

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 122/2021
30 July 2021

GOVERNMENTS

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 31/07/20

Issuer Rating History:

Date	Rating	Outlook/Alert
17/07/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA) at “AAA” with a “stable” rating outlook. The rating reflects NEDA’s status as a government-related entity (GRE) with an “integral” link to the Thai government. The rating also reflects our view that NEDA’s foreign public policy roles are “critical” to the government. In TRIS Rating’s opinion, the likelihood that NEDA will receive extraordinary support from the government in times of financial stress is a near certainty.

KEY RATING CONSIDERATIONS

Integral link with the Thai government

NEDA’s issuer rating reflects its status as a GRE, integrally linked to the Thai government. Under TRIS Rating’s “Government-Related Entities Rating Methodology”, the issuer rating on NEDA is determined based on the assessed level of its linkage to the government and the importance of its role to the government.

We assess NEDA as integrally linked to the government, which has full ownership in and control over NEDA. The government’s full control over its operation is evidenced in the government’s representation in NEDA’s board of directors that comprises representatives of government agencies. NEDA is under the supervision of the Ministry of Finance (MOF).

NEDA has a unique role in executing foreign social, political, and economic policies on behalf of the government in promoting joint economic development with neighbouring and other countries. These activities are primarily non-commercial. As such, it is unlikely that a private entity could assume NEDA’s roles.

In our opinion, a default by NEDA on its debt obligations would severely damage the government’s reputation, since NEDA’s debt constitutes public debt. According to the Public Debt Management Office (PDMO), NEDA’s debt constitutes non-government guaranteed public debt.¹ Under the public debt management plan, NEDA is required to obtain government approvals in incurring indebtedness.

Government subsidies as the main revenue source

TRIS Rating expects the government to continue providing operational subsidies to NEDA as part of its on-going support. Government subsidies have been the main funding source for NEDA’s loan assets, financial grants, and technical assistance to recipient countries. The subsidies NEDA receives each year are provided based on anticipations of its future funding needs and available cash balances. NEDA’s profit and loss statement treats government subsidies as revenue.

Between fiscal years (FY) 2018 to 2020, government subsidies made up over 80% of NEDA’s total revenue. Net interest income made up the majority of the remainder. Around 60% of NEDA’s expenditures were composed of financial grants and technical assistance, followed by operating expenses (26%) and interest expenses (14%).

¹ According to the PDMO’s website: www.pdmo.go.th

Likelihood of government support drives the rating

The issuer rating on NEDA is driven by our view on the likelihood of NEDA receiving timely and sufficient government support in times of need. Government subsidies are provided through ordinary government budgeting cycles to ensure NEDA has sufficient funding to execute approved projects. Even if NEDA incurred substantial losses from its lending activities, we believe the government would provide sufficient funding to cover the losses. All of NEDA's loan extensions are provided to support government policies and require approvals from the Cabinet. The supporting documents for each project submitted for the Cabinet approval contain a clause, which permits NEDA to request additional government subsidies to meet its debt obligations, should any of its borrowers default.

Maintain strategic missions and healthy balance sheet

We expect NEDA to maintain its strategic focus on basic infrastructure projects in the Lao People's Democratic Republic (Lao PDR), the Kingdom of Cambodia, and the Republic of the Union of Myanmar over the next few years. NEDA has taken a cautious approach towards the heightened sovereign credit risks of the Lao PDR and current political situation in Myanmar. Specifically, these challenges should delay, rather than undermine NEDA's further development efforts in these countries.

As of March 2021, NEDA's total loans to neighbouring countries, excluding receivables, amounted to THB9.4 billion. These comprised loan extensions to the governments of the Lao PDR (94% of total loans) and Cambodia (6%)². NEDA's total loans rose from THB8.7 billion as of September 2019.

NEDA has maintained a conservative policy to cap its debt-to-equity (D/E) ratio at 0.5 times. NEDA's D/E ratio stood at a low 0.3 times, as of March 2021. Cash and short-term deposits were THB2.2 billion at the end of March 2021.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that NEDA will maintain its status as a GRE, integrally linked to the government. We also expect NEDA to continue its role as a government body, carrying out government policies on economic development cooperation with neighbouring countries, with on-going financial support from the government.

