

WHA UTILITIES AND POWER PLC

No. 185/2021
27 October 2021

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 29/06/21

Company Rating History:

Date	Rating	Outlook/Alert
27/09/19	A-	Negative
03/04/18	A-	Stable

RATIONALE

TRIS Rating affirms the company rating on WHA Utilities and Power PLC (WHAUP) and the ratings on its outstanding senior unsecured debentures at "A-" and revises the rating outlook to "stable" from "negative". The revision on rating outlook follows the same rating action on WHA Corporation PLC (WHA) on 27 October 2021. The ratings reflect WHAUP's status as a core subsidiary of WHA according to TRIS Rating's "Group Rating Methodology". WHA is rated "A-" with a "stable" outlook by TRIS Rating. The outlook revision to "stable" reflects the recovery in WHA's performance and alleviated concerns over its financial leverage.

We also assess WHAUP's stand-alone credit profile at an "a-" level. The stand-alone credit profile reflects WHAUP's position as the sole utility service provider in all WHA's industrial estates in Thailand and neighboring countries and recurring income from its investments in the power business. However, WHAUP's business profile is constrained by the underperformance of its utility assets in Vietnam and the uncertainties of water supply.

KEY RATING CONSIDERATIONS

Core subsidiary of WHA

We assess WHAUP as a core subsidiary of WHA that directly influences WHAUP's strategic and financial decisions. As of 30 June 2021, WHA Group held a 72% interest in WHAUP. WHAUP has an exclusive agreement with WHA Industrial Development PLC (WHAID), a major shareholder and another subsidiary of WHA, to provide utility services to all WHAID's current and future industrial estates. Currently, WHAUP provides utility services to 11 operating industrial estates (including Vietnam). This exclusive service agreement ensures WHAUP is protected against competitive threats in its service areas. The company also partners with strategic power operators of several power plants.

WHAUP contributes significant earnings to WHA's overall performance. In the first half of 2021, WHAUP contributed 36% of WHA's total revenue and 50% of WHA's earnings before interest, taxes, depreciation, and amortization (EBITDA).

Significant growth after drought, COVID-19 impacts

We expect WHAUP's earnings from utility services to pick up and grow in 2021-2023 following the recovery from the drought in 2020, the resumed operations of industrial estate customers and the new demands from the power and petrochemical industries.

During the first half of 2021, WHAUP's revenue and operating profit revived by approximately 37% and 41% from the first half of 2020 to stand at THB1.2 billion and THB263 million, respectively. As a result of good rainfall in 2021 and the pent-up demand, sales of raw water and industrial water which contributes approximately 80% of total revenue, increased significantly. The main growth drivers were demand from a new power plant that commenced operation in April 2021 and incremental demand from petrochemical plants.

We expect WHAUP's revenue to grow to the level of THB2 billion per year in 2021-2023, following the incremental demand from power plant expansion in the fourth quarter of 2021 and in 2022 as well as incremental demand from the petrochemical industry. Moreover, operations in the industrial estates in



Vietnam and demand for innovative products such as demineralized water and reclaimed water have also led to increased revenue and profitability.

Aside from the utility business, WHAUP is also investing in its own solar rooftop projects. The company targets a signed Power Purchase Agreement (PPA) of 90 megawatts (MW) from its solar rooftops by 2021, with 63 MW already secured as of June 2021. Revenue from its solar rooftop projects contributed 3% of total revenue in 2020.

Concerns over utility performance in Vietnam

WHAUP plans to further expand its utility business outside WHA's industrial estates. In 2019, WHAUP invested in two utility companies in Vietnam, Cua Lo Water Supply Joint Stock Company and Duong River Surface Water Plant JSC (SDWTP), with a total investment of approximately THB2.5 billion. However, due to the delay of the planned volume ramp up in Vietnam during the COVID-19 outbreak, a cumulative shared loss of THB251 million from the investments was reported as of June 2021. WHAUP has expanded the pipeline to sell water to two neighboring provinces to boost sales volume. The company's management expects the water plant utilization at SDWTP to increase from 60% to 80% by 2022. However, we still expect losses and no dividend received from the utility companies in Vietnam in the forecast years given the uncertainty surrounding government policies and the COVID-19 impact in Vietnam.

