

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 54/2016

14 June 2016

Company Rating:	A+
Issue Rating:	
Senior unsecured	A+
Outlook:	Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating and senior unsecured debenture ratings of Eastern Water Resources Development and Management PLC (EASTW) at "A+". The ratings reflect EASTW's strength as the sole raw water provider with a comprehensive pipeline network in the Eastern Seaboard area, low operating risk, and reliable cash flows. These strengths are partially offset by the large capital investments needed to increase raw water supply capacity, the unpredictable effects of climate change, and customer concentration risk. The ratings also take into consideration a degree of regulatory risk due to the uncertainty surrounding water resource management policies that could affect EASTW's operations.

Established in 1992 following a Cabinet resolution, EASTW was given a mandate to be responsible for the development and management of raw water distribution systems in seven provinces in the Eastern Seaboard area. Currently, EASTW provides raw water in Chonburi, Rayong, and Chachoengsao provinces, as the level of commercial activities and residential communities in these areas have continued to expand. In 2015, EASTW extracted 317 million cubic meters (cu.m.) of raw water and supplied a total of 296 million cu.m., including internal use for tap water production. EASTW, through its subsidiary, Universal Utilities PLC (UU), also provides tap water services in 12 service areas with a total production capacity of 361,660 cu.m. per day. As of May 2016, the major shareholders of the company were the Provincial Waterworks Authority (PWA; owning a 40.2% stake), The Electricity Generating PLC (EGCO; 18.7%), Norbax Inc., 13 (5.7%), and the Industrial Estate Authority of Thailand (IEAT; 4.6%). In 2015, raw water sales accounted for 66% of the company's total revenue, while tap water services represented 27% of the total.

EASTW's strong business profile is underpinned by its low operating risk. EASTW is the sole raw water provider in the Eastern Seaboard area with an extensive pipeline network. The network required a significant amount of capital and approvals from regulatory agencies. Raw water sourcing is another key success factor. EASTW has received approval to extract raw water from four reservoirs of the Royal Irrigation Department (RID). EASTW has continued to search for new raw water sources to cope with increasing demand and mitigate the risk of climate change. However, the new sources are subject to the RID's approval and tend to incur higher cost due to the farther distance. With an integrated network and limits on the sources of raw water, TRIS Rating believes that EASTW is unlikely to face a threat from any large competitor in the raw water segment during the foreseeable future. However, EASTW is exposed to customer concentration risk as sales to the PWA and the IEAT, two major shareholders and two key customers, comprised 65%-70% of its total annual sales during the last five years.

In general, the factors that drive demand for raw water are industrial activities and consumption by households and the tourism industry in the Eastern region which are susceptible to economic conditions. In 2015, EASTW sold raw water worth Bt2,899 million, a 4.7% increase from a year earlier. Raw water sales volume grew by 5.3% to 270.7 million cu.m. The growth was driven by consumer customers as industrial users were affected by the slowdown in economy and exports. Raw water sales dropped by 5.6% year-on-year (y-o-y) in the first quarter

of 2016 to Bt700 million, due to a 5.9% y-o-y drop in sales volume. The drop was due mainly to supply shortages in Chonburi and Chachoengsao areas due to the effect of a drought and a capacity limit in its pipeline to serve the areas. However, EASTW finished laying the second Nongplalai-Nongkho pipeline in April 2016, boosting supply to areas.

Revenue from the tap water segment grew by 17.3% in 2015 to Bt1,160 million and jumped by 34.5% y-o-y to Bt345 million in the first quarter of 2016. The jump was due mainly to the acquisition of Egcom Tara Co., Ltd. (Egcom Tara) by UU in August 2015. Excluding Egcom Tara, revenue from the tap water segment grew by 6.1% in 2015 and 2.3% y-o-y for the first quarter of 2016. Although demand for tap water has grown steadily, the prospects for expansion are modest since the PWA is not inclined to grant any new concessions or outsource its operations. In order to sustain revenue growth, EASTW has to seek opportunities to get contracts directly from municipalities and formulate a service model for unserved areas.

EASTW's strong financial profile is supported by its high profitability and reliable cash flows. The operating margin (operating profit before depreciation and amortization, as a percentage of sales) has stayed above 54% during the past five years. However, leverage rose markedly due to a rise in debt to fund its capital investments and make the Egcom Tara acquisition. EASTW, through UU, used a bridge loan of Bt1,600 million to acquire 74% of Egcom Tara in 2015. Total debt rose from Bt5,450 million in 2014 to Bt8,202 million at the end of March 2016. The ratio of debt to capitalization rose from 39.02% in 2014 to 45.35% at the end of March 2016. UU plans to list on the Stock Exchange of Thailand (SET) in 2016 or in the first quarter of 2017 and use the proceeds from the initial public offering (IPO) to repay the bridge loan for the Egcom Tara acquisition. This will help improve EASTW's capital structure. After the IPO, EASTW's stake in UU will be diluted but remain not less than 55%.

EASTW's cash flow protection remains sound despite the recent rise in debt. For the first three months of 2016, the ratio of funds from operations (FFO) to total debt was 22.29%, annualized from the trailing 12 months, while the earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio stood at 14.71 times.

During 2016-2018, under TRIS Rating's base case scenario, EASTW's revenue is expected to grow by 3%-5% annually, supported by continuous growth in demand for both raw water and tap water. The operating margin is expected to stay above 54%. Over the next 12 months, EASTW's planned uses of funds will be debt repayments of Bt2,300 million, including UU's bridge loan of Bt1,600 million, capital expenditures of Bt1,500-Bt2,000 million, plus dividend payments of Bt800-Bt900 million. The funding sources are expected FFO of Bt2,000 million, cash and cash equivalents of Bt1,016 million at the end of March 2016, a committed bank credit facility of Bt1,700 million, and the expected proceeds from UU's IPO of Bt1,000-Bt1,600 million.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that EASTW will continue to receive reliable streams of cash from its resilient operation. Based on EASTW's current risk profile and the current economic conditions, any credit action is unlikely over the next 12 months. However, any new aggressive debt-funded investments, which result in the ratio of debt to capitalization staying over 50% on a sustained basis, could reduce EASTW's credit quality.

Eastern Water Resources Development and Management PLC (EASTW)

Company Rating:	A+
Issue Ratings:	
EASTW226A: Bt1,200 million senior unsecured debentures due 2022	A+
EASTW256A: Bt1,200 million senior unsecured debentures due 2025	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2016	----- Year Ended 31 December -----				
		2015	2014	2013	2012	2011
Total sales	1,103	4,367	4,242	3,900	3,677	3,250
Gross interest expense	45	246	224	191	150	114
Net income from operations	379	1,359	1,334	1,313	1,241	1,008
Funds from operations (FFO)	612	1,798	1,721	1,629	1,500	1,368
Total capital expenditures	117	2,062	2,097	1,140	1,986	1,176
Total assets	19,658	19,627	15,243	13,480	12,440	10,784
Total debt	8,202	8,763	5,450	4,567	4,307	2,984
Shareholders' equity including minority interest	9,882	9,500	8,517	7,902	7,320	6,936
Operating income before depreciation and amortization as % of sales	59.63	53.89	52.40	54.66	54.38	55.61
Pretax return on permanent capital (%)	11.03 **	11.57	13.58	14.76	15.73	15.85
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	14.71	9.83	10.18	11.43	13.63	16.45
FFO/total debt (%)	22.29 **	20.52	31.58	35.67	34.82	45.86
Total debt/capitalization (%)	45.35	47.98	39.02	36.63	37.04	30.08

* Consolidated financial statements

** Annualized with trailing 12 months

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