

TTW PUBLIC COMPANY LIMITED

No. 2/2015

8 January 2015

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/01/09	AA-	Stable
22/08/08	AA-	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the current senior unsecured debenture ratings of TTW PLC (TTW) at “AA-”. At the same time, TRIS Rating assigns the rating of “AA-” to TTW’s proposed issue of up to Bt1,500 million in senior unsecured debentures. The proceeds from the proposed debenture will be used to finance expansions of TTW’s water treatment and distribution networks in the Nakorn Pathom-Samut Sakhon and the Pathum Thani service areas. The ratings reflect TTW’s strong business profile as the largest private tap water provider in Thailand, as well as its stable cash flows from long-term offtake agreements, steady growth in the demand for water, and the nature of tap water business with low operating risk and high barriers to entry. However, these strengths are partially offset by TTW’s high leverage and customer concentration risk, as the Provincial Waterworks Authority (PWA) is TTW’s major customer.

As of August 2014, TTW’s major shareholders included Mitsui Water Holdings (Thailand), Ltd. (Mitsui Water; owning 25.98% of the outstanding shares), Bangkok Expressway PLC (BECL; 20.24%), and CH. Karnchang PLC (CK; 19.04%). TTW is the largest private tap water producer in Thailand with a total production capacity of 876,000 cubic meters (cu.m.) per day. The company also operates a wastewater treatment facility which has a capacity of 18,000 cu.m./day. In addition, TTW owns 25% of CK Power PLC (CKP), which owns a 56% stake in SouthEast Asia Energy Ltd. (SEAN). SEAN operates a 615-megawatt (MW) hydropower plant in the Lao People’s Democratic Republic (Lao PDR).

TTW operates three water filtration plants which provide tap water in three service areas; Nakorn Pathom-Samut Sakhon, Pathum Thani, and Bangpa-In Industrial Estate (BIE). TTW wholesales tap water to the PWA under two Water Purchase and Sale Agreements (WPSA). Taken together, the two WPSAs have a committed minimum offtake quantity (MOQ) of 675,000 cu.m./day. The terms of the WPSAs are 25 and 30 years, and the agreements will mature in 2023 and 2034, respectively. The pricing formulas in the WPSAs are linked to the Consumer Price Index (CPI). For BIE, TTW has the 30-year operating rights to provide tap water and wastewater treatment services. The rights will be valid through 2039.

The majority of TTW’s revenue comes from selling water in the Nakhon Pathom-Samut Sakhon and Pathum Thani service areas. These two areas contributed 64% and 31% of total revenue in the first nine months of 2014, respectively. The significant contribution reflects TTW’s customer concentration risk on the PWA. However, since the PWA is a state enterprise, its credit profile is acceptable. Apart from being TTW’s major customer, the PWA is a key competitor. TTW’s sales volume will fall when the PWA builds new filtration plants and distributes tap water in areas near TTW’s service areas. For example, the PWA opened a new filtration plant in Pathum Thani in the second quarter of 2013. As a result, sales volume in the Pathum Thani service area did not rise in 2013 and dropped by 1.9% in the first nine months of 2014. However, the risk is partly alleviated by the minimum offtake quantity guaranteed by the long-term agreements with the PWA.

TTW’s strong business profile is supported by its low operating risk and high barriers to entry. Although water treatment technology is not complicated, the

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business is capital intensive if a water treatment operator is required to invest in transmission and distribution networks. TTW owns the bulk transmission mains (BTM) and the local distribution networks (LDN) in some of its service areas. Ownership of the mains and the distribution network hinders the ability of new entrants to operate in TTW's existing coverage areas. Moreover, the availability and quality of raw water are important factors of tap water production. TTW's two key water sources are the Tha Chin and the Chao Phraya rivers, which have sufficient volumes of raw water. Although each water source possesses different qualities, the company is able to treat the raw water from both sources to obtain high quality tap water.

