

# METROPOLITAN ELECTRICITY AUTHORITY

No. 114/2021  
22 July 2021

## CORPORATES

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

**Last Review Date:** 09/07/20

### Company Rating History:

Date	Rating	Outlook/Alert
09/07/20	AAA	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Metropolitan Electricity Authority (MEA) at “AAA” with a “stable” rating outlook. The rating reflects MEA’s integral linkage with the Thai government and its critical role as a state-owned enterprise (SOE) responsible for distributing electricity in the central cities of Thailand. The rating also incorporates robust demand from its service areas, reliable cash flow under the cost-plus tariff structure, solid financial profile, and conservative financial policy.

## KEY RATING CONSIDERATIONS

### Integral linkage with the government

TRIS Rating assesses MEA’s link with the government as being integral. MEA is wholly owned by the Thai government, via the Ministry of Finance, and operates under the supervision of the Ministry of Interior. The government can exert strong influence on MEA’s strategy through the appointment of board members and the governor.

We believe that MEA will receive timely and sufficient extraordinary support from the Thai government if MEA’s income is inadequate in meeting its operating expenses and debt service payments as stated in MEA Act B.E.2501.

### Critical role in distributing power in Thailand’s metropolitan area

MEA is one of two state-owned enterprises distributing electricity to the retail markets in Thailand. MEA is responsible for three central provinces: Bangkok, Samut Prakan, and Nonthaburi. At the same time, another SOE, Provincial Electricity Authority (PEA) (rated “AAA” by TRIS Rating), covers the remaining 74 provinces.

MEA’s credit profile reflects its critical importance to the government and the electricity distribution system in Thailand. The crucial mission of MEA is to ensure the reliability of the power system in Bangkok, Nonthaburi, and Samut Prakan provinces, which consume sizable electricity about 27% of the country. MEA also has the responsibility of formulating strategic plans to support national policy and the development of the electricity system in Thailand.

In 2020, MEA’s service areas covered about 3,192 square kilometers. The authority operates a distribution network with a line-length of 53,107 circuit-kilometers. MEA’s revenue was THB191 billion, and the distributed electricity amounted to 50,662 gigawatt-hours (GWh). MEA purchases almost all of its electricity from the Electricity Generating Authority of Thailand (EGAT).

### Benefits from robust electricity demands in the metropolitan area

MEA benefits from services in urban areas, where its electricity consumption is substantial and consistent for over a decade. The distributed electricity escalated to 50,662 GWh in 2020 from 45,027 GWh in 2010, representing an average growth rate of 1.9%% per annum.

We view that a large number of consumers and diversified customer types as positive factors in enhancing MEA’s revenue stability. In 2020, MEA recorded approximately 4.05 million customers, which grew by about 3% per year over the last ten years. MEA’s revenue also benefits from the high selling price of electricity, backed by population density and high electricity consumption per

user.

### Stable earnings from cost-plus tariff structure

The electricity tariff structure plays a vital role in protecting MEA's operations from the risk of electricity costs. The electricity tariff structure in Thailand, regulated by the Energy Regulatory Commission (ERC), is designed to cover essential investments and ensure adequate funds for operations of all three power-related state enterprises: EGAT, PEA, and MEA. The tariff structure incorporates the mechanism using an adjustment of Ft to pass any changes in electricity costs on to end consumers.

Under this tariff structure, we believe that MEA's business can generate sufficient earnings with a highly stable profit margin. MEA's gap between the selling and the purchasing prices of electricity is relatively steady. During 2016-2020, the spread between the selling and purchasing electricity prices was around THB0.99-THB1.03 per kilowatt-hour (kWh).

### Regulated return caps profitability

MEA's profit margin is capped by the regulations as MEA is obliged to return its excessive revenue to related authorities until its financial status meets the criteria set by ERC. Since MEA benefits from servicing in metropolitan areas and usually generates a significantly higher return than PEA's, ERC requires MEA to allocate part of its revenue to subsidize PEA and set aside any excess amount after the cross-subsidy, termed "clawback", to support the government measures.

During 2018-2020, MEA has transferred its surplus revenue, including that transferred to PEA and clawback, at around THB17.8-THB19.6 billion per year. With this mechanism, we assess MEA's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin as being limited to 10%-11%.

