

TTW PUBLIC COMPANY LIMITED

No. 136/2016

16 November 2016

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

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and 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, low operating risk, plus stable cash flows secured by long-term offtake agreements and resilient demand for tap water. However, these strengths are partially offset by high leverage and customer concentration risk, as the Provincial Waterworks Authority (PWA) is TTW's major customer.

Since establishment in 2000, CH. Karnchang PLC (CK) and affiliates, CK Group, have continued to be TTW's controlling shareholders. As of August 2016, CK Group held 38.85% of TTW through Bangkok Expressway and Metro PLC (BEM; 19.45%) and CK, 19.40%. Mitsui Water Holdings (Thailand), Ltd. held 25.98% of TTW's total shares. TTW is the largest private tap water producer in Thailand with a total production capacity of 976,000 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 is the flagship power holding company of the CK Group. Currently, CKP's portfolio mainly consists of hydro power plants 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 712,000 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 2015, respectively.

TTW's strong business profile is supported by the low operating risk nature of the tap water business and high barriers to entry. 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 hinders new entrants to operate in its existing coverage areas as a new entrant would need a large capital investment and rights of ways to build a distribution network. However, prospects for expansion are modest, depending on the PWA's policy on granting tap water 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 and 0.4% in 2015 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 solid financial profile is supported by the well-structured WPSAs plus steady demand for water in its service areas which translate into secure and stable cash flows. In 2015, TTW reported Bt5,430 million in revenue, a flat growth from the previous year. For the first nine months of 2016, revenue dropped slightly compared with the same period last year to Bt4,050 million. TTW's income was pressured by the economic slowdown and competition from the PWA plant in Pathum Thani. In addition, the CPI fell in 2015, pushing down water tariffs in 2016 by about 1%-1.4%. TRIS Rating expects TTW's revenue in 2016 to be flat or drop slightly compared with a year earlier.

Under TRIS Rating's base case scenario, TTW's revenue is expected to grow by 2%-4% per year during 2017-2019, supported by a gradual economic recovery and rising demand as communities expand. TTW recently added another 100,000 cu.m./day of production capacity in Pathum Thani, aiming to serve expanding communities in the Rangsit area. It is also building a new filtration plant in Samut Sakhon which will add another 100,000 cu.m./day of capacity once the plant is finished in mid-2017. TTW's operating margin, defined as operating income before depreciation and amortization as a percentage of sales, is expected to remain strong and stable at above 77%.

TTW's strong profitability strengthens its liquidity. The ratio of funds from operations (FFO) to total debt was 26.08% (annualized, from the trailing 12 months) for the first nine months of 2016. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio held at 10.04 times during the same period. TTW's capital structure, as measured by the ratio of total debt to capitalization, improved from 56.02% in 2015 to 53.89% at the end of September 2016, following the scheduled debt repayments.

From the last quarter of 2016 to the end of 2017, TTW's liquidity is expected to remain sound considering its sources and uses of funds. TTW has debt coming due of approximately Bt1,360 million and planned capital spending of Bt1,000-Bt1,300 million. TTW is expected to maintain a high dividend payment. TRIS Rating forecasts dividend payments of Bt2,400-Bt2,600 million per annum. TTW's sources of funds are expected FFO of Bt3,200-Bt3,400 million per annum plus cash and cash equivalents of Bt1,396 million on hand at the end of September 2016, excluding the Bt2,090 million reserve required under the terms of the concession granted by the Ministry of Natural Resources and Environment. In addition, TTW's 25.31% stake in CKP was worth Bt6,530 million as of 11 November 2016.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will maintain its strong operating performance and ability to generate cash. As TTW's operations are stable with moderate growth prospects, the ratings are likely to be maintained 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:	
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 2016	2015	2014	2013	2012	2011
Sales	4,050	5,430	5,383	5,182	4,925	4,546
Gross interest expense	338	550	566	615	608	518
Net income from operations	1,907	2,681	2,971	2,461	2,338	2,113
Funds from operations (FFO)	2,375	3,702	3,715	3,307	3,414	2,994
Capital expenditures	1,342	1,047	128	200	13	92
Total assets	24,147	26,644	24,627	24,525	24,672	21,728
Total debt	12,789	14,561	12,413	13,087	13,574	11,136
Shareholders' equity including minority interests	10,941	11,430	11,390	11,011	10,660	10,192
Operating income before depreciation and amortization as % of sales	79.89	78.57	78.97	76.21	77.56	79.83
Pretax return on permanent capital (%)	14.64 **	14.65	15.59	15.06	14.56	13.53
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.04	8.22	8.13	7.33	6.88	7.16
FFO/total debt (%)	26.08 **	25.42	29.93	25.27	25.15	26.99
Total debt/capitalization (%)	53.89	56.02	52.15	54.31	56.01	52.21

* 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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