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Project Finance and Guarantees

January 1999

Project Finance and Guarantees Department
Resource Mobilization and Cofinancing Vice Presidency

Thailand: EGAT paves the way

World Bank Guarantees EGAT Bonds

" The bond structure definitely opens a new avenue to the market. There is something new to consider "
IFR

" 'Model' Thai Bond backed by the World Bank is a hit "
International Herald Tribune

World Bank helps Thailand raise money in Crisis

On October 6, 1998, the Electricity Generating Authority of Thailand (EGAT) launched its first bond issue in the US144A/Euro-Reg. S markets since the Asian financial crisis erupted a year earlier. The bonds were structured for a maturity of 10 years and issued with a fixed coupon of 7 percent. They were priced at 285 basis points over the US Treasuries (due 2008) which were trading at historical lows (4.261 percent as of launch). In addition to a non-accelerable guarantee of the issue's principal, the World Bank also guaranteed a single coupon payment on a rolling basis for the first time. Although previously envisaged, this type of coverage had not been structured in any of the earlier World Bank guaranteed bond issues or syndicated loans. The bond issue was rated A- by Standard and Poor's Ratings Services ("S&P") and A3 by Moody's Investors Service (Moody's); three and four notches above that of Thailand's long-term foreign currency rating respectively.

Thailand Amidst the Crisis

In early 1997, Thailand began to experience adverse financial and economic developments. The Bank of Thailand attempted to defend its currency, the Baht against speculative attacks through significant sales of foreign currency reserves. This, along with the subsequent flotation of the Baht led to a rapid depreciation of the currency, a severe reduction of international reserves, and high domestic interest rates.

These events resulted in increased inflationary pressure, a significant slowdown of domestic demand and production and a sharp rise in the level of non-performing financial assets. This in turn resulted in real or expected undercapitalization of financial institutions and the closure or public sector takeover of several financial institutions. All of these developments led to a decline in available liquidity and damaged the effectiveness of the financial intermediation system, thus impeding the ability of Thailand to maintain export-driven growth.

In consequence, international credit rating agencies downgraded Thailand's credit ratings on several occasions since early 1997. At the time of the bond issue, Thailand was assigned ratings by Moody's of Ba1 for its long-term, foreign currency debt, and B1 for its foreign currency bank deposits. Thailand's ratings by S&P were BBB- for its long-term, foreign currency debt with a negative overall outlook on foreign currency debt. Additionally, S&P had a local currency rating on Thailand's long-term debt of A- with a negative outlook.

EGAT — The Issuer

EGAT is Thailand's national electricity generating and transmission company. It was formed in May 1969, as a state enterprise wholly-owned by the Kingdom. Specifically, EGAT is responsible for (i) constructing, operating and maintaining its own power generating facilities; (ii) purchasing power from small power producers ("SPPs") and independent power producers ("IPPs") in the private sector; (iii) establishing and maintaining the national transmission line grids in the principal geographic regions of Thailand; and (iv) selling the bulk of the power generated and purchased by it to the Metropolitan Electricity Authority and the Provincial Electricity Authority, state enterprises wholly-owned by the Government which redistribute electrical power from EGAT to end-users throughout Thailand, with a view to ensuring a consistent and adequate supply of electrical power within Thailand.

EGAT's Urgent Need for Financing

The currency crisis in Thailand has had an adverse impact on the financial health of the Thai electricity utilities. Before the crisis, EGAT's financial position was sound. Following the crisis (with the exchange rate going up from about Baht 25/US$ to more than Baht 50/US$ and thereafter stabilizing at around Baht 40/US$), EGAT suffered heavy foreign exchange losses. The Government adjusted the tariff from April 1, 1998 to offset partially the impact of devaluation. Consequently, there was a need to improve EGAT's financial position and to remove the serious constraints EGAT faced in meeting the financing requirements of its ongoing investment program. The financing gap was further aggravated by EGAT's inability to access long term financing in the capital markets because of perceived higher country risk, the Asian crisis and the collapse of the domestic debt market. The Government, in consultation with the Bank, decided that part of the financial resources required for EGAT should be mobilized from the capital markets and not just by continuing the Bank lending program.

In consultation with the Bank, EGAT estimated that it's investment program over FY 1998-2000 could be partially financed with support from the World Bank in the form of two successive bond issues of about US$ 300 million each. The proceeds of the first bond issue was to be made available to EGAT no later than September/October 1998 in order to meet planned expenditures.

As a precondition for the Bank's support for each of the two bond issues, EGAT and the Government agreed to a number of steps to improve the financial viability of EGAT and efficiency of the power sector in Thailand.

The World Bank Guarantee

To meet EGAT's urgent funding need, a 10-year bond issue was structured with the World Bank covering the principal and a single coupon payment on a rolling basis. Originally, these Bonds were to carry a principal-only guarantee from the Bank and a Thai Government guarantee on the coupons. The sudden deterioration of the Bond markets in August 1998, and the resulting sharp widening of emerging market spreads made it necessary for the World Bank to extend its partial coverage to coupons in order for EGAT to gain access to the financial markets and encourage the largest possible pool of investors to purchase an Asian paper at a reasonable yield. With the additional coupon guarantee coverage, the issue was able to achieve market distinction by piercing the sovereign credit rating ceiling and becoming the first Asian borrower to return to the capital markets since Korea's April 1998 global issue.

The A-/A3 rated issue was designed to reassure investors that should EGAT – or the Kingdom of Thailand which is guaranteeing the coupon payments – suffer from a short-term liquidity crisis, the World Bank will step in and guarantee the coupon payment. In effect, the "single rolling coupon guarantee" provides a built-in liquidity feature for the issuer and the Kingdom of Thailand.

