

PROVINCIAL ELECTRICITY AUTHORITY

No. 227/2022

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CORPORATES

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 07/12/21

Issuer Rating History:		
Date	Rating	Outlook/Alert
21/01/19	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Provincial Electricity Authority (PEA) at “AAA” with a “stable” rating outlook. The rating reflects PEA’s status as a major state-owned enterprise (SOE), which has an integral linkage with the Thai government and plays a critical role in distributing electricity across Thailand. We view there is a near-certain likelihood of PEA receiving necessary government support in times of need. The rating also takes into consideration PEA’s predictable earnings from electricity distribution, investment cost recovery through a favorable tariff structure, and prudent financial policy.

KEY RATING CONSIDERATIONS

Integral linkage with the government

PEA is 100% owned by the Thai government via the Ministry of Finance (MOF) and is under the supervision of the Ministry of Interior (MOI). The government strongly influences PEA’s business and financial strategies. The board of directors and the governor are appointed by the Cabinet. PEA’s strategic plan is reviewed by the State Enterprise Policy Office (SEPO) under the MOF. PEA’s capital expenditure and investment plans are subject to the approval of the MOI, the Office of the National Economic and Social Development Council (NESDC), and the Cabinet. In addition, PEA’s debt service and borrowing plans must be reviewed by the Public Debt Management Office (PDMO) under the MOF.

We believe that PEA will continue to receive strong support from the government. According to the PEA Act B.E. 2503 (1960), the government will provide extraordinary support to PEA if its revenues are insufficient to cover expenses, including interest expenses and debt repayments.

Critical role in power distribution across Thailand

PEA is one of the two SOEs responsible for distributing electricity to end users in Thailand. PEA is responsible for distributing electricity to 74 provinces across Thailand while another SOE, the Metropolitan Electricity Authority (MEA), covers electricity needs in Bangkok, Samut Prakan, and Nonthaburi.

Approximately 75% of electricity consumed in Thailand is distributed by PEA. In 2021, PEA’s service areas covered about 510,000 square kilometers with about 21.2 million users. The authority operates a distribution network with a line-length of 853,819 circuit-kilometers. In 2021, PEA’s revenue was THB509 billion, and the distributed electricity amounted to 139,687 gigawatt-hours (GWh). PEA purchases electricity primarily from the Electricity Generating Authority of Thailand (EGAT) and sells it to end users in 74 provinces across Thailand.

Predictable margins of electricity sales

PEA has limited exposure to fluctuations in the purchasing cost of electricity, thanks to the regulated electricity tariff structure that allows pass-through of electricity purchasing costs from electricity producers to end users via the fuel charge adjustment mechanism (or F_t). As a result, PEA’s spread between the selling price and purchase cost of electricity has been steady at THB0.56-THB0.59 per kilowatt-hour (kWh or unit) during 2015-2021.

Cash flow returns to pre-COVID-19 levels

PEA's operations have largely returned to normal levels following an easing of the Coronavirus Disease 2019 (COVID-19) situation. PEA's electricity sold to all segments for the first nine months of 2022 grew by 4.4% year-on-year (y-o-y) to 109,785 GWh, close to the pre-COVID-19 level. PEA continues to facilitate the government's measures to alleviate impacts of rapid rises in electricity tariff rates. We expect the financial impact on PEA from carrying out the government measures will be neutralized by full and prompt subsidies from the government.

We expect PEA's cash flow in 2022 to improve significantly as there has been no major spending related to COVID-19, unlike in 2021. PEA reported revenues of THB441 billion for the first nine months of 2022, representing a growth rate of 18.7% y-o-y. PEA's earnings before interest, taxes, depreciation, and amortization (EBITDA) recovered to THB33.1 billion for the first nine months of 2022, up by 61% y-o-y. We expect PEA's EBITDA will range from THB45-THB50 billion over the next three years.

Long-term risks from self-generated electricity and private PPAs

The trend of electricity consumers becoming electricity producers (prosumers) could result in changes to PEA's role in electricity distribution over the long term. The prosumer trend has gained traction in recent years, supported by continuing reductions in the cost of solar panels and the shift of national power policy toward green energy and private power generation. Potential changes in regulations will allow prosumers to trade electricity among themselves, resulting in less reliance on power distributed by PEA. However, PEA is developing new businesses and services to align with the prosumer trend. New sources of income may derive from load aggregator services, wheeling charges from PEA's grid usages, electricity backup fees for groups of prosumers, etc.

