

ELECTRICITY GENERATING AUTHORITY OF THAILAND

No. 99/2021
30 June 2021

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 19/06/20

Company Rating History:

Date	Rating	Outlook/Alert
30/06/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating on Electricity Generating Authority of Thailand (EGAT) at “AAA”, with a “stable” rating outlook. The rating reflects EGAT’s integral linkage with the Thai government, as well as its critical role as a state-owned enterprise (SOE) responsible for securing electricity supplies in Thailand. The rating also takes into consideration EGAT’s dominant position as the country’s largest power generator and sole owner of the power transmission system in Thailand, its solid financial profile, and strong support received from the government.

KEY RATING CONSIDERATIONS

Integral linkage with the government

TRIS Rating assesses that EGAT has an integral linkage with the Thai government. EGAT was established as an SOE under the EGAT Act B.E. 2511. EGAT is under the supervision of the Ministry of Energy (MOE) and the Ministry of Finance (MOF). The board of directors and the governor are approved by the Cabinet. EGAT’s current strategic plan was formulated in accordance with the National Strategy (2018-2037) and the Thailand Integrated Energy Blueprint, which incorporates the Power Development Plan 2018 (PDP2018 Revision 1). The strategic plan has been reviewed by the State Enterprise Office (SEO) under the MOF. EGAT’s capital expenditures and investment plans are subject to the approval of the MOE, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. EGAT’s debt service and borrowing plan must be submitted to the Public Debt Management Office (PDMO), under the MOF.

EGAT also receives strong support from the government of Thailand. Under the EGAT Act B.E. 2511, the government of Thailand will provide extraordinary support to EGAT in the event that EGAT’s revenue is not sufficient to cover its expenses, including interest expenses and debt repayments.

Critical role in Thailand’s power sector

TRIS Rating believes that EGAT will continue its critical role in the electricity industry in Thailand. EGAT is the major SOE responsible for securing electricity supplies for Thailand. Under the enhanced single buyer model, EGAT is the main provider of electricity for the country, supplying electricity from its own power plants and from private producers. EGAT sells electricity in bulk to the Provincial Electricity Authority (PEA) (rated “AAA” with a “stable” outlook by TRIS Rating) and Metropolitan Electricity Authority (MEA) (rated “AAA” with a “stable” outlook by TRIS Rating) through the national transmission network (national grid).

At the end of March 2021, the contracted capacity in EGAT’s system was 46,096 megawatts (MW). EGAT owned and operated 52 power plants with a total capacity of 16,037 MW, representing 34.8% of total capacity in EGAT’s system. The remainder is purchased from private power producers in Thailand (52.8%) and imported from the Lao People’s Democratic Republic (Lao PDR) and Malaysia (12.4%).

As the sole owner and operator of the national grid, EGAT operates the National Control Center (NCC) to ensure electricity supplies meet electricity demand for the whole country. All power plants connected to the national

grid are under the supervision of the NCC for their generation schedule.

Investment costs recovered through cost-plus tariff structure

Electricity tariffs in Thailand are regulated by the Energy Regulatory Commission (ERC). The tariff structure is designed to enable EGAT to recover its investment costs plus a return on investment for expenditure in both power plants and the transmission network. Under the structure of electricity tariffs, changes in the price of fuel or the price EGAT must pay for purchasing power are incorporated into the fuel adjustment charge (or the F_t) and passed on to end users. The ERC calculates and publishes the F_t every four months. EGAT consequently has limited exposure to fluctuations in fuel price.

Reliable revenue from creditworthy customers

About 70% of the electricity EGAT produces and purchases are sold in bulk to PEA and 28% to MEA. Both PEA and MEA are SOEs of Thailand. PEA is responsible for distributing electricity to end users in provincial areas, while MEA distributes electricity in the metropolitan area (Bangkok, as well as Samut Prakarn and Nonthaburi provinces).

