

EDL-GENERATION PUBLIC COMPANY

No. 85/2016

16 August 2016

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
29/07/15	BBB+	Stable

Rating Rationale

TRIS Rating has affirmed the company and current senior unsecured debenture ratings of EDL-Generation Public Company (EDL-Gen) at “BBB+”. At the same time, TRIS Rating has assigned the rating of “BBB+” to the proposed issue of up to US\$350 million in senior unsecured debentures of EDL-Gen. The outlook remains “stable”. The proceeds from the new debentures will be used to finance EDL-Gen’s investments. The “BBB+” ratings continue to reflect the credit profile of the company’s major shareholder and sole electricity off-taker, Electricite du Laos (EDL). EDL’s credit profile as a state enterprise is underpinned by the sovereign rating of “BBB+” assigned by TRIS Rating to the Lao People’s Democratic Republic (Lao PDR). EDL-Gen’s ratings take into consideration the company’s strong market position in the Lao PDR’s power industry and adequate capital structure to support business expansion. The ratings are partially constrained by the sovereign rating of Lao PDR, EDL funding needs for power network investments, EDL-Gen’s expected higher financial leverage from investment expansion under its own projects and exposure to hydrology risks in the Lao PDR.

EDL-Gen was founded in 2010 and was listed on the Lao Securities Exchange (LSX) in 2011. The incorporation of EDL-Gen was part of the restructuring effort for the power sector in the Lao PDR. EDL-Gen has to purchase existing and future power generation assets from EDL. Before EDL-Gen set up, EDL was the sole domestic power generator, transmission provider, and distributor to end-users in the Lao PDR. EDL also owned shares in several independent power producers (IPPs) operating in the Lao PDR. After the transfer of electricity generation to EDL-Gen, EDL remains the single wholesale electricity buyer and the owner of almost all the power grid in the Lao PDR.

As of March 2016, EDL held a 75% stake in EDL-Gen. EDL-Gen owns and operates hydropower assets developed by EDL, as well as invests in shares of hydropower IPPs previously held by EDL. Each of EDL-Gen’s owned assets was granted a power purchase agreement (PPA) and concession for 30 years. As of March 2016, EDL-Gen’s total electricity capacity was 1,131 megawatts (MW), divided into 619 MW from 10 assets it owns and 512 MW from its investments in five IPPs.

EDL-Gen’s credit profile reflects that of EDL since EDL owns a majority stake in EDL-Gen and is tightly integrated with EDL-Gen in terms of power off-taker, business growth potential, future PPA structure, and dividend policy. EDL is the only power off-taker for and the sole owner of the power grid connected to all of EDL-Gen’s existing and future assets.

The credit quality of EDL is underpinned by the very high likelihood that the government of the Lao PDR will provide its full support to EDL in the stress events. This is supported by the critical roles of both EDL and EDL-Gen in Lao PDR’s power development plan and the importance of the power sector in promoting the country’s economic and social developments. EDL is wholly-owned by the Ministry of Finance (MOF) of the Lao PDR.

EDL-Gen’s ratings also reflect the company’s leading role and strong competitive position in the Lao PDR’s power industry. The company is the second-largest power generator with a 20% share of total installed capacity and the largest generator with a 41% share in domestic supply capacity. The ratings also consider the potential for EDL-Gen to expand its generating capacity from 1,131 MW

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currently to 2,130 MW by 2023.

For 2015, EDL-Gen sold 1,968 Gigawatt-hour (GWh) of electricity to EDL. The level was similar to the previous year, but reflected a slight drop compared with the level in 2013 as a result of lower rainfall and water inflow. Despite unfavorable weather conditions, EDL-Gen managed to generate the output above the designed annual energy of 1,924 GWh of electricity every year. For the first quarter of 2016, electricity sales rose by 57% year-on-year (y-o-y) to 520 GWh as EDL-Gen recently added the three new wholly-owned plants for additional installed capacity of 232 MW. The rise was also supported by an improvement in electricity generation of the existing plants by 10% y-o-y.

EDL-Gen's financial profile is strong. The company can increase the electricity tariff by 1% per annum, according to its PPA with EDL. Revenues during 2011-2015 ranged from Bt3-Bt3.5 billion per year. The operating margin (operating income before depreciation and amortization as a percentage of revenue) managed to be around 80% in 2015. For the first quarter of 2016, the operating margin rose to 89.2% as EDL-Gen benefited from economies of scale on the expansion of its installed capacity and lower administrative overheads. TRIS Rating expects that the company's operating margin will remain in the range of 80% during normal years. The company's total debt to capitalization ratio slightly improved from 25.6% at the end of 2014 to 21.4% at the end of 2015, following additional equity issuances in September 2015. However, the total debt to capitalization ratio sharply increased to 45.4% as of March 2016, as a result of additional project debt from the new power plants transferred to EDL-Gen in the beginning of 2016.

