

PTG ENERGY PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
14/02/17	BBB+	Stable
12/02/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating of PTG Energy PLC “PTG” at “BBB+”. The rating reflects the company’s strong market position in oil retailing, extensive distribution network, and efforts to diversify into non-oil businesses. The rating is, however, constrained by higher leverage, the result of aggressive expansion efforts, and supplier concentration risk.

KEY RATING CONSIDERATIONS

Improving market position

PTG’s sales volume grew at a compound annual growth rate (CAGR) of 20%, climbing from 1,372 million litres in 2012 to 3,377 million litres in 2017. The growth was driven by a sharp increase in the number of service stations and rising same-station sales. The company added around 200 service stations per year during the last five years, bringing the total number of service stations to 1,696 stations by end of 2017. PTG had the second-largest number of service stations among oil retailers as of the end of 2017. An extensive network of service stations not only boosts sales volume but also brings stronger brand recognition. In addition, the “PT Max Card” loyalty program stimulates sales and helps retain customers. The number of PT Max Card memberships has grown to 7.7 million members in 2017, from 5.6 million members in 2016. PTG’s market position continued to strengthen in 2017. The company’s market share, in terms of fuel sales through all channels (excluding LPG), rose from 8.8% in 2016 to 10.2% in 2017. In the retail channel only, the company ranked third with 13.6% market share in 2017.

Supplier concentration risk

As an oil retailer without its own refinery, PTG has to buy refined oil products from refiners or other oil traders. In 2017, PTG sourced most of the refined products it sold from Thai Oil PLC “TOP”. This reliance on a single supplier entails supplier concentration risk. However, TRIS Rating is not too concerned about this risk for the time being since there is an oversupply of refined products in Thailand at the present time. In addition, PTG has been diversifying its sources of supply. The percentage of products sourced from TOP fell from 94% in 2014 to 81% in 2017.

Aim to significantly enlarge non-oil revenue

PTG plans to significantly expand into non-oil businesses to broaden its sources of revenue. For example, in 2017, the company spent Bt205 to acquire a majority stake in GFA Corporation, the operator of Coffee World, Cream & Fudge, the restaurant chain New York 5th Avenue, and Thai Chef Express. The company also acquired a 38% stake in Siam Autobacs Co., Ltd., the car care business unit of Japan’s Autobacs Seven in Thailand.

During the next few years, PTG plans to set aside Bt500-Bt700 million per year to expand existing non-oil businesses including minimarts under “Max Mart” brand, coffee shops under the “Punthai Coffee” and “Coffee World” brands, and auto care service shops under the “Autobacs” and “Pro Truck” brands. In addition, PTG plans to spend Bt500-Bt1,000 million per year in two to three new businesses a year. The success of these diversification efforts remain to be seen.

Effort to capture larger share of value chain

PTG is trying to expand along the value chain to capture a larger share of the value chain for itself. For example, the Palm Complex, which PTG has explored since late 2014, is set to go fully operational in late first quarter of 2018. The project, in which PTG holds a 40% stake, comprises a palm oil mill, a palm oil refinery, a B100 biodiesel fuel plant, and an olein plant. The complex will provide a secure source of B100 fuel and yield a return to PTG.

PTG also invested to maintain the efficiency of its logistics and distribution network to support its rapid expansion. In 2016, PTG made two investments in transportation companies. The first one was the acquisition of a 24% stake in AMA Marine PLC (AMA), a sea transporter with expertise in transporting liquids. Another was the purchase of a 9.55% stake in Fuel Pipe Transportation Co., Ltd. (FPT). The investment in FPT allows PTG to utilize FPT's fuel pipelines. In long run, as the service station network expands and sales volume increases, transporting through pipelines will be cheaper than transporting oil by truck because labor costs and maintenance costs will be lower.

Rising leverage from aggressive expansion

The rapid expansion of the service station network during the last few years drove financial leverage significantly higher. The company added around 200 new service stations per year and made capital outlays of Bt1,900-Bt5,300 million per year during 2015-2017. As a result, the adjusted debt (the total debt adjusted by operating lease obligations) rose significantly, soaring from Bt2,354 million in 2014 to Bt14,609 million in 2017. The adjusted debt to capitalization ratio climbed to 74.1% in 2017 from 39.5% in 2014. TRIS Rating forecasts capital expenditures will be around Bt20,000 million during 2018-2020. The funds will be used to expand the service station network and non-oil businesses, and to invest in new businesses. TRIS Rating forecasts EBITDA rising from Bt3,200 million in 2018 to Bt4,300 million by 2020. The adjusted debt to capitalization ratio will range from 75%-77% during 2018-2020.

PTG's cash flow protection remains fair. The adjusted funds from operations (FFO) to total debt ratio is 19.7% and the adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage is 6.4 times. During 2018-2020, TRIS Rating forecasts adjusted FFO to total debt will hold at around 17% and EBITDA interest coverage will range between 5-6 times.

Despite PTG's negative cash conversion cycle, which provides the company with self-funded working capital as sales grow, its short-term borrowings have been growing. The rise in these short-term borrowings is expected to be a temporary arrangement to fund its growth in long-term assets and investments. PTG is expected to gradually reduce the funding mismatch by replacing over time the short-term borrowings with appropriate longer-term funding.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PTG can maintain its current market position in the oil retailing industry. PTG is also expected to be prudent in its expansion plan both in terms of investment decision and financing decision.

RATING SENSITIVITIES

The credit upside for PTG is limited in the near term. A rating downgrade would occur if the financial leverage deteriorates significantly as a result of more than expected aggressive debt-funded investments or if the operating performance weakens for a prolonged period of time.

COMPANY OVERVIEW

PTG was established in 1988 as Paktai Chueplerng Co., Ltd. to operate an oil distribution center. In 1992, PTG became an oil retailer when it opened service stations under its own "PT" brand. The company was listed on the Stock Exchange of Thailand (SET) in 2013. At the end of 2017, the company's major shareholders comprised the Ratchakitprakarn family (33.3%), Wijitthanarak family (12%), and the Vachirasakpanich family (8.8%). PTG operates 1,696 service stations nationwide under the "PT" trademark. PTG operated about 6.2% of all service stations in Thailand at the end of 2017.

As of the end of 2017, the company owned 10 oil distribution centers with a total capacity of 208 ML. PTG distributes oil via two channels: through its "PT" brand service stations to retail customers, and selling wholesale directly to industrial customers. In the service station segment, PTG vends oil through two types of stations: COCO stations and DODO stations. In addition to the oil retailing segment, the company owns and operates minimarts, under the "Max Mart" brands, as well as coffee shops, under the "Punthai Coffee" and the "Coffee World" brands. In 2017, retail sales at COCO stations accounted for 82% of total sales volume, while sales at DODO stations accounted for 12%. The remainder (6%) was sold directly to wholesale customers.

KEY OPERATING PERFORMANCE

Table 1: PTG's Sales Breakdown by Channel

Unit: %

Sales Channel	2013	2014	2015	2016	2017
Total sales (Bt mil.)	47,716	55,101	53,678	64,591	84,625
COCO	61.4	69.9	75.4	77.3	81.3
DODO	15.6	13.6	12.7	11.6	11.3
Wholesale	22.4	15.8	10.9	9.3	5.1
Others	0.6	0.7	1.0	1.8	2.3
Total	100.0	100.0	100.0	100.0	100.0

