

EDL-GENERATION PUBLIC COMPANY

No. 62/2017

12 June 2017

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Negative

Company Rating History:

Date	Rating	Outlook/Alert
29/07/15	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of EDL-Generation Public Company (EDL-Gen) and the ratings of EDL-GEN's senior unsecured debentures at "BBB+". At the same time, TRIS Rating revises the rating outlook of EDL-Gen to "negative" from "stable". The outlook revision reflects the integration of EDL-Gen with Electricite du Laos (EDL) and the Lao government, and follows the rating action on the sovereign rating of the Lao People's Democratic Republic (Lao PDR) by TRIS Rating. The Lao sovereign rating outlook was revised downward to "negative" from "stable" on 12 June 2017, while the Lao sovereign rating has affirmed at "BBB+".

The "BBB+" ratings continue to reflect the credit profile of the company's major shareholder and sole electricity off-taker, EDL. EDL's credit profile as a state enterprise is underpinned by the sovereign rating of "BBB+" assigned by TRIS Rating to the Lao PDR. EDL-Gen's ratings take into consideration the company's strong market position in the Lao PDR's power industry and a capital structure adequate to support its expansion plan. The ratings are partially constrained by the sovereign rating of the Lao PDR, EDL's funding needs for power network investments, an anticipated rise in EDL-Gen's financial leverage from investment expansion and exposure to hydrology risks in the Lao PDR.

EDL-Gen was founded in 2010 and was listed on the Lao Securities Exchange (LSX) in 2011. The incorporation of EDL-Gen was part of the restructuring effort for the power sector in the Lao PDR. EDL-Gen has to purchase the current and future power generating assets from EDL. Before EDL-Gen was set up, EDL was the sole vertically integrated electric power utility, dominating all aspects of the sector in the Lao PDR, from power generation, transmission lines, and the distribution of electricity to end-users. EDL also owned stakes in several independent power producers (IPPs) operating in the Lao PDR. After the electricity generating assets were transferred to EDL-Gen, EDL remains the single electricity buyer and the dominant electricity distributor. EDL owns almost all the power grid in the Lao PDR.

As of April 2017, EDL held a 75% stake in EDL-Gen. EDL-Gen owns and operates hydropower assets developed by EDL. EDL-Gen also invests in the IPP hydropower projects previously held by EDL. Each asset EDL-Gen owns was granted a power purchase agreement (PPA) and concession covering 30 years. As of March 2017, EDL-Gen's aggregate equity capacity was 1,131 megawatts (MW), divided into 619 MW from 10 hydropower plants it owns and 512 MW from its investments in five IPPs.

EDL-Gen's credit profile reflects that of EDL since EDL owns a majority stake in EDL-Gen and is tightly integrated with EDL-Gen in terms of power off-taker, the potential for business growth, the structure of PPAs in the future, and dividend policy. EDL is the only power off-taker for and the sole owner of the power grid connected to all of EDL-Gen's existing and future assets.

The credit quality of EDL is underpinned by the very high likelihood that the government of the Lao PDR will provide its full support to EDL in the event of distress. This is supported by the critical roles both EDL and EDL-Gen play in the Lao PDR's power development plan and the importance of the power sector in promoting the country's economic and social development goals. EDL is wholly-owned by the Ministry of Finance of the Lao PDR (MOFL).

EDL-Gen's ratings also reflect the company's leading role and strong competitive position in the Lao PDR's power industry. The company is the second-

largest power generator with a 18% share of total installed capacity in the Lao PDR and is the largest generator with a 40% share in domestic supply capacity. The ratings also consider the potential for EDL-Gen to expand its generating capacity from the current 1,131 MW to 2,439 MW by 2023.

In the beginning of 2016, EDL-Gen acquired three new power plants, with a total capacity of 232 MW, from EDL. As a result, the amount of electricity sold to EDL increased by 32% to 2,598 gigawatt-hours (GWh) in 2016, of which 710 GWh came from the three new power plants. The electricity sold from the existing plants declined by 4% in 2016 due to the lower rainfall and water inflow as well as a major overhaul for two months at the Nam Mang 3 power plant. For the first quarter of 2017, electricity sales were nearly flat at 517 GWh compared with 520 GWh in the first quarter of 2016.

EDL-Gen's financial profile is moderately strong. The company can increase the electricity tariff by 1% per annum, according to its PPA with EDL. Revenues in 2016 increased by 46% to Kip1.2 trillion (about Bt4.9 billion) reflecting both increasing electricity output and higher electricity tariff rate of the three new plants. The operating margin (operating income before depreciation and amortization as a percentage of revenue) increased to 86.7% in the first quarter of 2017 from about 80% in 2015, benefited from economies of scale as the installed capacity base rose and administrative overheads fell. The acquisitions of the new plants in 2016 and pre-financing for investments in the pipeline increased the company's total debt from Kip2.4 trillion (Bt9.9 billion) in 2015 to Kip9 trillion (Bt36 billion) by the end of March 2017. The company's total debt to capitalization ratio rose to nearly 50% at the end of March 2017.

