

# PROVINCIAL ELECTRICITY AUTHORITY

No. 238/2023  
1 December 2023

## CORPORATES

**Issuer Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 14/12/22

### Issuer Rating History:

Date	Rating	Outlook/Alert
21/01/19	AAA	Stable

### Contacts:

Pravit Chaichamnapai, CFA  
pravit@trisrating.com

Tern Thitnuang, CFA  
tern@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Sermwit Sriyotha  
sermwit@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the issuer rating on Provincial Electricity Authority (PEA) at “AAA” with a “stable” rating outlook. The rating reflects PEA’s status as a major state-owned enterprise (SOE), which has an integral linkage with the Thai government and plays a critical role in distributing electricity across Thailand. We view there is a near-certain likelihood of PEA receiving necessary government support in times of need. The rating also takes into consideration PEA’s stable earnings from electricity distribution, investment cost recovery through a regulated tariff structure, and prudent financial policy.

## KEY RATING CONSIDERATIONS

### Integral linkage with the government

We assess PEA to be integrally linked with the Thai government. PEA was established as an SOE under the PEA Act B.E. 2503. PEA is wholly owned by the Thai government via the Ministry of Finance (MOF) and is under the supervision of the Ministry of Interior (MOI). The government has a strong influence over PEA’s business and financial strategies, with the Cabinet appointing the board of directors and the governor. The State Enterprise Policy Office (SEPO) under the MOF reviews PEA’s strategic plan, while PEA’s capital expenditure and investment plans require approval from the MOI, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. The Public Debt Management Office (PDMO) under the MOF also monitors PEA’s debt service and borrowing plans.

We believe that PEA will continue to receive strong support from the government. The PEA Act B.E. 2503 also assures that the government will provide extraordinary assistance in the event that PEA’s revenues are insufficient to cover expenses, including interest expenses and debt repayments.

### Critical role in power distribution across Thailand

PEA is one of two SOEs responsible for distributing electricity to end users in Thailand. PEA’s area of responsibility spans 74 provinces across the country, while the Metropolitan Electricity Authority (MEA) handles the electricity distribution needs of Bangkok, Samut Prakan, and Nonthaburi. Approximately 75% of the electricity consumed in Thailand is distributed by PEA.

In 2022, PEA’s service area covered about 510,000 square kilometers with about 22 million users. PEA distributed 144,579 gigawatt-hours (GWh) of electricity to end users and generated revenue of THB606 billion. PEA mainly purchases electricity from the Electricity Generating Authority of Thailand (EGAT; about 92%) and from private power producers under the very small power producer (VSPP) scheme (about 8%).

### Protected investment returns under the tariff structure

The Thai electricity tariff structure, regulated by the Energy Regulatory Commission (ERC), is designed to help ensure PEA’s financial health. The electricity tariff is structured to recover costs plus appropriate returns on investment relating to electricity generation and the distribution networks of the three SOEs, namely EGAT, PEA, and MEA.

The compensation and clawback mechanisms under ERC’s discretion also help adjust the year-end financial status of the SOEs to align with ERC’s criteria. For example, ERC will provide additional funds if PEA’s year-end return,

as measured by return on invested capital (ROIC), falls below the criteria as a result of unexpected expenses stemming from changes in regulatory conditions or government policy. In contrast, any returns on investment in excess of the criteria will be recouped by ERC to facilitate future government measures.

PEA's capital expenditures are expected to total about THB35-THB44 billion per annum over 2023-2025. The expenditures are mainly earmarked for expansion of the distribution network, improving network reliability, and developing electrical systems in the big cities in preparation for the introduction of smart grids.

#### **Cost pass-through mechanism stabilizes margins**

The electricity tariff structure in Thailand incorporates a fuel charge adjustment mechanism (or Ft), allowing PEA to pass through the cost of purchasing electricity from EGAT to the end users. As a result, PEA's spread between the selling price and purchase cost of electricity has remained steady, ranging from THB0.56-THB0.59 per kilowatt-hour (kWh or unit) during 2017-2022.

#### **Uptick in electricity sales**

PEA's electricity sales have fully recovered following the Coronavirus Disease 2019 (COVID-19) pandemic. The total electricity sold rose by 3.5% year-on-year (y-o-y) in 2022 to 144,579 GWh, surpassing the pre-COVID-19 level. In the first nine months of 2023, sales continued to grow by 2.3% y-o-y, supported by increasing consumption in the residential and small-to-medium business segments, following some improvement in the Thai economy. Electricity consumption in the large business segment declined by 3.3% y-o-y as a result of a slowdown in the export sector.

PEA's total revenue in the first six months of 2023 was THB366 billion, increasing by 29.8% y-o-y, mainly driven by an increase in the electricity tariff. In our base-case scenario, we assume that PEA's electricity sales will continue to perform in tandem with the economic recovery in Thailand. We expect demand for electricity to grow at an annual rate of 2.4%-2.8% during 2023-2025.

#### **Adequate compensation for rising costs anticipated**

Despite a continuous growth in electricity sales, PEA's profitability in the first quarter of 2023 was adversely affected by a misalignment between Ft revenue and Ft cost. PEA was obliged to absorb rising costs of electricity produced by VSPPs totaling about THB3.0 billion during January to February 2023. In addition, the delayed subsidy of THB2.68 billion to compensate PEA for expenses related to the government's power bill easing program put further pressure on PEA's profitability.

