

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PLC

Announcement no. 792

31 May 2011

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/Unsecured)
23/01/08	A+/Sta	-
11/10/07	A+/Alert Dev	-
20/09/07	A+/Alert Dev	-/A+
12/07/04	A+/Sta	-/A+
29/06/04	A+	-/A+

Rating Rationale

TRIS Rating affirms the company rating of Eastern Water Resources Development and Management PLC (EASTW) at “A+”. 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 cash flow stream 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. The lengthy process to source new supplies of water from the Royal Irrigation Department (RID) raises a concern over the company’s ability to service the growing demand in the future.

Founded in 1992, EASTW was mandated to be responsible for raw water services in seven provinces in the Eastern Seaboard according to a Cabinet resolution to privatize the development and management of raw water distribution systems. Currently, the raw water provision services offered by EASTW focus on Chonburi, Rayong, and Chachoengsao provinces as the provincial areas undergo further development of commercial activities and further community expansions. In addition, the company also provides tap water in 11 service areas. In 2010, EASTW’s total revenue was Bt3,066 million. Raw water sales accounted for 68% of total revenue, while tap water services represented 23% of the total.

Since inception, the company’s business fundamentals have remained strong as raw water demand by industrial users on the Eastern Seaboard has grown consistently. However, the raw water demand was also susceptible to economic conditions, as illustrated in 2009 when raw water sales declined in tandem with the economic downturn. In 2010, the company posted a strong 11% year-on-year (y-o-y) increase in raw water revenue. Revenue rose to Bt2,118 million as the economy recovered and pending projects in the Map Ta Phut areas resumed. The revenue generated from the tap water business remained strong, with sales rising by 13% in 2010. However, EASTW is exposed to customer concentration risk as the Provincial Waterworks Authority (PWA) and the Industrial Estate Authority of Thailand (IEAT), the major shareholders and key customers, contributed 65%-70% of total annual sales during the last five years. Both PWA and IEAT have bargaining power when negotiating the raw water tariff. The company had offered some discounts to these two state enterprises during 2008-2011.

The company has leased and operated four water pipeline networks previously overseen by the Ministry of Finance (MOF), since inception. EASTW continues developing its distribution network to be fully connected with all service areas. Although water distribution does not require complicated technology, the distribution requires a capital intensive network which poses a significant barrier to entry. EASTW is unlikely to face a threat from any large competitor in its raw water

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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 allocate to its clients in all service areas. One major threat to the raw water services business is the sourcing of water supplies. Climate change could affect the volume of rainfall. The rains fill the reservoirs during raining 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 RID's approval. RID mostly gives priority to the agricultural sector. 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.

EASTW's solid financial performance is derived from reliable sources of income and resilient demand for water. The company's operating margin before depreciation and amortization was high at 54%-55% during 2009 through the first three months of 2011. Funds from operations (FFO) rose from Bt1,085 million in 2009 to Bt1,226 million in 2010 and stood at Bt424 million in the first quarter of 2011. The company's cash flow protection is strong, as measured by the FFO to total debt ratio of 47%-48% during 2009-2010. In addition, the earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio rose from 13.2 times in 2009 to 17.3 times in 2010. Both ratios further improved in the first three months of 2011. Total debt climbed from Bt2,289 million in 2009 to Bt2,564 million in 2010 and Bt2,900 million at the end of March 2011 due to the investment needed to build the third pipeline from Nong Plalai to Map Ta Phut. As a result, the ratio of total debt to capitalization increased from 26.5% in 2009 to 31.3% in the first three months of 2011. Leverage is expected to rise as EASTW intends to use debt to finance part of its investments. EASTW plans to invest more than Bt4,000 million during 2011-2013.

Rating Outlook

The "stable" outlook reflects the expectation that EASTW will sustain its cash flow generating capability and that business operations will not be adversely impacted by any shifts in government policy. EASTW is also expected to expand its business with a conservative use of leverage and well-disciplined monitoring.

Eastern Water Resources Development and Management PLC (EASTW)

Company Rating:

A+

Rating Outlook:

Stable

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