TRIS RATING
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ESSO (THAILAND) PLC

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CORPORATES

Company Rating:	A+
Outlook:	Stable

Last Review Date: 26/12/17

Company Rating History:

Date	Rating	Outlook/Alert
21/11/08	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Esso (Thailand) PLC (ESSO) at "A+". The rating reflects a strong linkage with the Exxon Mobil Corporation and its affiliates (ExxonMobil Group), its solid operating track record and efficient integrated refinery, and its strong market position in Thailand. The rating is constrained by the high volatility inherent in the petroleum and petrochemical industries, as well as fierce competition in the retail business.

KEY RATING CONSIDERATIONS

Strong linkage with the ExxonMobil Group

The rating affirmation is partially built on ESSO's strong linkage with the ExxonMobil Group. As ESSO is a refiner in the Group, it leverages ExxonMobil Group's technology for its refinery and petrochemicals plant, as well as holding to its operating standard. Various agreements with the ExxonMobil Group, such as the Master Service Agreement and the Standard Research Agreement, also allow ESSO to access and utilize technology and management practices developed by the ExxonMobil Group.

ESSO leverages ExxonMobil Group's global supply chain to purchase crude oil and other feedstock. ESSO also sells its refined petroleum and petrochemical products through its network. As a result, the company enhances its own procurement capabilities and reduces its cost through economies of scales.

ESSO also receives financial support from the ExxonMobil Group from time to time, which helps enhance its financial flexibility.

Efficient and integrated refinery plant strengthen business profile

ESSO has benefited from operating a complex refinery integrated with an aromatics plant. The complex refinery enables flexibility of crude selection, while integration with the aromatics plant gives ESSO flexibility to adjust the product mix.

In 2017, ESSO's refinery product mix was diesel (37.3%), gasoline (19.1%), reformate (12.8%), jet fuel and kerosene (8.4%), fuel oil (7.8%), and others (14.6%).

In addition, ESSO also benefits from employing ExxonMobil Group's technology and operating philosophy. ESSO's refinery is in a top tier of energy efficient plants in the Asia-Pacific region, with high operational reliability.

Strong market position in Thailand

TRIS Rating believes ESSO will maintain its strong market position in Thailand over 2019-2021. ESSO's strong market position is underpinned by its recognizable brand name, which enables the company to market premium oil and related products. In addition, ESSO has an extensive distribution network of service stations. As of October 2018, there were 595 service stations operating under the "Esso" brand name across the country.

For the first 10 months of 2018, ESSO's network of service stations was the third-largest retailer in terms of fuel sold through service stations. However, ESSO's service stations are capable of generating relatively high volume per station compared with most of its peers.

Volatility in oil price and fierce competition in the retail business constrain the rating

TRIS Rating views that ESSO's performance is still exposed to volatility in oil and petrochemical prices. Highly volatile oil prices could hurt the company's profitability, as occurred in 2014, or would deliver outperformance, as recorded in 2017.

In addition, TRIS Rating views that ESSO will be affected by intense competition among oil retailing businesses in Thailand. The lower retail oil price during the past few years has pulled demand for refined products. Many oil retailers have rapidly expanded their number of service stations. Each retailer has also launched marketing campaigns to increase market share, leading to this intense competition.

Increase in oil price improving ESSO's performance

The recovery in oil price since 2016 has helped improve ESSO's performance. Revenue picked up 18% to Bt179 billion in 2017 after a three-year streak of declines. Revenue continued to grow by 16% year-over-year during the first nine months of 2018, arriving at Bt149 billion. ESSO's gross refining margin (GRM) considerably improved to US$8.1 per barrel in 2017, up from US$7.7 per barrel in 2016 and US$4.7 per barrel in 2015. As a result, ESSO's earnings before interest, tax, depreciation and amortization (EBITDA) came in at around Bt11 billion in 2016 and 2017, a significant improvement from Bt4.9 billion in 2015. For the first nine months of 2018, ESSO's GRM maintained high at US$7.8 per barrel and EBITDA arrived at Bt7.9 billion.

