

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 100/2018

12 July 2018

CORPORATES

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+	-

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of Eastern Water Resources Development and Management PLC (EASTW) and the ratings of EASTW's senior unsecured debentures at "A+" with a "stable" outlook. The ratings reflect EASTW's strengths as the sole raw water provider with a comprehensive pipeline network in the Eastern Seaboard area, its high profitability, and reliable cash flows. These strengths are partially offset by the unpredictable effects of climate change and its higher leverage due to major investments.

KEY RATING CONSIDERATIONS

Key raw water provider in the Eastern Seaboard

EASTW's status as the key provider of raw water in the Eastern Seaboard underpins its strong business profile. The integrated pipeline network enables the efficient allocation and channeling of water from multiple sources to service areas in Chonburi, Rayong, and Chachoengsao provinces. EASTW's comprehensive network makes it uneconomical for any newcomer to compete in the company's service areas. In addition to the large capital investment needed to build a pipeline, a new pipeline requires rights of way which would have to be approved by several government agencies.

Strong profitability and reliable cash flows

EASTW's strong financial profile reflects its strong profitability and reliable cash flows from contract-based customers. The operating margin (operating profit before depreciation and amortization as a percentage of sales) has stayed above 55.0% during the past five years.

TRIS Rating assumes EASTW's revenue will grow 1.0%-5.0% annually during 2018-2020, taking into account the higher demand from the Eastern Economic Corridor (EEC) offsetting the lower raw water demand from the Provincial Waterworks Authority (PWA).

Unpredictable effects of climate change

The climate change is unpredictable and affects the water supply. Over the past 10 years, climate change has continually occurred to result in unusual weather conditions in the eastern part of the country. Water sources have been deteriorating during the dry season and water feeding from distant water sources increases electricity cost. Therefore, EASTW is alert to have sufficient water capital by finding extra resources, not only from the Royal Irrigation Department's (RID) sources and private ponds but also by investing in its own reservoirs.

Investment projects push leverage higher

Under TRIS Rating's base case scenario, we expect EASTW's leverage to increase over the next three years. EASTW needs secure and sufficient supplies of water to cope with rising demand from clients in the EEC areas. The company has a strategy to focus on a comprehensive water solution. These include raw water, clarified water, waste water management, and recycled water.

EASTW plans capital expenditures of more than Bt5,000 million during the next three years. The company will use the majority of the capital expenditures to develop new pipelines, upgrade pumping stations, and enhance water development technology. TRIS Rating expects that EASTW's total debt to

capitalization ratio could climb to 45.0% over the next three years. The ratio of funds from operations (FFO) to total debt will be lower than 20.0% with the earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio at 6 times during 2018-2020.

At the end of March 2018, EASTW's leverage and liquidity profile remained sound. The total debt to capitalization ratio was healthy at 39.7%. The FFO to total debt ratio was 24.8%, annualized from the trailing 12 months, while the EBITDA interest coverage ratio stood at 12.93 times for the first three months of 2018.

RATING OUTLOOK

The "stable" outlook reflects our expectation that EASTW's operation will remain resilient and continue to generate reliable streams of cash. TRIS Rating also expects the company to expand through the conservative use of leverage and maintain its financial disciplines.

RATING SENSITIVITIES

A rating upside depends on whether EASTW can increase operating cash flow materially without weakening the balance sheet. A rating downside, on the other hand, would come from overly aggressive, debt-funded investments, which would result in the debt to capitalization ratio staying over 50.0% on a sustained basis.

COMPANY OVERVIEW

EASTW was established in 1992 by a Cabinet resolution. The government gave EASTW a mandate to be responsible for the development and management of raw water distribution systems in the Eastern Seaboard area. As of May 2018, EASTW's major shareholders were the PWA (owning a 40.2% stake); Manila Water Company, Inc. (MWC; 18.7%), acquired from Electricity Generating Public Company Limited (EGCO) on 14 March 2018; and the Industrial Estate Authority of Thailand (IEAT; 4.6%).

In 2017, EASTW extracted 272 million cubic meters (cu.m.) of raw water and supplied a total of 256 million cu.m., including internal use for tap water production. Currently, EASTW provides raw water in Chonburi, Rayong, and Chachoengsao provinces. EASTW, through its subsidiary Universal Utilities PLC (UU), provides tap water service in 13 service areas with a total production capacity of 396,660 cu.m. per day. Raw water sales accounted for 60.0% of the company's total revenue, while tap water services represented 35.0% of the total in 2017.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total sales**	990	4,032	4,259	4,271	3,973
Gross interest expense	45	233	252	179	224
Net income from operations	303	1,221	1,309	1,359	1,334
Funds from operations (FFO)	548	1,815	1,811	1,821	1,721
Total capital expenditures	131	757	975	2,062	2,097
Total assets	19,583	19,483	19,860	19,627	15,243
Total debt	7,075	7,285	8,008	8,763	5,450
Shareholders' equity including minority interest	10,734	10,430	10,048	9,500	8,517
Operating income before depreciation and amortization as % of sales	57.50	57.09	55.67	55.10	55.95
Pretax return on permanent capital (%)	8.94 ***	9.36	9.72	11.57	13.58
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.93	10.08	9.55	13.49	10.18
FFO/total debt (%)	24.80 ***	24.91	22.62	20.78	31.58
Total debt/capitalization (%)	39.73	41.12	44.35	47.98	39.02

* Consolidated financial statements

** Excluding construction revenue under concession agreements

*** Annualized from the trailing 12 months

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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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