TRIS RATING
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CreditUpdate เครดิตวาระ

BANGCHAK CORPORATION PLC

No. 46/2020
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CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Hybrid	BBB+
Outlook:	Negative

Last Review Date: 30/03/20

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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RATIONALE

TRIS Rating affirms the company rating on Bangchak Corporation PLC (BCP) and the ratings on BCP's senior unsecured debentures at "A". TRIS Rating also affirms the rating of "BBB+" on BCP's subordinated capital debentures. At the same time, TRIS Rating revises the rating outlook to "negative" from "stable".

The "negative" outlook reflects the severe impact of the turmoil in the oil market on BCP's performance. It also mirrors the bearish outlook of the refining business, given the impact of the economic recession inflicted by the COVID-19 pandemic. We expect BCP to incur considerable losses in 2020. With the revival of oil demand and gross refinery margin (GRM) remaining fragile, BCP's performance could remain under pressure.

The ratings continue to reflect BCP's competitive strengths in the oil refinery business, solid position in the fuel marketing business, and rewarding business diversification. Conversely, the ratings are weighed down by its susceptibility to the volatility of oil prices, and a rise in debt loads.

For the first quarter of 2020, BCP staged a weak performance as a result of the turmoil in the oil market. The unprecedented COVID-19 pandemic decimated global demand at the same time that Saudi Arabia and Russia were engaged in a price war. The sudden decline in economic activity has driven the global economy into recession. Given the supply glut and collapsing demand, the Dubai crude oil price plunged from about US$64 per barrel in January 2020 to about US$21 per barrel in April 2020.

Like other refiners, BCP experienced a hefty inventory loss (including losses on inventories devaluation -- NRV) of about Bt3.4 billion in the first quarter of 2020. Added to that, the steep falloff in demand of refined oil products has wrecked the GRM of all refiners worldwide. BCP's operating GRM plummeted to US$2.87 per barrel in the first quarter of 2020, in contrast to US$5.61 per barrel three months earlier. With the inclusion of inventory loss, BCP's total GRM dropped to negative US$6.16 per barrel. At the same time, refining production fell 5% year-on-year (y-o-y).

In effect, BCP's oil refining business posted negative earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt2.6 billion in the first quarter of 2020. The market turmoil caused larger repercussions on BCP's oil refining than we expected. Further, the company also incurred losses from overseas investments in natural resources. On the other hand, BCP's power business and bio-based products business continued to bring in sizable cash flow. In all, the company arrived at negative EBITDA of Bt1.2 billion in the first quarter of 2020. In our view, BCP's strategic business diversification to power business enhances its ability to weather the volatility of oil price and GRM. We expect the power business to bring in meaningful EBITDA of Bt3.0-Bt3.5 billion per year. This will help prevent BCP's overall EBITDA from going negative in 2020. Against this backdrop, BCP aims to curb operating expenses and curtail capital spending, including postponement of major refinery turnarounds and pullback in new investments.

TRIS Rating expects the demand for refined products to gradually recover from the second half of 2020 onwards. Nevertheless, we place "negative" on the rating outlook to reflect our view that the recovery of global oil consumption remains fragile although many countries are re-opening from the lockdowns. The outlook for refinery is also clouded by the possibility of a second wave of outbreak. The prices of refined products could dip again if there is another surge in coronavirus cases. In addition, changing consumer behavior post COVID-19 could negatively impact oil consumption. In effect, we expect GRM to remain under pressure.

With the material adverse change in its refinery business, we revise down our forecast of BCP's earnings. In our revised forecast, we assume that Dubai crude oil price will range US$30-US$35 per barrel in 2020 and increase to around US$50-US$55 per barrel in 2021-2022. We view that BCP's operating GRM may drop further in the second quarter of 2020, but it could gradually recover in the second half of 2020. BCP's GRM could be in the range of US$3-US$4 per barrel in 2020, significantly lower than our previous forecast. The operating GRM is expected to improve in 2021-2022, due to the improvement of refined products spread together with BCP's improving program. We expect BCP could cut down its capital expenditures. Furthermore, we assume BCP to utilize around 77% of its refining capacity, or 92 thousand barrels per day (KBD) in 2020, before increasing production to 100-115 KBD in 2021-2022.

