunities, especially in the area of green energy business. A large debt financed investment and sustainable high leverage ratio could pressure the company'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 company's ratings.

Thai Tap Water Supply PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW142A: Bt1,700 million senior debentures due 2014	AA-
TTW162A: Bt1,800 million senior debentures due 2016	AA-
TTW192A: Bt1,500 million senior debentures due 2019	AA-
TTW222A: Bt2,000 million senior debentures due 2022	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----- Year Ended 31 December -----				
	Jan-Jun 2012	2011	2010	2009	2008	2007
Sales	2,412	4,546	4,395	4,048	3,605	2,590
Gross interest expense	285	518	483	667	729	638
Net income from operations	1,233	2,113	2,063	1,594	1,358	920
Funds from operations (FFOs)	1,700	2,994	2,963	2,583	2,099	1,434
Capital expenditures	5	92	654	462	181	378
Total assets	24,488	21,728	21,488	21,064	17,895	18,681
Total debt	13,655	11,136	11,368	11,570	9,310	13,678
Shareholders' equity	10,430	10,192	9,484	8,695	8,336	4,715
Operating income before depreciation and amortization as % of sales	78.0	79.8	80.7	80.1	78.8	79.2
Pretax return on permanent capital (%)	7.1 **	13.5	13.1	13.0	11.6	11.0
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	7.2	7.2	7.4	4.9	3.9	3.3
FFOs/total debt (%)	12.4 **	26.9	26.1	22.3	22.5	10.5
Total debt/capitalization (%)	56.7	52.2	54.5	57.1	52.8	74.4

* Consolidated financial statements

** Non-annualized

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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