Slight drop in electricity sales caused by COVID-19 pandemic

In 2020, EGAT's electricity sales slipped by about 3% to 187,365 gigawatt-hours (GWh) due to a significant decline in economic activities caused by the Coronavirus Disease 2019 (COVID-19) pandemic. Thailand's real gross domestic product (GDP) growth rate declined by 6.1% in 2020. For the first three months of 2021, electricity sales decreased by about 6% year-on-year (y-o-y), reflecting the impacts of the second wave of COVID-19 outbreaks compared with the first quarter of 2020 when the COVID-19 outbreak had just started in Thailand. However, for the whole year of 2021, electricity consumption in Thailand is forecast to register a positive growth of 1%-2% from 2020.

To alleviate hardship of the Thai people due to the spread of COVID-19, the Thai government implemented a number of relief measures for electricity consumers in 2020, such as discounts on electricity bills, extensions of the bill payment grace period, etc. The financial burden resulting from the relief measures for electricity consumers in 2020 amounted to about THB26.7 billion (excluding a refund of electricity service deposits for end users). Of the total amount, THB5.8 billion was born by EGAT, while the rest was covered by PEA and MEA.

Prudent financial policy

EGAT has adopted a conservative financial policy. It has a policy to maintain a minimum cash balance of THB45 billion and has internal guidelines to ensure financial discipline is maintained. Key financial guidelines include maintaining a debt to equity ratio of less than 1.5 times, a self-financing ratio of more than 25%, and a debt-service coverage ratio of more than 1.5 times.

Strong financial profile

EGAT's financial profile has remained robust with a healthy capital structure. At the end of 2020, EGAT's adjusted debt was THB313 billion, including power purchase commitments with other power producers worth THB227.5 billion. EGAT's debt to capitalization ratio was 39.1% at the end of 2020. In 2020, EGAT generated THB108.7 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) with a debt to EBITDA ratio of 2.9 times.

EGAT also has a very strong liquidity profile. It had cash on hand of THB69.4 billion and undrawn credit facilities of THB10 billion at the end of 2020. Its funds from operations (FFO) for the next 12 months are expected to be in the range of THB70-THB75 billion. EGAT's cash on hand plus undrawn credit facilities and expected FFO are assessed to comfortably cover debts repayments of about THB10 billion in 2021.

Changing electricity industry structure in Thailand

We expect Thailand's electricity supply structure to gradually change in line with the global trend of decentralized power supply. The movement in decentralization is largely induced by digitalization and disruptive technology that allow end users to produce their own electricity and connect to each other via a smart grid. The future model of electricity supply is likely to evolve from centralized power generation toward more widely distributed power generation. The other important trend is decarbonization which will continue to lead the way for more electricity supplies from renewable sources, while the electrification trend that brings about wider usage of electricity in vehicle and transportation could be a key driver for electricity consumption in the future.

TRIS Rating foresees that these trends will impact EGAT role as the main electricity producer in the country over the long term. Under the current power development plan (PDP2018 Revision 1), electricity produced by Independent Power Supply (IPS) is forecast to increase to around 17% of total electricity consumption by 2037, from 13% in 2018, while EGAT's own electricity generation is expected to decline to 24%, from 34%, over the same period. Despite our view that the importance of EGAT's role as an electricity producer may dilute to some extent in the long term, we believe that EGAT will

continue its critical role in securing electricity supplies in the country and maintaining the stability of the national electricity supply system.

BASE-CASE ASSUMPTIONS

- Electricity sales to grow by 1%-2% per annum during 2021-2023.
- EBITDA to be about THB105-THB110 billion per year during 2021-2023.
- Capital expenditure and investment to be about THB155 billion over the period of 2021-2023.
- Ratio of debt to EBITDA is forecast to stay at around 2-3 times during 2021-2023.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that EGAT will continue its critical role in the power industry in Thailand.

RATING SENSITIVITIES

A credit downside case may arise if EGAT’s SOE status or its role in the Thai power industry weakens as a result of changes in the government policies.

COMPANY OVERVIEW

EGAT was established in 1969, under the EGAT Act B.E. 2511, through the merger of the three SOEs responsible for supplying electricity in the country. Currently, EGAT is an SOE under the supervision of MOE and MOF.

