

RATCH GROUP PLC

No. 129/2022
3 August 2022

CORPORATES

Company Rating:	AA+
Issue Ratings:	
Senior unsecured	AA+
Outlook:	Stable

Last Review Date: 05/08/21

Company Rating History:

Date	Rating	Outlook/Alert
05/08/21	AA+	Stable
10/04/15	AAA	Stable
25/04/13	AA+	Stable
09/02/11	AA	Stable
15/06/05	AA-	Stable
12/07/04	A+	Stable
26/06/03	A+	-

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RATIONALE

TRIS Rating affirms the company rating on RATCH Group PLC (RATCH) and the ratings on RATCH's senior unsecured debentures at "AA+", with a "stable" rating outlook. The "AA+" ratings incorporate a one-notch uplift from RATCH's stand-alone credit profile (SACP) of "aa", reflecting our view of RATCH's status as a strategically important subsidiary of the Electricity Generating Authority of Thailand (EGAT, rated "AAA/Stable" by TRIS Rating).

The SACP of RATCH continues to reflect its leading position as the largest private power producer in Thailand, its diversified power portfolio, and highly predictable cash generation backed by power purchase agreements (PPAs) with EGAT.

The ratings also take into consideration RATCH's recent capital increase of THB25 billion in June 2022, to support the company's planned capital structures and investments in pursue of its growth strategy.

KEY RATING CONSIDERATIONS

Largest private power producer in Thailand

RATCH continues to be the largest power producer in Thailand, with total power generating capacity of 7,392 MW, based on its ownership in each power generation asset, as of June 2022. RATCH also has several projects under construction and development. These include the 1,540-MW "Hin Kong" combined-cycle power project in Ratchaburi province (51% owned by RATCH), two wind projects in Vietnam contributing about 55 MW to RATCH, and the 30-MW expansion of RATCH Cogeneration power plant in Pathumthani.

At the end of June 2022, about 73% of RATCH's capacity in operation was covered by PPAs with either EGAT or the Provincial Electricity Authority (PEA). Both EGAT and PEA are rated "AAA/ Stable" by TRIS Rating. The rest of the company's capacity came from its overseas power plants, which operate under contracts with major utility entities in their respective countries. These include operating capacity under contracts with local utilities in Australia representing 15% of RATCH's total operating capacity, Perusahaan Listrik Negara (PLN) in Indonesia (3%), Electricite du Laos (EDL) in the Lao's People Democratic Republic (Lao PDR) (3%), and Vietnam Electricity (EVN) in Vietnam (2%).

Highly predictable cash flow from long-term PPAs with EGAT

Most of RATCH's cash flow is highly predictable, thanks to the long-term PPAs it holds with EGAT. The PPAs with EGAT contain a pricing formula structured on a pay-if-available basis, which largely mitigates the market risk. The PPAs also contain mechanisms whereby fuel costs are passed through to EGAT. As a result, we expect RATCH to continue generating stable cash flow as long as the company maintains its power plants in accordance with the PPA targets and keeps its plants ready for EGAT's dispatch instructions. Most of RATCH's plants have achieved the annual plant availability target for the last five years.

RATCH's Australia portfolio contributes earnings before interest, taxes, depreciation, and amortization (EBITDA) of about THB2.5-THB2.7 billion each year, following the commencement of operations of the "Yandin" and the "Collector" projects in March and April 2021. About 90%-95% of RATCH's Australia capacity is contracted under PPAs with major utility companies in Australia.

Diversification to infrastructure

Since 2017, RATCH has been expanding the scope of its investments into other infrastructure projects. RATCH has invested about THB3.7 billion in the MRT Pink Line and Yellow Line rail transport projects in Bangkok, a water supply project in the Lao PDR, and other small infrastructure projects in Thailand.

In 2021, RATCH spent about THB4.5 billion to purchase a 15.5% equity interest in Bangkok Aviation Fuel Services PLC (BAFS), a 10.0% interest in Principal Capital PLC (PRINC), and 9.9% in Bangkok Chain International (Lao) Co., Ltd. BAFS provides aircraft refueling services at the airports, while PRINC owns and operates 11 hospitals across Thailand.

