

# ELECTRICITY GENERATING AUTHORITY OF THAILAND

No. 75/2017

30 June 2017

**Company Rating:** AAA  
**Outlook:** Stable

## Rating Rationale

TRIS Rating assigns the company rating of “AAA” to Electricity Generating Authority of Thailand (EGAT). The rating reflects EGAT’s important role as a state-owned enterprise responsible for electricity generation and transmission for the country, its dominant position as a major power generator and the sole owner of power transmission in Thailand. The rating of EGAT also incorporates EGAT’s strong financial position, its limited exposure to fluctuations in fuel prices, and strong support from the government.

EGAT was established in 1969, under the Electricity Generating Authority of Thailand Act (EGAT Act) B.E. 2511, by merging the three state-owned enterprises responsible for supplying electricity. Currently, EGAT is a state-owned enterprise under the supervision of the Ministry of Energy and the Ministry of Finance.

EGAT plays an important role in the Thai power industry. EGAT is responsible for securing electricity for the whole country. Under the enhanced single buyer model used in the Thai power industry, approximately 97% of electricity consumption in Thailand is produced and procured through EGAT’s transmission system. The electricity that EGAT produces or procures is then sold in bulk to the Provincial Electricity Authority (PEA)(68%) and to the Metropolitan Electricity Authority (MEA)(31%). These two state-owned enterprises are responsible for distributing electricity to end users.

EGAT continues to be the largest producer of electrical power in Thailand. At the end of March 2017, EGAT owned and operated 47 power plants with a total capacity of 16,071 megawatts (MW), representing 39% of installed capacity of Thailand. The remaining 61% is purchased from the power producers in Thailand (52%) and the power imported from the Lao People's Democratic Republic (Lao PDR) (9%), added into EGAT’s transmission network.

EGAT is the sole owner and operator of the power transmission network in Thailand. Currently, EGAT’s transmission network covers all areas of the country with the line length of 33,430 circuit-kilometers. EGAT also operates the National Control Center (NCC), which controls electricity generation across Thailand. EGAT’s has expertise and excellent track record in managing the electricity supply system of Thailand.

The electricity tariff structure contains mechanism to pass-through a change in fuel price, investment return of EGAT, and the cost of purchasing power. The Energy Regulatory Commission (ERC) regulates the electricity tariff. The current tariff structure specifies a return on invested capital (ROIC) of 5.69% for EGAT to ensure that EGAT has sufficient cash flow for capital expenditures. Any changes in the price of fuel or change in the price EGAT must pay for power purchased will be incorporated into the fuel adjustment charge or the  $F_t$ . The ERC will calculate and announce adjustments to the  $F_t$  charge every four months. As a result of these mechanisms, EGAT has limited exposure to fluctuations in the prices of fuel and the purchased power.

EGAT's sales of electricity have normally increased in tandem with the economic activities of the country. During 2012-2016, real gross domestic product (GDP) of Thailand grew at an average annual growth rate of 3.4% while EGAT’s electricity sold grew by 3.6% during the same period.

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For 2016, EGAT's electricity sales volume grew by 3.1% to 185,047 gigawatt-hour (GWh). Due to the declining trend of energy price, EGAT's average selling price of electricity declined by 10.5% from Bt2.96 per kWh in 2015 to Bt2.65 per kWh in 2016. EGAT's total revenue for 2016 declined by 9% to Bt496,883 million. However due to the tariff structure which stabilizes EGAT's return on investment, EGAT continued to report a healthy net profit of Bt43,867 million and an earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt132,885 million for 2016.

EGAT's financial policy is prudent. EGAT has a policy to keep minimal cash on hand of Bt45,000 million. It also has an internal financial ratio guide to ensure financial disciplines. The key financial guides include to maintain the debt to equity ratio of less than 1.50 times, self-financing ratio of more than 25% and debt service coverage ratio (DSCR) of more than 1.50 times.

EGAT's financial position is strong. At the end of 2016, EGAT's total debt was reported at Bt413,655 million. Approximately 76% of EGAT's reported debts were power purchase commitments with other generators. About 24% of total debt consists of EGAT's direct borrowings of Bt54,943 million, debt of Ratchaburi Electricity Generating Holding PLC (RATCH) and EGAT Daimond Service Co., Ltd. (EDS), subsidiaries of EGAT, of Bt24,763 million, and the financial obligation relating to EGAT's infrastructure fund of Bt20,280 million. Despite the inclusion of all PPA fixed obligations as debt, EGAT's balance sheet was very healthy, with the debt to capitalization ratio of 50.8% at the end of 2016.

Looking forward, TRIS Rating forecasts EGAT's EBITDA will be at Bt135,000-Bt145,000 million per year during 2017-2019. This forecast is based on the assumption that the real GDP growth rate is about 3.4% per annum. EGAT will make capital expenditures and investments about Bt220,000 million over 2017-2019 to ensure reliable source of electricity for the whole country. The expenditures cover the committed investments in upgrading the transmission network and developing new power generating units to replace retired plant. Compared with its expected EBITDA of Bt135,000-Bt145,000 million per year, its capital expenditures will be funded mostly from internal cash. TRIS rating believes that EGAT's total debt to capitalization ratio will stay below 55% during the forecast period.

#### Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that EGAT will continue to play a critical role in the power industry in Thailand. EGAT's credit downside case may arise if EGAT's state-owned enterprise status or its role in the Thai power industry deteriorates as a result of changing government policy.

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#### Electricity Generating Authority of Thailand (EGAT)

**Company Rating:**

AAA

**Rating Outlook:**

Stable

**Financial Statistics and Key Financial Ratios\***

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Sales	496,883	546,480	557,080	536,913	512,992
Gross interest expense	42,698	32,062	26,005	26,288	5,631
Net income from operations	42,453	43,128	38,111	39,190	36,432
Funds from operations (FFO)	95,632	90,001	86,743	85,799	67,620
Earnings before interest, tax, depreciation, and amortization (EBITDA)	132,885	116,722	105,831	106,879	72,355
Capital expenditures	50,057	35,254	34,768	26,587	31,043
Total assets	956,547	876,493	734,965	709,427	533,270
Total debt	413,655	363,561	233,298	219,493	95,467
Shareholders' equity	400,923	380,673	372,863	351,543	324,974
Operating income before depreciation and amortization as % of sales	24.9	20.3	17.6	18.7	12.7
Pretax return on permanent capital (%)	11.3	11.5	11.6	12.4	11.4
EBITDA interest coverage (times)	3.1	3.6	4.1	4.1	12.8
FFO/total debt (%)	23.1	24.8	37.2	39.1	70.8
Total debt/capitalization (%)	50.8	48.9	38.5	38.4	22.7

\* Consolidated financial statements

**TRIS Rating Co., Ltd.**

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