In our base case forecast, we project BCP's EBITDA to be Bt3-Bt4 billion in 2020, down from Bt9.9 billion in the previous year. The ratio of debt to capitalization could rise to 55%-60% in 2020, up from around 50% in 2019. We expect revenue and EBITDA to improve each year thereafter, with EBITDA rebounding to Bt11-Bt12 billion in 2021-2022. Over the same period, the debt to EBITDA ratio could shoot up to 5-6 times, contrary to the downtrend towards 4 times in our previous forecast. We expect the ratio of debt to capitalization to stay at around 60%, higher than the previous projection of 50%-55%.

As of March 2020, the company had a total of Bt5.4 billion in long-term loans and bonds coming due in the next 12 months. Considering its cash-on-hand of about Bt10.6 billion and undrawn credit facilities of about Bt12.2 billion at the end of March 2020, we view that BCP's liquidity profile remains satisfactory.

RATING OUTLOOK

The "negative" outlook embeds our expectation that BCP's performance will considerably weaken in 2020, given the severe impact of the turmoil in the oil market. With the potential slow pace of recovery in oil demand and GRM, BCP's performance could remain under pressure in the following years. As a result, the company's financial profile is likely to deteriorate.

RATING SENSITIVITIES

The outlook could be revised to "stable" if BCP stages a substantial turnaround, with significant improvement in profitability and lower gearing. This could emerge from a revival of oil demand and healthier GRM.

On the contrary, the ratings could be downgraded if BCP's financial profile deteriorates as we expect, which could occur from a slow recovery of oil demand or protracted excessive supply.

COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of May 2020, VAYUPAK Fund 1 held a 14.66% interest in BCP, the Social Security Office (SSO) held 14.40%, the Ministry of Finance (MOF) held 9.98%, and the remaining 60.96% 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 KBD (thousand barrels per day). This accounts for approximately 11% of the country's total refinery capacity. As of March 2020, there were 1,204 service stations operating under the "Bangchak" brand.

Other lines of BCP's business are power generation, bio-based products, and natural resources. BCP's power business is operated under its SET-listed subsidiary, BCPG PLC. As of March 2020, BCPG had contracted capacity in operation, based on BCPG's stakes, of 452 megawatts (MW). BCPG's power portfolio comprises solar power plants (157 MW), geothermal power plant (158 MW), hydropower plant (114 MW), and wind power (23 MW). The company's power plants are located in Thailand (151 MW), Indonesia (158 MW), the Lao People's Democratic Republic (114 MW), Japan (15 MW), and the Philippines (14 MW).

Most of the solar projects in Thailand 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 JPY32-JPY40 per kilowatt hour (kWh).

The bio-based products comprise a bio-diesel plant, with a total capacity of 1,000,000 liters per day (L/D), and ethanol plants, with a capacity of 684,000 L/D (including 21%-owned Ubon Bio Ethanol PLC). In addition, BCP invests in oil and gas exploration and production in Norway and divested its field in the Philippines.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Bangchak Corporation PLC (BCP)

Company Rating:	A
Issue Ratings:	
BCP208A: Bt3,000 million senior unsecured debentures due 2020	A
BCP214A: Bt2,500 million senior unsecured debentures due 2021	A
BCP224A: Bt1,000 million senior unsecured debentures due 2022	A
BCP225A: Bt3,000 million senior unsecured debentures due 2022	A
BCP238A: Bt400 million senior unsecured debentures due 2023	A
BCP244A: Bt3,500 million senior unsecured debentures due 2024	A
BCP258A: Bt600 million senior unsecured debentures due 2025	A
BCP273A: Bt2,000 million senior unsecured debentures due 2027	A
BCP275A: Bt500 million senior unsecured debentures due 2027	A
BCP28DA: Bt7,000 million senior unsecured debentures due 2028	A
BCP303A: Bt1,000 million senior unsecured debentures due 2030	A
BCP305A: Bt4,500 million senior unsecured debentures due 2030	A
BCP19PA: Bt10,000 million subordinated capital debentures	BBB+
Rating Outlook:	Negative

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