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**Rating Methodology for Government-Related-Entity**

TRIS Rating's analytical approach in assigning a credit rating for a Government-Related-Entity (GRE) is in many ways based on the same rating factors used to determining the credit rating of a corporate entity. However, in addition to those factors, the degree of support that the rated entity receives from the government is another crucial rating factor, TRIS Rating considers when it performs a credit rating for a GRE. In most cases, incorporating the degree of government support results in an enhancement to the rating a GRE would receive if evaluated on a stand-alone basis.

**Definition of government-related-entity**

Typically, a Government-Related-Entity in Thailand has one or more of the following characteristics:

- 1) The entity has been established under a special law that not only identifies its missions and scope of services, but also stipulates the support the entity will receive from the government in the event the entity faces financial difficulties.
- 2) The entity was established in the form of a general legal entity, but with the government owning a majority of its shares. According to the definition stipulated in the Public Debt Administration Act B.E. 2548 (2005), state enterprises include government organization established by law or business entity owned by government and limited company or public company limited with more than 50% of its capital owned by government or state enterprise.
- 3) The entity's objectives are to engage in not-for-profit activities, which would prevent it from operating as an independent enterprise without assistance from the government. In addition, its products and services are not likely compete with the private sector.
- 4) The government often intervenes in the entity's operations and directs it to support public policies. Among measures taken include price control policy and specific range of product and service offerings.

5) The entity receives financial or non-financial support from the government, usually in the form of financial guarantees or permitting the GRE to operate a monopoly with regard to a particular product or service.

#### **Examples of GREs in Thailand**

GREs may include government agencies, ministerial departments, and any other government owned entities. GREs also include state-enterprises that (1) are established by specific laws, e.g. Airport Authority of Thailand, Electricity Generating Authority of Thailand, and National Housing Authority, etc., or (2) operate as legal entities, of which more than half of their shares are held by government or other state-enterprises. Examples are Aeronautical Radio of Thailand Ltd., and PTT Exploration and Production Plc., etc.

Furthermore, entities that are not defined as state-enterprises, but whose initial capital is provided by the government, are considered to be GREs. Such entities are defined in the Public Debt Administration Act BE.2548 (2005) as government-regulated-agencies. Entities in this category include public organizations such as the Energy Fund Administration Institute; and local or municipal government agencies, such as Bangkok Metropolitan Administration. Though these entities are not considered state-enterprises and their financial obligations are not guaranteed by the government, their policies are largely determined by the government. The process of selecting and dismissing the management teams of the entities often involves government participation. Nonetheless, the rating methodology for local and municipal government agencies differs from that used for the GREs and is discussed in a separate report.

#### **Credit rating factors of GRE**

To evaluate the creditworthiness of a GRE, TRIS Rating considers risk factors that influence the GRE's ability to service its debts. The factors are divided into two groups:

**Group 1 Standalone credit risks** are assessed by determining the entity's risk factors without taking into consideration extraordinary support from the government during a times of financial distress. This step is necessary to identify downside risks of the GRE during crisis, in the event given that government supports is not forthcoming.

Standalone credit risk factors include:

- 1) Industry or business environment risks which are assessed from the overall picture of the industry in which the GRE is involved. Factors include industry prospects, rates of return, past and projected price volatility, and the industry competitive environment. In addition, government regulation and policies toward the industry are closely examined to assess their influence, both directly and indirectly, on the performance of the GRE.

- 2) Business risks are determined from examining the GRE's ability to pursue its objectives, the experience of the management teams, and the GRE's competitive position in the market.
- 3) Financial risks are analyzed by reviewing the historical financial performance of the GRE with regard to profitability, capital adequacy, and liquidity. Financial projections are also conducted by TRIS Rating.

**Group II Degree of government support** is assessed by analyzing the factors that affect the willingness and ability of the government to support GREs that are in business trouble and financial stress. TRIS Rating takes into consideration the following factors:

- 1) Strategic importance of GRE to the country or the government.

The strategic importance can be economic, financial, social or political, and could also include scenarios in which the government's reputation is associated with the performance of the rated entity. These are incentives for the government to provide support and to keep the entity solvent.

- 2) Government philosophy and the GRE's business relationship with the government.

Factors to be considered include the government's role as a shareholder; evidence of capital transfer between the government and the GRE; and the government's role in selecting the entity's management team. The specific legal status of the entity, which may differ from private enterprises, also affects the business policies of the GRE. In general, a GRE that is closely regulated and whose business policy is mandated by the government receives more support than a GRE that operates its business on a commercial basis.

- 3) The percentage of the government ownership in the GRE (0% up to 100%).

This factor reflects the commitment of the government as a shareholder. State-enterprises are those that have more than half of their equity held by the government or other state-enterprises. The level of government commitment is also reflected when the GRE is under financial stress and in need of capital injections from the government.

- 4) Privatization status of the GRE.

The status varies from one GRE to the next with respect to the potential to be privatized or corporatized, stages of privatization, and capital structure after being privatized.

- 5) Ability of the government to grant assistance in time.

It is necessary to assess the bureaucratic procedures that the government has in place to provide support to specific GREs. Traditional practices in the past are crucial information that TRIS Rating will use to estimate the timeliness of future supports.

#### **GRE rating assignment**

The credit rating for a GRE is generally not lower than its standalone (i.e. excluding government support) rating. Moreover, in some rare cases, the ratings of GREs can supersede the sovereign rating. As

TRIS Rating applies a national rating scale, it implicitly assumes the highest rating (AAA) for the Thai government. Consequently, TRIS Rating could assign, depending on GRE's credit worthiness and degree of government support, as high as AAA rating to GRE.

Whether ratings of GREs differ from their standalone ratings depend on the expectation of the degree of government support when the individual GRE faces a crisis that weakens its ability to pay its debts.

Credit ratings of GREs that are announced to the public represent the final ratings already incorporating the entity's standalone rating and any enhancement due to government support. To reach the final ratings, appropriate weightings are assigned between the degree of support and the standalone creditworthiness. Some of the GRE's final rating may be enhanced substantially from its standalone basis if TRIS Rating believes that the government support is highly certain to help mitigate the credit risk of the GRE, even though its standalone creditworthiness is considerably weaker than other private enterprises within the same rating category.

#### **Changing a GRE's credit rating**

The rating of a GRE may change if there are changes to the various aforementioned rating factors. The improvement of the entity's profits or other financial performance does not necessarily change the rating of such entity accordingly, particularly if the entity is a GRE that receives a highly level of government support. In that case, the rating of GRE could be subject to change when government policies regarding the support to that GRE changes, even though its financial status and business position may remain the same.