

TTW PLC

No. 235/2023
29 November 2023

CORPORATES

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

Last Review Date: 29/11/22

Company Rating History:

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

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



WWW.TRISRATING.COM

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” rating outlook. The ratings reflect TTW’s strong business profile as the country’s largest private tap water provider, its predictable cash flows from long-term offtake agreements with the Provincial Waterworks Authority (PWA), high barriers to entry for potential competitors, and a healthy financial profile. The ratings also take into consideration the impact of the new operations and maintenance (O&M) contract of its subsidiary, Pathum Thani Water Co., Ltd. (PTW), with PWA, customer concentration risk, and limited growth potential in its existing operating areas.

KEY RATING CONSIDERATIONS

PTW’s new O&M contract

After the concession had expired in October 2023, PTW signed a 10-year O&M contract with PWA, valid through October 2033. Under this agreement, PWA will purchase the same volume of tap water with a minimum offtake quantity (MOQ) of 358,000 cubic meters per day (cu.m./day). In exchange, PTW will pay THB575 million in lease expenses for the water plant and pipeline network to PWA. The O&M selling prices are THB6.5 per cu.m. for tap water sold within the MOQ and THB6.06 per cu.m. for volume above the MOQ, a substantial reduction from the previous selling price of THB13.76 per cu.m. under the concession agreement.

We expect PTW’s revenue under the O&M contract to decline to around THB920 million in 2024 from THB1.7 billion.

Strong cash flow despite decline

TTW’s revenue is projected to fall from THB5.9 billion in 2023 to THB5.1 billion in 2024, then gradually increase to THB5.2 billion in 2025. We anticipate TTW’s total sales volume to increase by around 2% yearly during the forecast period, largely due to a return to normalcy after the pandemic, and a gradual increase in demand from the industrial sector.

However, we expect the company to maintain a healthy EBITDA margin of around 80% during the forecast period due to lower energy and raw material costs. Therefore, we project TTW will post a sizable EBITDA of around THB4.7 billion in 2023 and around THB4.0 billion per year during 2024-2025.

Highly predictable cash flow

TTW’s cash flow is highly predictable due to the committed minimum offtake quantity (MOQ) of PWA. TTW is operating under long-term water purchase and sale agreements (WPSA) with PWA to supply tap water in the Nakhon Pathom-Samut Sakhon areas with MOQ of 354,000 cu.m./day. PTW provides O&M services for PWA to supply tap water in the Rangsit-Pathum Thani areas with MOQ of 358,000 cu.m./day. The contracts are due to end in 2034 and 2033, respectively.

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 operating rights will remain valid through 2039.

For the first nine months of 2023, revenue from the Nakhon Pathom-Samut Sakhon, Rangsit-Pathum Thani, and BIE service areas made up 64%, 31%, and 5% of TTW's total revenue, respectively.

High barriers to entry

The capital-intensive nature of the business largely prevents the entry of newcomers. Potential operators would need to invest substantially in the construction of pipeline networks and water plants to manage tap water supply service. Obtaining the rights of way to build pipeline networks and finding suitable locations for plants near to the raw water sources are additional constraints.

TTW's existing pipeline networks, its raw water sources, as well as the concessions and agreements with PWA effectively prevent new entrants from operating in its current service areas. In addition, the prospect of PWA granting new water concessions to private companies is low.

Customer concentration risk and limited growth prospects

TTW depends on PWA for the majority of its earnings. During the past 10 years, over 95% of TTW's total annual revenue has been derived from tap water sold to PWA. However, PWA's credit profile as a state enterprise indicates low counterparty risk. PWA itself is also a key competitor of TTW, with its own filtration plants and tap water distribution network near TTW's service areas.

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 while the awarding of new concessions remains unresolved.

Low-leverage balance sheet

TTW has a strong financial profile. Its financial leverage is expected to decline during the forecast period. Debt repayments and capital expenditures (CAPEX) are expected to be funded by the company's internal cash flows. Total debt should decline following planned debt repayments totaling THB4.4 billion during 2023-2025. CAPEX is anticipated to be around THB100-THB150 million per year, mainly for routine maintenance. With debt falling at a greater rate than EBITDA, the net debt to EBITDA ratio is expected to fall below 0.5 times during 2023-2025, down from 0.8 times in 2022.

