

EDL-GENERATION PUBLIC COMPANY

No. 88/2023
19 May 2023

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Negative

Last Review Date: 20/02/23

Company Rating History:

Date	Rating	Outlook/Alert
20/05/22	BBB-	Stable
14/05/21	BBB-	Negative
15/05/20	BBB	Negative
28/06/19	BBB	Stable
12/06/17	BBB+	Negative
15/10/14	BBB+	Stable

Contacts:

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Narongchai Ponsirichusopol
narongchai@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sermwit Sriyotha
sermwit@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on EDL-Generation Public Company (EDL-Gen) and the ratings on its senior unsecured debentures at “BBB-”. At the same time, we revise the rating outlook to “negative” from “stable”, following the outlook revision of the sovereign rating on the Lao People’s Democratic Republic (Lao PDR). TRIS Rating revised the outlook of the Lao sovereign rating to “negative” from “stable”, while affirming the Lao sovereign rating at “BBB-” on 19 May 2023.

The “BBB-” ratings continue to reflect our views on EDL-Gen’s status as a “core subsidiary” of Electricite du Laos (EDL), its status as a state-owned enterprise of the Lao PDR and the critical role it plays in the Lao PDR’s electricity industry. EDL is a state-owned enterprise, 100% owned by the government of Laos. EDL’s credit profile is linked to the sovereign rating on the Lao PDR.

EDL-Gen’s stand-alone credit profile (SACP) of “bbb-” reflects its strong market position in the Lao PDR’s electricity generation industry, its acceptable operating performance, and its well-diversified portfolio. However, its credit strength is constrained by its high financial leverage, and the lingering weak financial position of EDL, which is the sole purchaser of the electricity produced by EDL-Gen’s wholly owned power plants.

KEY RATING CONSIDERATIONS

Credit linked to EDL’s credit profile and Lao PDR’s sovereign profile

EDL-Gen’s credit profile is linked to the credit profile of EDL and the sovereign profile of the Lao PDR. As a core subsidiary of EDL, EDL-Gen has taken over the role of electricity generation for the country from EDL since its inception. However, EDL remains the sole customer of EDL-Gen and the sole owner of the nation’s power grid. EDL-Gen is tightly integrated with EDL under the structure.

EDL influences EDL-Gen’s business direction in many ways, such as the pursuit of growth opportunities, the structure of future power purchase agreements (PPAs), and dividend policy.

EDL is wholly owned by the Ministry of Finance of the Lao PDR (MOFL). The credit quality of EDL and EDL-Gen is underpinned by the very high likelihood that the government of Laos will provide full support to EDL and EDL-Gen in times of stress. This likelihood is reinforced by the fact that EDL and EDL-Gen fulfill a critical role in the power development plan of the Lao PDR, which is a critical part of the country’s strategy to advance its economic and social development.

Strong market position in the Lao power sector

EDL-Gen is one of the leading power producers in Laos. As of December 2022, EDL-Gen’s equity operating capacity was 1,790 megawatts (MW), including 699 MW from its wholly-owned hydropower projects and 1,091 MW from equity investments in Independent Power Producer (IPP) projects through its associates and joint ventures.

Of the total equity capacity, 955 MW (or 53%) is allocated to the domestic market, while 783 MW (or 44%) is distributed to Thailand and 52 MW (or 3%) to Cambodia. EDL-Gen’s equity capacity represents approximately 15%-16% of the total installed capacity in the Lao PDR. Domestically, EDL-Gen serves as the

largest power producer, supplying 25%-30% of the country's electricity consumption.

Strong electricity sales following favorable rainy season

EDL-Gen's operational risk is closely tied to the volatility of water inflows in Laos, as all its power plants are hydropower-based. The abundant rainfall in 2022 led to a significant increase in electricity sales. EDL-Gen's electricity sales increased by 21.6% to 2,795 GWh (gigawatt-hours) compared with 2,299 GWh in 2021 and the company's revenue increased by 5.9% year-on-year (y-o-y), reaching LAK1.29 trillion in 2022.

