THAI TAP WATER SUPPLY PLC

No. 107/2013 16 December 2013

Company Rating: AA-

Outlook: Stable

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 senior debenture ratings of Thai Tap Water Supply PLC (TTW) at "AA-". The ratings reflect TTW's strong business profile as the largest private tap water provider in Thailand, as well as its stable cash flows from long-term offtake agreements, and steady growth in 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 TTW's major customer.

As of August 2013, TTW's major shareholders included Mitsui Water Holdings (Thailand) Ltd. (Mitsui Water, which owns 26% of the outstanding shares), Bangkok Expressway PLC (BECL; 20.2%) and CH. Karnchang PLC (CK; 19%). Currently, TTW is the largest private tap water producer in Thailand with a 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 owns 25% of CK Power PLC (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 (Lao PDR).

TTW operates three water treatment plants which provide tap water in three service areas, e.g., 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 together have a committed minimum offtake quantity (MOQ) of 660,000 cu.m./day. The terms of the WPSAs are 25 and 30 years, and the agreement 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 provide tap water and wastewater treatment services. The rights will be valid through 2039. TTW carries customer concentration risk as the PWA is the major customer and contributed approximately 98% of TTW's total revenue in 2012. However, the credit profile of the PWA is acceptable since it is a state enterprise.

TTW's strong business profile is supported by its low operating risk and high barrier to entry. Although water treatment technology is not complicated, the business is 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. Ownerships of the mains and distribution network hinder the ability of new entrants to operate in TTW's existing coverage areas. Moreover, 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.

TTW's solid financial performance is due to the well-structured WPSAs and continued growth in demand for water in its service areas. In 2012, TTW's total sales volume grew by 7%, compared with the previous year. The growth reflected a strong recovery in demand after the flood in 2011, particularly in the Nakorn Pathom-Samut Sakhon service area. The rise in sales volume, together with an increase in the CPI adjustment factored into the selling price drove TTW's total revenue to Bt4,925 million, up by 8% from the earlier year. For the first nine months of 2013, TTW reported total revenue of Bt3,872 million, a 5% increase year-on-year (y-o-y). The majority of the revenue came from sales of water in the Nakhon Pathom-Samut Sakhon and Pathum Thani service areas. These two areas contributed 64% and 33% of total revenue, respectively. The remainder was contributed from the BIE plant.

TRIS Rating expects TTW to maintain its solid financial profile over the next three years. The operating margin, defined as operating income before depreciation and amortization as a percentage of sales, is expected to remain strong and stay stable, above 77%. Funds from operations (FFO) was Bt3,397 million in 2012, up by 13% from the earlier year. For the first nine months of 2013, TTW's FFO increased by 4% y-o-y to Bt2,596 million. Under TRIS Rating's base scenario, TTW is expected to generate FFO of Bt3,000-Bt3,400 million per annum over the next three years. This amount of FFO is sufficient to fund TTW's planned capital expenditures and pay dividends. TTW plans to spend a total of approximately Bt2,300 million in capital over the next three years, mainly to increase its water treatment and distribution capacity in the Nakorn Pathom-Samut Sakhon service area. Dividend payments are expected to be around Bt2,200-Bt2,400 million per annum.

In terms of its balance sheet, TTW's total debt to capitalization ratio was 55% at the end of September 2013. The ratio is expected to improve slightly over the next three years, as TTW makes its scheduled debt repayments. TTW has been looking for opportunities to expand into green energy businesses. However, apart from the investment it made in CKP, TTW has yet to formulate a concrete plan to guide it diversification efforts over the next two years.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will be able to maintain its strong operating performance and sustain its ability to generate operating cash flow. A large debt-financing investment, if any, could pressure TTW's financial profile and, thus, its credit 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-Sep 2013	**2012**	**2011**	**2010**	**2009**	**2008**
Sales	3,872	4,925	4,546	4,395	4,048	3,605
Gross interest expense	466	608	518	483	667	729
Net income from operations	2,221	2,421	2,113	2,063	1,594	1,358
Funds from operations (FFO)	2,596	3,397	2,994	2,963	2,583	2,099
Capital expenditures	6	13	92	654	462	181
Total assets	24,237	24,670	21,728	21,488	21,064	17,895
Total debt	13,055	13,420	11,136	11,368	11,570	9,310
Shareholders' equity	10,686	10,743	10,192	9,484	8,695	8,336
Operating income before depreciation and amortization as % of sales	77.8	77.6	79.8	80.7	80.1	78.8
Pretax return on permanent capital (%)	15.8 **	14.5	13.5	13.1	13.0	11.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.8	6.9	7.2	7.4	4.9	3.9
FFO/total debt (%)	26.8 **	25.3	26.9	26.1	22.3	22.5
Total debt/capitalization (%)	55.0	55.5	52.2	54.5	57.1	52.8

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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