Abundant liquidity

We assess TTW to have plentiful liquidity over the next 12 months. Sources of liquidity include cash on hand and short-term investments of around THB2.4 billion as of September 2023 and expected funds from operations (FFO) of around THB3.5 billion in the next 12 months. These should be adequate to cover upcoming bank loans repayments of around THB660 million and CAPEX of around THB150 million during the next 12 months.

The key financial covenant on its debentures requires the company to maintain its debt-to-equity ratio below 2.1 times. The ratio was 0.4 times as of September 2023, well below the covenant threshold. The company should have no problems complying with the financial covenant over the next 12 to 18 months.

As of September 2023, TTW had no priority debt.

BASE-CASE ASSUMPTIONS

- Revenues of THB5.9 billion in 2023, before declining to THB5.1-THB5.2 billion annually during 2024-2025.
- EBITDA margin of around 80% during the forecast period.
- CAPEX and investment of THB150 million annually in 2023-2024 and THB100 million in 2025.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TTW's operating performance and cash generation will remain in line with our projections. We expect the company to maintain a healthy balance sheet over the forecast period.

RATING SENSITIVITIES

A rating upside could 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 material deterioration of 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 2023, 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 2023.

TTW operates four water filtration plants in Bang Len, Krathum Baen, Sam Khok, and BIE, as well as a wastewater treatment plant in BIE. The company can produce 1,076,000 cu.m./day of tap water and treat up to 18,000 cu.m./day of wastewater. The tap water production capacity at the Krathum Baen 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 Nakhon Pathom-Samut Sakhon, Rangsit-Pathum Thani, and BIE. Details are shown in Table 1.

KEY OPERATING PERFORMANCE

Table 1: TTW's Service Areas

Service Areas	Company	Plant(s)	Type of Contract	MOQ* (M ³ /Day)	Contract End	Water Resources
Nakhon Pathom-Samut Sakhon	TTW	Bang Len, Krathum Baen	Build-Own-Operate (BOO)	354,000	July 2034	Tha Chin River
Rangsit-Pathum Thani	PTW	Sam Khok	Operation & Maintenance	358,000	October 2033	Chao Phraya River
BIE	TTW	BIE	Right (operating lease)	-	2039	BIE
BIE – wastewater	TTW	BIE	Right (operating lease)	-	2039	n.a.

* MOQ = minimum offtake quantity

Source: TTW

Table 2: Tap Water Sales by Service Area

Sales (Billion THB)	2018	2019	2020	2021	2022	9M22	9M23
Nakhon Pathom-Samut Sakhon	3.76	3.87	3.89	3.72	3.67	2.75	2.88
Rangsit-Pathum Thani	1.83	1.90	1.97	1.76	1.71	1.28	1.42
BIE	<u>0.21</u>	<u>0.22</u>	<u>0.20</u>	<u>0.20</u>	<u>0.20</u>	<u>0.15</u>	<u>0.14</u>
Total	5.80	5.99	6.06	5.68	5.58	4.18	4.44
Sales volume (mil. cu.m.)	312.7	323.9	327.1	299.4	283.3	212.4	213.5

Source: TTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	4,550	5,701	5,818	6,193	6,151
Earnings before interest and taxes (EBIT)	2,754	3,805	4,022	3,933	4,152
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,720	4,692	4,777	5,059	5,051
Funds from operations (FFO)	3,092	3,875	3,884	4,101	4,049
Adjusted interest expense	111	170	251	276	308
Capital expenditures	96	162	362	377	155
Total assets	19,525	21,490	22,504	22,842	23,158
Adjusted debt	2,688	3,573	4,932	5,878	7,070
Adjusted equity	14,332	14,750	14,195	13,700	13,125
Adjusted Ratios					
EBITDA margin (%)	81.74	82.31	82.12	81.69	82.11
Pretax return on permanent capital (%)	18.00 **	17.80	18.26	17.60	18.33
EBITDA interest coverage (times)	33.62	27.57	19.05	18.36	16.40
Debt to EBITDA (times)	0.56 **	0.76	1.03	1.16	1.40
FFO to debt (%)	148.72 **	108.44	78.75	69.77	57.27
Debt to capitalization (%)	15.79	19.50	25.79	30.02	35.01

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

TTW PLC (TTW)

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

TRIS Rating Co., Ltd.

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

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria