ESSO (THAILAND) PLC

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CORPORATES

Company Rating: A+
Outlook: Stable

Last Review Date: 26/12/18

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+" with a "stable" rating outlook. The rating reflects ESSO's strong tie with the Exxon Mobil Corporation and affiliates (ExxonMobil Group), its efficient integrated refinery, and strong market presence. Conversely, the rating is tempered by exposure to high volatility in the petroleum and petrochemical industries, and intense competition in the retail business.

KEY RATING CONSIDERATIONS

A part of ExxonMobil Group

The rating is primarily predicated on ESSO's status as a refiner in the ExxonMobil Group, which is one of the largest integrated refiners and sellers of petroleum products in the world. Integrated to the group, ESSO receives ongoing supports in light of operation, business, and financial flexibility from the ExxonMobil Group.

In procuring of crude oil and other feedstock, ESSO leverages ExxonMobil Group's global supply chain. At the same time, the company also sells its refined petroleum and petrochemical products through the Group's network.

In operating its refinery and petrochemical plant, ESSO adopts the ExxonMobil Group's technology and keeps up with the group standard. The company is entitled to access and utilize technology and management practices developed by the ExxonMobil Group, through various agreements with the Group.

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

Efficient and integrated refinery plant

ESSO has a complex refinery integrated with an aromatics plant, which enables ESSO to adjust crude slate and the product mix. In 2018, ESSO's refinery product mix was diesel (37.9%), gasoline (19.3%), reformate (13.4%), jet fuel and kerosene (8.7%), fuel oil (7.8%), and others (12.9%).

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 presence

The rating also mirrors ESSO's strong market presence in Thailand. ESSO has an extensive distribution network of service stations operated under the "ESSO" brand. The company is aiming to strengthen its retail business to gain more profit in efforts to offset the volatile refining segment.

ESSO has rapidly expanded its distribution network as well as renovated its service stations over the past two years. As of September 2019, the company had 620 service stations across the country, a number that has been increasing from 500-550 stations over the past eight years.

Given its strong brand name, ESSO can market its premium oil and related products through its service stations. Moreover, its service stations are capable of generating relatively high volume per station compared with most of its peers.

Intense competition in the retail segment

However, the company's efforts to strengthen retail segment is hampered by intense competition among oil retailing businesses in Thailand. Many oil retailers continue to expand service stations and launch promotional campaigns to gain more market share. The petrol stations makeover is the trend seen industry-wide. Retailers have spent heavily to renovate their petrol stations and offered non-oil goods and services.

At the same time, the country's consumption of refined oil products grew at only 2% per annum over the past two years. For the first half of 2019, domestic consumption rose by 2.5%. TRIS Rating views that domestic oil consumption could flat or experience marginal growth in the next 1-2 years, given the downside risk of the country's economy.

Susceptibility to wild price fluctuation

The rating is chiefly constrained by its susceptibility to volatility in oil and petrochemical prices. ESSO's operating performance in 2018 came in below our expectation due to weakened gross refinery margin (GRM). Like other refiners, ESSO was drastically hurt by the drop-off in oil prices during the last quarter in 2018. GRM steeply declined to US$4.6 per barrel in 2018, from US$8.1 per barrel in 2017.

ESSO's refinery remains under immense pressure from softened GRM as the thin crack spread of gasoline (the difference between gasoline price and crude oil price) lasted into the first half of 2019. For the first nine months of 2019, GRM was US$3.0 per barrel, compared with US$7.8 per barrel in the same period a year earlier. Such GRM marks the lowest level in the past four years. In addition, ESSO carried out a 2-month major turnaround of its plant during September and October 2019, which lowered its production by 12% for the first nine months of 2019. Moreover, the glut of petrochemical products remains to undercut its profitability.

As a result, operating revenues fell by 12% year-over-year during the first nine months of 2019. EBITDA (earnings before interest, tax, depreciation and amortization) was low at Bt349 million. The ratio of debt to capitalization rose to nearly 50% as of September 2019.

Operating performance expected to improve

Looking ahead, we expect that ESSO's operating performance will improve as its refinery has resumed its full production since November 2019. For 2020-2022, GRM could improve due to the implementation of banning fuel oil with high sulfur by the International Marine Organization (IMO). ESSO could leverage the Group's supply chain in sourcing low sulfur crude to optimize its refinery operation. In addition, the shipper may use diesel to blend with high sulfur fuel oil to meet IMO's requirement. This could lift up crack spread for diesel. However, our conservative GRM range of US$3.1-US$3.8 per barrel is built into our forecast. We also expect that the oversupply of petrochemical products will continue.

In our base case forecast for 2020-2022, we expect ESSO's EBITDA to range Bt3-4 billion per year. We do not expect any large investment by the company. ESSO's capital expenditures are projected to be about Bt1.6 billion per year, covering refinery maintenance and service station expansion. The ratio of debt to capitalization should gradually decline towards 40%. The debt to EBITDA ratio will range at 5-7 times.

Satisfactory liquidity profile

Despite the backdrop of weakened performance, we believe that ESSO has ability to manage its debts coming due in the next 12 months. As of September 2019, ESSO had cash on hand of about Bt600 million and undrawn credit lines with ExxonMobil Group of over Bt54 billion. The company is obliged to repay long-term bank loans of Bt1.3 billion in the next 12 months.

Financial support enhances ESSO's financial flexibility

Given the strong tie with the ExxonMobil Group, we believe ESSO will continue to receive financial support from the ExxonMobil Group. This is evidenced by the credit lines ESSO received over the past years. As of September 2019, about two-thirds 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.

BASE-CASE ASSUMPTIONS

- Dubai crude oil price is forecast at US$60 per barrel in the fourth quarter of 2019 through 2020 and decline to US$55 per barrel thereafter.
- GRM to range US$3.1-US$3.8 per barrel during 2020-2022.
- Capital expenditures are forecast at about Bt2.2 billion in 2019 and Bt1.6 billion during 2020-2022.

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 presence in the petroleum business in Thailand and improve its operating performance in the years ahead.

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, negative pressure could build if ESSO fails to secure on-going support from the ExxonMobil Group, or if the performance of ESSO could not recover as expected.

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 2019, 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 620 service stations operating under the "Esso" brand name, as of September 2019.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		---------------Year Ended 31 December ----------			
	Jan-Sep 2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	131,596	200,864	178,839	151,102	169,959
Earnings before interest and taxes (EBIT)	(1,296)	3,105	9,553	8,881	2,912
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	349	5,158	11,570	11,153	4,917
Funds from operations (FFO)	450	4,279	9,306	8,922	3,705
Adjusted interest expense	301	450	562	675	929
Capital expenditures	1,152	1,345	1,161	1,446	930
Total assets	56,713	61,750	59,020	58,751	56,702
Adjusted debt	23,283	19,779	16,650	26,540	32,785
Adjusted equity	24,300	25,832	28,182	20,752	13,769
Adjusted Ratios					
EBITDA margin (%)	0.26	2.57	6.47	7.38	2.89
Pretax return on permanent capital (%)	(9.07) **	6.80	20.51	18.76	5.93
EBITDA interest coverage (times)	1.16	11.47	20.58	16.52	5.29
Debt to EBITDA (times)	(9.71) **	3.83	1.44	2.38	6.67
FFO to debt (%)	(7.77) **	21.64	55.89	33.62	11.30
Debt to capitalization (%)	48.93	43.36	37.14	56.12	70.42

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

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Esso (Thailand) PLC (ESSO)

Company Rating:	A+
Rating Outlook:	Stable

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