

EDL-GENERATION PUBLIC COMPANY

No. x/2014

15 October 2014

Company Rating:
BBB+
Outlook:
Stable

Rating Rationale

TRIS Rating assigns the company rating of EDL-Generation Public Company (EDL-Gen) at "BBB+". The rating reflects the credit profile of the company's major shareholder and sole electricity off-taker, Electricite du Laos (EDL), whose credit profile as a state enterprise is underpinned by that of Lao PDR. EDL-Gen's rating takes into consideration the company's strong market position in Lao PDR's power generation sector and adequate capital structure to support business expansion. The rating is partially constrained by the sovereign profile of Lao PDR, EDL's funding needs for power network investments, and exposure to hydrology risks.

EDL-Gen was founded in 2010 and was listed on the Lao Securities Exchange in 2011. The incorporation of EDL-Gen was part of the power sector restructuring in Lao PDR, which required EDL-Gen to purchase existing power generation business and future generation assets from EDL. Before the set up of EDL-Gen, EDL is the sole domestic power generator, the sole transmission provider, and the sole distributor to end-users in Lao PDR. EDL also owned shares in certain independent power producers (IPPs) operated in Lao PDR. After the restructuring, EDL continues to be the single wholesale electricity buyer and the owner of almost all the power grid in Lao PDR.

As of September 2014, 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 power purchase agreement (PPA) and concession for 30 years. As of September 2014, EDL-Gen's total electricity capacity was 881 megawatt (MW), divided into 387MW from seven owned assets and 494MW from investments in four IPPs.

EDL-Gen's credit profile reflects that of EDL since EDL has a majority stake and high integration 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 owner of the power grid connected to all of EDL-Gen's existing and potential future owned assets.

The credit quality of EDL is underpinned by a very high likelihood that the GOL will provide full support to EDL in 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 also wholly owned by the Ministry of Finance (MOF).

EDL-Gen's rating reflects the company's leading role and strong competitive position in Lao PDR's power generation sector. The company is the second largest power generator with 30% share in total installed capacity, and the largest generator with 50% share in domestic supply capacity. The rating also considers a visible and solid growth potential for EDL-Gen to expand its generating capacity from 881MW in 2013 to 2,423MW by 2020.

The rating takes into accounts challenges facing Lao PDR in developing and

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improving institutional framework and operating environment, as well as managing public debt level. The International Monetary Fund (IMF) estimated the country's foreign-currency public debt at 47% of gross domestic product (GDP) in 2013. The IMF estimated the country's debt ratio to be under pressures from fiscal and current account deficits for the next 1-2 years before the ratio gradually improves.

EDL-Gen's financial profile is strong. Revenues during 2011-2013 were in a range of Bt3-Bt3.5 billion. The operating margins (operating income before depreciation and amortization as a percentage of revenue) have been quite steady in a range of 86%-89%. At the end of June 2014, EDL-Gen's debt to capitalization was exceptionally strong at 12.8%.

During 2014-2020, TRIS Rating's base-case expects EDL-Gen's revenue to grow on average at 13% per annum. Operating margins are expected to stay at least above 80%. Funds from operations (FFOs) are expected to grow at 5% per annum. Slower growth rates in the FFOs reflect higher interest costs from expected leverage-driven investments. TRIS Rating views EDL-Gen's balance sheet as adequate to support the company's growth profile. The capital expenditures are expected at about Bt5.5-Bt6 billion per annum. The dividend payouts are expected at about Bt2-Bt3 billion per annum. The debt to capitalization ratio is expected to rise markedly, but will not exceed 65%, or interest-bearing debt to equity ratio below 1.8 times, throughout the growth plan by 2020.

EDL-Gen's liquidity profile is expected to remain moderate. Cash flow protections are expected to stay at strong level, but currency mismatch between inflows and debt service, as well as limited track record in capital market constrained the profile. The FFOs to total debt ratio is expected to stay above 10% on average. The EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 3 times.

In a downside scenario, TRIS Rating assumes delays in the completions of new projects and operating margins at 70%. EDL-Gen's revenue will be 15% lower than the base-case. FFOs will be 30% lower. The debt to capitalization will rise to about 70%. TRIS Rating views the likelihood of the downside scenario as low. The financial profile has adequate cushion to support the downside risk.

Rating Outlook

The "stable" outlook reflects an expectation that the business model and integration of EDL and EDL-Gen will remain unchanged. EDL-Gen is expected to expand its business as planned and generate strong cash flows. EDL is expected to hold a majority stake in EDL-Gen and receive continuing sovereign supports. In addition, Lao PDR's fiscal positions and trade accounts are expected to improve over the medium term.

EDL-Generation Public Company (EDL-Gen)

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Financial Statistics and Key Financial Ratios*

Unit: Kip million

		Year Ended 31 December			
	Jan-Jun 2014	2013	2012	2011	2010
Revenue	307,662	862,429	779,887	881,748	37,229
Finance cost	13,776	30,845	35,680	41,278	2,393
Net income from operations	332,670	947,279	579,471	567,463	22,251
Funds from operations (FFOs)	253,051	974,030	623,777	699,469	21,912
Capital expenditures	11,254	168,379	155,428	164,097	0
Total assets	6,996,300	7,067,171	6,674,224	5,238,572	5,052,537
Total debt	877,349	937,298	1,048,356	1,282,197	1,500,330
Total liabilities	1,023,407	1,062,284	1,081,892	1,319,108	2,426,233
Shareholders' equity	5,972,893	6,004,887	5,592,332	3,919,464	2,626,304
Depreciation & amortization	86,214	167,060	158,579	154,055	4,480
Dividends	359,282	566,512	486,408	154,581	0
Operating income before depreciation and amortization as % of sales	79.7	86.2	88.6	88.8	84.2
Pretax return on permanent capital (%)	14.0 **	14.8	10.8	13.7	1.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	31.9	38.0	22.4	19.2	13.1
FFOs/total debt (%)	112.6 **	103.9	59.5	54.6	1.5
Total debt/capitalization (%)	12.8	13.5	15.8	24.6	36.4

* Consolidated financial statements

** Annualized with trailing 12 months

Unit: Bt million

		Year Ended 31 December			
	Jan-Jun 2014	2013	2012	2011	2010
Revenue	1,231	3,450	3,120	3,527	149
Finance cost	55	123	143	165	10
Net income from operations	1,331	3,789	2,318	2,270	89
Funds from operations (FFOs)	1,012	3,896	2,495	2,798	88
Capital expenditures	45	674	622	656	0
Total assets	27,985	28,269	26,697	20,954	20,210
Total debt	3,509	3,749	4,193	5,129	6,001
Total liabilities	4,094	4,249	4,328	5,276	9,705
Shareholders' equity	23,892	24,020	22,369	15,678	10,505
Depreciation & amortization	345	668	634	616	18
Dividends	1,437	2,266	1,946	618	0

* Exchange rate at Kip250 per Bt1

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