Shared profits from its investments in IPP projects surged by 50% to LAK1.44 trillion in 2022, benefiting from its investment earnings linked to US dollars and Thai baht. However, dividend income remained relatively flat at approximately LAK467 billion, comparable to the previous year's LAK475 billion.

Capital restructuring to reduce debt obligation

In 2022, EDL-Gen faced a difficult challenge from the drastic depreciation of the LAK by 50%-55% against the US dollars and the Thai baht. This depreciation led to a surge in EDL-Gen's foreign-denominated debts and interest expenses.

To address the impact of currency depreciation on its balance sheet, EDL-Gen implemented a capital restructuring scheme, signing an agreement with EDL to lower its debt by USD400 million, representing about 28% of total debt at the end of 2022. The scheme included 1) offsetting EDL-Gen's debt with overdue electricity payments owed by EDL, and 2) waiving sub-loans from EDL that finance some operating hydropower projects. In exchange for waiving the sub-loans, the electricity tariff of those three power plants will be reduced by about 55%-60% and the tariff will be paid in Lao kip. The company also recorded an extraordinary profit from waiving the sub-loans by LAK3.9 trillion in 2022.

Although EDL-Gen's total debt in original currencies fell by 33%, its total debt in Lao kip remained at LAK16.8 trillion at the end of 2022 as a result of the Lao kip's depreciation by an average of 50% in 2022.

Exposure to foreign exchange risk and currency mismatching

We maintain the view that foreign exchange risk continues to be a significant constraint on EDL-Gen's credit profile. Almost all EDL-Gen's debts are denominated in Thai baht and US dollar, while approximately 73% of its income is derived from the Lao kip and 27% in Thai baht and US dollar from dividends received from IPP investments. Further depreciation of the Lao kip, combined with currency mismatching, would significantly weaken EDL-Gen's debt servicing ability. Conversely, the gradual restoration of the local currency would have a positive impact on EDL-Gen.

Three new power plants to be transferred to EDL-Gen

EDL-Gen encountered delays in the transfer of three wholly-owned power plants, including the Nam Khan 3, Xeset 3, and Nam Chiane, from EDL. However, in our view, the transfer of these three plants should be completed within this year as the company and EDL have agreed on a new approach of transferring wholly-owned power plants. The new arrangement allows the company to avoid consolidating the debts associated with the transferred power plants in exchange for accepting a reduced tariff rate throughout the PPA tenor. The completion of the transfer will add equity capacity by 188 MW and increase its revenue by 30%.

Better electricity payments from EDL

EDL-Gen's cash flow is largely tied to EDL's electricity payments as EDL is the single buyer of EDL-Gen's electricity output. Over the past few years, EDL's weakened financial condition and liquidity has resulted in a persistent rise in EDL-Gen's accounts receivable since 2019. Accounts receivable climbed to LAK1.97 trillion at the end of 2021 from LAK0.54 trillion at the end of 2019. However, after the capital restructuring, the overdue payment dropped sharply to LAK0.39 trillion at the end of 2022 as it was partially offset against the debts EDL-Gen owed to EDL.

We anticipate continued improvement in EDL's electricity payments in 2023. The Lao government raised national electricity tariffs by 26% in 2022 and 40%-45% in February 2023. Electricity consumption in Laos remains strong with a growth of 20.8% in 2022. EDL's payments to EDL-Gen showed a gradual improvement with 69.2% made in cash in 2022, up from 65.9% in 2021. Despite delays, we still expect EDL to proceed with the transaction to sell the rights of use of the transmission lines to Electricite du Laos Transmission (EDLT), a joint-venture between Southern China Power Grid (90%) and EDL (10%). This transaction is expected to bring in USD600-USD700 million to EDL which will improve EDL's financial standing.

Gradual improvement in financial profile expected

We expect EDL-Gen to adopt a prudent approach in managing its cash flow, prioritizing cost control measures, and minimizing capital expenditures to weather the difficult environment. With its efforts to enhance resilience and cushion against fluctuation in foreign exchange, we expect the company's cash generation to recover and be adequate to service interest expenses.