Considering the importance of PEA and the return adjustment mechanism, we believe PEA will receive full reimbursement for the costs. In our base-case scenario, we expect PEA's annual earnings before interest, taxes, depreciation and amortization (EBITDA) to be in the range of THB40-THB45 billion in 2023-2025. We anticipate the shortfall in the government subsidy will be reimbursed this year, while the power purchasing cost burden PEA has carried will be reimbursed in 2023-2024.

#### **Long-term risks from self-generated electricity and private power purchasing agreements (PPAs)**

The trend of electricity consumers becoming electricity producers (prosumers) could result in changes to PEA's role in electricity distribution over the long term. The prosumer trend has gained traction in recent years, supported by continuing reductions in the cost of solar panels as well as the shift of national power policy toward green energy and private power generation. Potential changes in regulations will allow prosumers to trade electricity among themselves, resulting in less reliance on power distributed by PEA. However, PEA is developing new businesses and services to align with the prosumer trend. New sources of income may derive from load aggregator services, wheeling charges from using PEA's grid, electricity backup fees for groups of prosumers, etc.

#### **Prudent financial policy with strong financial profile**

We anticipate that PEA will continue to maintain prudent financial policies to underpin its financial standing and liquidity. These policies encompass maintaining a debt-to-equity ratio below 1.5 times, a self-financing ratio exceeding 25%, and a debt service coverage ratio of more than 1.5 times. Additionally, PEA follows an internal policy to accumulate cash reserves for the repayment of debts due over the next three years.

As of June 2023, PEA continued to exhibit fair debt servicing capabilities and a resilient capital structure, evidenced by a debt-to-EBITDA ratio of 4.3 times and a debt-to-capitalization ratio of approximately 46%. The liquidity position is adequate, backed by cash and cash equivalents totaling THB7.6 billion at the end of June 2023, a sinking fund for debt repayments of THB6.0 billion, and undrawn bank credit lines of THB5 billion.

We estimate PEA's funds from operations (FFO) of THB35-THB40 billion per year in 2023-2025. These combined funds are more than sufficient to cover maturing bond obligations, projected to be around THB10.5-THB12.8 billion per year over the same period.

---

#### BASE-CASE ASSUMPTIONS

---

- PEA's electricity sales to increase by 2.4%-2.8% per annum during 2023-2025.
- PEA's EBITDA to range from about THB40-THB45 billion per annum during 2023-2025.
- Total capital expenditure of about THB35-THB44 billion per annum for 2023-2025.
- Total debt to capitalization ratio to stay in the 40%-45% range during the forecast period.

---

#### RATING OUTLOOK

---

The "stable" outlook reflects TRIS Rating's expectation that PEA will continue its critical role in distributing electricity to provincial areas of the country, and its integral linkage with the government will remain unchanged in the foreseeable future.

---

#### RATING SENSITIVITIES

---

A credit downside case may arise if there are changes to PEA's status as an important power-related SOE with an integral linkage with the government.

---

#### ORGANIZATION OVERVIEW

---

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission of the Provincial Electricity Organization. PEA's mission is to electrify households throughout Thailand and satisfy the electricity needs of the industrial and business segments, as part of the overall aim of strengthening the national economy. PEA is an SOE under the supervision of the MOI.

PEA plays a critical role in distributing electricity to end users in provinces other than Bangkok, Samut Prakan, and Nonthaburi. PEA's area of responsibility covers 510,000 square kilometers across 74 provinces in Thailand. PEA has about 21.9 million users connected to its distribution network. PEA buys electricity mainly from EGAT (92%) and private power producers under the VSPP scheme (8%).

In 2022, the main customers of PEA were large general service users, accounting for about 39% of its total electricity sales. Residential users accounted for 28% of total sales, while the remaining 33% were sales to users in the small and medium general services, specific business services, non-profit organizations, agricultural pumping, temporary services, stand-by, plus interruptible and free electricity segments.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	366,895	606,544	509,442	489,528	519,961
Earnings before interest and taxes (EBIT)	2,799	15,494	17,432	13,012	16,447
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,618	41,971	42,289	36,652	38,149
Funds from operations (FFO)	14,363	37,479	38,301	33,286	34,883
Adjusted interest expense	2,255	4,491	3,978	3,374	3,279
Capital expenditures	18,800	53,698	50,259	49,545	40,495
Total assets	542,276	524,876	486,580	456,596	424,892
Adjusted debt	159,318	147,458	129,127	113,451	85,710
Adjusted equity	187,206	188,773	185,658	173,775	171,296
<b>Adjusted Ratios</b>					
EBITDA margin (%)	4.5	6.9	8.3	7.5	7.3
Pretax return on permanent capital (%)	2.7 **	4.5	5.5	4.6	6.3
EBITDA interest coverage (times)	7.4	9.3	10.6	10.9	11.6
Debt to EBITDA (times)	4.3 **	3.5	3.1	3.1	2.2
FFO to debt (%)	20.1 **	25.4	29.7	29.3	40.7
Debt to capitalization (%)	46.0	43.9	41.0	39.5	33.3

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Rating Methodology for Government-related Entities, 27 October 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

---

**Provincial Electricity Authority (PEA)**

---

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

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)