

WHA UTILITIES AND POWER PLC

No. 157/2020
5 October 2020

CORPORATES

| | |
|------------------------|----------|
| Company Rating: | A- |
| Issue Ratings: | |
| Senior unsecured | A- |
| Outlook: | Negative |

Last Review Date: 31/03/20

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 27/09/19 | A- | Negative |
| 03/04/18 | A- | Stable |

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RATIONALE

TRIS Rating affirms the company rating on WHA Utilities and Power PLC (WHAUP) and the ratings on its outstanding senior unsecured debentures at “A-”, with a “negative” outlook. The ratings reflect WHAUP’s status as a core subsidiary of WHA Corporation PLC (WHA) according to TRIS Rating’s “Group Rating Methodology”. WHA is rated “A-” with a “negative” outlook by TRIS Rating. The “negative” outlook reflects WHA’s high leverage and weakening cash flow protection.

KEY RATING CONSIDERATIONS

A core subsidiary of WHA

WHA directly influences WHAUP’s strategies and financial decisions. As of 30 June 2020, WHA Group holds a 72% interest in WHAUP. WHAUP has an exclusive agreement with WHA Industrial Development PLC (WHAID), a major shareholder and another subsidiary of WHA, to provide utility services to all of WHAID’s current and future industrial estates (IEs). Currently, WHAUP provides utility services to 11 operating IEs (including Vietnam) plus 4 developing IEs. This exclusive service agreement ensures WHAUP is protected against competitive threat in its service areas. The company also partners with strategic power operators in several power plants.

WHAUP contributes significant earnings to WHA’s overall performance. In the first half of 2020, WHAUP contributed 30% of WHA’s total revenue and 56% of WHA’s earnings before interest, tax, depreciation, and amortization (EBITDA).

Expected growth after drought and COVID-19 impact

We expect WHAUP’s earnings from utility services to drop in 2020 as a result of the drought in Thailand and the impact from the COVID-19 pandemic.

During the first half of 2020, WHAUP’s revenue and EBITDA in the utility business, dropped from the first half of 2019 by approximately 10% and 20% to THB800 million and THB300 million, respectively. The drought situation induced the decisions by some customers particularly in the petrochemical business, to reschedule their maintenance plan in order to reduce usage of water during the drought period.

Nonetheless, we expect WHAUP’s revenue and EBITDA to grow to the level of THB2 billion per year in 2021-2022. The main growth drivers are the power and petrochemical businesses in WHAID’s IEs in Thailand. The strategy to expand IEs in Vietnam and launch innovative products such as demineralized water and reclaimed water has also led to increased profitability.

WHAUP plans to further expand its utility business outside WHA’s industrial estates. In 2019, WHAUP invested in two utility companies in Vietnam, Cua Lo Water Supply Joint Stock Company and Duong River Surface Water Plant JSC, with total investments of approximately THB3 billion. However, due to the delay of the planned volume ramp up in Vietnam during the COVID-19 outbreak, a shared loss of THB67 million from the aforementioned investments was reported in June 2020.

Predictable cash flows from power business

The cash flow stream from the power operations with several strategic partners has been stable. WHAUP owns equity stakes in several power assets

which generate power under the Independent Power Producer (IPP), Small Power Producer (SPP), and Very Small Power Producer (VSPP) schemes. As of 30 June 2020, WHAUP had 570 installed equity megawatts (MW), based on the proportions of its equity interests in the joint-venture power assets. WHAUP expects to own 592 MW by the end of 2020.

WHAUP received cash dividends from the power business of THB804 million in 2019 and THB1.2 billion for the first half of 2020. We forecast WHAUP to receive cash dividends of THB1.6 billion in 2020 and THB1.1-THB1.2 billion per year in 2021-2022. WHAUP is also looking to invest in its own solar rooftop projects. The company targets to have solar rooftops installed capacity of 100 MW by 2022, with 44 MW already secured as of June 2020.

Rising leverage

The debt to capitalization ratio increased to 45% in 2019 and 48% as of 30 June 2020, from about 37% in 2017-2018. The increase in debt was mainly owed to the expansion of utility business in Vietnam. WHAUP has set a clear direction to grow both its utility and power businesses. For the utility business, WHAUP will continue to expand in WHAID's industrial estates, and launch new innovative products such as reclamation and demineralized water. For the power business, WHAUP has a strategy to enlarge its power assets by expanding its solar rooftops operation and collaborating with strategic partners to provide waste-to-energy solutions, and natural gas distribution. Total capital expenditures and investments are estimated to be THB1.3-THB1.8 billion per year in the forecast period, which are expected to be partly funded by debt. We project WHAUP's total debt to capitalization ratio to be 43%-45% in 2020-2022.

