

METROPOLITAN ELECTRICITY AUTHORITY

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CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 19/08/22

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 Thailand’s metropolitan area. The rating also takes into consideration the robust demand in 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

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. According to the MEA Act B.E. 2501, we believe there is near-certainty likelihood that MEA will receive timely and adequate extraordinary support from the Thai government to cover its operating expenses and debt services in the event of income shortfalls.

Critical role in distributing power in Thailand’s metropolitan area

MEA is one of the two state-owned enterprises distributing electricity to retail markets in Thailand. MEA is responsible for three central provinces: Bangkok, Samut Prakan, and Nonthaburi. Another SOE, Provincial Electricity Authority (rated “AAA/stable”), covers the remaining 74 provinces.

MEA’s credit profile reflects its critical importance to the Thai government and the overall electricity distribution system in the country. MEA plays an essential role in ensuring the reliability of the power system in Bangkok, Nonthaburi, and Samut Prakan provinces, which account for about 26%-27% of electricity consumption in Thailand. MEA is also responsible for formulating strategic plans in alignment with national policies and the advancement of electricity supply systems across Thailand.

In 2022, MEA’s service areas covered about 3,192 square kilometers. Its revenue was THB222.5 billion, while the distributed electricity amounted to 51,527 gigawatt-hours (GWh). MEA purchases almost all of its electricity from the Electricity Generating Authority of Thailand (EGAT).

Robust electricity demand in the metropolitan area

MEA’s power distribution services benefit from consistently rising electricity consumption and dense populations with high per capita power usage in the urban areas it serves. The large number of consumers and diversified customer types in the metropolitan area also help ensure revenue stability.

Over the past decade, MEA’s distributed electricity has risen consistently reaching 51,527 GWh in 2022, which represents an average annual growth rate of 1.5%. The number of customers has also expanded, increasing by 2.7% annually on average over the past ten years, and reaching approximately 4.18 million in 2022.

Stable earnings from cost-plus tariff structure

MEA benefits from operating under a regulated tariff structure, which largely mitigates the risk of electricity procurement costs. The electricity tariff structure, regulated by the Energy Regulatory Commission (ERC), has an

adjustment mechanism for electricity tariffs and costs to ensure adequate returns on investment and sufficient funds for the operations of MEA. Under the tariff structure, MEA's margin of electricity sales has been steady within a range of THB0.99-THB1.03 per kilowatt-hour (kWh) during 2018-2022.

Profitability capped by regulations

MEA has an obligation to return surplus revenues to relevant authorities to ensure its financial status aligns with ERC criteria. Given MEA's operational focus in metropolitan areas, which generally yields a higher return than provincial areas, ERC mandates that a portion of MEA's revenue be allocated to support PEA, and any excess amount after the cross-subsidy, termed "clawback", is used to support government measures.

During 2018-2022, MEA transferred surplus revenue amounting to around THB16.1-THB19.6 billion per year, including that transferred to PEA and clawback. Under this mechanism, we assess MEA's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin as being limited to 8%-10%.

Recovery in performance

We anticipate MEA's performance will continue to improve, mainly driven by a gradual recovery in electricity demand across various business segments. Electricity demand in MEA's service areas recovered with a year-on-year (y-o-y) increase of 3.1% during the first half of 2023. The soaring Ft in 2023 had a limited impact on MEA's financial performance, given the cost-plus tariff mechanism. MEA still needs to support government measures to alleviate high electricity bills in 2023, but we anticipate the financial impact on MEA will be mitigated by prompt subsidies from the government.

We project MEA's revenue to grow by 18% to THB260 billion in 2023, driven by heightened Ft and growing electricity sales, before gradually declining to around THB240 billion in 2025. We assume that MEA's power distribution will continue to grow by 1.5%-2.0% per year. However, the selling price of electricity is likely to decrease based on an expected downward adjustment of Ft over the next 1-2 years. We forecast MEA will deliver annual EBITDA of THB20-THB22 billion.

Strong financial profile

MEA's financial strength remains sufficiently robust to support its planned capital investments. During 2023-2025, we expect MEA's debt to continue to rise, considering its significant planned capital expenditures, which will range from THB22-THB30 billion per year. The spending is primarily earmarked to reinforce MEA's key missions, including the improvement of distribution systems and underground cable projects.

Despite the rising debt, we expect MEA's expanding EBITDA will help maintain its robust financial status. We project MEA's net debt to EBITDA ratio to be within the range of 3-4 times over the next three years. Additionally, the debt-to-equity ratio is estimated to remain between 0.7 and 0.9 times.

Conservative financial policy with sizable sinking fund for bond payments

MEA adopts a conservative financial approach, underpinned by well-defined policy. The policy sets clear targets of maintaining a debt-to-equity ratio of not more than 1.5 times, a self-financing ratio of not less than 25%, and a debt service coverage ratio of not less than 1.5 times.

MEA has demonstrated its disciplined liquidity management, supported by a prudent cash reserve policy. MEA has set up a sinking fund, allocated for bond redemptions for the next three to four years. Furthermore, MEA allocates deposits for specific purposes such as an electricity usage guarantee, employee gratuity funds, and for clawback.

BASE-CASE ASSUMPTIONS

- Electricity sales to grow by 1.5%-2.0% per annum during 2023-2025.
- Revenue to decline from THB260 billion in 2023 to THB240 billion in 2025.
- EBITDA to stay between THB20 and THB22 billion per annum in 2023-2025.
- Total annual capital expenditure to rise from THB22 billion to THB30 billion during 2023-2025
- Remittances to the Thai government equivalent to 50% 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 2022, about 4.18 million users were connected to its distribution network.

The bulk of electricity consumption in 2022 came from large general service users (34% of total electricity sales), followed by small and medium general service users (30%) and residential users (30%). 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

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	64,515	223,421	187,475	192,047	205,085
Earnings before interest and taxes (EBIT)	2,439	11,859	6,628	7,831	7,262
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,996	22,011	16,118	17,084	16,038
Funds from operations (FFO)	4,552	19,511	13,768	14,972	14,117
Adjusted interest expense	444	2,500	2,350	2,112	1,921
Capital expenditures	2,960	18,493	18,480	21,498	20,412
Total assets	263,057	269,537	246,051	227,937	224,843
Adjusted debt	61,352	44,790	43,787	33,783	21,515
Adjusted equity	105,932	104,926	100,536	99,961	97,999
Adjusted Ratios					
EBITDA margin (%)	7.7	9.9	8.6	8.9	7.8
Pretax return on permanent capital (%)	5.8 **	6.5	3.9	5.0	5.0
EBITDA interest coverage (times)	11.3	8.8	6.9	8.1	8.3
Debt to EBITDA (times)	2.9 **	2.0	2.7	2.0	1.3
FFO to debt (%)	30.6 **	43.6	31.4	44.3	65.6
Debt to capitalization (%)	36.7	29.9	30.3	25.3	18.0

* Consolidated financial statements

** Annualized with the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Government-Related Entities Rating Methodology, 30 July 2020

Metropolitan Electricity Authority (MEA)

Company Rating:	AAA
Rating Outlook:	Stable

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