During 2017-2021, TRIS Rating's base-case scenario expects EDL-Gen's revenue will grow at a compound annual growth rate (CAGR) of about 14% as it expands. The operating margin is expected to stay in the range of 80%. EDL-Gen's capital expenditures, including the acquisition of EDL's shares in the IPPs, are forecast at about Kip14 trillion (Bt56 billion) over 2017-2021. The expenditures include uncommitted investments in IPP projects, amounting to Kip3.2 trillion (Bt13 billion). TRIS Rating views that EDL-Gen has borrowing capacity adequate to support its growth plans. However, due to the size of the investments, EDL-Gen's leverage, as measured by the total debt to capitalization ratio, is expected to rise to around 60%-65% during the next five years.

EDL-Gen's liquidity profile is expected to remain moderate. Cash flow protection is expected to stay at a satisfactory level. However, a currency mismatch between the cash inflows EDL-Gen receives and its debt service requirements, remain constraints. The ratio of funds from operations (FFO) to total debt is expected to hold at about 8% on average and the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 2 times over the next five years.

Rating Outlook

The "negative" outlook reflects the outlook for the sovereign rating of the Lao PDR. TRIS Rating expects that the business models and the level of integration between EDL and EDL-Gen will remain unchanged. EDL-Gen is expected to expand as planned and generate strong cash flows. EDL is expected to hold a majority stake in EDL-Gen and receive continuing support from the government of the Lao PDR.

A change in outlook to "stable" is ultimately dependent on the outlook for the sovereign rating of the Lao PDR. The downside factors for EDL-Gen's ratings are the downgrade of the sovereign rating of the Lao PDR or the aggressive investment that causes the company's total debt to capitalization ratio to exceed 65% for a prolong period.

EDL-Generation Public Company (EDL-Gen)

Company Rating:	BBB+
Issue Ratings:	
EDLGEN19DA: Bt1,500 million senior unsecured debentures due 2019	BBB+
EDLGEN21DA: Bt2,000 million senior unsecured debentures due 2021	BBB+
EDLGEN24DA: Bt3,000 million senior unsecured debentures due 2024	BBB+
EDLGEN239A: US\$51 million senior unsecured debentures due 2023	BBB+
EDLGEN269A: US\$166 million senior unsecured debentures due 2026	BBB+
EDLGEN289A: US\$95 million senior unsecured debentures due 2028	BBB+
Rating Outlook:	Negative

Key Financial Statistics*

Unit: Kip million

	Jan-Mar 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Revenue	243,194	1,241,181	847,759	839,193	862,429	779,887
Finance cost	90,802	154,918	61,937	31,722	30,845	35,680
Net income from operations	34,658	619,149	650,814	925,782	947,279	579,471
Funds from operations (FFO)	134,112	1,094,286	821,352	826,471	974,030	623,777
Capital expenditures	2,138	814,476	498,862	142,162	168,379	155,428
Total assets	18,628,308	18,737,176	11,968,372	8,821,261	7,067,171	6,674,224
Total debt	9,021,990	5,044,719	2,471,627	2,174,644	937,298	1,048,356
Total liabilities	9,422,941	9,548,026	2,864,144	2,499,620	1,062,284	1,081,892
Shareholders' equity	9,205,367	9,189,150	9,104,228	6,321,641	6,004,887	5,592,332
Depreciation & amortization	103,100	434,047	225,442	181,555	167,060	158,579
Dividends	-	470,204	513,349	582,453	566,512	486,408
Operating income before depreciation and amortization as %of sales	86.7	86.1	79.7	81.2	82.6	88.6
Pretax return on permanent capital (%)	4.8 **	6.4	7.5	12.7	14.8	10.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.6	8.1	15.8	36.6	38.0	22.4
FFO/total debt (%)	11.0 **	21.7	33.2	38.0	103.9	59.5
Total debt/capitalization (%)	49.5	35.4	21.4	25.6	13.5	15.8

* Consolidated financial statements

** Annualized with trailing 12 months

Key Financial Statistics (Translated into Thai baht) *

Unit: Bt million

	Jan-Mar 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Revenue	973	4,965	3,391	3,357	3,450	3,120
Finance cost	363	620	248	127	123	143
Net income from operations	139	2,477	2,603	3,703	3,789	2,318
Funds from operations (FFO)	536	4,377	3,285	3,306	3,896	2,495
Capital expenditures	9	3,258	1,995	569	674	622
Total assets	74,516	74,949	47,873	35,285	28,269	26,697
Total debt	36,088	20,179	9,887	8,699	3,749	4,193
Total liabilities	37,692	38,192	11,457	9,998	4,249	4,328
Shareholders' equity	36,821	36,757	36,417	25,287	24,020	22,369
Depreciation & amortization	412	1,736	902	726	668	634
Dividends	-	1,881	2,053	2,330	2,266	1,946

* Exchange rate at Kip250 per Bt1

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