

# BANGCHAK CORPORATION PLC

No. 166/2023  
31 August 2023

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
Hybrid	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 19/01/23

### Company Rating History:

Date	Rating	Outlook/Alert
19/01/23	A	Alert Negative
27/10/22	A	Stable
09/12/20	A-	Stable
11/06/20	A	Negative
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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## RATIONALE

TRIS Rating affirms the company rating on Bangchak Corporation PLC (BCP) and the ratings on its outstanding senior unsecured debentures at “A”. TRIS Rating also affirms the rating on BCP’s subordinated capital debentures at “BBB+”. The rating outlook is “stable”.

At the same time, we remove the CreditAlert with a “negative” implication that has been placed on all ratings on BCP since 19 January 2023. This follows BCP’s announcement on 31 August 2023 of the completed acquisition of 65.99% of the shares of ESSO (Thailand) PLC (ESSO).

The ratings reflect BCP’s strengthened competitive position in the oil refinery and marketing businesses. The ratings embed expected post-acquisition synergies, and improvement in operating efficiencies. Conversely, the ratings are tempered by BCP’s heightened susceptibility to volatile oil prices, and near-term integration risks. The ratings also consider BCP’s huge investments in the years ahead.

## KEY RATING CONSIDERATIONS

### Strengthened competitive position

We view the acquisition of ESSO as augmenting BCP’s competitive strengths in its integrated oil refining and marketing business. The acquisition increases BCP’s refinery capacity to 294 thousand barrels per day (KBD), from 120 KBD, representing about 23.7% of the total refinery capacity in Thailand. It also enables BCP to utilize ESSO’s complex refinery, as well as access the advantageous crude receiving facilities and fuel pipelines network. In addition, BCP has become the second largest fuel retailer, with the combined number of service stations nationwide of 2,193 stations, making up about 27% of total service stations in Thailand. The company’s market share in the fuel retailing business is expected to increase to about 30% in view of sales volume through service stations. In all, we expect the acquisition of ESSO to add about THB6.0-THB7.0 billion in annual earnings before interest, tax, depreciation, and amortization (EBITDA) to BCP.

### Expected post-acquisition synergies

We expect the acquisition will result in synergistic benefit. These could potentially be achieved through the production optimization and several cost savings spread out among the refinery operations, retail market network and back-office operations. We believe that the underutilization of ESSO’s refinery will be improved from ramping up production to meet BCP’s current demand. At present, BCP has to purchase gasoline and diesel of about 20 KBD to satisfy the demand from its marketing networks, given the full utilization of BCP’s refinery. In aggregate, we expect a total crude run of about 260-270 KBD from the combined refineries in 2024-2025.

We also expect collaboration between the two refineries to enhance overall profitability, given the flexibility of crude selection, cost saving from crude co-loading, and the optimization of product yield. In addition, BCP could enlarge its non-oil business through ESSO’s marketing networks over the medium-term. However, we view that the benefits from synergies may take time to realize due to the transition process, given ESSO’s large scale of operation. Even though, we have some visibility into BCP’s strategic integration steps at

this point due to the limitation of disclosure, the company has the potential to achieve synergies and optimization.

### **Near-term integration risks**

We view the full benefit from the acquisition will partly be offset by near-term integration risks. The integration risks are associated with duplicated resources, unexpected costs, the different organization and management cultures, and the risk of integrating information technology (IT) and back-office systems between the two entities. Also, the execution risks related to the timing, volume, and cost of production may slow the company's expected growth in production and cash generation. Slower-than-expected transition could set back BCP's financial deleveraging. That said, the integration risks will subside over time if the integration progresses as planned.

### **Heightened susceptibility to volatile oil prices**

Oil price volatility remains the key risk to BCP's profitability. Notwithstanding the strengthened competitive position, we view that the acquisition has heightened BCP's exposure to fluctuating oil prices, which will bring in a greater impact on the company's financial performance in any adverse oil market conditions.

We also view that the combined retail operations of BCP and ESSO could amplify the competition in the oil retail market. Although the market will have fewer major players, BCP's enhanced refinery capacity could accelerate the pace of BCP's retail business expansion. BCP will move up to rank second with an enlarged market share, narrowing the gap to the market leader. In the meantime, the third-ranked retailer aims to gain more market share.

### **Outsized earnings supported by high energy prices**

In 2022, BCP's financial performance broke its record with EBITDA of THB42.8 billion, due to the significant increase in oil prices and the exceptionally wide crack spread (the difference between refined product prices and crude oil price). The Dubai crude oil price increased by 39% while BCP's operating gross refinery margin (GRM) surged to a record USD14.3 per barrel. The company has placed production of high-value products at the forefront of its refinery business. These include very low sulfur fuel oil, unconverted oil (UO -- feedstock for lubricant oil base), and low aromatic solvent. BCP's record earnings in 2022 were also attributable to the robust performance of OKEA ASA (OKEA), a Norway-based mid-to-late-life oil and gas producer. OKEA benefited from the surge in average selling prices of both oil and gas to USD112.5 per barrel of oil equivalent (BOE), a whopping 48% increase from a year earlier.

