PTG ENERGY PLC

No. 49/2022
31 March 2022

CORPORATES

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

Last Review Date: 17/01/22

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) and the ratings on its senior unsecured debentures at "BBB+" with a "stable" outlook. The ratings recognize PTG's strong market position as the second largest oil retailer in Thailand and its extensive service station network. The ratings also embed our expectation of PTG's sound performance. On the contrary, the ratings are constrained by the softened marketing margin stemming from the government's policy on diesel retail price. The ratings also take into consideration the fiercely competitive retail oil market, as well as the company's elevated financial leverage to support growth.

KEY RATING CONSIDERATIONS

Second largest oil retailer

The ratings recognize PTG's strong market position. PTG remains the second largest oil retailer in Thailand by sales volume, trailing only the market-leading PTT PLC (PTT). According to TRIS Rating's data, PTG's oil retail market share increased to 16.7% in 2021 from 15.5% in 2020. While the overall retail oil market suffered from contracted consumption, PTG arrived at 4.8 billion liters in sales volume through retail channels in 2021, a slight 1.2% increase from 2020.

PTG has set strategies to expand its non-oil business, in a bid to diversify and mitigate impacts from volatile oil prices. In addition, non-oil businesses linked to retail distribution generally generate higher margins. We expect PTG's non-oil business to grow in line with the growing number of "PT" service stations in Bangkok and the vicinity. However, oil sales will likely remain PTG's core earnings in the foreseeable future.

Extensive distribution network

PTG's noteworthy growth of sales volume over the past several years is propelled by its blistering expansion of the PT service station network. PTG also ranks second in the oil retail market in terms of distribution network, after PTT. As of December 2021, PTG's network comprised 2,167 service stations, including 1,945 gasoline stations, 80 liquefied petroleum gas (LPG) stations, and 142 mixed stations. Based on data collected by TRIS Rating, PTG's service stations account for 27.8% of Thailand's total service stations in 2021. We anticipate that PTG's market position will remain largely unchanged over the next few years.

Improving brand awareness

With the growing number of service stations, we view that PTG's brand recognition has improved. PTG has prioritized opening new service stations in Bangkok and surrounding areas and has set aside an annual budget to modernize existing stations. These strategies have resulted in increased sales volume and allow the company to provide more appealing non-oil services and products to its customers, such as grocery stores, coffee shops, and auto-care services.

The "PT Max Card," which offers its members loyalty-based discounts and rewards, is one of PTG's key marketing campaigns. PT Max Card members increased to 16.9 million in 2021, up from 14.8 million in 2020. To improve its membership ecosystem, the company intends to develop e-services such as e-money services and electronic money transfer services.

Pandemic-hit retail market

Thailand faced challenges from the impact of the new wave of the Coronavirus Disease 2019 (COVID-19) pandemic in 2021. The outbreak of Delta variant in 2021 was more intense than in 2020 and forced the Thai government to reintroduce lockdown measures in many high-risk provinces. The situation improved in the last quarter of 2021 which led to the lifting of lockdown restrictions. However, domestic petroleum consumption in 2021 fell by 6.8% year-on-year (y-o-y), while retail petroleum sales through service stations plummeted by 5.3%. Contrary to the market contraction, PTG delivered a small increase in sales volume.

Softened marketing margin

We hold our view that PTG remains susceptible to oil price fluctuations. A steep drop in oil prices could have material impact on marketing margins. Nonetheless, we anticipate that this type of impact will be transient. PTG has efficient oil inventory management, which minimizes inventory losses caused by oil price volatility.

PTG is also vulnerable to the government's policy on diesel price as diesel accounts for the majority of the company's sales volume. The retail market has seen oil prices rally to the highest level since 2014, driven by strong revival of demand, supply crunch, and the ongoing Russia-Ukraine conflict. With the inflationary pressures, the Thai government has retained its policy to cap the diesel retail price at THB30 per liter through several measures, such as direct subsidy, reducing the biodiesel content, and a temporary cut in excise tax. Against the backdrop of soaring oil prices, the regulated diesel price has resulted in substantial drops in marketing margins of oil retailers. PTG's marketing margin was severely hurt, as diesel sales made up 74% of the company's total oil sales volume in 2021.

