

TTW PLC

No. 205/2020
30 November 2020

CORPORATES

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

Last Review Date: 29/11/19

Company Rating History:

Date	Rating	Outlook/Alert
22/08/08	AA-	Stable

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RATIONALE

TRIS Rating affirms the company rating on TTW PLC (TTW) and the ratings on its outstanding senior unsecured debentures at “AA-”, with a “stable” outlook. The ratings reflect TTW’s strong business profile as the country’s largest private tap water provider, its stable cash flows from tap water sales agreements with the Provincial Waterworks Authority (PWA), low operating risk and high barriers to entry for potential competitors, and a strong financial profile. These strengths are partially offset by customer concentration risk as revenue is predominantly contributed from sale of tap water to PWA, and the limited growth potential in existing operating areas.

KEY RATING CONSIDERATIONS

Largest private tap water provider with predictable cash flow

TTW’s strong business profile is underpinned by its status as the largest private tap water provider in Thailand and its long-term water purchase and sale agreements (WPSA) with PWA. TTW supplies tap water to PWA under two WPSAs which cover a committed minimum offtake quantity of 712,000 cubic meters per day (cu. m./day). The terms of the WPSAs are 25 and 30 years, and the agreements will end in 2023 and 2034, respectively. The WPSA that will end in 2023 is under the Build-Own-Operate-Transfer (BOOT) model while the other WPSA is under the Build-Own-Operate (BOO) model.

TTW also has the operating rights to provide tap water and wastewater treatment services at Bangpa-in Industrial Estate (BIE) for a period of 30 years. The rights will be valid through 2039.

For 2019-2020, revenue from the Nakhonpathom-Samutsakhon and the Rangsit-Pathumthani service areas made up 64% and 31% of TTW’s total revenue, respectively, while revenue from BIE contributed 5%.

Low impact from COVID-19

The demand for tap water gradually increased in 2019 and 2020 mainly as a result of growth in residential areas. According to PWA’s data, during the Coronavirus Disease 2019 (COVID-19) lockdown period in March-June 2020, the water sales volume to residential users increased compared to the same period in 2019, as the number of household users increased. In addition, people became more concerned with hygiene and spent the majority of their time at home. The incremental water demand from residential users helped offset the drop of demand in industrial and commercial areas. Water sales averaged 896,600 cu. m./day during the first nine months of 2020, up slightly from 887,300 cu. m./day in 2019.

We expect TTW’s revenue to increase slightly thanks to the continuing growth of households in its service areas. Total operating revenue is expected to be in the range of THB6.2-THB6.4 billion annually during 2020-2022.

High barriers to entry

It is difficult for newcomers to establish operations in TTW’s service areas. To build the bulk water transmission mains and local distribution networks requires intensive capital investment and right of way permission. TTW’s ownership of the mains and distribution network effectively prevents new entrants from operating in TTW’s existing coverage areas. Sources of raw water and the concession granted by PWA are additional constraints. The

prospect of PWA granting new water concessions to private companies is low.

Healthy financial profile

TTW's profitability is likely to remain stable over the forecast period. Earnings before interest, taxes, depreciation, and amortization (EBITDA) should hover around THB5-THB5.2 billion per year. The adjusted EBITDA margin is forecast at above 80%, the same level as the past five-year average.

Liquidity and leverage are satisfactory and likely to strengthen further due to stable profitability and no major capital expenditure during the forecast period. The debt to capitalization ratio is expected to fall below 30% over the next three years, after scheduled debt repayments, capital expenditure (CAPEX), and planned investment. The funds from operations (FFO) to net debt ratio is anticipated to rise above 80% in 2020 and above 100% in 2021-2022, up from around 60% in 2019 and (annualized, from the trailing 12 months) the first nine months of 2020.

Cash flow protection is likely to remain strong. Internal funds from TTW's performance should be sufficient to repay debts coming due of approximately THB1 billion in 2021, as well as planned CAPEX of THB400 million per year. Dividend payments are forecast at THB2.4 billion per annum. In addition, TTW owns a 24.98% stake in CK Power PLC (CKP), worth THB12.71 billion as of 21 November 2020. This valuable investment enhances TTW's financial flexibility.

Customer concentration risk and limited growth prospects

TTW is exposed to customer concentration risk. PWA is the company's predominant customer. During the past 10 years, over 95% of TTW's total annual revenue has been from tap water sold to PWA. However, PWA's credit profile is acceptable as a state enterprise. PWA also represents a key competitor of TTW, with its own filtration plants and tap water distribution network near TTW's service areas.

Future growth prospects are limited for TTW. Revenue growth depends mainly on organic growth in existing service areas. Expansion into new areas in Thailand and overseas is under consideration. PWA maintains a concrete policy regarding the business platforms of private tap water producers and the granting of concessions is as yet unresolved.

New Water Resources Act

The new Water Resources Act announced in 2018 may partly affect TTW's raw water costs in the next couple of years. Currently, TTW has permission to pump raw water from the Tha Chin and Chao Phraya rivers with no fee. However, if the government issues a new law and starts charging a raw water price, PWA will be fully responsible for the raw water cost under one WPSA between PWA and TTW.

PTW's concession to end in 2023

The WPSA between Pathum Thani Water Co., Ltd. (PTW), TTW's subsidiary, and PWA covering the Rangsit-Pathumthani service areas will end in October 2023. According to the current agreement between PTW and PWA, PTW has the right to extend the concession for another 10 years for two times. Discussions between PTW and PWA will be conducted one year before the expiry of the contract.

