

# RATCH GROUP PLC

No. 149/2023  
9 August 2023

## CORPORATES

|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | AA+    |
| <b>Issue Ratings:</b>  |        |
| Senior unsecured       | AA+    |
| <b>Outlook:</b>        | Stable |

**Last Review Date:** 03/08/22

### 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 two-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").

We revise the SACP of RATCH downward to "aa-" from "aa", reflecting the company's increasing financial leverage due to its large acquisition during 2022-2023 and additional investments needed to develop the projects in the pipeline.

The ratings on RATCH continue to reflect its leading position as one of the leading private power producers in Thailand, its diversified power portfolio, and highly predictable cash generation backed by power purchase agreements (PPAs) with EGAT. The ratings are partially weighed down by the increasing financial leverage during the expansion period.

## KEY RATING CONSIDERATIONS

### Increasing leverage from the aggressive investment in 2022-2023

We expect RATCH to spend about THB42-THB45 billion during 2022-2023 to acquire a power portfolio of NEXIF Energy and a 36.26% stake in Paiton Energy. Although RATCH had raised the THB25 billion in fresh capital in 2022 to fund these investments, RATCH's debt to capitalization ratio is expected to rise to about 43%-48% by the end of 2023 from 36.81% at the end of 2022.

In December 2022, RATCH spent about THB21 billion for the acquisition of NEXIF Energy's 1,552-megawatts (MW) power portfolio, of which 450 MW are in operation located in Australia (366 MW), Vietnam (34 MW), and an additional 50 MW of RATCH Energy Rayong project in Thailand. The rest of about 1,102 MW are projects in the pipeline, comprising renewable and battery storage projects mostly in Australia, the Philippines, and Vietnam. We view that this acquisition will help RATCH to grow its renewable energy capacity to reach 25% of total capacity. We forecast this acquisition will contribute annual earnings before interest, taxes, depreciation, and amortization (EBITDA) of about THB1.8- THB2.0 billion in 2023-2025, from the existing projects in operation. The return on investment will depend on the successes of the projects in the pipeline, which RATCH and NEXIF Energy will jointly develop.

In addition, RATCH has revised down the acquisition size of equity interest in Paiton Energy to 36.26%. Paiton Energy is a coal-fired power plant, holding 2,045 MW PPAs with Perusahaan Listrik Negara (PLN), the Indonesian state electricity utility, which will expire in 2042. We expect RATCH to complete the acquisition within the third quarter of 2023, adding 742 MW to RATCH's power portfolio. While the investment will increase RATCH exposure in Indonesia, we believe the return generated will be quite predictable. The cash flows will be protected by a cost pass-through mechanism in tariff structures, plus a payment guarantee from the Government of Indonesia for about 60% of the generating capacity.

We expect that these investments will increase RATCH's EBITDA to the range of THB13-THB15 billion per year during 2023-2025, from THB10.0-THB12.5

billion per year in 2021-2022. We forecast RATCH's debt to EBITDA ratio to increase to the range of 6-7 times during 2023-2025, higher than our previous forecast of about 4-5 times.

These acquisitions reflect RATCH's efforts to offset the imminent decline in earnings of Ratchaburi power plants. We expect RATCH's power portfolio to reach around 8,592 MW of equity capacity by the end of 2025, based on the current pipeline together with the scheduled retirement of the 1,470-MW thermal units of RATCHGEN in 2025.

### **Leading private power producer in Thailand**

RATCH continues to be one of the leading power producers in Thailand. The company has a total power generating capacity of 7,874 MW in operation as of June 2023, based on its ownership in each power generation asset. RATCH also has several projects under construction and development. Notable projects in the pipeline include the 1,540-MW Hin Kong combined-cycle power project in Ratchaburi Province (51% owned by RATCH), the 574-MW expansion in the Lincoln Gap wind farm with battery storage, and two wind farms in Vietnam with 75 MW attributable to RATCH.

At the end of June 2023, about 74% of RATCH's capacity in operation was covered by PPAs with either EGAT or the Provincial Electricity Authority (PEA, rated "AAA/stable"). The rest of the company's capacity came from its overseas power plants, which mostly operate under contracts with major utility entities in their respective countries. These include operating capacity under contracts with local utilities in Australia representing about 17% of RATCH's total operating capacity, PLN in Indonesia (3%), Electricite du Laos (EDL) in Laos (4%), and Vietnam Electricity (EVN) in Vietnam (2%).

### **Highly predictable cash flow from long-term PPAs with EGAT**

The majority 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 portfolio in Australia contributes EBITDA of about THB4.2 billion in 2022, following full-year revenue recognition from the Yandin and the Collector projects in 2022. About 75%-80% of RATCH's total capacity in Australia is contracted under PPAs with major utility companies in Australia.