Prudent financial policy with strong financial profile

PEA's conservative financial policy should continue to sustain its strong financial status and liquidity, in our view. PEA's financial policy includes maintaining a debt-to-equity ratio of less than 1.5 times, a self-financing ratio of more than 25%, and a debt service coverage ratio of more than 1.5 times. It also has an internal policy to accumulate cash reserves for debt repayments due over the next three years.

PEA continues to demonstrate a strong debt servicing ability and capital structure, as assessed from a debt to EBITDA ratio of below 3.5 times and a debt to capitalization ratio of about 40% in September 2022. PEA's liquidity remains strong with cash on hand and cash equivalents of THB25.6 billion at the end of September 2022. We expect PEA's funds from operations (FFO) to be THB40-THB44 billion per year during 2023-2025. These combined sources of funds are well adequate to cover bond dues of about THB8.7-THB10.5 billion per year during 2023-2025.

Investment cost recovery through tariff structure

Electricity tariffs in Thailand are regulated by the Energy Regulatory Commission (ERC). To ensure the reliability of power generation and distribution to satisfy Thailand's growing electricity needs, the electricity tariff is structured to cover the capital expenditures required for electricity generation and distribution in the country, and to provide sufficient returns on investment for the three SOEs, namely EGAT, PEA, and MEA.

PEA's capital expenditures are expected to total about THB42-THB47 billion per annum for the period 2022-2025. The expenditures are mainly earmarked for expansion of the distribution network, improving network reliability, and developing electrical systems in the big cities in preparation for the introduction of smart grids.

BASE-CASE ASSUMPTIONS

- PEA's electricity sales to increase by 3.0%-4.5% per annum during 2022-2025.
- PEA's EBITDA to be about THB45 billion in 2022, growing to THB50 billion in 2025.
- Total capital expenditure to be about THB42-THB47 billion per annum for 2022-2025.
- Total debt to capitalization ratio to stay in the 40%-45% range during the forecast period.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PEA will continue its critical role in distributing electricity to provincial areas of the country, and its integral linkage with the government will remain unchanged in the foreseeable future.

RATING SENSITIVITIES

A credit downside case may arise if there are changes to PEA's status as an important power-related SOE with an integral linkage with the government.

ORGANIZATION OVERVIEW

PEA was established in 1960, under the PEA Act B.E. 2503, by taking over the mission of the Provincial Electricity Organization. PEA's mission is to electrify households throughout Thailand and satisfy the electricity needs of the industrial and business segments, as part of the overall aim of strengthening the national economy. PEA is an SOE under the supervision of the MOI.

PEA plays a critical role in distributing electricity to end users in provinces other than Bangkok, Samut Prakan, and Nonthaburi. PEA's area of responsibility covers 510,000 square kilometers across 74 provinces in Thailand. PEA has about 21.2 million users connected to its distribution network.

PEA buys electricity mainly from EGAT (92%) and private power producers under the very small power producer (VSPP) scheme (8%).

In 2021, the main customers of PEA were large general service users, accounting for about 38% of its total electricity sales. Residential users accounted for 29% of its total sales, while the remaining 33% were sales to users in the small and medium general services, specific business services, non-profit organizations, agricultural pumping, temporary services, stand-by, plus interruptible and free electricity segments.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	442,867	509,442	489,528	519,961	499,523
Earnings before interest and taxes (EBIT)	13,563	17,432	13,012	16,447	23,996
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	33,150	42,289	36,652	38,149	44,390
Funds from operations (FFO)	30,129	38,307	33,286	34,883	40,871
Adjusted interest expense	3,015	3,972	3,374	3,279	3,519
Capital expenditures	31,925	50,259	49,545	40,495	38,434
Total assets	529,128	486,580	456,596	424,892	415,242
Adjusted debt	126,191	129,067	113,365	85,710	67,828
Adjusted equity	189,730	185,658	173,775	171,296	170,878
Adjusted Ratios					
EBITDA margin (%)	7.5	8.3	7.5	7.3	8.9
Pretax return on permanent capital (%)	8.7 **	5.5	4.6	6.3	9.3
EBITDA interest coverage (times)	11.0	10.6	10.9	11.6	12.6
Debt to EBITDA (times)	2.3 **	3.1	3.1	2.2	1.5
FFO to debt (%)	40.1 **	29.7	29.4	40.7	60.3
Debt to capitalization (%)	39.9	41.0	39.5	33.3	28.4

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Government-Related Entities Rating Methodology, 30 July 2020

Provincial Electricity Authority (PEA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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