FitchRatings

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Fitch Affirms Thailand's EGAT at 'BBB+'; Outlook Stable

Fitch Ratings - Singapore - 19 Jan 2023: Fitch Ratings has affirmed Electricity Generating Authority of Thailand's (EGAT) Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. The agency has also affirmed EGAT's senior unsecured rating at 'BBB+'.

EGAT's ratings reflect its Standalone Credit Profile (SCP) of 'bbb+', the same level as that of the Thai sovereign (BBB+/Stable). Fitch will equalise EGAT's ratings with that of the sovereign in the case of any weakening in the SCP, provided the likelihood of the state's support remains intact, in line with our Government-Related Entities (GRE) Rating Criteria.

EGAT's SCP benefits from the group's dominant market position, stable supportive regulatory framework with a long record, and solid financial profile. Thailand's electricity regulator reviews the power tariff every four months to adjust for uncontrollable expenses. It has largely allowed costs to pass through for more than 15 years, albeit with some delays. We believe EGAT's strong financial profile provides a buffer against such temporary delays.

Key Rating Drivers

Strong State Linkages: Fitch regards EGAT's status, ownership and control by the Thai sovereign as 'Very Strong'. The state fully owns EGAT, appoints its board and senior management, and directs investments. The company's support record is assessed as 'Strong'. Support has been infrequent in light of EGAT's financial strength, but should be forthcoming, if needed, due to its strategic importance in Thailand's power sector.

'Very Strong' Default Implications: We regard the socio-political implications of an EGAT default as 'Very Strong', since the company not only accounts for 34.5% of Thailand's power-generation capacity but also buys power from other private operators. EGAT's default would also signal risks for Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA), endangering the continued provision of essential services for a major period.

MEA and PEA, the two state-owned distribution companies in Thailand, sell electricity to retail customers in metropolitan areas and to other Thai regions, respectively. Fitch regards the three entities as closely linked: regulations allow reasonable returns to each and provide a mechanism for the other companies to compensate any entity with inadequate profit. A default would also have a 'Very Strong' financial effect on the state, as we regard EGAT as a government proxy financing vehicle.

Entrenched Market Position, Strong Counterparty: EGAT owns and operates Thailand's electricity transmission network, and has a 34.5% share of its power-generation capacity. EGAT also sells the electricity it buys from independent power companies and power generated through its own projects to MEA, PEA and some of its direct customers.

Recovery in Demand: Fitch expects a 2.9% increase in Thailand's electricity sales volume in 2022 (2021: 1.8%), driven by improved domestic demand and a gradual recovery of the tourism sector under Thailand's reopening policy in 2H22. We expect electricity demand in 2022 to surpass pre-pandemic levels. In our rating case, we forecast demand growth of around 2.5% from 2023 to 2025.

Cash-Flow Pressure from Fuel Costs: We expect the rise in fuel prices during 2022 to pressure EGAT's operating cash flow, with cash flow from operations turning negative due to the delay in tariff revisions. EGAT faced higher fuel costs in 2022 as global oil and natural gas prices spiked. Most of its long-term domestic and imported natural gas contracts are linked to benchmark oil prices. The average price of natural gas rose by THB251 per million BTU, a 68.2% increase from 2021.

Slower Tariff Adjustments: We estimate EGAT's accrued revenue to rise to THB165 billion by end-2022 (2021: THB39 billion), as the tariff adjustments do not fully cover elevated fuel costs. Tariff increases totalled THB1.09/unit in 2022 but were mostly in the last four months of the year, and averaged 21% higher than in 2021. The regulator has announced a further hike of THB0.61/unit in 2023. We expect EGAT to recover accrued revenue over the next three years, as the regulator should allow it to maintain its tariff to recover costs and previous years' losses, despite our lower fuel price assumptions.

Solid Financial Profile: Fitch expects EGAT's leverage to rise during 2022 to 1.8x (2021: 1.1x), mainly on account of the higher debt to fund accrued revenue. We estimate EBITDA net leverage to improve to below 1.0x (2021: 1.1x) during 2023-2025, reflecting its strong financial profile. We expect average annual capex of THB54 billion in 2022 and THB47 billion in 2023, and to increase thereafter to around THB90 billion-120 billion for power-generation projects and strengthening of transmission lines.

Predictable Regulatory Framework: The regulator reviews the power tariff every four months to adjust for uncontrollable expenses, such as fuel costs and fluctuations in foreign-exchange rates. The base tariff is reviewed after three to five years. The base tariff that power utilities charge aims to reflect the economic costs of electricity supply, secure the financial health and returns of the three state-owned power utilities, reduce subsidies between different categories of consumers, and adjust electricity tariffs through a mechanism that is flexible and automatic.

We expect the regulator to limit sharp changes to tariffs, resulting in instances where higher fuel costs are not fully passed through in retail tariffs, as seen in 2022. The power utilities were previously allowed to recover their dues over time when fuel costs started to decline.

