FitchRatings

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

Fitch Ratings - Singapore/Bangkok - 19 Dec 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+', which is at the same level as that of the Thai sovereign (BBB+/Stable). We will keep EGAT's ratings equalised with that of the sovereign should its SCP weaken, provided the likelihood of state support remains intact. This is in line with our Government-Related Entities (GRE) Rating Criteria.

The SCP benefits from the group's dominant market position, stable and 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 buffers against such temporary delays.

Key Rating Drivers

Strong State Linkages: We regard 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 its investments. We assess the company's support record 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', as the company accounts for around 35% of Thailand's power-generation capacity and also buys power from private operators. It would also have 'Very Strong' financial implications for the state, as we see EGAT as a government proxy financing vehicle.

Furthermore, EGAT's default would signal risks for Thailand's two state-owned distribution companies, Metropolitan Electricity Authority (MEA) and Provincial Electricity Authority (PEA), endangering the provision of essential services for a significant period. MEA sell electricity to retail customers in metropolitan areas, while PEA services other Thai regions. We regard EGAT, MEA and PEA as closely linked. Regulations allow reasonable returns to each and provide a mechanism for the other companies to compensate any entity with inadequate profit.

Modest Demand Growth: We expect a 3.0% increase in Thailand's electricity sales volume in 2024 and

2.8% in 2025 (2023 estimate: 3.3%, 2022: 3.6%), driven by stronger demand and a steady recovery of the tourism sector. Our rating case forecasts average electricity demand growth of around 2.5% in the medium term.

Delayed Recovery of Accrued Revenue: We estimate that the recovery of THB96 billion in accrued revenue outstanding as of August 2023 will be delayed till mid-2026, from our previous expectation of end-2025, due to pressure to control tariff and aid economic recovery. The regulator approved a higher energy-adjustment charge during 2023, despite moderating fuel prices, to allow EGAT to partly recover previous losses. This reduced accrued revenue from THB166 billion as at end-2022 (2021: THB39 billion).

Pressure to Control Tariff: Power tariff adjustments to recover accrued revenue are likely to be slow in 2024, amid political pressure to cap the tariff at THB4.1/unit in January-April 2024, an increase from THB3.99/unit in September-December 2023. This follows tariff cuts from THB4.7/unit in May-August 2023, and THB5.33/unit for non-household users and THB4.72 for household users in January-April 2023 to lessen the burden on consumers. EGAT also shouldered higher fuel costs and losses between September 2021 and May 2023 to ease the impact of high fuel prices on consumers.

Solid Financial Profile: We estimate EBITDA net leverage to fall to 1.4x in 2023 (2022: 2.2x, 2021: 1.4x), on account of the recovery of accrued revenue. EBITDA net leverage is then likely to rise to around 1.7x by 2026, driven by large capex plans, though still remaining comfortable for EGAT's SCP. We forecast capex of around THB45 billion in 2023 and 2024, rising to an annual average of THB90 billion-150 billion thereafter for power-generation projects and to strengthen transmission lines.

Predictable Regulatory Framework: The regulator reviews the power tariff every four months to adjust for uncontrollable expenses, such as fuel costs and foreign-exchange rate fluctuations. The base tariff, which is charged by power utilities, is reviewed every three to five years. The base tariff aims to reflect the economic cost of electricity supply, secure the financial health and returns of Thailand's three state-owned power utilities and reduce subsidies between different consumer categories.

We expect the regulator to limit sharp changes to tariffs. This can result in instances where higher fuel costs are not fully passed through in retail tariffs. Power utilities have been allowed to recover dues over time when fuel costs started to decline.

Derivation Summary

PT Perusahaan Listrik Negara (Persero) (PLN, BBB/Stable) and Korea Electric Power Corporation (KEPCO, AA-/Stable) are similar to EGAT. Both peers are monopolies in their countries' electricity transmission and distribution sector and own and operate significant installed power-generation capacity. The peers' IDRs are also equalised with those of their respective sovereigns - Indonesia (BBB/Stable) and Korea (AA-/Stable) - under Fitch's GRE criteria.

We assess PLN's status, ownership and control and the financial and socio-political implications of default as 'Very Strong'. Meanwhile, we assess KEPCO's status, ownership and control as 'Strong', as the Korean sovereign (AA-/Stable) directly and indirectly owns only 51% of the group. The government appoints KEPCO's board and management, but its operations are only supervised in a general manner. We assess KEPCO's support record as 'Strong', while its socio-political and financial implications of default are 'Very Strong'. In comparison, we assess EGAT's status, ownership and control and implications of default as 'Very Strong' and its support record as 'Strong', as there is limited evidence of direct tangible support, given its strong financial profile.

Meanwhile, we assess PLN's support record and expectations as 'Very Strong', because it operates under a time-tested cost-plus mechanism where any revenue shortfall from the sale of electricity is compensated by the government via regular subsidies and payments.

EGAT's SCP of 'bbb+' is two notches higher than that of KEPCO, as it has a stronger tariff review framework. Neither company fully passes through fuel costs in retail tariffs in some years, as the governments aim to maintain retail tariff stability, but are allowed to recoup losses in following periods. 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 higher fuel and power-purchase costs.

Key Assumptions

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

- Electricity sales to increase by 3.3% in 2023, 3.0% in 2024 and around 2.5% thereafter

- Energy adjustment charge to follow changes in fuel costs trend, allowing EGAT to gradually recover accrued revenue by 2026

- Base tariff maintained at THB2.916 till 2025

- Average interest rate of around 3% in the medium term

- Receivable days to fall to around 80 days by end-2023, before normalising to around 60 by 2025

- Dividend receipts of around THB5 billion a year

- Capex of around THB45 billion in 2023 and 2024 and THB94 in 2025

- Dividend pay outs in the range of 50%-60% 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 13 November 2023:

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 an extended period of weaker economic growth or continued spending pressures.

- Structural Features: Heightened political disruption on a scale sufficient to alter Thailand's economic policymaking effectiveness and growth prospects, or affect its tourism recovery.

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/GDP ratio; for example, due to smaller fiscal deficits and/or improving medium-term growth potential.

Liquidity and Debt Structure

Strong Liquidity: EGAT's cash balance of THB152 billion at 1H23 was adequate to meet its debt maturities of around THB68 billion in the next 12 months. It also benefits from well spread-out debt maturities, with annual maturities of below THB40 billion. We expect EGAT to generate around THB100 billion of annual cash flow from operations from 2024, but to remain reliant on external funding for its large annual investment plan of around THB40 billion-95 billion over the next few years. We believe EGAT's solid financial position and strong access to debt markets given its sovereign linkages supports its liquidity.

Issuer Profile

EGAT is a vertically integrated utility in Thailand that is wholly owned by the state. It is a monopoly power transmission entity and accounts for about 35% of the country's total installed generation capacity of 49GW as of end-2022. 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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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.03 Nov 2023) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.13 Oct 2023) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub.03 Mar 2023)

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

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.03 Nov 2023)

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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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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