

# EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 103/2022  
29 June 2022

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Stable

Last Review Date: 08/04/22

### Company Rating History:

Date	Rating	Outlook/Alert
25/02/22	A+	Negative
23/01/08	A+	Stable
20/09/07	A+	Alert Developing
12/07/04	A+	Stable
29/06/04	A+	-

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## RATIONALE

TRIS Rating downgrades the company rating on Eastern Water Resources Development and Management PLC (EASTW) and its existing senior unsecured debentures to “A/Stable” from “A+/Negative”. The rating action reflects a high likelihood the company will be unable to renew the lease of water pipelines with the Treasury Department when the lease contracts expire in December 2023.

The leased pipelines accounts for 27% of pipeline lengths operated by EASTW and raw water sales via the leased pipelines accounted for approximately 30% of EASTW’s total revenue in 2021.

The “A” rating continues to reflect EASTW’s strength as a key raw water supplier with a comprehensive pipeline network in the Eastern Economic Corridor (EEC), its stable cash flow, and strong profitability. The rating also takes into consideration rising capital expenditures during 2022-2023 to develop new water pipelines to replace the expired-lease pipelines by the end of 2023.

## KEY RATING CONSIDERATIONS

### Uncertainty in maintaining status as sole supplier of raw water in the EEC

Currently, EASTW has been the sole operator for the main raw water supply system in the EEC area, covering services areas and water resources in Chonburi, Rayong and Chachoengsao provinces. EASTW’s main and distribution pipelines, had a total length of 512 kilometers (km), consisting of its owned pipelines of 376 km and leased pipelines from the Treasury Department of 136 km.

In 2021, the Treasury Department announced the selection of a company to lease 136 km of its water distribution pipelines in the EEC area, consisting of: Dok Krai water pipeline; Nong-Pla Lai – Nong Khor water pipeline; and Nong Khor – Laem Chabang (phase I & II) water pipeline.

The selection process was undertaken twice, in August and September 2021, with a new private operator being chosen. On 14 March 2022, The State Property Committee approved the selection result and awarded the contract to the selected new operator. EASTW filed a complaint to the court for the cancellation of the first selection and the amendment of the request for proposals, which EASTW alleged had caused damage to the company. The filed case is currently under consideration of the Central Administrative Court.

Currently, the lease contract between Treasury Department and the new operator has not been officially signed yet. If the Treasury Department signs the lease contract with new operator, all the water pipelines leased from the Treasury Department will be transferred to a new operator by the end of 2023. As a result, EASTW will lose its monopolistic status and competition among raw water service providers in the EEC will likely increase.

### Earnings are expected to decline between 2022-2024

Even though the raw water demand in EEC has been increasing, we expect EASTW’s revenue to decline during 2022-2024. Once the new operator signs the contracts, we believe the new operator to provide services to some of EASTW’s existing customers. The existing lease pipelines contributes 56% of total EASTW’s raw water volume sold in 2021.

In our base-case forecast, we assume the new operator will commence services using the Nong-Pla Lai – Nong Khor and Nong Khor – Laem Chabang (phase II) water pipelines in the second half of 2022, and fully operate the entire pipelines of the Treasury Department from the beginning of 2024 onwards.

EASTW's raw water revenue in 2022-2024 is forecast to decline by 15%-30% from the 2021 figure. Thanks to incremental earnings from industrial water services, EASTW's total revenue should reach THB4.2-THB4.5 billion per year in 2022-2024, down by 5%-10% from 2021.

#### **New pipelines investment to push up leverage**

EASTW plans to retain existing customers by investing in new pipelines along the expired-lease pipelines. The investment is expected to cost around THB4.2 billion.

We expect EASTW's leverage to increase gradually during the forecast period, to support planned capital expenditure (CAPEX) of around THB4.0 billion per year in 2022-2023 and THB2.0 billion in 2024. Apart from the add-on CAPEX to substitute the leased pipelines of the Treasury Department totaling THB4.2 billion in 2022-2023, EASTW plans to invest in securing water supplies to cope with rising demand from its customers and to mitigate unpredictable drought situations. This includes a new pipeline connected to the "Klong Luang Reservoir" which is expected to increase water supplies in Chonburi province from 2022 onwards.

The remaining capital expenditure will be used to upgrade the capabilities of the water grid in the EEC and to develop technology and facilities for total water solutions. We expect EASTW's adjusted debt to capitalization ratio to climb to around 50%-60% in 2022-2024. The adjusted net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio is likely to rise to 6-9 times in 2022-2024.

