BANGCHAK CORPORATION PLC

No. 192/2019
18 November 2019

CORPORATES

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

Last Review Date: 29/08/19

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

Contacts:

Sermwit Sriyotha

sermwit@trisrating.com

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

RATIONALE

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

The ratings continue to reflect BCP's competitive strengths in oil refinery, solid position in the fuel marketing business, and its rewarding business diversification. Conversely, the ratings are partially offset by the volatility of oil prices and a rise in debt due to its further investments.

KEY RATING CONSIDERATIONS

Competitive strengths in oil refinery

The ratings mirror BCP's competitive strengths in the oil refinery business. Over the past years, BCP has invested heavily in the improvement and debottleneck programs, in a bid to solidify the gross refinery margin (GRM). BCP's complex refinery has been undergoing necessary shake-up, which will help pull down utility costs, enhance plant reliability, and extend refinery's turnaround period.

Adding to the refining efficacy, BCP's competiveness comes in part from its ability to source well-suited and economical crude slate. In all, BCP's refined products are mainly made up of middle distillates, or about 65%. These include diesel and jet fuels, which bring in highest margin to the refinery. Over the past three years, these refined products have a crack spread (the difference between the prices of crude oil and refined products) of about US$13-US$15 per barrel.

BCP's refinery also yields heavy distillates, which generally render negative spread, of about 10%-15% of total refined products. That said, BCP can sell them with a premium, as its fuel oil has very low sulfur content.

Above-peer refinery margin

BCP's GRM has outpaced most of its peers in the domestic market. During 2016 through the first half of 2019, the company's GRM arrived at US$6.19 per barrel on average, above the industry average of US$5.36 per barrel.

BCP's efforts to ramp up its efficiency will result in a further improvement in GRM. Currently, the company has revamped its hydrocracker unit and constructed the new continuous catalyst regeneration unit. These will help BCP increase the utilization rate of its refinery and extend turnaround period. BCP expects to edge up GRM by about US$1.0 per barrel after these activities complete in the second half of 2020.

Marketing business enhances overall margin

BCP's competitive advantage is also underpinned by the integration of its refining and marketing businesses, which heightens BCP's overall margin. BCP earns marketing margin on top of the GRM. The strong position of its marketing business helps maximize the refinery's utilization rate and GRM by minimizing the proportion of exports that are sold at discount prices.

BCP is one of the top leaders in fuel marketing business. BCP's domestic sales volume grew at a compound annual growth rate (CAGR) of 5.1% over the past four years. BCP's sales through marketing business rose to 5,813 ML (million liters) in 2018, steadily up from 4,772 ML in 2014. Over the same period, the industry grew at 2.5% (CAGR). BCP's higher growth in marketing business is mainly attributed to sales through service stations, which account for about 65%-70% of the total sales. BCP's sales through service station increased 7.5% (CAGR) rising to 4,020 ML in 2018 from 3,016 ML in 2014. The robust growth is reflective of BCP's sound brand recognition, as well as non-oil goods and services offered in service stations. BCP was still the second largest of oil retailing business in Thailand, in the third quarter of 2019.

The marketing business brought in Bt2.0-Bt2.5 billion per year of BCP's EBITDA (earnings before interest, tax, depreciation and amortization) during 2016-2018. TRIS Rating is of the view that the marketing business will continue to be a reliable source of cash flow for BCP as the marketing margin is less volatile than the refinery margin.

Impact of oil price volatility

Despite the strengths in refinery, oil price volatility remains the key risk to BCP's profitability. Like other refiners, BCP was impacted by the falloff in oil prices during the last quarter in 2018. Although BCP's market GRM rose to US$7.1 per barrel in 2018, the plunge in oil prices brought about a hefty inventory loss of US$1.2 per barrel. As a result, total GRM fell to US$5.6 per barrel in 2018, a steep decline from US$7.2 per barrel a year earlier. The thin crack spread of gasoline lasted into the first half of 2019, cutting down BCP's market GRM to US$4.2 per barrel.

For the first nine months of 2019, BCP's market GRM improved to US$5.4 per barrel due to the improvement in crack spreads of gasoline and middle distillates in the third quarter of 2019. However, BCP recorded inventory loss of about US$1.4 per barrel, pulling total GRM to US$4 per barrel. For the first nine months of 2019, BCP's total operating revenue increased by 4% year-over-year to Bt140.6 billion, mainly due to an increase in sales volume. EBITDA margin (EBITDA as a percentage of operating revenues) was 4.98%, down from 7.87% in the same period of 2018.

A nascent recovery in GRM was seen in the third quarter of 2019. TRIS Rating expects BCP's market GRM will gradually improve, given a host of measures to further augment refining efficiency. The International Marine Organization's (IMO) implementation to ban fuel oil with high sulfur content in 2020 is also a positive factor for BCP. This is because BCP can produce very low sulfur fuel oil, which is better than the IMO standard.

Diversification to power business enhances resilience

In our view, BCP's strategic business diversification enhances its ability to weather the volatility of oil price and GRM. During 2016-2018, the power business contributed about Bt2.5-Bt3.0 billion per year in EBITDA. The company owns various types of power plants via its subsidiary, BCPG PLC (BCPG). As of September 2019, BCPG's operating power plants had a total capacity, in proportion to BCPG's stakes, of 404 megawatts (MW). Given the long-term power purchase agreements with credible power buyers and reliable operating performances, the power business will continue to help alleviate the negative impact of oil price fluctuations on operating performance for BCP.