During 2016-2020, TRIS Rating's base-case scenario expects EDL-Gen's revenue will grow at a compound annual growth rate of about 20% on the back of continued expansion in its generating capacity. The operating margin is expected to stay in the range of 80%. According to its investment plans, EDL-Gen's capital expenditures, including the acquisition of EDL's shares in the IPPs, are expected at about Bt11-Bt14 billion in 2016-2020. TRIS Rating views that EDL-Gen has adequate borrowing capacity to support its growth plans. However, due to the significant amount of its project investments, EDL-Gen's leverage is expected to rise slightly from the current level of 45% to around 55%-60% during the next five years.

EDL-Gen's liquidity profile is expected to remain moderate. Cash flow protection is expected to stay at a satisfactory level. However, a currency mismatch between the cash inflow EDL-Gen receives and its debt service requirements, and its limited track record in the capital markets remain the constraining factors. The funds from operation (FFO) to total debt ratio are expected to hold above 8% on average. The EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 3 times.

Rating Outlook

The "stable" outlook reflects the expectation that the business models and the level of integration between EDL and EDL-Gen will remain unchanged. EDL-Gen is expected to expand as planned and generate strong cash flows. EDL is expected to hold a majority stake in EDL-Gen and receive continuing support from the government of the Lao PDR.

The downside factors for EDL-Gen's ratings are the downgrade of the sovereign rating of the Lao PDR or the aggressive investment that causes the company's total debt to capitalization ratio to exceed 65% for a prolonged period. On the other hand, the upside factor for EDL-Gen's ratings is the upgrade of the sovereign rating of the Lao PDR.

EDL-Generation Public Company (EDL-Gen)

Company Rating:	BBB+
Issue Ratings:	
EDLGEN19DA: Bt1,500 million senior unsecured debentures due 2019	BBB+
EDLGEN21DA: Bt2,000 million senior unsecured debentures due 2021	BBB+
EDLGEN24DA: Bt3,000 million senior unsecured debentures due 2024	BBB+
Up to US\$350 million senior unsecured debentures due within 2028	BBB+
Rating Outlook:	Stable

Key Financial Statistics*

Unit: Kip million

	Jan-Mar 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Revenue	286,318	847,759	839,193	862,429	779,887	881,748
Finance cost	28,477	61,937	31,722	30,845	35,680	41,278
Net income from operations	69,758	650,814	925,782	947,279	579,471	567,463
Funds from operations (FFO)	238,499	825,296	826,471	974,030	623,777	699,469
Capital expenditures	35,137	498,862	142,162	168,379	155,428	164,097
Total assets	17,151,987	11,968,372	8,821,261	7,067,171	6,674,224	5,238,572
Total debt	7,644,403	2,471,627	2,174,644	937,298	1,048,356	1,282,197
Total liabilities	7,972,929	2,864,144	2,499,620	1,062,284	1,081,892	1,319,108
Shareholders' equity	9,179,058	9,104,228	6,321,641	6,004,887	5,592,332	3,919,464
Depreciation & amortization	131,106	225,442	181,555	167,060	158,579	154,055
Dividends	-	513,349	582,453	566,512	486,408	154,581
Operating income before depreciation and amortization as %of sales	89.2	79.7	81.2	82.6	88.6	88.8
Pretax return on permanent capital (%)	6.0**	7.5	12.7	14.8	10.8	13.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.4	15.8	36.6	38.0	22.4	19.2
FFO/total debt (%)	11.9**	33.4	38.0	103.9	59.5	54.6
Total debt/capitalization (%)	45.4	21.4	25.6	13.5	15.8	24.6

* Consolidated financial statements

** Annualized with trailing 12 months

Key Financial Statistics (translated into Thai baht) *

Unit: Bt million

	Jan-Mar 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Revenue	1,145	3,391	3,357	3,450	3,120	3,527
Finance cost	114	248	127	123	143	165
Net income from operations	279	2,603	3,703	3,789	2,318	2,270
Funds from operations (FFO)	954	3,301	3,306	3,896	2,495	2,798
Capital expenditures	141	1,995	569	674	622	656
Total assets	68,608	47,873	35,285	28,269	26,697	20,954
Total debt	30,578	9,887	8,699	3,749	4,193	5,129
Total liabilities	31,892	11,457	9,998	4,249	4,328	5,276
Shareholders' equity	36,716	36,417	25,287	24,020	22,369	15,678
Depreciation & amortization	524	902	726	668	634	616
Dividends	-	2,053	2,330	2,266	1,946	618

* Exchange rate at Kip250 per Bt1

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