We foresee that the contribution from RATCHGEN will gradually decline over the next three years. Against that backdrop, RATCH's EBITDA will be relying more on the dividend income from its investments in the joint-ventures companies, which subject to the performance and cashflow structure of each project. We view that the contribution from RATCHGEN is more predictable than the dividend income from investments.

### **Diversification into 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 Laos, and other small infrastructure projects in Thailand. The MRT Yellow Line has begun commercial operation in July 2023. Other than the MRT project, RATCH spent about THB5.8 billion to hold stakes in fuel supply for aircraft business, health care business, motorway operating business, and other infrastructure businesses. Currently, investments in infrastructure projects constitute less than 5% of RATCH's total assets.

### **Adequate liquidity**

We view that RATCH's liquidity is adequate to service debt obligation and to finance the committed investments over the next 12 months.

The company's sources of liquidity comprised cash on hand and cash equivalents of about THB42 billion, and undrawn credit facilities of about THB40 billion as of March 2023. We forecast RATCH's funds from operations (FFO) over the next 12 months to be THB9-THB10 billion. Debts coming due over the next 12 months will amount to THB18 billion, including short-term and long-term debts. RATCH also has investment commitments of THB31-THB33 billion for capital expenditures and equity investments, including Paiton Energy, over the same period.

### **Debt structure**

As of March 2023, RATCH's consolidated debt was THB97.8 billion. RATCH's priority debt consisted of THB21.7 billion in secured debts, plus about THB20.8 billion in unsecured debts owed by RATCH's subsidiaries. The priority debt to total debt ratio was about 44% at the end of March 2023. We expect 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. We view 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 in setting RATCH's business directions via the company's board of directors. About half of RATCH's directors and all investment committee members are representatives of EGAT. We believe that EGAT will maintain its interest in RATCH in the foreseeable future.

### BASE-CASE ASSUMPTIONS

- EBITDA of THB13.0-THB15.0 billion per year during 2023-2025.
- Dividends received from equity investments to be in the THB3.0-THB3.5 billion range in 2023, increasing to THB4.0-THB6.0 billion per year during 2024-2025.
- Total investment of about THB44-THB46 billion over 2023-2025 for maintenance and project commitments in the pipeline. This includes the acquisition of Paiton Energy project in the third quarter of 2023.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that RATCH will maintain its status as a strategically important subsidiary of EGAT. We also expect RATCH to generate satisfactory returns from its investments to offset the declining contribution from RATCHGEN, and that its debt to EBITDA ratio to remain in the range of 6-7 times over the next three 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+". This could result from further material increases in financial leverage or weaker-than-expected returns on its investments.

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.

In December 2022, RATCH acquired NEXIF Energy's power portfolio. The acquisition added about 1,552 MW to its power portfolio, mostly renewable projects in Australia, the Philippines, Thailand, and Vietnam. As of 30 June 2023, RATCH's aggregate equity capacity of power projects was 10,845 MW. About 7,874 MW was in operation, while 2,229 MW was under planning, development, or construction, and 742 MW was at the acquisition phase. Around 69% of RATCH's generating capacity held PPAs with EGAT, 19% 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 2023, 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 Laos, 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 5% of RATCH's total assets.