Given the strengthened cash flow, ESSO's total debt drastically declined to Bt12.3 billion as of 2017, from Bt23 billion a year earlier. The ratio of debt to capitalization sharply decreased to 37%. As of September 2018, total debt increased to Bt17.3 billion to support higher working capital needs. The debt to capitalization ratio rose to 42%.

Satisfactory liquidity profile

TRIS Rating forecasts ESSO's EBITDA will be in the range of Bt6-Bt7 billion per year during 2019-2021, based on the Dubai crude oil price range of US$60-US$65 per barrel. This amount of EBITDA could cover the long-term debt repayment schedule. ESSO has Bt3.2 billion of debt due in 2019, while Bt600 million of long-term debt will be due in 2020.

In our base case, we do not expect any large investment by the company. During 2019-2021, ESSO's capital expenditures will be about B1.6-Bt2.2 billion per year, covering refinery maintenance and service station expansion. ESSO's debt to capitalization ratio will stay in the range of 30%-40%.

Financial support enhances ESSO's financial flexibility

TRIS Rating believes ESSO will continue to receive financial support from the ExxonMobil Group. This is evidenced by the credit line ESSO received during 2013 to present. As of September 2018, about 67% of ESSO's total debt was granted by the ExxonMobil Group. On top of the outstanding inter-company debt, the ExxonMobil Group also provides a credit facility of Bt54 billion to ESSO, which currently remains undrawn.

RATING OUTLOOK

The "stable" outlook takes into account the strong linkage between ESSO and the ExxonMobil Group, together with the anticipated benefits it receives from the Group. TRIS Rating also expects the company to maintain its sound market position in the petroleum business in Thailand.

RATING SENSITIVITIES

ESSO's credit upside is limited over the 12-18 months due to the volatility of oil prices and the glut of paraxylene. However, ESSO's rating could be downgraded if the company fails to secure on-going support from the ExxonMobil Group, or if the ExxonMobil Group dilutes its majority stake in ESSO.

COMPANY OVERVIEW

ESSO is the Thailand-based affiliate of Exxon Mobil Corporation (ExxonMobil), which is one of the world's largest oil refiners and petrochemical companies. ESSO has a long track record in the petroleum business in Thailand. The company and its affiliates began the oil business in Thailand in 1894 and opened a refinery in 1971. As of March 2018, ESSO's major shareholders comprised ExxonMobil Asia Holding Pte. Ltd. (66%) and Vayupak Fund 1 (7%).

ESSO operates a complex refinery with a maximum rated capacity of 174 thousand barrels per day (KBD), accounting for approximately 14% of the total refinery capacity in Thailand. ESSO also operates an aromatics plant, which is integrated with the refinery. The aromatics plant has a production capacity of 500 thousand tonnes per annum of paraxylene. In addition, there were 595 service stations operating under the "Esso" brand name, as of October 2018.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December ------------			
	Jan-Sep 2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	149,438	178,839	151,102	169,959	220,834
Operating income	7,549	11,206	10,588	4,803	(9,367)
Earnings before interest and taxes (EBIT)	6,289	9,553	8,881	2,912	(11,198)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,904	11,570	11,153	4,917	(9,362)
Funds from operations (FFO)	6,537	9,306	8,922	3,705	(7,821)
Adjusted interest expense	244	562	675	929	1,067
Capital expenditures	838	1,161	1,446	930	1,162
Total assets	64,125	59,020	58,751	56,702	63,974
Adjusted debt	21,342	16,650	26,540	32,785	39,000
Adjusted equity	28,500	28,182	20,752	13,769	11,920
Adjusted Ratios					
Operating income as % of total operating revenues (%)	5.05	6.27	7.01	2.83	(4.24)
Pretax return on permanent capital (%)	21.18**	20.51	18.76	5.93	(20.20)
EBITDA interest coverage (times)	32.33	20.58	16.52	5.29	(8.78)
Debt to EBITDA (times)	1.75 **	1.44	2.38	6.67	(4.17)
FFO to debt (%)	46.41**	55.89	33.62	11.30	(20.05)
Debt to capitalization (%)	42.82	37.14	56.12	70.42	76.59

*	*Consolidated financial statements*
**	*Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Esso (Thailand) PLC (ESSO)

Company Rating:	A+
Rating Outlook:	Stable

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