

TTW PUBLIC COMPANY LIMITED

No. 121/2015

30 November 2015

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

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Parat Mahuttano
parat@trisrating.com

Rungtip Charoenvisuthiwong
rungtip@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating and the current senior unsecured debenture ratings of TTW PLC (TTW) at "AA-". The ratings reflect TTW's strong business profile as the largest private tap water provider in Thailand and steady demand for tap water, as well as its stable cash flows from long-term offtake agreements and the low operating risk of the tap water business. 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 2015, TTW's major shareholders included Mitsui Water Holdings (Thailand), Ltd. (Mitsui Water; owning 25.98% of the outstanding shares), Bangkok Expressway PLC (BECL; 19.57%), and CH. Karnchang PLC (CK; 19.04%). TTW is the largest private tap water producer in Thailand with a total production capacity of 876,000 cubic meters (cu.m.) per day. The company also operates a wastewater treatment facility which has a capacity of 18,000 cu.m./day. In addition, TTW owns 25.31% of CK Power PLC (CKP), which owns a 56% stake in South East 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: Nakhon 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 684,000 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). At 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 2014, respectively.

TTW's strong business profile is supported by its low operating risk and the large capital investment required if a water treatment operator is needed to invest in transmission and distribution network. TTW owns the bulk transmission mains (BTM) and the local distribution networks (LDN) in some of its service areas. Ownership of the main and the distribution network hinders new entrants to operate in TTW's existing coverage areas. However, prospects for area expansion are modest as the PWA has no policy to grant new concessions. In addition, the sourcing of raw water is another constraint.

TTW is also exposed to customer concentration risk as the PWA is the major customer and a key competitor. During the past 10 years, tap water sold to the PWA comprised over 95% of TTW's total revenue. However, since the PWA is a state enterprise, its credit profile is acceptable. The PWA is also TTW's key competitor. TTW's sales volume falls when the PWA builds new filtration plants and distributes tap water in areas near TTW's service areas. For example, TTW's sales volume in the Pathum Thani service area did not grow in 2013 and dropped by 2.6% in 2014 since the PWA increased the production capacity of its new plant

in the area. However, the risk is partly alleviated by the minimum offtake quantities guaranteed by the long-term agreements with the PWA.

TTW's strong financial profile is supported by the well-structured WPSAs, steady demand for water in its service areas, and TTW's stable cash flows. In 2014, TTW reported Bt5,383 million in revenue, up by 3.9% year-on-year (y-o-y). The growth was driven mainly by an increase in the prices of tap water, as there was no growth in total sales volume, caused by the economic slowdown and the PWA's new filtration plant in the Pathum Thani service area. For the first nine months of 2015, TTW reported a slight drop in sales volume. Revenue was Bt4,089 million, up slightly from the same period last year.

TRIS Rating expects TTW's revenue to stay flat in 2015 and 2016, taking into account the continuing economic slowdown and the current negative CPI which will affect water tariffs in 2016. After that, TTW's revenue is expected to grow moderately at 2%-4% per annum during 2017-2018, supported by a gradual economic recovery and growing demand as communities expand. TTW's operating margin, defined as operating income before depreciation and amortization as a percentage of sales, is expected to remain strong and stable, above 77%.

TTW's capital structure, as measured by the ratio of total debt to capitalization, weakened from 52.2% in 2014 to 57.8% at the end of September 2015, due to the rise in debt needed to finance a Bt1,400 million capital injection in CKP in the second quarter of 2015 and to finance capacity expansions in the Samut Sakhon and the Pathum Thani service areas. Liquidity remained sound. The ratio of funds from operations (FFO) to total debt was 25.4% in 2015 (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 2015.

During 2015-2018, TTW is expected to generate FFO of Bt3,200-Bt3,500 million per annum, taking into account the full utilization of tax benefit in the second quarter of 2015. This amount of FFO will support TTW's high dividend payout policy and partly fund its planned capital expenditures. Dividend payments are expected to be Bt2,400-Bt2,600 million per annum. Over the next 12-24 months, capital spending will total approximately Bt2,300 million, mainly for the ongoing capacity expansion projects in the Samut Sakhon and the Pathum Thani service areas. TTW's debt to capitalization ratio is expected to peak in 2015 and then stay between 52%-55% during 2016-2018.

TTW's financial flexibility remains sound. At the end of September 2015, the company had cash and cash equivalents of Bt4,899 million, excluding the Bt1,446 million reserve required under the terms of concession granted by the Ministry of Natural Resources and Environment. In addition, TTW's 25.31% stake in CKP was worth Bt4,589 million at the end of September 2015.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will maintain its strong operating performance and its ability to generate cash. As TTW's operations are stabilize with moderate growth prospects, the ratings are likely to maintain during the medium term. However, TTW's credit quality could be negatively affected if there are any additional debt-funded investments that 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-
TTW182A: Bt1,000 million senior unsecured debentures due 2018	AA-
TTW192A: Bt1,500 million senior unsecured debentures due 2019	AA-
TTW202A: Bt500 million senior unsecured debentures due 2020	AA-
TTW222A: Bt2,000 million senior unsecured debentures due 2022	AA-
TTW255A: Bt1,400 million senior unsecured debentures due 2025	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----- Year Ended 31 December -----				
	Jan-Sep 2015	2014	2013	2012	2011	2010
Sales	4,089	5,383	5,182	4,925	4,546	4,395
Gross interest expense	410	566	615	608	518	483
Net income from operations	2,060	2,974	2,461	2,338	2,113	2,063
Funds from operations (FFO)	2,741	3,715	3,307	3,414	2,994	2,963
Capital expenditures	630	128	200	13	92	654
Total assets	25,979	24,627	24,525	24,672	21,728	21,488
Total debt	14,748	12,413	13,087	13,574	11,136	11,368
Shareholders' equity including minority interests	10,784	11,390	11,011	10,660	10,192	9,484
Operating income before depreciation and amortization as % of sales	78.75	79.02	76.21	77.56	79.83	80.72
Pretax return on permanent capital (%)	14.99	**				13.12
		15.60	15.06	14.56	13.53	
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.26	8.13	7.33	6.88	7.16	7.40
FFO/total debt (%)	25.39	**				26.07
		29.93	25.27	25.15	26.99	
Total debt/capitalization (%)	57.76	52.15	54.31	56.01	52.21	54.52

* Consolidated financial statements

** Annualized, from the trailing 12 months

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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