For the first half of 2023, BCP has continued to run its refinery at full capacity, aided by its strong sales volume through service stations and export. The Dubai crude oil price dropped to USD78.9 per barrel, while BCP's operating GRM declined to USD8.1 per barrel, which was still higher than the pre-pandemic level. Over the period, OKEA significantly ramped up its sales volume to 30.3 KBD, a staggering 93.1% increase year-on-year, as it completed acquisition of three offshore fields in late 2022. In all, BCP still arrived at a solid EBITDA of THB18.1 billion, which aligned with our previous forecast.

### **Acquisitive growth strategy**

The ratings are tempered by BCP's heavy investments. We forecast BCP to defray about THB133 billion over 2023-2025 on capital expenditures and investments, including the acquisition of ESSO's shares. The company spent about THB22.6 billion to acquire a 65.99% interest in ESSO and is obliged to carry out a tender offer for the remaining shares, with a maximum value of about THB11.7 billion. In addition to the ESSO acquisition related spending, a large portion of capital expenditures and investments will go into the power business. The rest will be used in the refinery improvement program, marketing network expansion, construction of a sustainable aviation fuel (SAF) plant, expansion of the exploration and production petroleum (E&P) business in Norway, and bio-based business. We forecast BCP's debt to capitalization ratio will increase to about 55%-65% during 2023-2025.

### **Solidified EBITDA post-acquisition**

We project BCP to arrive at THB34-THB36 billion in total EBITDA for 2023, with a four-month period of consolidating ESSO's earnings. In our base case, we forecast the Dubai crude oil price to stay high at about USD80 per barrel during 2023-2025. However, we forecast the natural gas price in Europe to decline to the USD10-USD14 per million British thermal unit (MMBTU) range, from the average of USD19 per MMBTU for the first half of 2023. We expect BCP to continue to maximize the capacity of its refinery while steadily edging up the crude run rate of ESSO's refinery. We forecast BCP's EBITDA to grow to THB45-THB50 billion per year during 2024-2025, which will partly stem from the realization of synergies and additional earnings from new investments, such as the SAF.

### **Financial leverage to recede**

We view BCP's current financial position as strong enough to cope with its planned investments. As of June 2023, the company's debt to EBITDA ratio was low at 1.9 times (annualized with trailing 12 months). Given the newly incurred debts in supporting the acquisition and the growth of BCP's existing businesses, we project the ratio to escalate to about 4.0-5.0

times towards the end of 2023. The increase in debt to EBITDA ratio is mainly because BCP's investments will concentrate in late 2023, resulting in heightening debt towards the end of the year. Meanwhile, the earnings contribution from such investments will be recognized for only a few months. However, with the substantially enhanced cash generation from all the investments, we expect BCP's financial leverage to trend downward over the next few years. We project the debt to EBITDA ratio to gradually decline to 3.0-3.5 times in 2024-2025.

### Ample liquidity

We expect BCP will have ample liquidity to meet its long-term debt obligations coming due in the next 12 months, as well as to fund the ESSO takeover. As of June 2023, BCP had cash on hand and cash equivalents of about THB51.3 billion and undrawn credit facilities (both committed and uncommitted) of about THB21.2 billion. We forecast BCP's funds from operations (FFO) over the next 12 months to be THB20-THB23 billion. At the same time, BCP will have maturing debt, comprising long-term loans, lease liabilities, and debentures of around THB11.5 billion.

Regarding to the acquisition of the 65.99% stakes in ESSO, we expect BCP will need to spend around THB22.6 billion, part of which will be funded by a long-term loan facility. We also expect BCP to be financially prepared to carry out the tender offer, supported by its cash position and its access to credit markets.

### Debt structure

As of June 2023, BCP's consolidated debt was about THB96.8 billion (including its subordinated capital debentures). BCP's priority debt consisted of THB17.7 billion secured debt and THB25.9 billion senior unsecured debt owed by subsidiaries. The priority debt to total debt ratio was about 45% at the end of June 2023. We expect the company to keep its priority debt ratio below 50% over the forecast period, taking into account the debt to be consolidated from the acquisition of ESSO.

### BASE-CASE ASSUMPTIONS

- Crude oil price of USD80 per barrel for the rest of 2023, and to stabilize at USD80 per barrel during 2024-2025.
- Natural gas price in Europe of USD14 per MMBTU for the rest of 2023 and in the USD10-USD14 per MMBTU range in 2024-2025.
- Bangchak refinery crude run to be about 120 KBD for the rest of 2023, and about 110-120 KBD in 2024-2025.
- Operating GRM for Bangchak refinery to range between USD9.0-USD9.5 per barrel in 2023, and USD8.0-USD8.5 per barrel during 2024-2025.
- Total capital spending, including investment and acquisition, forecast at about THB133 billion over 2023-2025.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that BCP will materialize the expected synergies of the ESSO acquisition, which will significantly strengthen the company's competitive position, with its financial performance to be in line with our base-case forecast.