RATING SENSITIVITIES

The credit rating and/or outlook of NEDA could change if our view on the linkage and/or importance of NEDA to the government changes.

ORGANISATION OVERVIEW

NEDA was established on 17 May 2005 under the Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548, announced in the Royal Gazette, Volume 122, Part 39A, dated 16 May 2005.

NEDA is a public agency which, according to the Public Organisation Act, B.E. 2542, has its organisational objective as providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and function of NEDA are stipulated in Section 7 of the Royal Decree, as follows: 1) to provide neighbouring countries and other countries with financial and technical assistance; 2) to cooperate with neighbouring countries in economic development; 3) to conduct studies and provide recommendations on cooperation policies and measures; and 4) to coordinate with concerned organisations to integrate cooperation. Financial assistance typically takes the form of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects.

Structurally, NEDA is under the supervision of the MOF. Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives of the government agencies that are directly involved in joint economic cooperation with neighbouring and other countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed upon by the government. The NEDB oversees implementation of the cooperative efforts.

NEDA relies primarily on government subsidies to fund its operations. The financial and technical assistance for neighbouring and other countries is provided on a non-commercial basis. NEDA is not designed to engage in profit-driven transactions and is not mandated to operate with financial independence of the government. Although the government

² NEDA's loan portfolio is consisted entirely of long-tenor unsecured term loans with fixed repayment schedules. The principal repayment periods range from 20-30 years. These loans are charged with fixed lending rates of not exceeding 2.5% per annum.

does not provide guarantees to back up NEDA's obligations, NEDA's debt constitutes part of the country's public debt. All of NEDA's borrowings require government approval.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Fiscal Year Ended 30 September -----				
	Oct 2020- Mar 2021	2020	2019	2018	2017
Total assets	11,671	11,127	10,138	8,721	8,509
Average assets	11,399	10,633	9,429	8,615	8,222
Investment in securities	1,638	1,319	956	56	51
Loans and receivables	9,412	9,100	8,714	8,359	8,122
Borrowings and interest payables	2,562	2,560	2,257	1,533	1,290
Shareholders' equities	9,038	8,487	7,719	7,182	7,217
Average equities	8,763	8,103	7,450	7,200	7,175
Total revenue	645	957	853	180	327
Net interest income	54	116	108	96	99
Revenue from government subsidies	588	837	742	78	227
Gains (losses) on investment in joint ventures	0	0	0	5	0
Other operating income	2	3	3	1	1
Expenses related to grants, subsidies, and technical assistance	57	112	233	153	187
Operating expenses	36	77	72	63	57
Net profit (losses)	551	768	546	(35)	83

* Unaudited

Unit: %

	Oct 2020- Mar 2021	2020	2019	2018	2017
Earnings					
Return on average assets ¹	9.68	7.22	5.79	(0.41)	1.01
Return on average equities ¹	12.59	9.47	7.33	(0.49)	1.16
Net interest margins ¹	0.99	1.16	1.19	1.11	1.20
Government subsidy/total revenue	91.21	87.52	86.95	43.34	69.53
Net interest income/total revenue	8.45	12.14	12.71	53.28	30.18
Gains on trading/total revenue	0.00	0.00	0.00	2.56	0.00
Other income/total revenue	0.34	0.34	0.33	0.82	0.29
Operating expenses/total revenue	5.58	8.05	8.66	34.89	17.47
Capitalisation					
Debt/equity	28.30	30.13	29.21	21.25	17.79
Shareholders' equity/total assets	77.44	76.27	76.14	82.35	84.82
Shareholders' equity/total loans	96.44	93.66	88.94	86.25	89.22
Funding & Liquidity					
Total loans/total assets	80.30	81.43	85.61	95.48	95.07
Liquid assets/total assets	19.19	18.02	13.80	3.96	4.44

* Unaudited

1 Annualised

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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