Derivation Summary

EGAT's ratings will remain equalised with that of Thailand even if its SCP falls below the sovereign rating, based on the very strong likelihood of support. PT Perusahaan Listrik Negara (Persero) (PLN, BBB/Stable) and Korea Electric Power Corporation (KEPCO, AA-/Stable) are similar to EGAT, as they are both monopolies in their countries' electricity transmission and distribution sector, and own and operate significant installed power-generation capacity. PLN's and KEPCO's IDRs are also equalised with those of their respective sovereigns - Indonesia (BBB/Stable) and Korea (AA-/Stable) - under Fitch's GRE criteria.

PLN's status, ownership and control, and the financial and socio-political implications of default that drive the state's incentive to support, are assessed as 'Very Strong'. KEPCO's status, control and ownership and support record are assessed as 'Strong', while the socio-political and financial implications of default are assessed as 'Very Strong'. EGAT's status, ownership and control, and implications of a default, are assessed as 'Very Strong' while its support record is assessed as 'Strong', as there is limited evidence of direct tangible support, as for KEPCO, given their strong financial profiles.

PLN's support record and expectations are assessed as 'Very Strong' because the company operates under a time-tested cost-plus mechanism under which any shortfall in PLN's revenue from the sale of electricity is compensated by the government via regular subsidies and compensation payments. KEPCO's 'Strong' status, ownership and control assessment is because the Korean sovereign directly and indirectly owns only 51% of the group. The government appoints the board and management of the company, but its operations are only supervised in a general manner.

EGAT's SCP of 'bbb+' is two notches higher than that of KEPCO as its tariff review framework is relatively stronger. EGAT, like KEPCO, could not fully pass-through fuel costs in retail tariffs in some years as the government aims to maintain retail tariff stability, but it was allowed to recoup the losses in the following period. We believe EGAT's stronger tariff framework and robust credit metrics justifies the two-notch difference with KEPCO's 'bbb-' SCP, which reflects deteriorating financial metrics because tariff increases are insufficient to cover increased fuel and power-purchase costs.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Electricity sales to increase by 2.9% in 2022 and around 2.5% thereafter

- Fuel costs in line with Fitch's price deck (for details, see "Fitch Ratings Cuts Near-Term Gas Price Assumptions, Oil Prices Unchanged", dated 6 December 2022)

- Tariffs to be high in 2023 and 2024 to allow recovery of accrued revenue; energy adjustment charge to align with fuel prices over the medium term

- Average interest cost at around 3.6%

- Receivable days (including accrued revenues) to increase to around 110 by end-2022, before normalising to around 35 from 2025

- Dividend receipts of around THB4 billion a year

- Capex of around THB54 billion in 2022 and THB47 billion in 2023, and THB90 to THB120 billion from 2023

- Dividend payouts of 50%-70% of the previous year's net income

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action on the sovereign, provided the state's likelihood of support does not deteriorate significantly.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative rating action on the sovereign.

For the sovereign rating of Thailand, the following sensitivities were outlined by Fitch in a Rating Action Commentary on 30 November 2022:

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Inability to stabilise the general government debt ratio, for example, due to a prolonged fiscal deterioration, or continued spending pressures.

- Structural Features: Heightened political disruption on a scale sufficient to alter Thailand's economic policymaking effectiveness and growth prospects.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Macroeconomic: An improvement in medium-term growth prospects without a significant rise in non-financial private-sector debt.

- Public Finances: A decline in the general government debt to GDP ratio, for example due to smaller fiscal deficits and/or improving medium-term growth potential.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: EGAT's cash balance of THB73 billion at 9M22 was adequate to meet its debt maturities of around THB14 billion in the next 12 months. It also benefits from well spread-out debt maturities, with annual maturities of below THB25 billion. EGAT borrowed incremental debt of THB110 billion to fund accrued revenues, of which the state provided guarantee for THB85 billion during 2022 to 2023.

We expect EGAT to generate around THB130 billion-200 billion of annual cash flow from operations in 2023, partially driven by collection of accrued revenues. We believe its strong access to debt markets - given its sovereign linkages - supports its liquidity.

Issuer Profile

EGAT is a vertically integrated utility in Thailand, wholly owned by the state. It is a monopoly power transmission entity and accounts for about 34.5% of the country's total installed generation capacity of 47GW. The company is a counterparty, purchasing power from independent power producers and importing it from overseas.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

EGAT's ratings are directly linked to the credit quality of its parent, the sovereign. A change in Fitch's assessment of the credit quality of the parent would automatically result in a change in the rating on EGAT.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Electricity Generating Authority of Thailand	LT IDR	BBB+	Affirmed		BBB+
• senior unsecured	LT	BBB+	Affirmed		BBB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.28 Oct 2022) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09 Apr 2021) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub.05 Jan 2021)

Government-Related Entities Rating Criteria (pub.30 Sep 2020)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub.28 Oct 2022)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Electricity Generating Authority of Thailand	EU Endorsed, UK Endorsed

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