

EGAT INTERNATIONAL CO., LTD.

No. 110/2017

4 September 2017

Company Rating: AAA**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
16/09/15	AAA	Stable

Rating Rationale

TRIS Rating affirms the company rating of “AAA” to EGAT International Co., Ltd. (EGATi). The rating reflects the company's status as a wholly-owned subsidiary of Electricity Generating Authority of Thailand (EGAT) to invest in power and energy projects abroad. EGATi's rating also reflects its high degree of operational integration with EGAT and its important role in supporting EGAT's long-term strategy of providing a sufficient supply of electricity for the country. The rating also takes into consideration the strong support EGATi receives from EGAT.

EGATi was founded by a Cabinet resolution dated 30 October 2007. EGATi's objective is to serve as EGAT's representative, participating in government-to-government (G-to-G) power projects in neighboring countries. In addition, EGATi is also an investment arm of EGAT, established to secure a sufficient supply of electricity for the nation and invest in energy projects to satisfy EGAT's growth strategy. Since inception, EGATi has been 100% owned by EGAT. EGAT, rated “AAA” by TRIS Rating, is a major state-owned enterprise. EGAT plays an important role in the Thai power industry. EGAT is responsible for securing the supply of electricity for the whole country. As of June 2017, the power plants owned by EGAT constituted 38% of the total electricity generating capacity in Thailand. EGAT has been a sole off-taker for the balance (62%) of the nation's electricity capacity. This balance is owned by private power producers and import from the neighboring countries. EGAT also owns and operates the entire power transmission grid in Thailand. EGAT sells electrical energy in bulk mainly to the Metropolitan Electricity Authority (MEA) and the Provincial Electricity Authority (PEA).

According to the current power development plan, PDP2015, Thailand will need to import 12,347 megawatts (MW) of electricity by 2036, when the current planning period ends. This amount is more than four times of the amount of electricity currently imported. Imports of electricity were equivalent to 9% of total capacity at the end of 2016. The proportion will increase to 18% at the end of 2036. In order to secure long-term sources of electrical energy for the country, EGATi has a mission to participate in power projects in neighboring countries and supply electricity to Thailand. EGAT will be the main or the sole off-taker.

Currently, EGATi's investment portfolio consists of power projects abroad and an investment in a coal mine in Indonesia. EGATi has a policy to hold 30%-40% interest in each of the power projects it undertakes. EGATi has invested in three power projects, with an aggregate capacity of 4,259 MW. The three power projects are the Nam Ngiep 1 project located in the Lao People's Democratic Republic (Lao PDR), the Quang Tri 1 project located in Vietnam, and the Mong Ton project located in Myanmar.

Of the three projects, the Nam Ngiep 1 has made the most progress. Commercial operation is expected to commence in 2019. As of June 2017, the construction was 81% complete, ahead of schedule by 0.35%. The Nam Ngiep 1 project is a hydropower plant with an installed capacity of 289 MW. It has a 27-year power purchase agreement (PPA) with EGAT to supply 1,490 gigawatt hours (GWh) of electricity to Thailand. EGATi holds a 30% stake in this project. EGATi budgeted US\$84 million as an equity contribution in the project.

The Quang Tri 1 project is a 1,320-MW coal-fired power plant in Vietnam. The feasibility study was approved by the Ministry of Industry and Trade (MOIT) of

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Vietnam in late 2016. EGATi is currently negotiating with the MOIT to draft a Principle Project Agreement (PA). Other project agreements, such as the PPA, will use the PA as the agreement framework. The Mong Ton project is a hydro power plant in Myanmar, EGATi redesigned the project to be a cascade dam with a capacity of 2,650 MW for the first phase, as requested by the government of Myanmar. The original plan called for 7,000 MW. Currently, the project is undergoing a revision to the feasibility study.

In November 2016, EGATi acquired a 11.53% stake in Adaro Indonesia, one of the largest coal miners in Indonesia. The total transaction was worth US\$325 million or about Bt11,700 million. According to the purchase agreement, EGATi made the first payment of US\$163.5 million (about Bt5,800 million) in November 2016. The outstanding balance of US\$161.5 million (about Bt5,900 million) will be paid during 2022-2027, if all the conditions specified in the agreement are satisfied. From November 2016 to March 2017, EGATi received dividends of US\$83.4 million (about Bt2,970 million) from Adaro Indonesia.

EGAT received approval from the Ministry of Energy of Thailand to make an equity contribution of Bt17,000 million to EGATi. At the end of June 2017, EGAT made an equity contribution of Bt11,307 million. EGATi has used the funds for its projects, earmarking Bt3,692 million for the Nam Ngiep 1 project, Bt1,526 million for developing the Mong Ton project, Bt5,904 million to invest in Adaro Indonesia and Bt185 million for the Quang Tri 1 project.

EGATi's operations are highly integrated with EGAT. As a wholly-owned subsidiary, EGATi continuously receives support from EGAT in terms of manpower, systems, knowledge transfers, and shared experience. EGATi's management and members of the board members were appointed by EGAT. EGATi's operating expenses and investments are financed by EGAT.

EGATi is in the initial investment phase. Most of its investments are green-field projects, which need five to 10 years to develop. However, the investment in Adaro Indonesia will help offset the company's losses. The dividends from Adaro Indonesia are expected to be around Bt300 million per year during 2018-2019.

Rating Outlook

The "stable" outlook reflects the expectation that EGATi will remain a wholly-owned subsidiary of EGAT and play an important role in sourcing electrical energy abroad for use in Thailand.

The downside factors for EGATi's rating include a deterioration in EGAT's credit profile, a significant change in EGATi's relationship with EGAT, or a material reduction in support from EGAT.

EGAT International Co., Ltd. (EGATi)

Company Rating:

AAA

Rating Outlook:

Stable

Key Financial Statistics
Unit: Bt million

	Jan-Jun 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Revenue	5	13	11	12	2	1
Finance cost	-	-	-	-	-	-
Net income from operations	219	(126)	(14)	(242)	(73)	(112)
Funds from operations (FFO)	2,566	(107)	(65)	(101)	(97)	(109)
Capital expenditures & Investment	305	6,468	501	971	303	1
Total assets	17,723	17,576	5,977	4,296	2,894	190
Total debt	0	0	-	-	-	-
Total liabilities	5,823	5,930	66	413	100	79
Shareholders' equity	11,900	11,646	5,911	3,883	2,794	110
Depreciation & amortization	1	1	2	1	1	0
Dividends	-	-	-	-	-	-
Operating income before depreciation and amortization as % of sales	(1,040)	(1,588)	(1,356)	(1,413)	(10,228)	(7,949)
Pretax return on permanent capital (%)	6 *	(1)	(0)	(7)	(5)	(85)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FFO/total debt (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total debt/capitalization (%)	0	-	-	-	-	-

** Non-annualized*
n.a Not applicable
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