EGAT is responsible for securing electricity supplies for the whole country. At the end of March 2021, EGAT owned and operated 52 power plants, with a total capacity of 16,037 MW, accounting for 34.8% of total capacity in EGAT’s system. The remaining 65.2% was produced by private power producers or imported from neighboring countries, who sell electricity to EGAT under the enhanced single buyer model used in the Thai power industry.

Almost all of EGAT’s revenue comes from bulk electricity sales. In 2020, revenue from the sale of electricity to PEA accounted for 70% of EGAT’s total revenue, MEA accounted for 28%, and 2% came from EGAT’s direct customers, including exports to the Lao PDR, Malaysia, and Cambodia. In addition to electricity sales, EGAT generates revenue by providing operations and maintenance services for private power plants, telecommunication services, and others. These services accounted for 0.7% of EGAT’s total revenue in 2020.

KEY OPERATING STATISTICS

Table 1: EGAT’s Electricity Generation Capacity Breakdown

Unit: MW

	Mar 2021	2020	2019	2018	2017	2016
EGAT’s own plants	16,037	16,037	15,131	15,814	16,091	16,385
Purchase from						
IPP	14,874	14,249	14,949	14,949	14,949	14,949
SPP	9,464	9,474	9,498	8,757	7,536	6,345
Import	5,721	5,721	5,721	3,878	3,878	3,878
Total purchase	30,059	29,444	30,168	27,584	26,363	25,172
Total generation capacity	46,096	45,481	45,299	43,398	42,454	41,557
% of Total						
EGAT’s own plants	34.8	35.3	33.4	36.4	37.9	39.4
Purchase from						
IPP	32.3	31.3	33.0	34.5	35.2	36.0
SPP	20.5	20.8	21.0	20.2	17.8	15.3
Import	12.4	12.6	12.6	8.9	9.1	9.3
Total purchase	65.2	64.7	66.6	63.6	62.1	60.6
Total generation capacity	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

Table 2: EGAT's Customer Breakdown

Unit: GWh

	Jan-Mar 2021	2020	2019	2018	2017	2016
PEA	31,859	131,558	134,607	131,970	130,238	125,798
MEA	12,302	52,344	55,002	53,302	52,646	56,586
Others	1,177	3,463	3,729	2,117	2,247	2,663
Total sales	45,338	187,365	193,338	187,389	185,131	185,047
% of Total						
PEA	70.3	70.2	69.6	70.4	70.3	68.0
MEA	27.1	27.9	28.4	28.4	28.4	30.6
Others	2.6	1.9	2.0	1.2	1.3	1.4
Total sales	100.0	100.0	100.0	100.0	100.0	100.0

Source: EGAT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	513,038	563,078	526,092	495,488	498,141
Earnings before interest and taxes (EBIT)	65,669	76,538	88,297	87,565	88,337
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	108,674	119,268	126,572	130,457	131,610
Funds from operations (FFO)	73,245	81,159	85,840	86,179	87,505
Adjusted interest expense	35,324	37,153	39,564	42,777	43,224
Capital expenditures	44,367	53,681	59,228	55,994	50,057
Total assets	994,763	1,003,951	1,021,211	985,876	963,020
Adjusted debt	312,979	310,478	312,821	316,858	339,636
Adjusted equity	488,141	474,653	452,830	426,557	403,055
Adjusted Ratios					
EBITDA margin (%)	21.18	21.18	24.06	26.33	26.42
Pretax return on permanent capital (%)	7.51	8.76	10.29	10.44	11.05
EBITDA interest coverage (times)	3.08	3.21	3.20	3.05	3.04
Debt to EBITDA (times)	2.88	2.60	2.47	2.43	2.58
FFO to debt (%)	23.40	26.14	27.44	27.20	25.76
Debt to capitalization (%)	39.07	39.54	40.86	42.62	45.73

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Electricity Generating Authority of Thailand (EGAT)

Company Rating:	AAA
Rating Outlook:	Stable

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