Predictable cash flows from power business

The cash flow stream from the power operations with several strategic partners has been stable. WHAUP owns equity stakes in several power assets which generate power under the Independent Power Producer (IPP), Small Power Producer (SPP), and Very Small Power Producer (VSPP) schemes. As of 30 June 2021, WHAUP had 596 installed equity MW, based on the proportions of its equity interests in the joint-venture power assets.

WHAUP received cash dividends from the power business of THB1.8 billion in 2020 and THB603 million for the first half of 2021. We forecast WHAUP to receive cash dividends of THB1.1-THB1.2 billion per year in 2021-2023. We expect EBITDA (including dividend received from the power business) to reach THB2 billion per year during 2021-2023.

Financial leverage continues to rise

Leverage has increased rapidly since 2019. As of 30 June 2021, the debt to capitalization ratio stood at 48%, compared to 37% in 2017-2018. The increase in debt was mainly due to the expansion of its utility business in Vietnam. WHAUP has set a clear direction for growing both its utility and power businesses. For the utility business, WHAUP will continue to expand its business in WHAID's industrial estates and launch new innovative products such as reclaimed and demineralized water. For the power business, WHAUP has a strategy to enlarge its power assets by expanding its solar rooftops operation and collaborating with strategic partners to provide waste-to-energy solutions and natural gas distribution. Total capital expenditures and investments are estimated at THB1.4-THB2.2 billion per year in the forecast period, which are expected to be partly funded by debt. We project WHAUP's total debt to capitalization ratio to range between 51%-54% during 2021-2023.

Manageable liquidity

We assess WHAUP to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB1.5 billion, debentures issued in July 2021 worth THB3.5 billion, undrawn credit facilities of THB2.5 billion, and expected funds from operations (FFO) of around THB1.5 billion per annum. These should be adequate to cover bank loans and debentures of around THB4.7 billion coming due in the next 12 months.

According to the key financial covenant on its debentures, WHAUP has to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio was 0.94 times as of June 2021, well below the covenant threshold. The company should have no problems complying with the financial covenant over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- Total revenues to increase by 30% in 2021 and 10% per year in 2022-2023, due to recovery from drought and COVID-19 and the demand of new power and petrochemical plants.
- Gross profit margin to stay at 33%-35% and EBITDA margin (including dividend) to stay at 81%-89%.
- Total capital spending to be THB1.4-THB2.2 billion per year during 2021-2023.

RATING OUTLOOK

The "stable" outlook mirrors the outlook on WHA. We expect the business model and the level of integration between WHA and WHAUP to remain unchanged.

RATING SENSITIVITIES

As a core subsidiary of WHA, the ratings on WHAUP are tied to the ratings on WHA. Any change in the credit rating on WHA, or WHAUP's group status, will affect WHAUP's ratings accordingly.

COMPANY OVERVIEW

WHAUP, formerly named Hemaraj Clean Water Co., Ltd., was incorporated in 2008 to produce and distribute industrial water for use in industrial estates owned by WHAID (formerly named Hemaraj Land and Development PLC), a 98.5% owned subsidiary of WHA. In 2016, the utility and power segments of WHAID and WHA were transferred to WHAUP.

WHAUP provides utility services such as supplying raw water, industrial water, value-added water including demineralized water and reclaimed water, as well as wastewater treatment within WHAID's industrial estates. In 2020, WHAUP provided 15.1 million cubic meters (cu.m.) of raw water, 47 million cu.m. of industrial water, 2.7 million cu.m. of value-added water, and 25.9 million cu.m. of wastewater treatment services.

