

11 DEC 2024

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

Fitch Ratings - Singapore/Bangkok - 11 Dec 2024: 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 Long-Term IDR of 'BBB+' is equalised with Thailand's (BBB+/Stable) given the government's 'Very Strong' incentives and responsibility to provide support due to the company's public service mandate. EGAT's Standalone Credit Profile (SCP) of 'bbb+' is driven by the group's dominant market position, high revenue visibility from a stable and supportive regulatory framework with a long track record, and solid financial profile.

Key Rating Drivers

Government's Responsibility to Support: Thailand's decision making and oversight of EGAT is 'Very Strong'. The state wholly owns EGAT, appoints its board and senior management, and directs its investments. The government's support track record is 'Strong'. Support is infrequent due to EGAT's financial strength, but should be forthcoming due to its strategic importance in Thailand's power sector. Support includes the government guaranteeing debt of up to THB85 billion (2023: 30% of total debt), guaranteed regulatory returns and cost recovery.

Very Strong Support Incentives: EGAT's role in the preservation of government policy is 'Very Strong', as it accounts for around 33% of Thailand's power-generation capacity with a monopoly in transmission. EGAT buys power from most of the country's private generators. Only a few independent producers are allowed to sell directly to end-customers. An EGAT default would risk 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.

We regard EGAT, MEA and PEA as closely linked because regulations allow them to act as a single economic entity, with a mechanism for cross-compensation between them. We see 'Very Strong' contagion risk from an EGAT default on other government-related entities (GREs), as well as on Thailand. EGAT is considered a reference issuer in Thailand, and is a significant borrower in the domestic public debt market, where key GREs and the government are also active borrowers.

Strong Revenue Visibility: 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

government-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.

Slower Recovery of Accrued Revenue: Fitch expects only a gradual recovery in EGAT's accrued revenue from the government amid our belief the government will aim to strike a balance between supporting Thailand's economic recovery by cutting electricity tariffs as fuel costs fall, and compensating EGAT for past losses when fuel costs were high. EGAT's accrued revenue and unbilled receivables fell to THB125 billion in 2023 from THB160 billion in 2022. We expect a further reduction to below THB100 billion by end-2024, with a full recovery delayed beyond 2028, from 2026 earlier.

Solid Financial Profile: We estimate EBITDA net leverage to rise to 1.7x in 2024-2025 (2023: 1.3x) mainly due to the slower recovery of accrued revenue, before moderating towards 1.0x thereafter as fuel costs decline further. Leverage will nevertheless remain comfortably below the 4.0x threshold applicable for EGAT's SCP. We forecast capex and investments of around THB50 billion in 2025 before rising to around THB100 billion per annum thereafter. Capex will be mostly for transmission infrastructure in 2024-2025, although the share of generation capex will rise thereafter.

Modest Demand Growth: We expect a 6% yoy increase in Thailand's electricity sales volume in 2024 after a strong 1H24 led to 7% yoy growth in demand in 9M24 from an unusually hot summer. We believe electricity demand should moderate to around 3% a year thereafter, broadly in line with Thailand's forecast GDP growth, driven by a recovery of the tourism sector, stepped-up government spending, and an improvement in private consumption.

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 the likelihood of support for PLN as 'Very Strong'. PLN is wholly owned by the government, which appoints the board and senior management, and directs its investments. Precedents of support are 'Very Strong' given regular and timely subsidy payments, equity injections and government guarantees on about a fifth of PLN's debt. We believe the government's incentive to support PLN is also 'Very Strong' as PLN accounts for over 60% of Indonesia's generation, and is the sole electricity wholesaler, where a default would cause nationwide power disruptions. Incentives to support are underpinned by 'Very Strong' contagion risk as we consider PLN a reference issuer in Indonesia.

The government's incentive to support KEPCO is assessed as 'Very Strong' because of its ownership of Korea's entire transmission and distribution network and its status as a major GRE borrower in domestic and international markets. The government's responsibility to support KEPCO is considered

'Strong' given only 51% ownership of the company, and 'Strong' precedents of support, including government-directed liquidity support from state banks.

EGAT's SCP of 'bbb+' is two notches higher than KEPCO's, as it has a stronger tariff review framework. KEPCO's financial metrics are weaker than EGAT's, which reflect delays in tariff increases amid higher power-purchase costs in the last few years. EGAT's SCP is three-notches higher than PLN's as EGAT has greater revenue visibility and a stronger financial profile.

Key Assumptions

Key Assumptions in Our Rating Case Include

- Electricity sales to rise by around 6% yoy in 2024 before moderating to around 3% thereafter
- Energy adjustment charge to follow falling fuel costs, allowing EGAT to reduce accrued revenue by 2029
- Base tariff maintained at THB2.90/kWh
- Capex of around THB35 billion in 2024 before rising to THB52 billion in 2025 and THB80 billion in 2026

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade in Thailand's sovereign rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade in Thailand's rating.

For Thailand, the following sensitivities were outlined by Fitch in a Rating Action Commentary on 8 November 2024:

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

- Public Finances: Reduced confidence in the ability to narrow the fiscal deficit and stabilise the general government debt/GDP ratio over the medium term.
- 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 material 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

EGAT's cash balance of THB148.5 billion at 30 June 2024 was higher than its debt maturities of around THB47 billion in the next 12 months, while we expect free cash flow to average around THB14 billion in the 12 months to 30 June 2025. We believe EGAT's solid liquidity profile is underpinned by its robust financial position and well-spread-out debt maturities, supported by long-dated bonds and diversified funding access, as well as close government linkages.

Issuer Profile

EGAT is a vertically integrated utility in Thailand that is wholly state-owned. It has a monopoly in power transmission, accounting for 33% Thailand's total installed generation capacity of 49.6GW as of end-2023. It purchases power from independent producers or imports it.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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>.

Fitch Ratings Analysts

Hasira De Silva, CFA

Senior Director

Primary Rating Analyst

International

+65 6796 7240

Fitch Ratings Singapore Pte Ltd. 1 Wallich Street #19-01 Guoco Tower Singapore 078881

Obboon Thirachit

Senior Director
Secondary Rating Analyst
+66 2 108 0159

Vicky Melbourne

Managing Director
Committee Chairperson
+61 2 8256 0325

Media Contacts

Leslie Tan

Singapore
+65 6796 7234
leslie.tan@thefitchgroup.com

Peter Hoflich

Singapore
+65 6796 7229
peter.hoflich@thefitchgroup.com

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 \(pub.06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Corporate Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.03 Mar 2023\)](#)

[Government-Related Entities Rating Criteria \(pub.09 Jul 2024\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.06 Dec 2024\)](#)

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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