In September 2021, RATCH also got involved in a motorway operating business through its 10% partnership in the joint ventures—BGSR 6 Co., Ltd., and BGSR 81 Co., Ltd. The joint ventures entered into Public Private Partnership for Operation and Maintenance (O&M) contracts of the M6, and M81 Motorways. In 2022, The company also invest THB75 million in the 25% interest in PRINC Hospital Sakon Nakhon, which is scheduled to open for service in 2023.

10,000 MW power portfolio by 2025

RATCH aims to expand its total electricity portfolio to 10,000 MW by 2025, compared to 7,392 MW as of June 2022. During the fourth quarter of 2021, RATCH effected numerous planned investments. These included its THB3.4 billion investment for a 52% equity interest in Sahacogen (Chonburi) PLC (SCG), adding about 125 MW to RATCH's portfolio. In addition, RATCH spent about THB1.8 billion to increase its stake in the Asahan-1 project (a hydroelectric powerplant in Indonesia) to 47.9% from 26.6%, adding about 38 MW to the power portfolio.

We expect RATCH's power portfolio to reach approximately 7,749 MW of equity capacity by the end of 2025, based on the current commitments in the pipeline together with the scheduled retirement of the 1,470-MW thermal units of Ratchaburi Electricity Generating Company Limited (RATCHGEN). We view that the capacity shortfall of about 2,251 MW from the target is putting pressure on RATCH to seek new projects, either through greenfield developments or by acquiring operating assets, mainly to offset the imminent decline in earnings of RATCHGEN's existing power plants.

Capital increase

RATCH successfully raised THB25 billion in capital from its existing shareholders through a preferential public offering in June 2022. RATCH will spend the majority of the fund raised on its investments in both domestic and overseas projects.

In October 2021, RATCH's shareholders approved the acquisition of a 45.5% equity interest in Paiton Energy and two related entities for an approximate total acquisition cost of USD810 million, equivalent to THB29-THB30 billion. The 2,045-MW Paiton Energy power plant operates under PPAs signed with PLN, the Indonesian state electricity utility, which are due to expire in 2042 (20 remaining years). We expect RATCH to complete the acquisition within the third quarter of 2022, adding 931 MW to RATCH's power portfolio.

Capital structure to withstand upcoming investment

We expect significant strengthening in RATCH's capital structure following the THB25 billion fresh capital raised in June 2022. The new capital should adequately support RATCH's investment plans. We forecast RATCH to spend about THB48 billion over 2022-2024 for capital expenditures and equity investment for maintenance and committed projects in the pipeline. The proceeds from the capital increase of THB25 billion will support the investments in both domestic and overseas projects, including the acquisition of Paiton Energy. We forecast RATCH's debt to capitalization ratio to improve to the range of 30%-35% during 2022-2024, from 40.2% at the end of 2021. RATCH's EBITDA is likely to increase to the range of THB11-THB14 billion per year during 2022-2024, from about THB10.3 billion in 2021, with its debt to EBITDA ratio to remain within the range of 4-5 times during 2022-2024.

We project dividend income from RATCH's investments to amount to THB3.0-THB3.5 billion in 2022, before increasing to THB4.5-THB6.5 billion in 2023-2024 as the company realizes full benefits from its plant acquisitions.

Strong liquidity

RATCH has strong liquidity. The company's sources of funds comprised cash on hand and cash equivalents of about THB9.9 billion, undrawn credit facilities of about THB88 billion as of March 2022, plus cash of THB25 billion received from the capital increase in June 2022. We forecast RATCH's funds from operations (FFO) over the next 12 months to be THB9.5-THB10.5 billion. Debt coming due over the next 12 months will amount to THB7.4 billion plus THB34-THB36 billion in capital expenditure and equity investment for commitments in the pipeline over the same period.

Debt structure

As of March 2022, RATCH's consolidated debt was THB59.8 billion. RATCH's priority debt consisted of THB24.8 billion in secured debts, plus THB2.8 billion in unsecured debts owed by RATCH's subsidiaries. The priority debt to total debt ratio was about 46% at the end of March 2022. TRIS Rating expects RATCH to keep the ratio below 50% over the next three years.

