

## Press Release

No. 63/2012

8 May 2012

### TRIS Rating Affirms Company Rating of "EASTW" at "A+" with "Stable" Outlook

TRIS Rating Co., Ltd. has affirmed the company rating of Eastern Water Resources Development and Management PLC (EASTW) at "A+" with "stable" outlook. The rating reflects EASTW's strengths as the sole raw water provider with a comprehensive pipeline network in the Eastern Seaboard, high barriers to entry, and low operating risk. The rating is further supported by the company's reliable stream of cash flows and strong financial profile. However, EASTW's strengths are partially constrained by the large capital investment requirements, the unpredictable effects of climate change, and customer concentration risk. In addition, the water resource management regulations set by the authorities remain unclear. This raises a concern over the company's ability to service the growing demand in the future. The "stable" outlook reflects the expectation that EASTW will sustain its ability to generate cash and that its operations will not be adversely impacted by any shifts in government policy. EASTW is also expected to expand with a conservative use of leverage and well-disciplined monitoring.

TRIS Rating reported that EASTW was established in 1992, following a Cabinet resolution, EASTW was mandated to be responsible for the development and management of raw water distribution systems in seven provinces in the Eastern Seaboard. Currently, the raw water provision services offered by EASTW focus on Chonburi, Rayong, and Chachoengsao provinces, as the commercial activities and communities in these areas continue to expand. In addition, the company also provides tap water in 11 service areas. In 2011, EASTW's total revenue was Bt3,310 million. Raw water sales accounted for 68% of total revenue, while tap water services represented 23% of the total.

TRIS Rating said, since inception, EASTW's business fundamentals have remained strong as raw water demand by industrial users on the Eastern Seaboard has grown consistently. Raw water demand is also susceptible to economic conditions, as illustrated in 2009 when raw water sales declined in tandem with the economic downturn. In 2011, raw water sales grew 6.6% from a year earlier. Raw water revenue rose to Bt2,261 million as the level of industrial activity expanded mainly in the Map Ta Phut area and because of higher demand from consumer groups. The revenue generated from the tap water business remained strong, up by 6.4% compared with the previous year. However, EASTW is exposed to customer concentration risk, as sales to the Provincial Waterworks Authority (PWA) and the Industrial Estate Authority of Thailand (IEAT), the major shareholders and key customers, comprised 65%-70% of total annual sales during the last five years. In addition, PWA had bargaining power when negotiating the raw water tariff, as shown during 2008-2011 when the company had provided some discounts to its domestic consumption customers included the PWA.

EASTW has initially leased and operated four water pipeline networks previously overseen by the Ministry of Finance (MOF). EASTW continues to develop its distribution network so that it connects all service areas. Although water distribution does not require complicated technology, it does require an extensive network. This capital intensive requirement does pose a significant barrier to entry. EASTW is unlikely to face a threat from any large competitor in its raw water service coverage area during the foreseeable future. A fully connected network enhances EASTW's ability to efficiently manage and extract water from various sources to supply its clients in all service areas. One major threat to the raw water service business is the sourcing of water supplies. Climate change could affect the volume of rainfall. The rains fill the reservoirs during rainy season and the accumulated water supply is used throughout the whole year. Moreover, to cope with increasing demand, EASTW has to continue to find new raw water sources. The new sources are often located farther from EASTW's service areas. Therefore, EASTW is likely to incur higher costs for water extraction. The additional volume of water supply is subject to approval by the Royal Irrigation Department (RID), which typically gives priority to the provision of water to the agricultural sector. During 2010-2011, EASTW was granted an additional allocation of water from the Dokkrai reservoir amounting to 20 million cubic meters (cu.m.), and to 54 million cu.m. from the Nong Plalai reservoir. For the tap water business, although demand has grown steadily, the prospects for expansion are modest since PWA does not seem to grant any new concessions or outsource its operations.

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EASTW's solid financial performance is derived from its reliable sources of income and resilient demand for water. The company's operating margin before depreciation and amortization was high at 54%-56% between 2009 and 2011. Funds from operations (FFOs) increased from Bt1,286 million in 2010 to Bt1,368 million in 2011. At the same time, total debt increased from Bt2,564 million in 2010 to Bt2,984 million at the end of 2011. The rise came because of the investment required for the third Nong Plalai - Map Ta Phut pipeline project. Cash flow protection, as measured by the FFOs to total debt ratio, was down from 50% in 2010 to 46% in 2011. However, the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio remained strong, rising from 19.9 times in 2010 to 23.8 times in 2011. As a result, the ratio of total debt to capitalization increased from 28% in 2010 to 30% in 2011. EASTW's leverage is expected to rise, as the company intends to use debt to finance part of its investments. EASTW plans to invest more than Bt4,000 million in total during 2012-2014. Meanwhile, EASTW is likely to continue its annual dividend payment, said TRIS Rating. – End

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

**Company Rating:**

Affirmed at A+

**Rating Outlook:**

Stable

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