### RATING SENSITIVITIES

A rating upgrade could arise if BCP could achieve earnings materially higher than our expectation, while its financial leverage declines considerably. This could occur if BCP can smoothly integrate the operations of ESSO's refinery and oil retail networks, according to the merger roadmap.

Conversely, a downward revision to the ratings could emerge from a material deterioration in BCP's financial risk profile. This could happen if BCP's operating performance significantly falls short of our estimates, or if the company engages in aggressive debt-financed investments or acquisitions. Downward pressure on the ratings could also develop if BCP experiences unexpected execution issues in the integration, which result in material delays in the realization of acquisition benefits.

### COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of August 2023, VAYUPAK Fund 1 held a 19.84% interest in BCP, the Social Security Office (SSO) held 14.40%, the Ministry of Finance (MOF) held 4.76%, and the remaining 61% was publicly held. The company's main businesses are oil refining and marketing. BCP owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 KBD. As of June 2023, there were 1,361 service stations operated under the "Bangchak" brand.

Other lines of BCP's business are power generation, bio-based products, and resources. BCP's green power business is operated under its SET-listed subsidiary, BCPG. As of July 2023, BCPG had installed capacity in operation of 1,048 megawatts (MW). The bio-based productions comprise a bio-diesel plant, with a total capacity of 1 ML per day (ML/D), and ethanol

plants, with capacity of 800,000 liters per day (L/D). For resource business, BCP currently holds 45% in OKEA. OKEA is an oil producer in Norway with the production volume of about 20-25 thousand barrel of oil equivalent per day (KBOED) for the first half of 2023.

In January 2023, BCP announced its intention to purchase 65.99% stakes in ESSO from ExxonMobil Asia. After obtaining necessary approvals and fulfillment of conditions precedent in the Share Purchase Agreement, BCP announced the completion of the acquisition on 31 August 2023. As a result, ESSO has become a subsidiary of BCP, significantly enlarging the company's refinery capacity and oil retail networks. BCP will need to carry out a tender offer for the remaining stakes in ESSO.

#### FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	149,727	314,044	200,696	136,826	190,826
Earnings before interest and taxes (EBIT)	12,572	32,784	17,301	(2,124)	4,658
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	18,076	42,766	24,537	6,194	9,950
Funds from operations (FFO)	11,163	28,655	18,593	3,411	7,332
Adjusted interest expense	2,156	4,373	3,129	2,594	2,294
Capital expenditures	4,856	9,903	10,888	5,993	8,491
Total assets	237,570	242,344	201,785	148,323	127,788
Adjusted debt	70,886	74,193	79,396	57,049	53,809
Adjusted equity	80,361	78,408	64,589	53,346	53,845
<b>Adjusted Ratios</b>					
EBITDA margin (%)	12.07	13.62	12.23	4.53	5.21
Pretax return on permanent capital (%)	13.61 **	17.39	11.19	(1.72)	4.18
EBITDA interest coverage (times)	8.38	9.78	7.84	2.39	4.34
Debt to EBITDA (times)	1.91 **	1.73	3.24	9.21	5.41
FFO to debt (%)	34.06 **	38.62	23.42	5.98	13.63
Debt to capitalization (%)	46.87	48.62	55.14	51.68	49.98

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

#### RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

**Bangchak Corporation PLC (BCP)**

<b>Company Rating:</b>	<b>A</b>
<b>Issue Ratings:</b>	
BCP23NA: THB2,000 million senior unsecured debentures due 2023	A
BCP244A: THB3,500 million senior unsecured debentures due 2024	A
BCP258A: THB600 million senior unsecured debentures due 2025	A
BCP258B: THB4,500 million senior unsecured debentures due 2025	A
BCP260A: THB3,000 million senior unsecured debentures due 2026	A
BCP26NA: THB1,000 million senior unsecured debentures due 2026	A
BCP273A: THB2,000 million senior unsecured debentures due 2027	A
BCP275A: THB500 million senior unsecured debentures due 2027	A
BCP278A: THB2,000 million senior unsecured debentures due 2027	A
BCP28DA: THB7,000 million senior unsecured debentures due 2028	A
BCP29NA: THB1,400 million senior unsecured debentures due 2029	A
BCP303A: THB1,000 million senior unsecured debentures due 2030	A
BCP305A: THB4,500 million senior unsecured debentures due 2030	A
BCP31NA: THB2,600 million senior unsecured debentures due 2031	A
BCP328A: THB3,500 million senior unsecured debentures due 2032	A
BCP19PA: THB10,000 million subordinated capital debentures	BBB+
<b>Rating Outlook:</b>	<b>Stable</b>

**TRIS Rating Co., Ltd.**

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