In our base-case scenario, we expect EDL-Gen's revenue to grow, driven by the successful transfer of the three power plants from EDL. Revenue is projected to be about LAK1.18 trillion in 2023 and will jump to LAK1.5-LAK1.6 trillion in 2024-2025. Likewise, earnings before interest, taxes, depreciation and amortization (EBITDA) should rise to LAK1.7-LAK1.8 trillion in 2024-2025 from LAK1.5 trillion in 2023. Profitability will likely be impacted by the current high inflation rate in the country. The credit ratios are expected to gradually improve, with EDL-Gen's net debt to EBITDA ratio improving to 9-10 times during 2023-2025, from about 11 times in 2022. The ratio of funds from operations (FFO) to net debt will likely hover around 5% over the same period.

As of December 2022, EDL-Gen's total outstanding debt was LAK16.8 trillion. In the absence of subsidiary debt and secured loans, the priority debt to total debt ratio was 0% at the end of 2022.

Refinancing as a key part of liquidity

EDL-Gen's debentures coming due in 2023 will total THB5.8 billion (or about LAK2.89 trillion), including two maturing debentures of THB4.1 billion and USD51 million. EDL-Gen is likely to be able to refinance the maturing debentures, supported by proactive debenture issuance plans. The company already issued new debentures in March 2023 with proceeds of about THB2.49 billion. The company is in the process of issuing another approximately THB1.5 billion in new debentures for the refinancing.

EDL-Gen's back-up sources of liquidity include the letter of credit support of about THB2.6 billion from Lao financial institutions. Additionally, considering the important role of EDL-Gen in power generation in Laos, we expect full support from the MOFL should it experience any shortfalls from the planned new debenture issuance.

For 2024, EDL-Gen's debenture repayments will total around THB7.6 billion or LAK3.8 trillion. We view EDL-Gen's refinancing capability in the future will continue to rely on conditions of the Thai bond market, with ongoing support from Lao financial institutions and the MOFL.

The company is obliged to comply with the financial covenants on its debenture obligations to maintain an interest-bearing debt (IBD) to equity ratio below 2 times. At the end of December 2022, the ratio was 1.45 times.

BASE-CASE ASSUMPTIONS

- Total electricity sold from wholly-owned power plants of 2,430 GWh in 2023, rising to 3,200-3,250 GWh in 2024-2025.
- Revenue from electricity sales of LAK1.18 trillion in 2023, rising to LAK1.5-LAK1.6 trillion per annum in 2024-2025.
- Operating margin to stay around 70%-75% during the forecast period.
- Capital expenditure to be below LAK0.1 trillion per annum.

RATING OUTLOOK

The "negative" outlook reflects the outlook of the sovereign rating on the Lao PDR. TRIS Rating expects that the business model and the level of integration between EDL and EDL-Gen will remain unchanged. In addition, we also expect that EDL will continue holding a majority interest in EDL-Gen and receiving full support from the government of Laos.

RATING SENSITIVITIES

A change in the sovereign rating or outlook on the Lao PDR will impact the rating or outlook on EDL-Gen. The rating on EDL-Gen is linked to the credit profile of EDL and the sovereign rating profile of the Lao PDR.

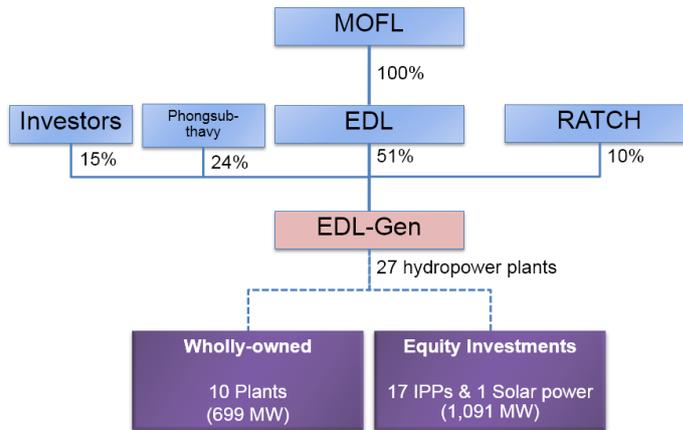
COMPANY OVERVIEW

EDL-Gen was founded in 2010 and listed on the Lao Securities Exchange (LSX) in 2011. The incorporation of EDL-Gen was part of the restructuring of the power sector in the Lao PDR, which called for EDL-Gen to purchase 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, to the distribution of electricity to end-users. EDL also owned stakes in several IPPs operating in the Lao PDR. Notwithstanding the transfer of its electricity generating assets to EDL-Gen, EDL remains the single buyer of electricity in the Lao PDR and the dominant electricity distributor. EDL owns almost all of the power grids in the Lao PDR.