Manageable liquidity

We assess WHAUP to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB1.8 billion, undrawn credit facilities of THB3.5 billion and expected funds from operations (FFO) of around THB1.8 billion per annum. This should be adequate to cover bank loans and debentures of around THB6.2 billion coming due in the next 12 months.

According to the key financial covenant in its debentures, WHAUP has to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio was 0.91 times as of June 2020, well below the covenant threshold. The company should have no problems complying with the financial covenant over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- Total revenues to decrease by 11% in 2020 due to drought situation in Thailand and COVID-19, then to increase by 17% in 2021 and 11% in 2022 from demand of new power and petrochemical plants.
- Gross profit margin to stay at 33%-36% and EBITDA margin (including dividend) will stay at 90%-140%.
- Total capital spending to be THB1.3-THB1.8 billion per year during 2020-2022.

RATING OUTLOOK

The "negative" outlook mirrors the outlook revision on WHA, according to TRIS Rating's "Group Rating Methodology". We expect the business model and the level of integration between WHA and WHAUP will remain unchanged.

RATING SENSITIVITIES

As a core subsidiary of WHA, the ratings on WHAUP are tied to the ratings on WHA. Any change in WHA's credit rating, or WHAUP's link to WHA, will affect WHAUP's ratings accordingly.

COMPANY OVERVIEW

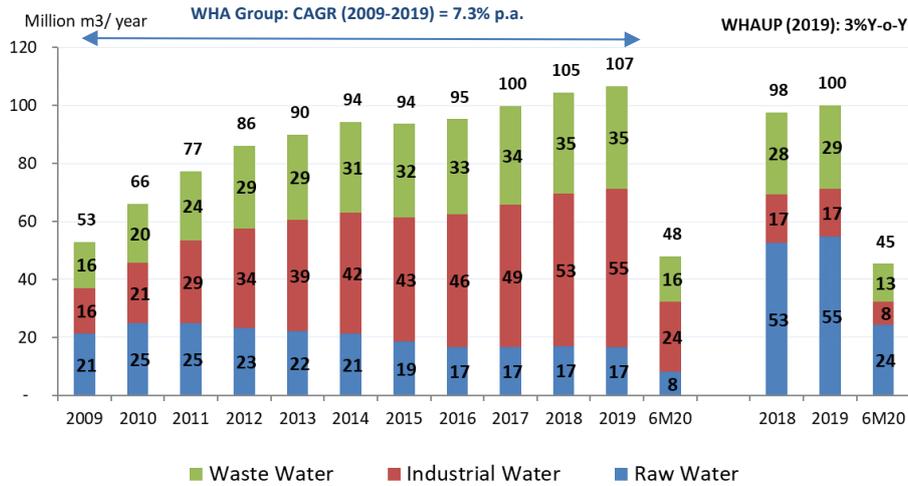
WHAUP, formerly named Hemaraj Clean Water Co., Ltd., was incorporated in 2008 to produce and distribute industrial water for use in industrial estates owned by WHAID (formerly named Hemaraj Land and Development PLC), a 98.5% owned subsidiary of WHA. In 2016, the utility and power segments of WHAID and WHA were transferred to WHAUP.

WHAUP provides utility services such as supplying raw water and industrial water, as well as wastewater treatment within WHAID's industrial estates. In 2019, WHAUP provided 16.5 million cubic meters (cu.m.) of raw water, 54.8 million cu.m. of industrial water, and 28.8 million cu.m. of wastewater treatment services.

In the power segment, WHAUP invested in several power projects with well-known power producers such as Glow Energy PLC (GLOW), B. Grimm Power PLC (B. Grimm), Gulf Energy Development PLC (Gulf), and Suez S.A. (Suez). WHAUP holds stakes ranging between 5%-35% in IPP and SPP projects while holding stakes greater than 25% in VSPP projects. The company invested 100% in solar rooftops.

KEY OPERATING PERFORMANCE

Chart 1: Total Volume of Water and Waste Water



Note: WHAID transferred the utility business to WHAUP in late March 2016.

* WHAUP excluded waste water treatment service at ESIE, volume of which WHAUP received in form of management fees.

