

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

No. 110/2024
28 June 2024

CORPORATES

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

Last Review Date: 21/08/23

Company Rating History:

Date	Rating	Outlook/Alert
29/06/22	A	Stable
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 affirms the company rating on Eastern Water Resources Development and Management PLC (EASTW) and the ratings on its outstanding senior unsecured debentures at “A”, with a “stable” outlook. At the same time, we assign a rating of “A” to EASTW’s newly proposed issue of up to THB2.0 billion senior unsecured debentures. The company intends to use the proceeds to invest in new water pipelines and system.

The ratings reflect EASTW’s strengths as a major raw water supplier with an extensive pipeline network in the Eastern Economic Corridor (EEC), its reliable services, and lengthy track record. These strengths are partially offset by its increasing leverage from investments in new water pipelines, a temporary drop in profitability due to high raw water costs during the construction of new pipelines, and increased competition among raw water suppliers.

KEY RATING CONSIDERATIONS

Strong customer retention, but weaker sales due to increased competition

We expect EASTW to maintain good relationships with its customers and retain the majority of its raw water customers during the forecast years. In the first quarter of 2024, EASTW retained more than 90% of its customers despite the transfer of all pipelines leased from the Treasury Department to a new private operator on 2 January 2024. EASTW’s ability to retain customers is mainly due to its proven and reliable services. However, in the first quarter of 2024, raw water sales volume decreased by 15% year-on-year (y-o-y) to 52 million cubic meters (MCM) as the Industrial Estate Authority of Thailand (IEAT), a key customer, switched to buying raw water from another supplier. Consequently, the company’s raw water sales volume is anticipated to decline by 6% in 2024 before rebounding by around 1% in 2025-2026. With higher competition, we also expect the average raw water price to decline to around THB10.5 per cubic meters (cu.m.) from THB11.1 per cu.m. in 2023. As a result, we expect EASTW’s raw water sales to fall to around THB2.2 billion during 2024-2026.

Tap water and industrial water sales to boost revenue

EASTW’s tap water business is expected to deliver consistent performance throughout the forecast period. EASTW and its subsidiaries have been granted concessions to supply tap water to various service areas in Chonburi, Rayong, and Chachoengsao with minimum order quantities (MOQs). EASTW’s tap water sales volume was negatively impacted during the Coronavirus Disease 2019 (COVID-19) pandemic. Demand rebounded by 4% in 2023, due mainly to the recovering tourism industry after the country’s reopening. We expect the company’s tap water volume to grow by 2% during 2024-2026 in tandem with the growth of the tourism industry. Also, the tap water price is subject to the Consumer Price Index (CPI) or contract agreements, which we project to grow by around 2% per year. Consequently, we expect EASTW’s tap water revenue to range from THB1.6 billion to THB1.7 billion per annum during the forecast period.

The company also started providing industrial water to customers in 2021. Under the industrial water scheme, the company must install filtration plants in clients’ areas and charge a higher price than the raw water price. As of March 2024, there were four industrial water customers, an increase from three customers in 2022. We expect the company’s revenue from industrial water to

gradually increase to THB415 million in 2026 from THB164 million in 2023.

Weak operating results, but improvement expected

EASTW's operating performance is expected to weaken in 2024 but rebound from 2025 onwards. In 2024, the company's profitability is expected to soften due to the substantial increase in raw water costs. As construction of its own pipelines to replace the leased pipelines that were returned to the Treasury Department had not been fully completed at the beginning of 2024, EASTW has to purchase raw water from the new operator to supply its customers during the transition period. As a result, the company's EBITDA margin is expected to drop to around 34%, compared with 44% in 2023. We expect the EBITDA margin to improve to 45% in 2025 and 49% in 2026, respectively, once its own pipelines come fully on stream in the last quarter of 2024. The company's EBITDA is also expected to increase to range between THB2.0 billion and THB2.2 billion in 2025-2026 from THB1.5 billion in 2024.

The company may also have to pay fees to the new operator to transmit water from the Nongpalai Reservoir to its own pipeline network. In April 2024, the Treasury Department notified EASTW to dismantle assets and relocate staff from areas around the Nongpalai Reservoir within 30 days of the notice date. The company aims to relocate the pipelines outside the Treasury Department's area within a year. During the transition period, EASTW plans to negotiate with the Treasury Department to extend the usage of the area or to negotiate a fee payment, which is expected to be much lower than the cost of buying raw water from the new operator. In our base case, we assume that EASTW will pay a certain fee for the transmission of water for the full year in 2025. However, EASTW's operating results could be lower than our projection if the Treasury Department does not allow an extension of the usage of its areas or if the transmission fee is significantly higher than our forecast.

Continuing role as a major EEC raw water supplier

We believe EASTW will continue to be a key supplier of raw water in the EEC. In 2023, EASTW developed 139 kilometers (km) of new water pipelines, including 94 km of pipelines alongside the Treasury Department's pipelines and a new 45-km pipeline to the Klong Luang Reservoir. As of March 2024, the new pipelines alongside the Treasury Department's pipelines were 95% complete. This pipeline is scheduled for completion and commencement of operation by the end of September 2024. Meanwhile, the Klong Luang pipeline is already completed and awaiting permission from the Treasury Department to install the pumping station. The additional water source from the Klong Luang Reservoir will secure water supply that meets the demand in the Chonburi area.

Overall, the company's water distribution network will add up to around 526 km of pipelines, connecting various government reservoirs, rivers, and privately owned reservoirs. The extensive pipeline network is a key competitive strength of the company, as it provides reliable access to various water sources, especially during periods of drought. In 2023, the company sourced water from both government and privately owned reservoirs totaling around 452 MCM at current capacity. Water extraction accounted for 66% of EASTW's total water resources in 2023.