Under this structure, the Kingdom of Thailand would be the primary guarantor for the payment of scheduled coupons. In case of default by EGAT and the Sovereign in the payment of a coupon, the Bank would make the coupon payment to the bondholders. Within 60 days following the Bank's payment, EGAT and the sovereign are required to reimburse the Bank. As long as this reimbursement is made on time, the Bank's guarantee coverage for another coupon payment would continue through the maturity of the Bonds. Otherwise, coverage of additional coupon payments would cease. The Bank would continue, however, to unconditionally guarantee the principal at maturity.

How did the Guarantee benefit EGAT?

Generally, World Bank partial credit guarantees encourage extension of maturity by covering a part of the financing — usually the latter maturities. In the case of EGAT, the guarantee benefited EGAT by obtaining market financing with reasonable spread and maturity and helped set a benchmark for its future bond operations by re-introducing EGAT to the capital markets. The PCG operation also helped in exposing EGAT to the rigors of market discipline, and could facilitate its commercialization and privatization process. In addition, after the Asian crisis and following Russia's financial troubles in August 1998, it was practically impossible for EGAT or any other Asian issuer to go to the capital markets on reasonable terms for any maturity. The operation enabled EGAT to extend its available financing considerably beyond current market terms to 10 years, with an extended grace period through a bullet structure. The partial credit guarantee for EGAT would result in exposure for the Bank of about 65% in present value terms, thereby leveraging Bank resources as compared to a Bank loan. The guarantee operation also provides capital to sustain EGAT's investment program, thereby allowing EGAT to complete its generation facilities that will make EGAT more attractive for subsequent privatization.

Electricity Generating Authority of Thailand (EGAT)

Amount: *US$300m*
Guarantor*: World Bank (principal and single rolling coupon guarantee); Kingdom of Thailand (coupon guarantee)*
Maturity: *10yrs (due October 14 2008)*
Coupon*: 7%*
Issue and reoffer price: *99.215*
Reoffer yield: *7.111%*
Spread*: 285bp over the US Treasury due 2008*
Fees*: 55bp (20bp management and underwriting, 35bp selling)*
Payment date: *octobner 14 1998*
Listing*: Luxembourg*
Governing Law: *New York*
Selling Restrictions*: 144a, Reg S*
Outstanding rating*: A3 (Moody's), A-(S&P)*
Market sector*: Euro/144a*
Lead manager: *ABN Amro (books)*
Co-leads: *Barclays Capital, Goldman Sachs, Lehman Brothers*
Co-managers*: Caboto-Gruppo Intesa, J.P*

For more information on the EGAT bond Issue, please contact:

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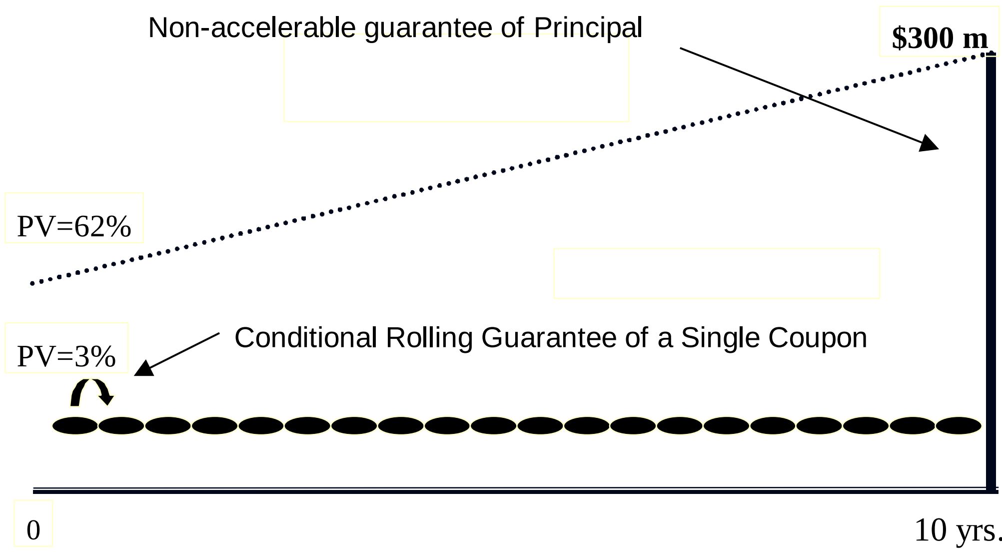
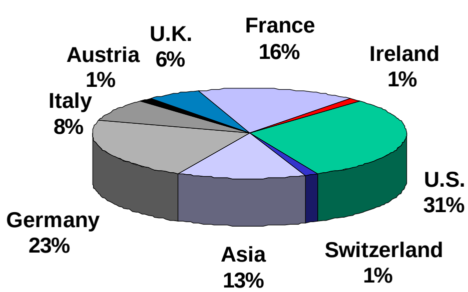
Electricity Generating Authority of Thailand
US$ 300 million 7.0% Guaranteed Bonds Due October 2008

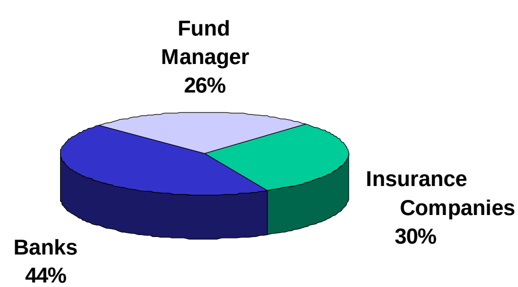
Structure of the Bonds



** Discount rate: Bank's Cost of Capital as of October 6, 1998*

Market Distribution





To obtain a copy of the brochure, ***The World Bank Guarantee: Catalyst for Private Capital Flows****, please contact Andres Londono at (202) 473-2326, or by email at alondono1@worldbank.org*