**RATCH's portfolio**
**Table 1: RATCH's Power Portfolio as of 30 Jun 2023**

| Project Name   | Plant Type              | Project Capacity (MW) | RATCH Holding (%) | RATCH Capacity (MW) | PPA Term (Year) | Expiry year                 |
|--|-------------------------|-----------------------|-------------------|---------------------|-----------------|-----------------------------|
| <b>Projects in operation</b>                           |                         |                       |                   |                     |                 |                             |
| 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<br>(Auto-renewal) |
| 6. Solar Power   | Solar power             | 22                    | 40.0              | 9                   | 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            | 151                   | 100.0             | 151                 | 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     | 241                   | 51.7              | 125                 | 25/ 5           | 2024 (Cogen)                |
| 21. RATCH Energy Rayong                                | Cogeneration            | 98                    | 100.0             | 98                  | 25              | 2047                        |
| 22. Riau   | CCGT                    | 296                   | 49.0              | 145                 | 20              | 2042                        |
| 23. Snapper Point                                      | Gas turbine             | 154                   | 100.0             | 154                 | Various         | Various                     |
| 24. Lincoln Gap 1&2                                    | Wind                    | 212                   | 100.0             | 212                 | Various         | Various                     |
| 25. Song Giang 2                                       | Hydro                   | 37                    | 46.1              | 17                  | 20              | 2034                        |
| 26. Coc San Hydro                                      | Hydro                   | 30                    | 58.5              | 17                  | 20              | 2036                        |
| <b>Sub Total</b>                                       |                         | <b>14,179</b>         |                   | <b>7,874</b>        |                 |                             |
| <b>Projects under development or under acquisition</b> |                         |                       |                   |                     |                 |                             |
|  |                         |                       |                   |                     |                 | <b>Expected COD</b>         |
| 1. Paiton Energy                                       | Thermal (coal-fired)    | 2,045                 | 36.3              | 742                 | 43/30           | 2023 (closing)              |
| 2. Ecowin Wind-Turbine                                 | Wind-turbine            | 30                    | 51.0              | 15                  | 20              | 2023                        |
| 3. Nexif Ben Tre                                       | Wind-turbine            | 80                    | 75.0              | 60                  | 20              | 2024                        |
| 4. R E N Korat   | Cogeneration            | 30                    | 40.0              | 12                  | n.a.            | 2024                        |
| 5. Hin Kong  | CCGT                    | 1,540                 | 51.0              | 785                 | 25              | 2024/2025                   |
| 6. NNEG (exp. 2)                                       | Cogeneration            | 30                    | 40.0              | 12                  | n.a.            | 2024                        |
| 7. Xekong 4A 4B  | Hydro                   | 355                   | 60%               | 213                 |                 | 2033                        |
| 8. Sibundong Hydro                                     | Hydro                   | 74                    | 50%               | 37                  |                 | 2029                        |
| 9. Nexif Energy pipeline & Other projects              | Wind/solar/battery      | n.a.                  |                   | n.a.                |                 | 2025-27                     |
| <b>Sub Total</b>                                       |                         | <b>4,183</b>          |                   | <b>1,928</b>        |                 |                             |
| <b>Grand Total</b>                                     |                         | <b>18,362</b>         |                   | <b>9,802</b>        |                 |                             |

n.a. = Not available

Source: RATCH

Table 2: RATCH's Infrastructure Portfolio as of 30 Jun 2023

| 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                         | 2023/2023e         |
| 2. Sandin Water Supply               | Water supply                  | 40.0              | 179                           | 2018/2031e         |
| 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                           | 2023e              |
| 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       |
| 10. Hin Kong Power Holding           | Natural Gas import            | 51.0              | 770                           | Under development  |
| <b>Total</b>                         |                               |                   | <b>9,009</b>                  |                    |

Source: RATCH

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

|  | Jan-Mar<br>2023 | -----Year Ended 31 December ----- |         |         |         |
|--|-----------------|-----------------------------------|---------|---------|---------|
|  |                 | 2022                              | 2021    | 2020    | 2019    |
| Total operating revenues   | 15,696          | 78,262                            | 40,525  | 38,047  | 40,035  |
| Earnings before interest and taxes (EBIT)                                | 2,609           | 9,062                             | 9,291   | 7,692   | 8,168   |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 3,561           | 12,544                            | 10,265  | 10,256  | 10,703  |
| Funds from operations (FFO)  | 2,428           | 8,860                             | 8,106   | 8,569   | 8,605   |
| Adjusted interest expense  | 1,025           | 3,022                             | 1,947   | 1,670   | 1,581   |
| Capital expenditures   | 558             | 2,386                             | 1,894   | 4,633   | 2,462   |
| Total assets   | 224,500         | 229,578                           | 157,015 | 112,132 | 100,229 |
| Adjusted debt  | 57,589          | 62,558                            | 52,250  | 35,684  | 24,387  |
| Adjusted equity  | 106,465         | 107,403                           | 79,278  | 60,522  | 59,414  |
| <b>Adjusted Ratios</b>   |                 |                                   |         |         |         |
| EBITDA margin (%)  | 22.69           | 16.03                             | 25.33   | 26.96   | 26.73   |
| Pretax return on permanent capital (%)                                   | 5.44 **         | 5.22                              | 7.60    | 7.85    | 8.80    |
| EBITDA interest coverage (times)   | 3.48            | 4.15                              | 5.27    | 6.14    | 6.77    |
| Debt to EBITDA (times)   | 4.56 **         | 4.99                              | 5.09    | 3.48    | 2.28    |
| FFO to debt (%)  | 15.76 **        | 14.16                             | 15.51   | 24.01   | 35.29   |
| Debt to capitalization (%)   | 35.10           | 36.81                             | 39.73   | 37.09   | 29.10   |

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## 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

**RATCH Group PLC (RATCH)**

|  |        |
|--|--------|
| <b>Company Rating:</b>   | AA+    |
| <b>Issue Ratings:</b>  |        |
| 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+    |
| <b>Rating Outlook:</b>   | Stable |

**TRIS Rating Co., Ltd.**

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