TRIS RATING
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PTG ENERGY PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 04/04/18

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 on PTG Energy PLC (PTG) at "BBB+". The rating reflects PTG's strengthened market position in oil retailing, extensive distribution network, and steady earnings growth. However, the rating is weighed down by PTG's high financial leverage, susceptibility to government intervention in oil prices, and intense competition.

KEY RATING CONSIDERATIONS

Strengthened market position

Market position of PTG has consistently strengthened over the past years, underpinned by its extensive distribution network. Countrywide, PTG has the second-largest number of oil service stations after the dominant PTT PLC. PTG added 187 service stations in 2018, bringing the total number of service stations to 1,883 stations as of the end of 2018.

PTG has enhanced its market presence. The company was formerly lesser-known in the upmarket and urban areas as its petrol stations are mostly located on local routes. PTG is now bent on expanding petrol stations in Bangkok and its vicinity, locations that not only enable PTG to offer more non-oil products, but also help gain more brand recognition in the upscale segment.

In addition, PTG has launched loyalty-based discounts and offers. The company's loyalty program, "PT Max Card", is successfully implemented. The number of PT Max Card memberships grew from 7.7 million members in 2017 to 10 million members in 2018. PT Max Card members contributed around 70% of oil sales volume in 2018. TRIS Rating views that the PT Max Card will further help the company retain customers and increase sales.

PTG's market share in oil sales volume through retail channels also grew significantly from 13.6% in the fourth quarter of 2017 to 15.1% in the fourth quarter of 2018. The company became the country's second-largest oil retailer, in terms of sales volume.

Earnings growth stays on a roll

PTG's fast-paced business expansions have brought in a streak of rising sales and EBITDA (earnings before interest, taxes, depreciation, and amortization). PTG's sales surged at an average growth rate of 18% per annum during the past five years, reaching a record Bt108 billion in 2018. EBITDA rose by an average of around 37% per annum during the same period, arriving at Bt4.4 billion in 2018.

PTG's sales volume outgrew the market. In 2018, PTG's oil sales grew by 16% to 3.9 billion litres, while the country's consumption merely rose by around 2%. Going forward, TRIS Rating expects PTG's sales and EBITDA will continue on an upward trend, driven by continued expansion of service stations. In our base case, we expect EBITDA to grow to Bt5.0-Bt6.0 billion over the next three years.

Intense competition

TRIS Rating opines that domestic oil consumption could flatten or experience marginal growth in the next one to two years, given the downside risk of the country's economy. The country's consumption of refined oil products grew at around only 2% per annum over the past two years. The impact can be seen in 2018 as PTG's like-for-like sales were flat in 2018. A languishing market would put a strain on PTG's ability to grow organically.

Furthermore, PTG is exposed to intense competition among oil retailers in Thailand. Many oil retailers continue to expand service stations and launch promotional campaigns to gain more market share. The petrol station makeover is a trend seen industry-wide. Retailers have spent heavily to renovate their petrol stations and offered non-oil goods and services.

Susceptibility to government intervention

PTG is susceptible to government intervention in oil retail prices, which would dent oil retailers' marketing margin. For instance, oil prices flared up briefly in mid-2018. The government capped diesel price at Bt30 per litre to help diesel users. As a result, the company's marketing margin was affected more than peers, since PTG has a high proportion of diesel sales. Diesel accounted for 71% of PTG's total oil sales volume in 2018. Thus, PTG's marketing margin on retail sales declined from a year earlier.

In general, wild price fluctuations could hurt oil retailers' marketing margin. However, we view that PTG could somewhat fend off the volatility as it has managed its oil inventory efficiently.

Lingering high leverage

The rating is weighed down by PTG's high leverage, arising from debt-fueled expansion and hefty strategic investments, including both oil and non-oil businesses. However, its strategic investments, which are slated to uplift profitability, have yet to pay off. PTG heavily spent around Bt5.0 billion per annum on capital expenditures during the past three years. This covered network expansion and new ventures, such as an integrated palm oil complex, food and beverage, convenience stores, auto maintenance service, etc.