At the end of March 2022, EASTW's adjusted debt to capitalization ratio was at 46.2%. The net debt to EBITDA ratio was 4.3 times for the first three months of 2022.

#### **Key raw water provider in EEC**

We believe EASTW will continue to be a key supplier of raw water in the EEC, despite the entrance of new operator in the area. EASTW has its owned pipelines totaling 376 km, accounted for 73% of total pipelines operated by EASTW.

The company has sufficient water sources from both government and privately-owned reservoirs, totaling approximately 430 million cubic meters (MCM) per year at full capacity. Water extraction accounted for 76% of EASTW's total water resources in 2021.

Barriers to entry are high for newcomers, due to high investment costs, and the difficulty in obtaining permissions for the right of way to install pipelines and water extraction rights from government agencies.

#### **Rising demand in the EEC**

We expect water demand in the EEC to rise with the country's reopening following the COVID-19 pandemic. With the industrial sector resuming normal operations, production volumes will likely increase significantly in response to rising demand from both domestic and overseas markets. Since 2018, the company has provided total water solution services, including supplies of raw water, tap water, and industrial water, as well as wastewater management and recycling services.

The company has signed contracts with well-known companies such as Gulf P.D. Co., Ltd. (Gulf PD), Amata Water Co., Ltd. (Amata Water), U-Tapao airport, Thai Oil PLC (TOP), PTT PLC (PTT) and Carabao Group PLC (CBG) for the supply of raw water, tap water, and industrial water. These services have gradually commenced operations since 2021.

In our base-case forecast, we project new demand for industrial water, tap water, and wastewater and recycling services will generate revenues of THB400 million per year during 2023-2024.

#### **Profitability remains strong**

Strong profitability and stable cash flow are EASTW's key strengths. Although we expect profitability to fall after losing the Treasury Department pipelines to the new operator, the company's EBITDA will likely still sustain at healthy levels of around THB1.8-THB2.0 billion per year throughout the forecast years, which are 10%-15% lower than the THB2.0-THB2.4 billion per year recorded during 2015-2021. EBITDA margin is likely to contract to 45%-50% in the forecast years, from the 48%-55% range during 2015-2021.

#### **Acceptable liquidity**

We assess EASTW to have adequate liquidity over the next 12 months. Its sources of funds comprised cash on hand and short-term investment of THB1.0 billion and undrawn credit facilities of THB4.5 billion at the end of March 2022. Its funds from operations over the next 12 months are expected to be around THB1.9 billion. These sources of funds should be

sufficient to cover debt service and investment needs over the next 12 months. EASTW has long-term debt repayment obligations of around THB2.3 billion coming due in the next 12 months. The company's investment budget for 2022 is around THB4.0 billion.

We expect EASTW will be able to comply with its debenture covenants over the next 12 to 18 months. The debt-to-equity ratio (in accordance with terms in debenture's prospectus) at the end of March 2022 was 1.0 times, below the debenture covenant of 2 times. The priority debt was 4% as of 31 March 2022.

#### BASE-CASE ASSUMPTIONS

- EASTW to maintain 50%-60% of its customers for the expired leased pipelines.
- Total revenues to be THB4.2-THB4.5 billion per year in 2022-2024.
- EBITDA margin in the 45%-50% range in 2022-2024.
- Total capital spending of THB4.0 billion per year in 2022-2023, and THB2.0 billion in 2024.

#### RATING OUTLOOK

The "stable" outlook reflects the expectation that EASTW's operations will remain resilient and continue to generate stable cash flow from existing customers.

#### RATING SENSITIVITIES

A rating upside is unlikely in the near term. However, a downgrade could occur if EASTW's operating performance falls significantly short of our expectations. This could occur if the company loses significant numbers of customers or is unable to build new water pipelines to replace the lease of Treasury Department pipelines within 2023.

#### COMPANY OVERVIEW

EASTW was established in 1992 by a Cabinet resolution. The government granted EASTW a mandate to develop and manage raw water distribution systems in the EEC. As of May 2022, EASTW's major shareholders were the Provincial Waterworks Authority (PWA) (owning a 40.2% stake); Manila Water Company, Inc. (MWC; 18.7%); and the Industrial Estate Authority of Thailand (IEAT; 4.6%).