### Limited impact from COVID-19

The Coronavirus Disease 2019 (COVID-19) has had a slight impact on MEA's financial profile in our view. The electricity sales volume in 2020 fell by 5%. However, this is counterbalanced by reduced clawback and lower employee expenses. Thanks to work-from-home trends, MEA's revenue structure has benefitted slightly from the growing electricity volume from residential users as the tariff from this segment is relatively higher than the average.

MEA's revenue in 2020 was THB191 billion, dropping 6.4% year over year. In contrast, its EBITDA is about THB17 billion, up by 6.5%. EBITDA margin was 8.9% in 2020, compared with 7.8% in 2019.

### Strong financial profile

TRIS Rating expects MEA's financial profile to remain strong and adequate to bolster escalating investment outlay over the next three years. MEA's capital spending will be about THB20-THB21 billion per annum during 2021-2022 before jumping to THB30.5 billion in 2023. We anticipate MEA's outstanding debt to increase, but the improved cash flow and large equity base will be the factors that protect its financial status from rapid deterioration.

TRIS Rating still expects that MEA's EBITDA will recover due to the end of the retroactive clawback, which is the main cause of the curtailment of MEA's earnings during 2019 and 2020. We expect MEA's financial results will be temporarily affected from the government's relief measures against the recurring waves of COVID-19 outbreaks in 2021; however, we believe that the full subsidy from the government will help neutralize the impact later. We forecast MEA's EBITDA to return to the pre-covid-19 level, reaching THB20 billion over the next three years. We predict MEA's net debt to EBITDA ratio to stay below 3.5 times and the debt to capitalization ratio to below 40%.

### Conservative financial policy

MEA has consistently adopted a conservative financial policy. The policy comprises maintaining the 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.

MEA's liquidity is well-managed, as assessed from its prudent cash reserve policy. MEA has established a sinking fund for the purpose of bond repayments for the next three to four years. MEA also makes deposits for specific purposes such as an electricity usage guarantee, employee gratuity funds, and for clawback.

### BASE-CASE ASSUMPTIONS

- MEA's electricity sales to be flat in 2021 before increasing by 1.5%-2% per annum during 2022-2023.
- Revenue to reach THB190 billion in 2021 and growing to THB196 billion in 2023.
- EBITDA to grow from about THB18-THB21 billion per annum in 2021-2023.
- Total capital expenditure to be about THB73 billion over the period of 2021-2023.
- Remittance to the Thai government to be 45% of net profit.

## RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that MEA’s crucial role in distributing electricity will remain unchanged, and that MEA will receive timely and sufficient extraordinary support from the government if needed.

## RATING SENSITIVITIES

A rating downside case may occur if there are changes in the government policy regarding MEA’s status and its role in the Thai power industry.

## COMPANY OVERVIEW

MEA is a state enterprise under the supervision of the Ministry of Interior, established in 1958 under the MEA Act B.E. 2501. MEA is responsible for electricity distribution in three provinces: Bangkok, Nonthaburi, and Samut Prakan. The organization’s area of responsibility covers 3,192 square kilometers. In 2020, about 4.05 million users were connected to its distribution network.

The bulk of electricity consumption in 2020 came from large general service users (33% of total electricity sales), followed by small and medium general service users (30%) and residential users (31%). The remainder (5%-6%) came from specific business service users, government institutions, non-profit organizations, and others.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	192,047	205,085	195,931	189,743	191,373
Earnings before interest and taxes (EBIT)	8,244	7,667	11,246	13,131	13,569
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	17,498	16,443	19,144	20,619	20,841
Funds from operations (FFO)	15,605	14,592	17,370	18,854	19,119
Adjusted interest expense	1,893	1,851	1,774	1,764	1,723
Capital expenditures	21,498	20,412	18,383	14,849	12,671
Total assets	227,937	224,843	213,876	201,200	191,126
Adjusted debt	33,782	21,515	11,436	5,285	3,697
Adjusted equity	99,961	97,999	96,101	92,576	87,768
<b>Adjusted Ratios</b>					
EBITDA margin (%)	9.1	8.0	9.8	10.9	10.9
Pretax return on permanent capital (%)	5.3	5.3	8.1	9.9	10.7
EBITDA interest coverage (times)	9.2	8.9	10.8	11.7	12.1
Debt to EBITDA (times)	1.9	1.3	0.6	0.3	0.2
FFO to debt (%)	46.2	67.8	151.9	356.7	517.1
Debt to capitalization (%)	25.3	18.0	10.6	5.4	4.0

\* Consolidated financial statements

## RELATED CRITERIA

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

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**Metropolitan Electricity Authority (MEA)**

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<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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