As a result, the company's adjusted debt rose considerably, from Bt3.9 billion in 2015 to Bt16.4 billion in 2018. The ratio of debt to capitalization grew from 50% in 2015 to 75% in 2018. Over the next few years, TRIS Rating expects that the company's capital expenditures will tail off as PTG is more prudent in its expansion. We expect the debt to total capitalization ratio will gradually fall to around 70% in 2021.

Manageable liquidity

PTG's cash flow protection remains fair, the funds from operations (FFO) to debt ratio was 21% in 2018 and EBITDA interest coverage ratio was 5.4 times. In our three-year forecast, we expect PTG's FFO will range from Bt4.0-Bt4.7 billion per year during 2019-2021. The FFO to total debt ratio will stay around 25% and EBITDA interest coverage will be around 6 times.

Throughout 2019, PTG has bank loans and bonds coming due for a total of Bt4.3 billion. PTG had Bt996 million in cash as of 2018. FFO for the next 12 months is forecast at Bt4.0 billion. However, we expect PTG will need to roll over most of its existing loans as the company continues to expand. Given its ability to generate cash flow in the years ahead, we view that the refinancing risk is acceptable.

BASE-CASE ASSUMPTIONS

- PTG's oil sales volume grows around 10% per annum, driven mainly by expansion of new service stations.
- Revenues will increase around 9% per annum during 2019-2021.
- PTG's oil marketing margin will hover around Bt1.7 per litre.
- Total capital spending will be Bt3.6-Bt3.7 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PTG can maintain its strong market position in the oil retailing market. Further, PTG will be more prudent in its expansion plan. As such, the company is expected to keep its debt to capitalization ratio below 75% and its debt to EBITDA ratio lower than 4 times.

RATING SENSITIVITIES

A credit upside for PTG is limited in the near term given its high financial leverage. Conversely, a rating downgrade could develop if the company undergoes aggressive debt-funded investments. A sustained deterioration of operating performance may also put downward pressure on the rating.

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 2018, the company's major shareholders comprised the Ratchakitprakarn family (32%), the Wijitthanarak family (9.5%), and the Vachirasakpanich family (8.7%). PTG operates 1,883 service stations nationwide under the "PT" trademark. PTG operated about 7% of all service stations in Thailand at the end of 2018.

As of the end of 2018, the company owned 10 oil distribution centers with a total capacity of 208 million litres (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 owned and operated by the company) and DODO (stations owned and operated by dealers).

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 2018, retail sales at COCO stations accounted for 84% of total sales volume, while sales at DODO stations accounted for 11%. The remainder (5%) was sold directly to wholesale customers.

PTG's marketing campaigns comprise the launch of loyalty-based discounts and offers. The company also embarked on advertising on television channels to raise "PT" brand awareness. In addition, PTG recently launched a new PT Max Card system, which can collect and swap points with PTG's partners, covering various other well-known retailers of several products.

KEY OPERATING PERFORMANCE

Table 1: PTG's Sales Breakdown by Channel

Unit: %

Sales Channel	2014	2015	2016	2017	2018
Total sales (Bt mil.)	**55,101**	**53,678**	**64,591**	**84,625**	**107,829**
COCO	69.9	75.4	77.3	81.3	82.4
DODO	13.6	12.7	11.6	11.3	10.2
Wholesale	15.8	10.9	9.3	5.1	4.6
Others	0.7	1.0	1.8	2.3	2.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PTG