We believe it is likely that PTW will be able to extend the concession. However, if the company cannot extend the contract, TTW's EBITDA will decline by 30% from 2024 onwards. EBITDA from tap water concessions covering the Nakhonpathom-Samutsakhon service areas is projected to be around THB3.5 billion and the company's debt to EBITDA ratio to continue to be at a low level of 1.5-2 times in 2024.

BASE-CASE ASSUMPTIONS

- Revenues to grow by 1% annually during 2020-2022.
- The EBITDA margins to be around 80% during the forecast period.
- CAPEX to be THB400 million annually during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TTW's operating performance and ability to generate cash will remain strong. The ratings are likely to remain unchanged over the next two to three years as TTW's operations are very stable.

RATING SENSITIVITIES

A rating upside can occur if TTW can increase operating cash flow materially without weakening its balance sheet. A rating downside, on the other hand, could arise from overly aggressive, debt-funded investments, resulting in a deteriorating capital structure.

COMPANY OVERVIEW

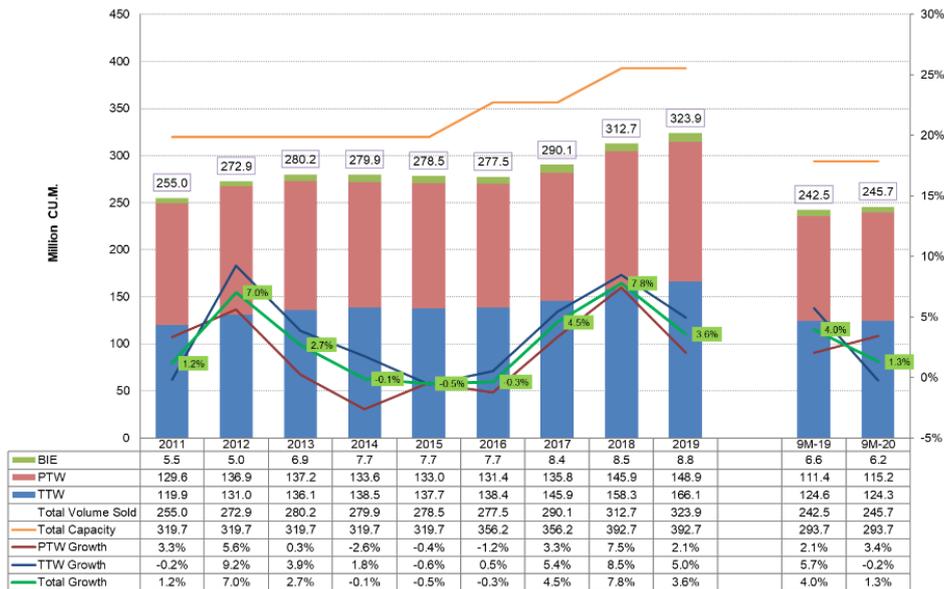
TTW, formerly named Thai Tap Water Supply Co., Ltd, was established in 2000 and listed on the Stock Exchange of Thailand (SET) on 22 May 2008. As of September 2020, CH. Karnchang PLC (CK) and affiliates, CK Group, held 37.87% of TTW through CK (19.4%) and Bangkok Expressway and Metro PLC (BEM; 18.47%). Mitsui Water Holdings (Thailand) Co., Ltd. held 25.98%.

TTW has two subsidiaries: PTW, with a 98% shareholding, and Thai Water Operations Co., Ltd. (TWO). TTW holds 68% of TWO while PTW owns 32%. In addition, TTW owned 24.98% of CKP, a power holding company of the CK Group as of September 2020.

TTW operates four water filtration plants in Banglen, Kratumban, Samkok, and BIE, and also operates a wastewater treatment plant in BIE. The company can produce 1,076,000 cu.m./day of tap water and can treat up to 18,000 cu.m./day of wastewater. The capacity to produce tap water at the Kratumban plant can be expanded to 400,000 cu.m./day from the current capacity of 100,000 cu.m./day. TTW’s service areas are Nakhonpathom-Samutsakhon, Rangsit-Pathumthani, and BIE.

KEY OPERATING PERFORMANCE

Chart 1: Tap Water Sales



Source: TTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,648	6,151	5,937	5,734	5,470
Earnings before interest and taxes (EBIT)	3,009	4,152	3,853	3,724	3,535
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,854	5,051	4,810	4,779	4,465
Funds from operations (FFO)	3,122	4,046	3,818	3,691	3,350
Adjusted interest expense	210	308	376	456	508
Capital expenditures	303	155	46	478	1,815
Total assets	21,998	23,158	23,330	23,277	25,765
Adjusted debt	6,691	7,070	7,722	8,940	10,085
Adjusted equity	12,889	13,125	12,365	11,878	11,535
Adjusted Ratios					
EBITDA margin (%)	82.92	82.11	81.02	83.35	81.62
Pretax return on permanent capital (%)	19.39 **	18.33	16.94	15.59	13.84
EBITDA interest coverage (times)	18.34	16.40	12.80	10.47	8.79
Debt to EBITDA (times)	1.31 **	1.40	1.61	1.87	2.26
FFO to debt (%)	61.72 **	57.23	49.45	41.29	33.22
Debt to capitalization (%)	34.17	35.01	38.44	42.94	46.65

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW222A: THB2,000 million senior unsecured debentures due 2022	AA-
TTW255A: THB1,400 million senior unsecured debentures due 2025	AA-
TTW272A: THB1,000 million senior unsecured debentures due 2027	AA-
Rating Outlook:	Stable

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