As of March 2023, EDL held a 51% stake in EDL-Gen with 24% held by Phongsavath Group and 10% by RATCH Group. EDL-Gen owns and operates hydropower assets developed by EDL. EDL-Gen also invests in IPP hydropower projects previously held by EDL. Each of EDL-Gen's power generating assets operates under a PPA and concession covering 30 years.

As of March 2023, EDL-Gen's aggregate equity capacity was 1,790 MW, comprising 699 MW from its 10 wholly-owned hydropower plants and 1,091 MW from equity investments in 17 IPPs and one small solar power project.

Chart 1: EDL-Gen Group's Structure



Source: EDL-Gen, illustrated by TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. LAK

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	1,356,233	1,235,936	1,211,467	1,248,800	1,163,906
Earnings before interest and taxes (EBIT)	1,963,965	1,473,950	945,075	851,800	1,088,865
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,533,913	1,509,164	1,117,102	1,362,002	1,438,909
Funds from operations (FFO)	403,392	652,009	374,859	618,398	834,238
Adjusted interest expense	1,050,074	857,155	742,243	743,604	604,671
Capital expenditures	57,705	87,526	98,009	142,711	226,917
Total assets	29,669,222	26,552,167	24,702,826	23,656,378	22,553,171
Adjusted debt	16,934,383	16,635,269	14,738,657	13,082,815	11,754,784
Adjusted equity	11,585,568	9,230,594	9,293,720	9,290,405	9,353,869
Adjusted Ratios					
EBITDA margin (%)	113.1	122.1	92.2	109.1	123.6
Pretax return on permanent capital (%)	7.2	5.8	3.9	3.8	5.3
EBITDA interest coverage (times)	1.5	1.8	1.5	1.8	2.4
Debt to EBITDA (times)	11.0	11.0	13.2	9.6	8.2
FFO to debt (%)	2.4	3.9	2.5	4.7	7.1
Debt to capitalization (%)	59.4	64.3	61.3	58.5	55.7

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Government-Related Entities Rating Methodology, 30 July 2020

EDL-Generation Public Company (EDL-Gen)

Company Rating:	BBB-
Issue Ratings:	
EDLGEN237A: THB4,078.1 million senior unsecured debentures due 2023	BBB-
EDLGEN247A: THB1,660.7 million senior unsecured debentures due 2024	BBB-
EDLGEN247B: THB2,099.4 million senior unsecured debentures due 2024	BBB-
EDLGEN249A: THB837.1 million senior unsecured debentures due 2024	BBB-
EDLGEN24DA: THB3,000 million senior unsecured debentures due 2024	BBB-
EDLGEN257A: THB1,443.1 million senior unsecured debentures due 2025	BBB-
EDLGEN259A: THB2,690.3 million senior unsecured debentures due 2025	BBB-
EDLGEN271A: THB972.4 million senior unsecured debentures due 2027	BBB-
EDLGEN271B: THB2,489.5 million senior unsecured debentures due 2027	BBB-
EDLGEN287A: THB1,897.9 million senior unsecured debentures due 2028	BBB-
EDLGEN307A: THB809.8 million senior unsecured debentures due 2030	BBB-
EDLGEN311A: THB1,093.4 million senior unsecured debentures due 2031	BBB-
EDLGEN337A: THB1,621.2 million senior unsecured debentures due 2033	BBB-
EDLGEN239A: USD51 million senior unsecured debentures due 2023	BBB-
EDLGEN269A: USD166 million senior unsecured debentures due 2026	BBB-
EDLGEN289A: USD95 million senior unsecured debentures due 2028	BBB-
Up to THB1,588.6 million senior unsecured debentures due within 5 years	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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

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