In the power segment, WHAUP invested in several power projects with well-known power producers such as Glow Energy PLC (GLOW), B. Grimm Power PLC (B. Grimm), Gulf Energy Development PLC (Gulf), and Suez S.A. (Suez). WHAUP holds stakes ranging between 5%-35% in IPP and SPP projects while holding stakes greater than 25% in VSPP projects. The company invested 100% in solar rooftops.

KEY OPERATING PERFORMANCE

Table 1: Total Sales Volume of Water and Waste Water*

Volume Contribution	2016	2017	2018	2019	2020	6M20	6M21
Raw water	17%	17%	17%	16%	17%	17%	20%
Industrial water	57%	53%	54%	55%	52%	53%	48%
Value-added water					2%	2%	4%
Waste water treatment	26%	30%	29%	29%	29%	28%	28%
Total	100%						
Sales volume (mil. cu.m.)	77	93	98	100	91	46	54

Source: WHAUP

Note: *Excluding waste water management volume at ESIE

Table 2: WHAUP's Investment in Power Segment

Project Name	Type	JV Partner	Location	Installed Capacities (MW)	WHAUP Portion	Equity MW	COD
Operating Phase							
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660	35.00%	231 Q3'12
Glow IPP	IPP	Gas Combined	Glow	WHA CIE 1	713	5.00%	36 Jan-03
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19 Sep-99
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31 May-13
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA WHA ESIE 1, ESIE	0.6	25.01%	0.2 Jun-14 – Jan-15
WHA Gunkul	SPP	Solar	Gunkul	Bangna and	3.3	74.99%	2.5 Apr – Jul-14
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33 Nov-16
GVTI	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34 May-17
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34 Jul-17
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34 Sep-17
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32 Nov-17
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32 Jan-18
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32 Jan-19
CCE	VSPP	Waste-to-energy	Glow & Suez	WHA CIE 1	8.6	33.33%	2.9 Q4'19
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside	46	100.00%	46 May'18-Q2'21
Total					2,628	596	
Development Phase							
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside	16.7	100.00%	16.7 Q3'21-Q4'21
Total					16.7	16.7	

Source: WHAUP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,157	1,722	1,879	1,738	1,768
Earnings before interest and taxes (EBIT)	598	1,258	2,530	2,676	2,467
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,215	2,375	1,589	1,278	1,402
Funds from operations (FFO)	993	1,930	1,194	854	915
Adjusted interest expense	217	433	351	376	468
Capital expenditures	225	1,033	819	322	352
Total assets	25,747	26,172	26,419	23,773	21,378
Adjusted debt	11,556	11,388	11,210	8,333	7,624
Adjusted equity	12,221	12,157	13,559	14,049	12,577
Adjusted Ratios					
EBITDA margin (%)	105.07	137.88	84.54	73.56	79.28
Pretax return on permanent capital (%)	5.13 **	4.95	10.38	12.16	12.69
EBITDA interest coverage (times)	5.59	5.48	4.52	3.40	2.99
Debt to EBITDA (times)	5.70 **	4.80	7.06	6.52	5.44
FFO to debt (%)	13.69 **	16.95	10.66	10.24	12.01
Debt to capitalization (%)	48.60	48.37	45.26	37.23	37.74

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

WHA Utilities and Power PLC (WHAUP)

Company Rating:	A-
Issue Ratings:	
WHAUP22A: THB700 million senior unsecured debentures due 2022	A-
WHAUP22DA: THB1,500 million senior unsecured debentures due 2022	A-
WHAUP236A: THB1,290 million senior unsecured debentures due 2023	A-
WHAUP237A: THB1,500 million senior unsecured debentures due 2023	A-
WHAUP247A: THB1,300 million senior unsecured debentures due 2024	A-
WHAUP256A: THB1,320 million senior unsecured debentures due 2025	A-
WHAUP267A: THB700 million senior unsecured debentures due 2026	A-
WHAUP302A: THB1,500 million senior unsecured debentures due 2030	A-
Rating Outlook:	Stable

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