

TTW PUBLIC COMPANY LIMITED

No. 27/2015

6 May 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 Bt1,400 million in senior unsecured debentures. The proceeds from the proposed debenture issue will be used to support TTW's investment in its associated company, CK Power PLC, (CKP). 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 the tap water business which features 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 March 2015, TTW's major shareholders included Mitsui Water Holdings (Thailand), Ltd. (Mitsui Water; owning 25.98% of the outstanding shares), Bangkok Expressway PLC (BECL; 19.57%), 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 CKP, which owns a 56% stake in South East 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: Nakhon 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 2014, respectively. The fact that these two service areas comprise nearly all of TTW's revenue illustrates the customer concentration risk from 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

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quarter of 2013. As a result, TTW's sales volume in the Pathum Thani service area did not grow in 2013. In 2014, the sales volume dropped by 2.6% since the PWA increased the production capacity of its plant. However, the risk is partly alleviated by the minimum offtake quantities 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 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 2014, TTW's revenue grew by 3.9% year-on-year (y-o-y) to Bt5,383 million. The growth was driven mainly by an increase in the prices of tap water, as there was no growth in total sales volume, causing by the economic slowdown and the PWA's new filtration plant in the Pathum Thani service area. The negative effects continue in the first three months of 2015. TTW reported a 3.2% y-o-y drop in total sales volume. However, the drop in sales volume will not materially affect TTW's revenue, supported by growing demand from community expansions and the economic recovery.

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 2014. The strong profitability supports TTW's liquidity profile. In 2014, the ratio of funds from operations (FFO) to total debt was 30.3%, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio held at 8 times. Leverage, as measured by the ratio of total debt to capitalization, slightly improved to 51.8% in 2014, from 54% in 2013.

Going forward, TTW is expected to sustain its strong operating performance. Under TRIS Rating's base case scenario, TTW's top line and FFO are expected to grow modestly by 3%-5% during 2015-2017. The FFO will support TTW's high dividend payout policy and partly be retained to finance its planned capital expenditures. Dividend payments are expected to be Bt2,000-Bt2,300 million per annum. TTW is currently expanding its production capacity in the Nakhon Pathom-Samut Sakhon and the Pathum Thani service areas with a total investment of Bt3,300 million. TTW will raise Bt1,400 million in debenture to finance its proportionate equity injection into CKP to support the development of Xayaburi hydro-power project. As its equity base gradually increase, TTW's leverage is expected to stay between 50%-54% during 2015-2017.

TTW's financial flexibility remains sound. At the end of 2014, the company has cash and cash equivalents of Bt4,212 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 Bt3,135 million at the end of March 2015.

Rating Outlook

The "stable" outlook is based on the expectation that TTW will maintain its strong operating performance and its ability to generate cash. TTW's credit upside is limited over the next 12-18 months as it enacts its investment plans. The credit quality could be negatively affected if there are any additional investments that 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-
TTW182A: Bt1,000 million senior unsecured debentures due 2018	AA-
TTW192A: Bt1,500 million senior unsecured debentures due 2019	AA-
TTW202A: Bt500 million senior unsecured debentures due 2020	AA-
TTW222A: Bt2,000 million senior unsecured debentures due 2022	AA-
Up to Bt1,400 million senior unsecured debentures due within 2025	AA-

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2014	2013	2012	2011	2010
Sales	5,383	5,182	4,925	4,546	4,395
Gross interest expense	566	615	608	518	483
Net income from operations	2,974	2,461	2,338	2,113	2,063
Funds from operations (FFO)	3,715	3,307	3,414	2,994	2,963
Capital expenditures	128	200	13	92	654
Total assets	24,627	24,525	24,672	21,728	21,488
Total debt	12,259	12,933	13,420	11,136	11,368
Shareholders' equity	11,390	11,011	10,661	10,192	9,484
Operating income before depreciation and amortization as % of sales	79.0	76.2	77.6	79.8	80.7
Pretax return on permanent capital (%)	15.6	15.1	14.6	13.5	13.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.1	7.3	6.9	7.2	7.4
FFO/total debt (%)	30.3	25.6	25.4	26.9	26.1
Total debt/capitalization (%)	51.8	54.0	55.7	52.2	54.5

* Consolidated financial statements

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