Source: PTG

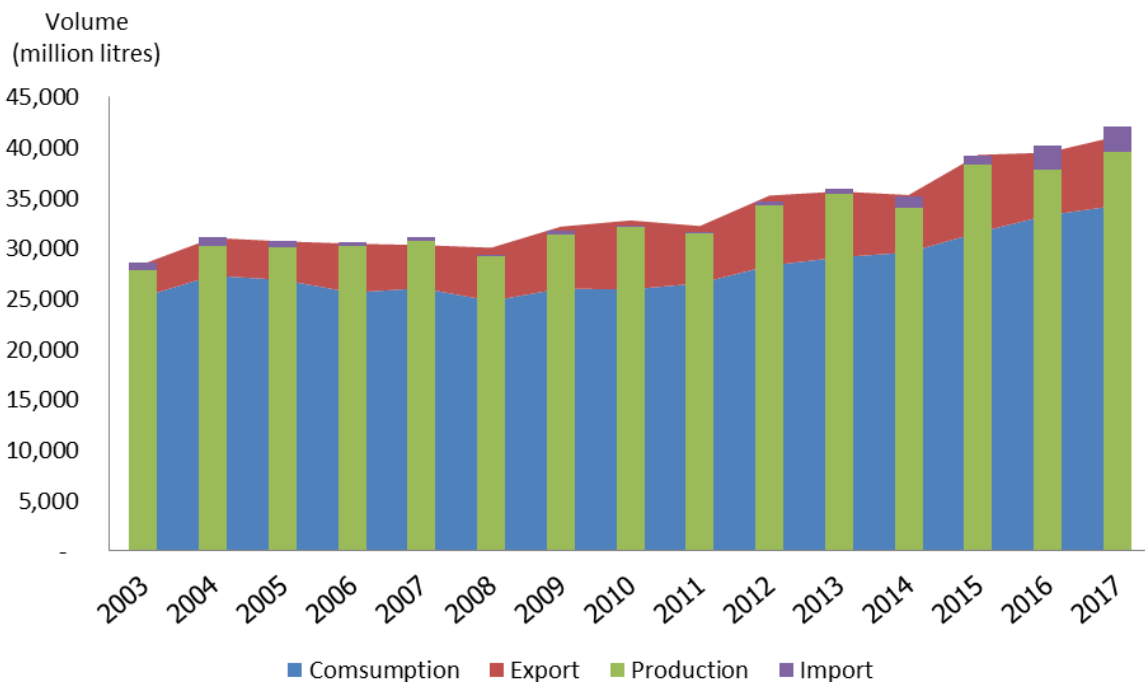
Table 2: PTG's Service Stations

Type of Station	2013	2014	2015	2016	2017
No. of service stations					
COCO	551	743	936	1,136	*1,471
DODO	188	208	214	213	225
Total	739	951	1,150	1,349	1,696
Growth (y-o-y)	28.7%	28.7%	20.9%	17.3%	25.7%
Sales volume (ML)					
COCO	953	1,280	1,684	2,212	2,785
DODO	249	255	294	351	403
Total	1,202	1,535	1,979	2,562	3,188
Growth (y-o-y)	34.1%	27.8%	28.9%	29.5%	24.4%

Source: PTG

*include 36 LPG stations and 50 Oil+LPG stations

Chart 1: Demand and Supply Balance of Diesel and Gasoline in Thailand



Source: EPPO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Revenue	84,625	64,591	53,678	55,101	47,716
Gross interest expense	188	125	45	46	54
Net income from operations	913	979	651	487	312
Funds from operations (FFO)	2,635	2,256	1,534	1,184	685
Capital Expenditures	5,324	3,219	1,919	1,439	1,134
Total assets	17,985	12,527	7,805	6,596	5,935
Total debts	8,099	4,010	1,444	1,040	1,121
Total adjusted debts	14,609	8,518	4,195	2,354	1,809
Shareholders' equity	5,119	4,589	4,001	3,599	3,188
Operating income before depreciation and amortization as % of sales	4.0	4.4	3.3	2.4	1.7
Pretax return on permanent capital (%)	10.0	15.2	14.3	13.4	12.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.4	8.2	10.3	12.5	10.5
FFO/total debt (%)	19.7	28.9	38.4	54.1	41.9
Total debt/capitalization (%)	74.1	65.0	51.2	39.5	36.2

Note: All ratios have been adjusted by operating leases

* Consolidated financial statements

PTG Energy PLC (PTG)

Company Rating:	BBB+
Rating Outlook:	Stable

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