

TTW PUBLIC COMPANY LIMITED

No. 103/2014

13 November 2014

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/01/09	AA-	Stable
22/08/08	AA-	Stable

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of TTW PLC (TTW), previously named Thai Tap Water PLC, 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, steady growth in demand for water, and the nature of tap water business with 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 2014, TTW's major shareholders included Mitsui Water Holdings (Thailand), Ltd. (Mitsui Water; owning 25.98% of the outstanding shares), Bangkok Expressway PLC (BECL; 20.24%) and CH. Karnchang PLC (CK; 19.04%). 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 56% stake in SouthEast Asia Energy Ltd. (SEAN). SEAN operates a 615-megawatt (MW) hydropower plant in the Lao People's Democratic Republic (Lao PDR).

TTW operates three water filtration plants which provide tap water in three service areas; Nakorn Pathom-Samut Sakhon, Pathum Thani, and Bangpa-In Industrial Estate (BIE). TTW wholesales tap water to the PWA under two Water Purchase and Sale Agreements (WPSA). Taken together, the two WPSAs have a committed minimum offtake quantity (MOQ) of 675,000 cu.m./day. The terms of the WPSAs are 25 and 30 years, and the agreements 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. The majority of TTW's revenue comes from selling water in the Nakhon Pathom-Samut Sakhon and Pathum Thani service areas. These two areas contributed 64% and 31% of total revenue in the first nine months of 2014, respectively.

TTW's strong business profile is supported by its low operating risk and high barriers 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. Ownership of the mains and the distribution network hinder the ability of new entrants to operate in TTW's existing coverage areas. Moreover, the availability of raw water source and 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 carries customer concentration risk as the PWA is the major customer and contributed approximately 95% of TTW's total revenue for the first nine months of 2014. However, since it is a state enterprise, the credit profile of the PWA is acceptable. Apart from being TTW's major customer, the PWA is a key competitor. TTW's sales volume will fall when the PWA builds new filtration plants and distributes tap water in areas near TTW's service areas. For example, sales

volume in the Pathum Thani service area did not grow in 2013 and dropped by 1.9% in the first nine months of 2014 because PWA opened new filtration plant in Pathum Thani in the second quarter of 2013. However, the risk is alleviated by the minimum offtake quantity guaranteed by the long-term agreements with the PWA.

TTW's strong financial profile is due to the well-structured WPSAs and growing demand for water in its service areas. In 2013, TTW reported total sales of Bt5,182 million, up by 5.2% from a year earlier. The revenue growth was supported by both a rise in total sales volume and price adjustment. For the first nine months of 2014, revenue grew by 4.5% year-on-year (y-o-y) to Bt4,046 million. The growth was driven mainly by an increase in the prices of tap water as sales volume grew by 0.7% y-o-y. The small rise in sales volume was caused by the economic slowdown and the PWA's new filtration plant in the Pathum Thani service area. TTW's profitability remains strong and stable. The operating margin, defined as operating income before depreciation and amortization as a percentage of sales, stayed above 76% from 2006 through the first nine months of 2014. Liquidity remains sound. The ratio of funds from operations (FFO) to total debt was 27.4% for the first nine months of 2014 (annualized, from the trailing 12 months). The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio held at 8 times for the first nine months of 2014. Leverage, as measured by the ratio of total debt to capitalization remained acceptable at 53.9% at the end of September 2014.

Going forward, TRIS Rating expects TTW's strong operating performance to continue. 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 level of FFO will be used to fund its planned capital expenditures and dividend payments. TTW plans to spend a total of approximately Bt3,500 million in capital during the next three years, mainly to increase the capacity of its water treatment and distribution networks in both the Nakorn Pathom-Samut Sakhon and the Pathum Thani service areas. Dividend payments are expected to be Bt2,000-Bt2,300 million per annum. As it expands, TTW's leverage and liquidity are not expected to deteriorate as the company has a considerable amount of cash and cash equivalents on hand. As of September 2014, cash and cash equivalents were Bt4,560 million, excluding the Bt1,171 million reserve required under the terms of concession granted by the Ministry of Natural Resources and Environment.

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 cash. Additional investments, if any, should not adversely affect its capital structure and financial strength.

TTW PLC (TTW)

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

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2014	----- Year Ended 31 December -----				
		2013	2012	2011	2010	2009
Sales	4,046	5,182	4,925	4,546	4,395	4,048
Gross interest expense	428	615	608	518	483	667
Net income from operations	2,219	2,461	2,338	2,113	2,063	1,594
Funds from operations (FFO)	2,712	3,307	3,414	2,994	2,963	2,583
Capital expenditures	73	200	13	92	654	462
Total assets	23,485	24,525	24,672	21,728	21,488	21,064
Total debt	12,442	12,933	13,420	11,136	11,368	11,570
Shareholders' equity	10,644	11,011	10,661	10,192	9,484	8,695
Operating income before depreciation and amortization as % of sales	78.9	76.2	77.6	79.8	80.7	80.1
Pretax return on permanent capital (%)	14.7 **	15.06	14.6	13.5	13.1	13.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.1	7.3	6.9	7.2	7.4	4.9
FFO/total debt (%)	27.4 **	25.6	25.4	26.9	26.1	22.3
Total debt/capitalization (%)	53.9	54.0	55.7	52.2	54.5	57.1

* Consolidated financial statements

** Annualized, from the trailing 12 months

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