

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 20/2022
25 February 2022

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Negative

Last Review Date: 25/06/21

Company Rating History:

Date	Rating	Outlook/Alert
23/01/08	A+	Stable
20/09/07	A+	Alert Developing
12/07/04	A+	Stable
29/06/04	A+	-

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RATIONALE

TRIS Rating affirms the company rating on Eastern Water Resources Development and Management PLC (EASTW) and the ratings on its outstanding senior unsecured debentures at “A+”, but revises the rating outlook to “negative” from “stable”.

The “negative” outlook reflects the risk that EASTW will be unable to renew the lease for its existing water pipelines from the Treasury Department when the lease contract expires in December 2023.

The leased pipeline network, comprising three water pipelines, is 137-km long and accounts for 27% of EASTW’s total pipeline network in the Eastern Economic Corridor (EEC). The raw water sales via the leased pipelines constitutes approximately 30% of EASTW’s total revenue.

In 2021, the Treasury Department announced the selection of a company to lease its water distribution pipelines in the EEC area, consisting of: Dok Krai water pipeline; Nong-Pla Lai – Nong Khor water pipeline; and Nong Khor – Laem Chabang (phase II) water pipeline. Currently, EASTW has a 30-year lease agreement for only Dok Krai water pipeline, ending 31 December 2023, from the Treasury Department.

The selection process was undertaken twice, in August and September 2021, with a new private operator being selected. However, the award of the new lease contract is still pending. The State Property Committee did not approve the contract due to concerns over a complaint filed by EASTW at the Central Administrative Court. The complaint was made against the Selection Committee and the Treasury Department, and for the court to revoke the second selection. EASTW viewed that the cancellation of the first selection and the amendment of the request for proposals would potentially cause damage to the company. Currently, the case is under the consideration of the Central Administrative Court. Uncertainty remains over the outcome of the case and when the court will reach a verdict.

EASTW’s revenue and cash flow are expected to be adversely impacted if the company is not awarded the new contract and is obliged to discontinue its operation of the Treasury Department’s pipelines in 2024.

The loss of its monopolistic status as the sole raw water distributor in the EEC area will likely result in significant weakening of its business risk profile. We also believe competition will intensify with a new operator in the same service area.

RATING OUTLOOK

The “negative” outlook reflects the risk that EASTW will not be awarded a new contract to lease existing water pipelines from the Treasury Department when the lease contract expires in December 2023.

RATING SENSITIVITIES

A rating downgrade could occur when it is confirmed that EASTW will not be awarded a new contract to operate its core water pipelines leased from the Treasury Department. The outlook could be revised back to “stable” if EASTW

is able to secure a new contract to operate the existing water pipelines or if the company is able to demonstrate the ability to sustain its operating performance and maintain a healthy balance sheet.

COMPANY OVERVIEW

EASTW was established in 1992 by a Cabinet resolution. The government granted EASTW a mandate to develop and manage raw water distribution systems in the Eastern Seaboard area. As of December 2021, EASTW's major shareholders were the Provincial Waterworks Authority (PWA) (owning a 40.2% stake); Manila Water Company, Inc. (MWC; 18.7%); and the Industrial Estate Authority of Thailand (IEAT; 4.6%).

In 2021, EASTW supplied a total of 297 million cubic meters (cu.m.) of raw water, including internal use for tap water production. Currently, EASTW supplies raw water in Chonburi province, Rayong province, and Chachoengsao province. The company has a strategy to focus more on comprehensive water solutions, covering raw water, tap water, industrial water, wastewater management, and recycled water.

EASTW, through its subsidiary, Universal Utilities PLC (UU), provides tap water services in 12 areas with a total production capacity of 402,170 cu.m. per day in 2021. Excluding construction revenue under concession agreements, raw water sales accounted for 64% of the company's total revenue, while tap water services represented 31% of the total in 2021.

In 2018, EASTW signed a 25-year contract with Gulf PD Co., Ltd. and a 30-year contract with Amata Water Co., Ltd. to supply industrial water of 22 million cu.m. per year and 5.5 million cu.m. per year, respectively. Revenues from these industrial water contracts will be recognized from 2021 onwards.

In 2020, the company entered into four significant agreements to provide total water solutions in the EEC area: a 25-year concession to provide tap water and wastewater treatment services to U-Tapao airport; a 20-year contract for the supply of industrial water to Carabao Group PLC (CBG); a 30-year contract to supply tap water to PTT PLC at Wang Chan Valley; and a 32-year contract for the supply of raw water to Thai Oil PLC (TOP).

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Eastern Water Resources Development and Management PLC (EASTW)

Company Rating:	A+
Issue Ratings:	
EASTW226A: THB1,200 million senior unsecured debentures due 2022	A+
EASTW256A: THB1,200 million senior unsecured debentures due 2025	A+
Rating Outlook:	Negative

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