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BANGCHAK CORPORATION PLC

No. 142/2017 6 November 2017

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/11/15	A	Stable
26/12/12	A-	Stable
06/07/12	A-	Alert Negative
12/10/10	A-	Stable
05/11/09	BBB+	Positive
05/11/08	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of the outstanding senior unsecured debenture of Bangchak Corporation PLC (BCP) at “A”. At the same time, TRIS Rating also assigns a rating of “A” to BCP’s proposed issue of up to US$50 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay part of BCP’s maturing dollar loans.

The ratings reflect BCP's established refining business, the advantages BCP has from integrating its refining and marketing businesses, its strong market position in the fuel retailing business, and its diversification into the green power business. The ratings are partially offset by the increasing leverage due to the company's investment plan.

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of September 2017, VAYUPAKSA Fund 1 held a 14.84% interest in BCP, Social Security Office (SSO) held 13.49%, Ministry of Finance (MOF) held 9.98%, and the remaining 61.69% was publicly held. The company's main businesses are oil refining and marketing. The company owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 thousand barrels per day (KBD). This accounts for approximately 11% of the country's total refinery capacity. As of June 2017, there were 1,082 service stations operated under the “Bangchak” brand.

Other lines of business are power generation, bio-based products, and resources. As of September 2017, BCPG PLC, a subsidiary of BCP, owned solar power plants located in Thailand and Japan with total capacity of 160 megawatts (MW). It also invests in a wind power plant project in the Philippines and a geothermal power plant project in Indonesia, which contribute about 172 MW to the company. The bio-based products comprise a bio-diesel plant, with a total capacity of 810,000 liters per day (L/D), and an ethanol plant, with a capacity of 150,000 L/D. This business is currently under amalgamation with other ethanol entities, which will increase the capacity of the ethanol plant to about 500,000 L/D. In addition, BCP invested in an oil exploration and production (E&P) arm in the Philippines. In the first six months of 2017, the company's earnings before interest, tax, depreciation and amortization (EBITDA) was Bt6,589 million. The refinery business contributed about 47% of the total, while the remaining businesses contributions were marketing (23%), power business (23%), bio-based products (4%) and resources (3%).

The ratings reflect BCP's strong business profile, which is underpinned by the established refinery and benefits from the integration of the marketing business with the refining segment. The integration enhances the overall margin of the refining and marketing businesses, as BCP earns the marketing margin on top of the gross refining margin (GRM) it earns by refining crude oil. BCP's complex refinery yields a high proportion of middle distillate products, such as diesel and jet fuel, which carry high GRM. During the first six months of 2017, the mix of refined products was diesel (51%), gasoline (19%), jet fuel (13%), and fuel oil (12%). Given its product mix, BCP's base GRM was US$6.8 per barrel for the first six months of 2017. The refinery’s crude run rate was 112 KBD for the first six months of 2017. The company continues to implement the refinery’s improvement program, which will help increase GRM, provide a flexible operation for BCP, and increase refining capacity to support the marketing business.

The ratings also reflect BCP’s strong market position in the marketing business. BCP's sales volume through its marketing arm is steadily increasing at a compound annual growth rate (CAGR) of 6%, rising from 4,569 million liters (ML) in 2012 to 5,789 ML in 2016. For the first six months of 2017, the sales volume was 3,044 ML, a 4% year-on-year (y-o-y) rise.

About 60% of the sales volume in the marketing business is distributed through the "Bangchak" service stations and the rest is sold to industrial customers. Sales through service stations carry the highest margin compared with other sales channels. The company has implemented marketing campaigns, as well as improving its non-oil businesses and the brand image of its service stations, to increase the volume of refined products sold through the service stations. These actions helped push the sales volume sold through service stations from 223 ML per month (ML/MO) in 2012 to 301 ML/MO in 2016, a CAGR of 8%. For the first six months of 2017, the volume sold through service stations was 314 ML/MO, a 4% y-o-y rise. The higher volume boosted BCP's market position, making it the second-largest domestic oil retailer in Thailand since 2014, with a market share of about 15%.

The power business stabilizes the company's EBITDA. As of September 2017, BCP’s power business comprised solar power plants with total contracted capacity of 160 MW in operation. The majority, or 130 MW, are located in Thailand with 30 MW located in Japan. All Thailand projects receive a tariff adder of Bt8 per kilowatt-hour (kWh) on top of the base tariff. All plants in Japan have long-term power purchase agreements with regional utilities spanning 20 years and receive a feed in tariff (FiT) of JPY36 - JPY40 per kWh.