The Thai government has announced its strong intention to keep the diesel price under THB30 per liter as long as possible. However, if oil prices stay at currently high levels over a drawn-out period, there's a decent chance that the government will ease its price-cap policy and allow diesel price to increase to some extent, which will ease pressure on oil retailers. In our base-case forecast, we project the company's marketing margin to gradually recover.

Fiercely competitive market

We view the fierce competition in the oil retail market will continue. Oil retailers are competing to offer varieties of products and services in modernized service stations. We see major oil retailers continue expanding their service stations. The construction of a brand-new service station could be very costly as oil retailers strive to differentiate their services to cater changes in consumer behaviors. It would be a huge challenge for any oil retailer attempting to reduce operating costs giving the need of maintaining service level and competitiveness.

Expectation of sound performance

With the lingering impact of the COVID-19 and the tightened margin, PTG arrived at THB5.2 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2021, which was below our previous forecast. However, we believe PTG's oil sales growth will remain steady, aided by the ongoing expansion of service stations and the post-COVID-19 demand revival.

We view the dominant Omicron variant should cause less impact to the economy than the previous coronavirus variants. As it is unlikely that the government will reintroduce restrictive measures, we expect the domestic oil consumption will rebound strongly.

In our base-case forecast, we expect PTG's oil sales volume to increase by around 7% per year over the next three years. We assume an average overall marketing margin (including retail and wholesale) of approximately THB1.77 per liter. As a result, EBITDA is expected to be THB5.4-THB6.3 billion per annum during 2022-2024. However, the impact from a prolonged or worsened Russia-Ukraine conflict is a key downside risk to the earnings forecast.

Leverage to remain elevated

PTG cut its investment spending to preserve liquidity during the COVID-19 outbreak. In 2021, the company spent only THB2.5 billion on capital expenditure, compared with the initial budget of THB4.0-THB4.5 billion. As a result, PTG's adjusted net debt (including lease liabilities) decreased to THB28.1 billion in 2021, from THB28.8 billion in 2020. The debt to capitalization ratio declined to 77.4%. However, the debt to EBITDA ratio rose to 5.4 times in 2021 because of the drop in EBITDA.

Looking ahead, we anticipate that PTG will resume its expansion. In our base-case forecast, we expect PTG to add new service stations and continue renovating existing stations. We forecast that PTG's capital expenditures will total THB3.2 billion per annum over the next three years. As a result, we expect its debt to capitalization ratio to remain at 77% and the debt to EBITDA ratio to stay at 5.2-5.6 times during 2022-2024.

Manageable liquidity

We expect PTG's funds from operations (FFO) to range THB3.9-THB4.5 billion per year during 2022-2024 and the FFO to total debt ratio to stay in the 13%-14% range. As of December 2021, PTG had short-term loans of THB2.4 billion and long-term debt obligations totaling THB3.9 billion coming due in the next 12 months. The company's sources of liquidity include THB1.7 billion in cash as of December 2021 and forecast FFO of THB3.9 billion in the next 12 months. We expect PTG to rollover most of its existing loans to support ongoing expansion. Based on PTG's business strengths, we consider the refinancing risk to be manageable.

Debt structure

At the end of December 2021, PTG had bank loans and debentures of THB9.6 billion, including approximately THB3.4 billion of priority debt, which was unsecured debt at the subsidiary level. The company's priority debt to total debt ratio was 35%, which is below the threshold of 50% according to TRIS Rating's "Issue Ratings" criteria. This suggests that PTG's unsecured creditors are not significantly disadvantaged with respect to the priority of claim against its assets. Therefore, we maintain the ratings of PTG's senior unsecured debentures at the same level as its company rating.

BASE-CASE ASSUMPTIONS

- Oil sales volume to grow by around 7% per annum, driven mainly by expansion of new service stations.
- Oil selling price to grow by 11.2% in 2022 then decrease by 5.9% and 3.4% in 2023-2024, respectively.
- Revenues to increase by 18% in 2022 and 1%-4% in 2023-2024.
- Overall oil marketing margin is forecast to stay around THB1.76-THB1.77 per liter.
- Total capital spending of around THB3.2 billion per annum during 2022-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PTG will be able to maintain its strong position in the retail oil market with its prudent expansion strategy. We also expect the company's financial leverage and level of cash generation against debt obligations to remain within our forecast ranges.