In 2021, EASTW supplied a total of 264 MCM of raw water. Currently, EASTW supplies raw water in Chonburi, Rayong, and Chachoengsao provinces. The company has a strategy to focus more on comprehensive water solutions, covering raw water, tap water, industrial water, wastewater management, and recycled water.

EASTW, through its subsidiary, Universal Utilities PLC (UU), provides tap water services in 12 areas with a total production capacity of 398,500 cubic meters (cu.m.) per day in 2021. Excluding construction revenue under concession agreements, raw water sales accounted for 64% of the company's total revenue, while tap water services represented 31% of the total in 2021.

In 2018, EASTW signed a 25-year contract with Gulf PD Co., Ltd. and a 30-year contract with Amata Water Co., Ltd. to supply industrial water of 22 MCM per year and 5.5 MCM per year, respectively. Revenues from these industrial water contracts will be recognized from 2021 onwards.

In 2020, the company entered into four significant agreements to provide total water solutions in the EEC area: a 25-year concession to provide tap water and wastewater treatment services to U-Tapao airport; a 20-year contract for the supply of industrial water to Carabao Group PLC (CBG); a 30-year contract to supply tap water to PTT PLC at Wang Chan Valley; and a 32-year contract for the supply of raw water to Thai Oil PLC (TOP).

KEY OPERATING PERFORMANCE

Table 1: EASTW's Total Revenue Breakdown by Line of Business

Line of Business	Unit	2017	2018	2019	2020	2021	Jan-Mar 2021	Jan-Mar 2022
Raw water	%	57	57	61	59	64	65	65
Tap water	%	33	34	32	35	31	29	29
Industrial water	%	-	-	-	-	-	0.4	1
Engineering services and rental	%	4	4	3	3	3	4	3
Construction revenue under concession agreement	%	6	6	4	3	2	2	2
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Revenue from sale & service	Mil. THB	4,308	4,221	4,680	4,204	4,631	1,231	1,137

Source: EASTW

Table 2: EASTW's pipelines

	Pipelines	Length (km)	% of total	Contract End	Raw water sold in 2021 (MCM)	% to raw water sold in 2021
	Pipelines leased from Treasury Department					
1	Dok Krai-Mapthaphut- Sattahip	48.3	9%	31 Dec 2023	57	22%
2	Nong Khor – Laem Chabang (phase I)	29.1	6%	31 Dec 2023	54	20%
3	Nong-Pla Lai – Nong Khor	44.4	9%	Now	27	10%
4	Nong Khor – Laem Chabang (phase II)	14.1	3%	Now	11	4%
	<b>Sub-total Pipelines leased from Treasury Department</b>	<b>136</b>	<b>27%</b>	<b>31 Dec 2023</b>	<b>149</b>	<b>56%</b>
5	EASTW owned pipeline	376	73%	×	115	44%
	<b>Total</b>	<b>512</b>	<b>100%</b>		<b>264</b>	<b>100%</b>

Source: EASTW and TRIS Rating estimates

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,144	4,641	4,218	4,701	4,235
Earnings before interest and taxes (EBIT)	369	1,442	1,138	1,472	1,542
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	624	2,424	2,038	2,317	2,297
Funds from operations (FFO)	493	1,890	1,556	1,803	1,781
Adjusted interest expense	70	260	256	232	234
Capital expenditures	263	3,078	1,609	1,527	796
Total assets	23,794	23,689	22,854	21,181	20,141
Adjusted debt	10,038	10,241	8,552	7,161	6,511
Adjusted equity	11,680	11,427	11,069	11,014	10,805
<b>Adjusted Ratios</b>					
EBITDA margin (%)	54.57	52.24	48.31	49.28	54.23
Pretax return on permanent capital (%)	5.91 **	6.78	5.88	8.00	8.54
EBITDA interest coverage (times)	8.86	9.31	7.95	9.97	9.80
Debt to EBITDA (times)	4.33 **	4.22	4.20	3.09	2.83
FFO to debt (%)	17.84 **	18.45	18.19	25.18	27.36
Debt to capitalization (%)	46.22	47.26	43.59	39.40	37.60

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

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**Eastern Water Resources Development and Management PLC (EASTW)**

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<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
EASTW256A: THB1,200 million senior unsecured debentures due 2025	A
EASTW275A: THB850 million senior unsecured debentures due 2027	A
EASTW325A: THB750 million senior unsecured debentures due 2032	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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