Barriers to entry are high for newcomers due to the heavy investment costs and the difficulty of obtaining permits from the relevant agencies to install pipelines and extract water.

High leverage in 2024; some relief in 2025-2026

EASTW's leverage is projected to peak in 2024, then gradually decline in 2025-2026. The debt level has increased materially since 2022 when the company started investing in pipeline development to replace pipelines of which leases were expiring. The total cost was THB6.0 billion. EASTW paid around THB3.3 billion of the amount during 2022-2023. The balance of THB1.5 billion will be paid in 2024 and THB1.2 billion in 2025.

An additional capital expenditure (CAPEX) amount will be used to upgrade the capacity 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 55% in 2024-2026. The adjusted net debt to EBITDA ratio is likely to rise to 10 times in 2024, then improve to around 6-7 times in 2025-2026 in tandem with the anticipated increase in cash flow.

Acceptable liquidity

We assess EASTW liquidity as adequate over the next 12 months. Its sources of funds at the end of March 2024 comprised cash on hand and short-term investments of THB1.5 billion and undrawn credit facilities of THB3.3 billion. Funds from operations (FFO) over the next 12 months are projected to be around THB1.0 billion. These sources of funds should cover debt services and investment needs over the next 12 months. According to information as of March 2024, the company will have maturing debt over the next 12 months totaling THB1.8 billion, comprising short-term loans of THB520 million and long-term loans of THB1.3 billion. CAPEX over the next 12 months is estimated at THB2.9 billion. The company also plans a THB2.0 billion debenture issuance to finance its investments.

EASTW should have no problems complying with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of December 2023 and March 2024 was 1.5 times, well below the debenture covenant ceiling of 2 times.

Debt structure

As of March 2024, EASTW's total interest-bearing debt stood at THB14 billion. This included THB520 million in priority debt comprising unsecured debts at the subsidiary level. The priority debt to total debt ratio was 4%.

BASE-CASE ASSUMPTIONS

- EASTW to retain more than 90% of its existing customers; construction of replacement pipelines to be completed within the third quarter of 2024.
- Total revenues to be THB4.3-THB4.6 billion per year in 2024-2026.
- EBITDA margin at around 34% in 2024 and 45%-50% in 2025-2026.
- Total capital spending of THB2.9 billion in 2024, THB1.6 billion in 2025, and THB700 million in 2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that EASTW will continue to retain the majority of its customers. Its operating performance is expected to weaken in 2024, then gradually improve from 2025 onwards, with the net debt to EBITDA ratio falling below 8 times. Also, we expect EASTW to be able to utilize its existing water sources.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, a downgrade could occur if EASTW's operating performance falls short of our expectations. This could occur if the company loses significant numbers of customers or is unable to utilize its existing water sources.

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 2024, 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 2023, EASTW sold a total of 219 MCM of raw water. At present, EASTW supplies raw water in Chonburi, Rayong, and Chachoengsao. The company's current strategy focuses 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 in Chonburi, Rayong, and Chachoengsao, with a total production capacity of 405,730 cu.m. per day in 2023. Excluding construction revenue under concession agreements, raw water sales accounted for 57% of the company's total revenue, while tap water services and industrial water services represented 36% and 4% of the total in 2023, respectively.

In 2018, EASTW signed 25-year and 30-year contracts with Gulf PD Co., Ltd. and 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 have been recognized from 2021 onwards.

In 2020, the company entered into four 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	2019	2020	2021	2022	2023	Jan-Mar 2023	Jan-Mar 2024
Raw water	%	61	59	64	61	57	62	54
Tap water	%	32	35	31	33	35	33	37
Industrial water	%	-	-	-	1	4	2	5
Engineering services and rental	%	3	3	3	3	3	3	4
Construction revenue under concession agreement	%	4	3	2	2	1	0	0
Total	%	100	100	100	100	100	100	100
Revenue from sale & service	Mil. THB	4,680	4,204	4,631	4,263	4,287	1,113	1,066

Source: EASTW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	1,088	4,321	4,298	4,641	4,218
Earnings before interest and taxes (EBIT)	62	828	1,079	1,442	1,138
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	331	1,914	2,157	2,424	2,038
Funds from operations (FFO)	181	1,335	1,653	1,890	1,556
Adjusted interest expense	150	463	314	260	256
Capital expenditures	740	2,228	2,833	3,078	1,609
Total assets	28,422	29,077	25,098	23,689	22,854
Adjusted debt	12,963	12,520	11,573	10,088	8,417
Adjusted equity	11,620	11,638	11,568	11,427	11,069
Adjusted Ratios					
EBITDA margin (%)	30.4	44.3	50.2	52.2	48.3
Pretax return on permanent capital (%)**	2.5	3.3	4.7	6.8	5.9
EBITDA interest coverage (times)	2.2	4.1	6.9	9.3	7.9
Debt to EBITDA (times)**	7.5	6.5	5.4	4.2	4.1
FFO to debt (%)**	8.5	10.7	14.3	18.7	18.5
Debt to capitalization (%)	52.7	51.8	50.0	46.9	43.2

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

Eastern Water Resources Development and Management PLC (EASTW)

Company Rating:	A
Issue Ratings:	
EASTW256A: THB1,200 million senior unsecured debentures due 2025	A
EASTW25DA: THB350 million senior unsecured debentures due 2025	A
EASTW275A: THB850 million senior unsecured debentures due 2027	A
EASTW28OA: THB650 million senior unsecured debentures due 2028	A
EASTW30OA: THB1,100 million senior unsecured debentures due 2030	A
EASTW325A: THB750 million senior unsecured debentures due 2032	A
EASTW332A: THB1,000 million senior unsecured debentures due 2033	A
EASTW33OA: THB1,150 million senior unsecured debentures due 2033	A
Up to THB2,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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