

# EDL-GENERATION PUBLIC COMPANY

No. 43/2018

19 June 2018

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Negative

### Company Rating History:

Date	Rating	Outlook/Alert
12/06/17	BBB+	Negative
15/10/14	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating of EDL-Generation Public Company (EDL-Gen) and the ratings of EDL-Gen's existing senior unsecured debentures at "BBB+". At the same time, TRIS Rating assigns the rating of "BBB+" to EDL-Gen's proposed issue of up to Bt17,500 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance existing loans and for business expansion.

The ratings of EDL-Gen and its senior unsecured debentures reflect the credit profile of Electricite du Laos (EDL), the company's major shareholder and the sole electricity off-taker. EDL is a state-owned enterprise of the Lao People's Democratic Republic (Lao PDR). As a result, its credit profile is underpinned by the sovereign rating of "BBB+/Negative" assigned by TRIS Rating to the Lao PDR. EDL-Gen's ratings take into consideration the company's critical role in the electricity generation industry in the Lao PDR. The ratings are partially constrained by the sovereign rating of the Lao PDR, the sizable investments EDL plans to make, and the hydrology risks in the Lao PDR.

In the first three months of 2018, EDL-Gen's revenue decreased by 9.1% (year-on-year) to Kip221.5 billion, mainly due to lower water inflow into the reservoir. The operating margin (operating income before depreciation and amortization as a percentage of sales) was 70.4% in the first three months of 2018.

At the end of March 2018, the company's total debt was Kip10.16 trillion with a total debt to capitalization ratio of 52.4%. The new debentures will be used to refinance existing loan and to purchase 20% interest in Xayaburi hydroelectric power project and 20% interest in Donsahong hydroelectric power project from EDL. During the investment period, EDL-Gen's debt will increase to a peak of about Kip17.8 trillion in 2022. However, EDL-Gen's earnings before interest, taxes, depreciation and amortization (EBITDA) will also grow from Kip1.46 trillion in 2017 to approximately Kip2.7 trillion in 2022.

## RATING OUTLOOK

The "negative" outlook reflects the outlook for the sovereign rating of the Lao PDR. TRIS Rating expects that the business model and the level of integration between EDL and EDL-Gen will remain unchanged. EDL-Gen is expected to expand as planned and generate strong cash flow. EDL is expected to hold a majority stake in EDL-Gen and receive continuing support from the government of the Lao PDR.

## RATING SENSITIVITIES

A change in the outlook to "stable" is ultimately dependent on the outlook for the sovereign rating of the Lao PDR. A downside scenario for EDL-Gen's ratings is primarily tied to a downgrade in the sovereign rating of the Lao PDR or aggressive investments that cause the company's total debt to capitalization ratio to exceed 65% for a prolonged period.

*CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.*

*Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.*

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Kip million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	221,465	1,219,825	1,241,181	847,759	839,193
Gross interest expense	144,160	491,902	154,918	61,937	31,722
Net income from operations	74,405	519,749	615,613	650,814	925,782
Funds from operations (FFO)	239,545	856,212	1,040,761	821,352	826,471
Capital expenditures	36,439	987,895	756,108	498,862	142,162
Total assets	20,079,330	19,619,193	18,729,565	11,968,372	8,821,261
Total debts	10,165,449	9,759,715	5,039,389	2,471,627	2,174,644
Shareholders' equity	9,243,130	9,208,819	9,186,402	9,104,228	6,321,641
Operating income before depreciation and amortization as % of sales	70.4	84.0	85.8	79.7	81.2
Pretax return on permanent capital (%)	5.9 **	6.2	6.4	7.5	12.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.3	3.0	8.1	15.8	36.6
FFO/total debt (%)	9.5 **	8.8	20.7	33.2	38.0
Total debt/capitalization (%)	52.4	51.5	35.4	21.4	25.6

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**KEY FINANCIAL STATISTICS (TRANSLATED INTO THAI BAHT)\***

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	886	4,879	4,965	3,391	3,357
Gross interest expense	577	1,968	620	248	127
Net income from operations	298	2,079	2,462	2,603	3,703
Funds from operations (FFO)	958	3,425	4,163	3,285	3,306
Capital expenditures	146	3,952	3,024	1,995	569
Total assets	80,317	78,477	74,918	47,873	35,285
Total debts	40,662	39,039	20,158	9,887	8,699
Shareholders' equity	36,973	36,835	36,746	36,417	25,287

\* Exchange rate at Kip250 per Bt1

**EDL-Generation Public Company (EDL-Gen)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
EDLGEN19DA: Bt1,500 million senior unsecured debentures due 2019	BBB+
EDLGEN21DA: Bt2,000 million senior unsecured debentures due 2021	BBB+
EDLGEN24DA: Bt3,000 million senior unsecured debentures due 2024	BBB+
EDLGEN239A: US\$51 million senior unsecured debentures due 2023	BBB+
EDLGEN269A: US\$166 million senior unsecured debentures due 2026	BBB+
EDLGEN289A: US\$95 million senior unsecured debentures due 2028	BBB+
Up to Bt17,500 million senior unsecured debentures due within 15 years	BBB+
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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