TTW's strong financial profile is due to the well-structured WPSAs and growing demand for water in its service areas. In 2013, TTW reported sales of Bt5,182 million, up by 5.2% from a year earlier. The revenue growth was supported by both a rise in total sales volume and price adjustment. For the first nine months of 2014, revenue grew by 4.5% year-on-year (y-o-y) to Bt4,046 million. The growth was driven mainly by an increase in the prices of tap water as sales volume grew by just 0.7% y-o-y. The small rise in sales volume was caused by the economic slowdown and the PWA's new filtration plant in the Pathum Thani service area.

TTW's profitability remains strong and stable. The operating margin, defined as operating income before depreciation and amortization as a percentage of sales, stayed above 76% from 2006 through the first nine months of 2014. Liquidity remains sound. The ratio of funds from operations (FFO) to total debt was 27.4% for the first nine months of 2014 (annualized, from the trailing 12 months). The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio held at 8 times for the first nine months of 2014. Leverage, as measured by the ratio of total debt to capitalization, remained acceptable at 53.9% at the end of September 2014.

TTW plans to invest in two projects in order to expand the capacities of its water treatment and distribution networks in the Nakorn Pathom-Samut Sakhon and the Pathum Thani service areas. The first project is a new filtration plant in Krathumban, Samut Sakorn, at a total cost of Bt2,904 million. The initial production capacity is 100,000 cu.m./day. However, the structures can accommodate future expansions which will bring the capacity up to 400,000 cu.m./day. The project is scheduled to finish at the end of 2016. The second project is capacity expansion at its Prathum Thani plant to serve the growing demand in Rangsit area. The total project cost is Bt367 million and the project is scheduled to finish at the end of 2015. The initial production capacity is 57,000 cu.m./day., but, the structures can accommodate capacity expansion up to 100,000 cu.m./day. Half of the investment will be funded with new borrowings and the rest by TTW's operating cash flow.

Under TRIS Rating's base case scenario, TTW is expected to generate FFO of Bt3,000-Bt3,400 million per annum over the next three years. TTW plans to continue its high dividend payout policy. Dividend payments are expected to be Bt2,000-Bt2,300 million per annum. The remaining portion of TTW's cash flow will fund its planned capital expenditures. As a result, TTW's leverage ratio is expected to stay at the current level. Liquidity are not expected to deteriorate as the company has a considerable amount of cash and cash equivalents on hand. As of September 2014, cash and cash equivalents were Bt4,560 million, excluding the Bt1,171 million reserve required under the terms of concession granted by the Ministry of Natural Resources and Environment. In addition, TTW's 25% stake in CKP was worth Bt4,895 million at the end of 2014.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will maintain its strong operating performance and its ability to generate cash. Any additional investments should not adversely affect its capital structure and financial strength.

TTW PLC (TTW)

Company Rating:	AA-
Issue Ratings:	
TTW162A: Bt1,800 million senior unsecured debentures due 2016	AA-
TTW192A: Bt1,500 million senior unsecured debentures due 2019	AA-
TTW222A: Bt2,000 million senior unsecured debentures due 2022	AA-
Up to Bt1,500 million senior unsecured debentures due within 2020	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2014	2013	2012	2011	2010	2009
Sales	4,046	5,182	4,925	4,546	4,395	4,048
Gross interest expense	428	615	608	518	483	667
Net income from operations	2,219	2,461	2,338	2,113	2,063	1,594
Funds from operations (FFO)	2,712	3,307	3,414	2,994	2,963	2,583
Capital expenditures	73	200	13	92	654	462
Total assets	23,485	24,525	24,672	21,728	21,488	21,064
Total debt	12,442	12,933	13,420	11,136	11,368	11,570
Shareholders' equity	10,644	11,011	10,661	10,192	9,484	8,695
Operating income before depreciation and amortization as % of sales	78.9	76.2	77.6	79.8	80.7	80.1
Pretax return on permanent capital (%)	14.7 **	15.06	14.6	13.5	13.1	13.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.1	7.3	6.9	7.2	7.4	4.9
FFO/total debt (%)	27.4 **	25.6	25.4	26.9	26.1	22.3
Total debt/capitalization (%)	53.9	54.0	55.7	52.2	54.5	57.1

* Consolidated financial statements

** Annualized, from the trailing 12 months

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