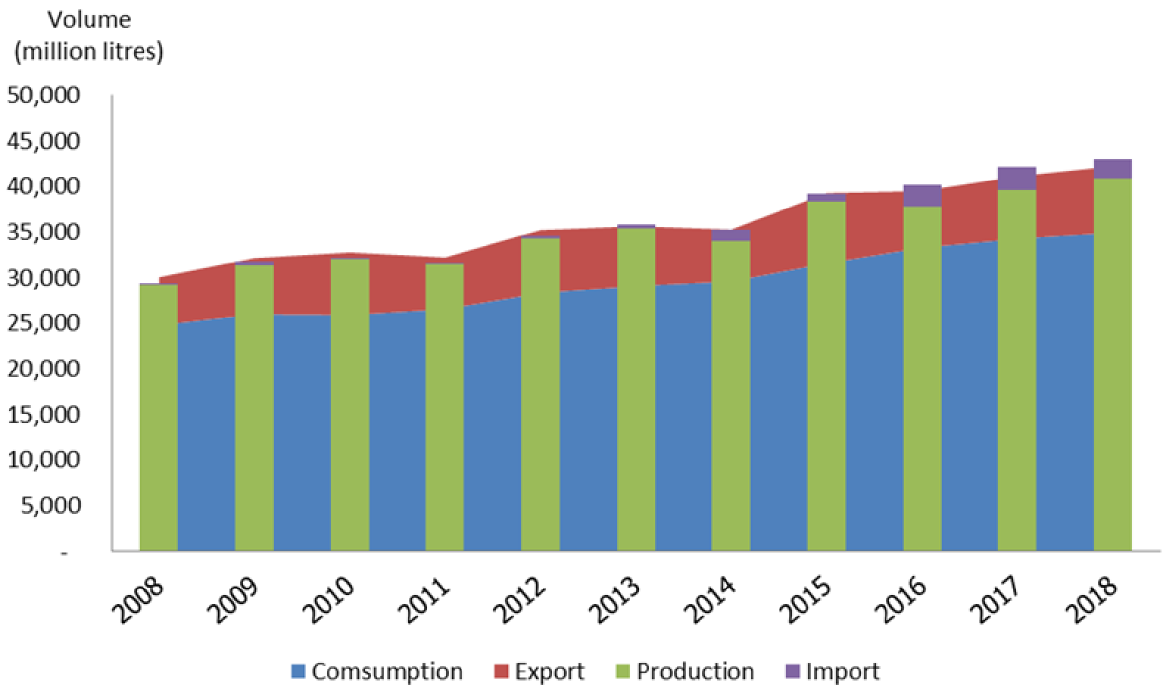
Table 2: PTG's Service Stations

Type of Station	2014	2015	2016	2017	2018
No. of service stations					
COCO	743	936	1,136	1,471	*1,638
DODO	208	214	213	225	245
Total	**951**	**1,150**	**1,349**	**1,696**	**1,883**
Growth (y-o-y)	*28.7%*	*20.9%*	*17.3%*	*25.7%*	*11.0%*
Sales volume (ML)					
COCO	1,280	1,684	2,212	2,785	3,301
DODO	255	294	351	403	426
Total	**1,535**	**1,979**	**2,562**	**3,188**	**3,727**
Growth (y-o-y)	*27.8%*	*28.9%*	*29.5%*	*24.4%*	*16.9%*

Source: PTG

**include 48 LPG stations and 77 Oil and 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 -----------			
	2018	**2017**	**2016**	**2015**
Total operating revenues	108,142	84,861	64,788	53,833
Operating income	4,353	3,647	3,068	1,933
Earnings before interest and taxes (EBIT)	1,557	1,643	1,621	1,009
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,374	3,674	3,074	1,933
Funds from operations (FFO)	3,440	2,945	2,432	1,573
Adjusted interest expense	813	576	380	189
Capital expenditures	5,339	5,394	3,219	1,919
Total assets	20,940	17,985	12,527	7,805
Adjusted debt	16,373	13,759	7,934	3,942
Adjusted equity	5,476	5,119	4,589	4,001
Adjusted Ratios				
Operating income as % of total operating revenues (%)	4.03	4.30	4.74	3.59
Pretax return on permanent capital (%)	7.30	9.96	15.15	14.18
EBITDA interest coverage (times)	5.38	6.38	8.09	10.25
Debt to EBITDA (times)	3.74	3.74	2.58	2.04
FFO to debt (%)	21.01	21.40	30.65	39.90
Debt to capitalization (%)	74.94	72.89	63.35	49.63

RELATED CRITERIA

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

PTG Energy PLC (PTG)

Company Rating:	BBB+
Rating Outlook:	Stable

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