Strategically important subsidiary of EGAT

EGAT has been a major shareholder with a 45% shareholding in RATCH since the company was founded in 2000. TRIS Rating views RATCH as a strategically important subsidiary of EGAT, based on the shareholding structure and the composition of the board of directors. We believe that EGAT has dominant influence on RATCH's business directions via the company's board of directors. About half of RATCH's directors and all of its investment committee members are representatives of EGAT. TRIS Rating believes that EGAT will maintain its interest in RATCH in the foreseeable future.

BASE-CASE ASSUMPTIONS

- EBITDA of THB11.0 - THB12.0 billion in 2022, then THB11.0-THB14.0 billion per year during 2023-2024.
- Dividends received from equity investments to be in the THB3.0-THB3.5 billion range in 2022, increasing to THB4.5-THB6.5 billion per year during 2023-2024.
- Total investment including capital expenditures and equity investment of about THB48 billion over 2022-2024 for maintenance and project commitments in the pipeline, including the Paiton Energy project.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will continue to generate stable cash flows from its power assets secured by long-term PPAs. We expect RATCH's debt to EBITDA ratio to stay in the range of 4-5 times over the next few years.

RATING SENSITIVITIES

The rating upside is limited over the next 12-18 months. A rating downside could occur if RATCH's stand-alone credit profile is assessed to deteriorate to a level below "a+". Any material changes in the credit profile of EGAT or a weakened linkage between RATCH and EGAT could also impact the ratings on RATCH.

COMPANY OVERVIEW

RATCH is a holding company focusing its investment on power and infrastructure projects. The company was established in 2000 to purchase the "Ratchaburi" power plant from EGAT and was listed on the Stock Exchange of Thailand (SET) in the same year. EGAT remains the company's major shareholder with a 45% stake.

As of 30 June 2022, RATCH's aggregate equity capacity of power projects was 9,219 MW. About 7,392 MW was in operation, while 896 MW was under development and construction, and 931 MW was at the acquisition phase. Approximately 73% of RATCH's generating capacity held PPAs with EGAT, 15% with major utility companies in Australia, and the remaining 12% had PPAs with EDL, industrial users, PEA, PLN, EVN, and the Australian merchant market.

RATCH has expanded its investment scope into infrastructure projects since 2017. As of 30 June 2022, RATCH held 10% stakes in two mass rapid transit projects in Bangkok: the "Pink Line" and the "Yellow Line". RATCH also held a 40% stake in a water supply project in the Lao PDR, a 51% stake in an underground optic fiber network project in Thailand, a 35% interest in the infrastructure for the "Things on Net" project in Thailand, a 15% shareholding in BAFS, and a 10% shareholding in PRINC. Currently, investments in infrastructure projects constitute less than 8% of RATCH's total assets.