Sources: WHAID and WHAUP

Table 1: WHAUP's Investment in Power Segment

| Portfolio Summary | Project Name | Type | JV Partner | Location | Installed Capacities (MW) | WHAUP Portion | Equity MW | COO | |
|--------------------------|------------------------|-------------|--------------------|------------|---------------------------------------|---------------|-----------|--------------|-----------------|
| | Operating Phase | | | | | | | | |
| | Gheco-I | IPP | Coal | Glow | Map Ta Phut IE | 660 | 35.00% | 231 | Q3'12 |
| | Glow IPP | IPP | Gas Combined Cycle | Glow | WHA CIE 1 | 713 | 5.00% | 36 | Jan-03 |
| | Houay Ho Power | IPP | Hydro | Glow | Lao PDR | 152 | 12.75% | 19 | Sep-99 |
| | GJP NLL | SPP | Gas Co-gen | Gulf JIP | WHA RIL | 123 | 25.01% | 31 | May-13 |
| | Gulf Solar | VSP | Solar | Gulf | WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE | 0.6 | 25.01% | 0.2 | Jun-14 – Jan-15 |
| | WHA Gunkul | VSP | Solar | Gunkul | Bangna and Ayudthaya | 3.3 | 74.99% | 2.5 | Apr – Jul-14 |
| | BGWHA-1 | SPP | Gas Co-gen | B Grimm | WHA CIE 1 | 130 | 25.01% | 33 | Nov-15 |
| | GVTP | SPP | Gas Co-gen | Gulf MP | ESIE | 137 | 25.01% | 34 | May-17 |
| | GTS1 | SPP | Gas Co-gen | Gulf MP | ESIE | 134 | 25.01% | 34 | Jul-17 |
| | GTS2 | SPP | Gas Co-gen | Gulf MP | ESIE | 134 | 25.01% | 34 | Sep-17 |
| | GTS3 | SPP | Gas Co-gen | Gulf MP | WHA ESIE 1 | 130 | 25.01% | 32 | Nov-17 |
| | GTS4 | SPP | Gas Co-gen | Gulf MP | WHA ESIE 1 | 130 | 25.01% | 32 | Jan-18 |
| | GNLL2 | SPP | Gas Co-gen | Gulf MP | WHA RIL | 127 | 25.01% | 32 | Jan-19 |
| | CCE | VSP | Waste-to-energy | Glow& Suez | WHA CIE 1 | 8.6 | 33.33% | 2.9 | Q4'19 |
| | Solar Rooftop Projects | Private PPA | Solar | 100% Owned | IEs/ Logistic Center | 17.5 | 100.0% | 17.5 | May'18-Jun'20 |
| | | | Total | | | 2,600 | | 570.0 | |
| Development Phase | | | | | | | | | |
| | Solar Rooftop Projects | Private PPA | Solar | 100% Owned | IEs/ Logistic Center | 21.8 | 100.0% | 21.8 | Q3'20-Q4'20 |
| | | | Total | | | 21.8 | | 21.8 | |

Source: WHAUP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | Jan-Jun 2020 | -----Year Ended 31 December ----- | | | |
|--|-----------------|-----------------------------------|--------|--------|--------|
| | | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 846 | 1,879 | 1,738 | 1,768 | 1,559 |
| Earnings before interest and taxes (EBIT) | 587 | 2,530 | 2,676 | 2,467 | 1,507 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,571 | 1,589 | 1,278 | 1,402 | 1,339 |
| Funds from operations (FFO) | 1,346 | 1,194 | 854 | 915 | 886 |
| Adjusted interest expense | 221 | 351 | 376 | 468 | 408 |
| Capital expenditures | 488 | 819 | 322 | 352 | 160 |
| Total assets | 25,942 | 26,419 | 23,773 | 21,378 | 18,652 |
| Adjusted debt | 11,075 | 11,210 | 8,333 | 7,624 | 10,537 |
| Adjusted equity | 11,835 | 13,559 | 14,049 | 12,577 | 7,419 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 185.80 | 84.54 | 73.56 | 79.28 | 85.84 |
| Pretax return on permanent capital (%) | 7.04 ** | 10.38 | 12.16 | 12.69 | 10.22 |
| EBITDA interest coverage (times) | 7.12 | 4.52 | 3.40 | 2.99 | 3.28 |
| Debt to EBITDA (times) | 4.64 ** | 7.06 | 6.52 | 5.44 | 7.87 |
| FFO to debt (%) | 17.61 ** | 10.66 | 10.24 | 12.01 | 8.41 |
| Debt to capitalization (%) | 48.34 | 45.26 | 37.23 | 37.74 | 58.68 |

* 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
- Group Rating Methodology, 10 July 2015

WHA Utilities and Power PLC (WHAUP)
Company Rating:

A-

Issue Ratings:

| | |
|---|----|
| WHAUP216A: THB 2,390 million senior unsecured debentures due 2021 | A- |
| WHAUP22DA: THB 1,500 million senior unsecured debentures due 2022 | A- |
| WHAUP236A: THB 1,290 million senior unsecured debentures due 2023 | A- |
| WHAUP256A: THB 1,320 million senior unsecured debentures due 2025 | A- |
| WHAUP302A: THB 1,500 million senior unsecured debentures due 2030 | A- |

Rating Outlook:

Negative

TRIS Rating Co., Ltd.

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