In addition to the majority owned power plants, BCP spent about Bt13,051 million in May and July 2017 to acquire a 40% shareholding in a wind power plant project in the Philippines and a 33.3% shareholding in a geothermal power plant project in Indonesia. These investments contribute about 172 MW to BCP. The power business generated about Bt2,600 million in EBITDA in 2016. Going forward, BCP's power businesses are expected to generate EBITDA of Bt3,000-Bt4,000 million per year during 2017-2020. The earnings of the power segment cushion BCP's overall performance from fluctuations in oil prices and GRM.

For the first six months of 2017, BCP’s total revenue increased by 29% y-o-y to Bt86,823 million, mainly due to an increase in oil prices. The company’s adjusted operating margin (operating income before depreciation and amortization as a percentage of sales) was 8.1% for the first six months of 2017, partly due to a higher marketing margin for the marketing business. At the end of June 2017, BCP’s total debt was Bt36,521 million. The capital structure remained satisfactory. The ratio of total adjusted debt to capitalization was 47.6% at the end of June 2017.

During 2017-2020, TRIS Rating’s base case scenario expects the company’s EBITDA will be in the range of Bt11,000-Bt15,000 million per year, based on a crude intake in the range of 110 KBD-115 KBD and a base GRM at about US$6.5-US$7.5 per barrel, reflecting the company’s improvement program. BCP’s total capital expenditures and the investment budget for committed projects during 2017 to 2020 are expected to total approximately Bt66,000 million, including investment in the wind farm and geothermal power plant in the first six months of 2017. Given the expected levels of EBITDA and capital expenditures, BCP’s total adjusted debt to capitalization ratio may increase during the investment period. However, TRIS Rating expects that the ratio will be in the range of 50%-55% over the next three years. TRIS Rating’s base case does not incorporate a plan for increasing capital from listing the bio-based business.

Rating Outlook

The “stable” outlook reflects the expectation that BCP will retain its strong market position in the marketing segment. The investments in power projects are expected to generate sustainable streams of cash and offset the impact from fluctuations in the oil refining and marketing businesses.

An upside for BCP's ratings may occur if the company generates sizable and recurring cash flow from its diversification efforts, while not materially deteriorating its capital structure. A rating downside may occur if BCP's capital structure significantly deteriorates due to aggressive debt-funded investments or if the company incurs substantial losses from operations or its investments.

Bangchak Corporation PLC (BCP)

Company Rating:	A
Issue Ratings:	
BCP194A: Bt2,000 million senior unsecured debentures due 2019	A
BCP194B: Bt2,000 million senior unsecured debentures due 2019	A
BCP214A: Bt2,500 million senior unsecured debentures due 2021	A
BCP224A: Bt1,000 million senior unsecured debentures due 2022	A
BCP244A: Bt3,500 million senior unsecured debentures due 2024	A
BCP273A: Bt2,000 million senior unsecured debentures due 2027	A
BCP303A: Bt1,000 million senior unsecured debentures due 2030	A
Up to US$50 million senior unsecured debentures due within 3 years	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----------------------- Year Ended 31 December ----------------------				
	Jan-Jun 2017	2016	2015	2014	2013	2012
Revenue	86,823	144,705	151,140	183,016	186,490	165,246
Gross interest expense	693	1,606	1,663	1,451	1,180	1,044
Net income from operations	2,795	4,273	4,038	1,180	4,496	3,632
Funds from operations (FFO)	5,668	9,440	8,448	4,495	7,696	6,986
Capital expenditures	2,300	9,370	4,645	7,350	4,570	5,126
Total assets	96,470	101,783	81,942	76,966	73,537	72,055
Total debts	36,521	39,587	33,658	31,203	21,914	20,183
Shareholders' equity	45,569	43,909	35,983	33,966	34,974	32,317
Operating income before depreciation and amortization as % of sales	8.1	8.7	7.8	2.1	4.3	3.6
Pretax return on permanent capital (%)	9.4 **	8.3	9.1	3.2	11.8	10.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.4	6.6	5.9	3.3	7.0	6.4
FFO/total debt (%)	27.8 **	24.8	22.3	13.5	31.3	30.7
Total debt/capitalization (%)	47.6	50.6	52.8	50.7	42.0	42.1

Note: All ratios are adjusted with operating leases
** Consolidated financial statements*
*** Annualized with trailing 12 months*

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