RATCH's portfolio

Table 1: RATCH's Power Portfolio as of 30 Jun 2022

Project Name	Plant Type	Project Capacity (MW)	RATCH Holding (%)	RATCH Capacity (MW)	PPA Term (Year)	Expiry year
Projects in operation						
1. RATCHGEN	Thermal/CCGT	3,645	100.0	3,645	25	2025, 2027
2. RPCL	CCGT	1,490	25.0	372	25	2033
3. NN2	Hydro	615	25.0	154	25+2	2038
4. Hongsra	Thermal (lignite-fired)	1,878	40.0	751	25	2040
5. Solarta	Solar power	42	49.0	21	5	2021,2022 (Auto-renewal)
6. Solar Power	Solar power	22	40.0	8	5	2022 (Auto-renewal)
7. Huay Bong 2	Wind-turbine	104	20.0	21	5	2023 (Auto-renewal)
8. Huay Bong 3	Wind-turbine	104	20.0	21	5	2022 (Auto-renewal)
9. RW Cogen	Cogeneration	235	40.0	94	25	2039, 2040
10. Songkla Biomass	Thermal (biomass)	10	40.0	4	5	2036
11. NNEG	Cogeneration	201	40.0	80	25	2041
12. Berkprai	Cogeneration	99	35.0	35	25	2044
13. RATCH Cogen	Cogeneration	120	99.9	120	25	2038
14. Xe Pian-Xe Namnoy	Hydro	410	25.0	102	27	2046
15. EDL-Gen	Mostly hydro	1,977	10.1	200	n.a.	n.a.
16. RAC	Gas, wind, solar	1,279	100.0	1,215	Merchant, 3-25	2023-2037
17. Asahan-1	Hydro	180	47.9	86	30	2040
18. Thang Long	Thermal (coal-fired)	620	22.1	137	25	2043
19. BAFS solar	Solar power	49	15.5	8	n.a.	n.a.
20. Sahacogen Group	Cogen/biomass/solar	242	51.7	125	25,/ 5	2024 (Cogen)
21. Nexif RATCH Energy	Cogeneration	98	49.0	48	25	2047
22. Riau	CCGT	296	49.0	145	20	2042
Sub Total		13,716		7,392		
Projects under development or under acquisition						
						Expected COD
1. Paiton Energy	Thermal (coal-fired)	2,045	45.5	931	43/30	2022 (closing)
2. Ecowin Wind-Turbine	Wind-turbine	30	51.0	15	20	2022
3. Nexif Ben Tre	Wind-turbine	80	50.0	40	20	2024
4. RATCH Cogen (exp)	Cogeneration	31	100.0	31	n.a.	2022
5. R E N Korat	Cogeneration	31	40.0	13	n.a.	2024
6. Hin Kong	CCGT	1,540	51.0	785	25	2024/2025
7. NNEG (exp. 2)	Cogeneration	30	40.0	12	n.a.	2024
Sub Total		3,787		1,827		
Grand Total		17,503		9,219		

n.a. = Not available

Source: RATCH

Table 2: RATCH's Infrastructure Portfolio as of 30 Jun 2022

Project / Company Name	Business Type	RATCH Holding (%)	RATCH's Investment (Mil. THB)	COD (e)
1. MRT Pink & Yellow Lines	Mass rapid transit	10.0	2,880	2023
2. Sandin Water Supply	Water supply	40.0	180	2018/2031
3. Things on net	IoT network and based station	35.0	180	In operation
4. Smart Infranet	Optic fiber network	51.0	280	In operation
5. Intercity Motorway (M6 & M81)	Transportation	10.0	185	2023
6. Bangkok Aviation Fuel Service PLC	Aviation fuel service	15.5	2,712	In operation
7. Principal Capital PLC	Healthcare business	10.0	1,558	In operation
8. PRINC Sakhon Nakhon Hospital	Healthcare business	25.0	75	Under construction
9. BCIL	Healthcare business	9.9	190	In operation
Total			8,240	

n.a. = Not available

Source: RATCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	17,728	40,525	38,047	40,035	43,603
Earnings before interest and taxes (EBIT)	2,254	9,297	7,692	8,168	8,319
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,488	10,265	10,256	10,703	10,804
Funds from operations (FFO)	2,211	8,185	8,688	8,755	8,797
Adjusted interest expense	808	1,868	1,551	1,430	1,015
Capital expenditures	559	1,894	4,633	2,462	5,391
Total assets	155,217	154,855	112,132	100,229	101,252
Adjusted debt	51,355	52,250	35,684	24,387	20,296
Adjusted equity	80,785	77,810	60,522	59,414	59,936
Adjusted Ratios					
EBITDA margin (%)	19.67	25.33	26.96	26.73	24.78
Pretax return on permanent capital (%)	7.37 **	7.65	7.85	8.80	9.51
EBITDA interest coverage (times)	4.32	5.49	6.61	7.48	10.65
Debt to EBITDA (times)	4.60 **	5.09	3.48	2.28	1.88
FFO to debt (%)	16.02 **	15.67	24.35	35.90	43.34
Debt to capitalization (%)	38.86	40.17	37.09	29.10	25.30

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021

RATCH Group PLC (RATCH)

Company Rating:	AA+
Issue Ratings:	
RATCH23NA: THB1,000 million senior unsecured debentures due 2023	AA+
RATCH25NA: THB1,500 million senior unsecured debentures due 2025	AA+
RATCH30NA: THB1,500 million senior unsecured debentures due 2030	AA+
RATCH35NA: THB4,000 million senior unsecured debentures due 2035	AA+
Rating Outlook:	Stable

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