On the other hand, we view BCP's expansion in petroleum exploration and production business with an investment in a Norwegian company, OKEA ASA (OKEA), would heighten exposure to oil price volatility. Therefore, BCP would control operating cost to maintain its margin of this business during the low oil price environment. In addition, BCP strategic investment in lithium mining takes years to payoff, as it is a medium term investment. The lithium mining is planned to commenced operation in the early 2021.

Impending rise in debt loads

Given its concerted efforts to enlarge other businesses, BCP is pushing ahead with sizable investments in green business. The company plans to defray billions in power and bio-based product segments towards 2024. The outlays include acquisition of power plants and expansions of ethanol and biodiesel capacities. However, TRIS Rating views that BCP will likely spend mostly on acquiring new power projects. The move is aimed at offsetting a looming decline in EBITDA as the adder of solar farms in Thailand will expire during 2022-2024.

In our base case forecast for 2019-2022, we expect BCP to spend to the tune of Bt44 billion in committed capital expenditures (CAPEX) and potential investments. Our forecast does not assume any new equity arising from capital injection or BCP's plan to list its bio-based subsidiary. As a result, BCP's debt to capitalization ratio would range 50%-55%.

We expect BCP to generate EBITDA of Bt9.5-Bt14.5 billion per year during 2019-2022. The debt to EBITDA ratio should stay around 4-6 times towards 2021 before reducing below 4 times in 2022. TRIS Rating does not expect BCP to invest aggressively unless the company could raise new equity to maintain its sound capital structure.

Sound liquidity profile

BCP has a satisfactory liquidity profile. As of September 2019, BCP had cash on hand and cash equivalents of about Bt6.7 billion and undrawn credit facilities (committed and uncommitted) of about Bt15.2 billion. BCP's funds from operations (FFO) over the next 12 months are expected to be about Bt8.0 billion. At the same time, BCP will have an amount of debt coming due, comprising long-term loans and bonds of around Bt8.4 billion.

BASE-CASE ASSUMPTIONS

- TRIS Rating forecasts crude oil price of US$60 per barrel for the rest of the year 2019 and for 2020 before reducing to US$55 per barrel thereafter.
- BCP's market GRM to range US$5.5-US$7.5 per barrel during 2019-2022.
- Sales volume through service stations to grow at about 5%-6% (CAGR) over 2019-2022.
- Total capital spending is forecast at about Bt44 billion over 2019-2022 for refinery improving and debottlenecking program, expanding marketing business, acquiring power plants and expanding solar power plant in Japan, and debottlenecking bio-based product business.
- The base case does not incorporate a plan for listing the bio-based product business and potential monetization of power projects in Japan.
- Investment in OKEA is not consolidated.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BCP will maintain its strengths in the refinery and solid market position in the marketing segment. At the same time, the investments in the power business are expected to generate sustainable stream of cash, which will partly help alleviate the impact of oil price fluctuations.

RATING SENSITIVITIES

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

COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of August 2019, VAYUPAK Fund 1 held a 14.66% interest in BCP, the Social Security Office (SSO) held 14.77%, the Ministry of Finance (MOF) held 9.98%, and the remaining 60.58% 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 June 2019, there were 1,185 service stations operated under the "Bangchak" brand.

Other lines of BCP's business are power generation, bio-based products, and resources. BCP's power business is operated under its SET-listed subsidiary, BCPG PLC. As of September 2019, BCPG had contracted capacity in operation, based on BCPG's stakes, of 404 MW. BCPG's power portfolio comprises solar power plants (154 MW), geothermal power plant (158 MW), hydropower plant (69 MW), and wind power (23 MW). The company's power plants are located in Thailand (148 MW), Indonesia (158 MW), the Lao People's Democratic Republic (69 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 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2019		-----------------Year Ended 31 December ------------ 2018	2017	2016	2015
Total operating revenues	140,598		192,310	173,048	145,049	151,359
Earnings before interest and taxes (EBIT)	3,176		5,065	9,332	7,058	6,736
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,000		10,345	15,739	13,504	11,947
Funds from operations (FFO)	5,446		7,904	13,785	10,790	9,250
Adjusted interest expense	1,524		1,947	1,913	2,026	2,024
Capital expenditures	5,025		8,814	6,728	10,313	5,142
Total assets	122,321		117,369	113,868	101,783	81,942
Adjusted debt	53,297		46,592	37,854	27,016	31,425
Adjusted equity	48,788		49,538	51,890	43,909	35,983
Adjusted Ratios						
EBITDA margin (%)	4.98		5.38	9.09	9.31	7.89
Pretax return on permanent capital (%)	0.67	**	4.87	9.75	8.30	9.03
EBITDA interest coverage (times)	4.59		5.31	8.23	6.67	5.90
Debt to EBITDA (times)	8.90	**	4.50	2.41	2.00	2.63
FFO to debt (%)	8.23	**	16.97	36.42	39.94	29.44
Debt to capitalization (%)	52.21		48.47	42.18	38.09	46.62

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

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
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
BCP28DA: Bt7,000 million senior unsecured debentures due 2028	A
BCP303A: Bt1,000 million senior unsecured debentures due 2030	A
BCP19PA: Bt10,000 million subordinated capital debentures	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000