RATING SENSITIVITIES

A credit upgrade could occur if PTG continues to strengthen its market position, such as improving the same-store sales growth and delivering sound performance. Conversely, downward pressure on ratings could emerge in the event of a material weakening of financial profile due to a significant deterioration of financial performance or a deluge of debt-financed investments.

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 with the launched of service stations under its own "PT" brand. The company was listed on the Stock Exchange of Thailand (SET) in 2013. At the end of 2021, the company's major shareholders comprised the Ratchakitprakarn family (39.3%), the Vachirasakpanich family (8.6%), and the Nitayanurak family (5.6%). PTG operates 2,167 service stations nationwide under the PT trademark.

PTG owns 10 oil distribution centers with a total capacity of 208 million liters (ML). PTG distributes oil via two channels: selling through 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 2021, retail sales at COCO stations accounted for 83% of total sales volume, while sales at DODO stations accounted for 13%. The remainder (1%) came from direct sales to wholesale customers.

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 "Coffee World" brands. PTG aims to use the food and beverage business as one of the key drivers to boost its non-oil revenue. The company plans to expand Punthai Coffee branches in various locations, both inside and outside its service stations. PTG also plans to enhance customer confidence in its coffee shops by building brand awareness. Besides the food and beverage business, PTG plans to expand its auto service business and boost its LPG sales volume by enlarging its household LPG business. PTG continues to expand its LPG business. The company added 16 LPG stations to its network in 2021 and increased its auto LPG sales volume to 168 ML, up from 152 ML in 2020.

In 2021, PTG's non-oil businesses (“Max Mart” convenience store, “Punthai Coffee”and “Coffee World” coffee shops, and other services excluding auto LPG) contributed 2.0% of total revenue and 10.4% of gross profit, compared with 2.2% and 7.3%, respectively, in 2020.

PTG’s marketing campaigns mainly comprise the launch of loyalty-based discounts offered through PT Max Card membership, which can be used to collect and swap points with PTG’s partners, covering various other well-known product retailers.

Apart from the retail business, PTG has invested in the “Palm Complex”. The main product is B100 biodiesel. The project started operation in 2018 and became fully operational in 2020. Palm Complex has launched palm oil for consumption under the brand “Mee-suk” as an extension of the business’s product.

In 2021, PTG revenue reached THB134 billion, a 28% increase from THB105 billion in 2020, due mainly to the surge in crude oil price. PTG’s average oil selling price increased by 26.4%. However, the company was hit by the narrowing marketing margin. As a result, the company arrived at THB5.2 billion in EBITDA.

KEY OPERATING PERFORMANCE

Table 1: PTG’s Sales Breakdown by Channel

Unit: %

Sales Channel	2017	2018	2019	2020	2021
Total sales (mil. THB)	**84,625**	**107,829**	**120,027**	**104,423**	**133,759**
COCO	81.3	82.4	80.9	81.3	80.3
DODO	11.3	10.2	10.1	10.8	11.8
Wholesale	5.1	4.6	5.7	3.9	3.7
Others	2.3	2.8	3.3	4.0	4.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PTG

Table 2: PTG’s Service Stations

Type of Station	2017	2018	2019	2020	2021
No. of service station					
COCO	1,471	1,638	1,748	1,808	1,859*
DODO	225	245	279	286	308
Total	**1,696**	**1,883**	**2,027**	**2,094**	**2,167**
Growth (y-o-y)	*25.7%*	*11.0%*	*7.6%*	*3.3%*	*3.5%*
Sales volume (ML)					
COCO	2,785	3,301	3,885	4,167	4,173
DODO	403	426	501	574	633
Total	**3,188**	**3,727**	**4,386**	**4,741**	**4,806**
Growth (y-o-y)	*24.4%*	*16.9%*	*17.7%*	*8.1%*	*1.4%*

Source: PTG

* *Including 80 LPG stations and 142 hybrid (oil and LPG) stations*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----------------------Year Ended 31 December ---------------------				
	2021	**2020**	**2019**	**2018**	**2017**
Total operating revenues	134,088	104,666	120,252	108,142	84,861
Earnings before interest and taxes (EBIT)	2,395	3,400	2,894	1,557	1,643
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,239	5,930	6,335	4,374	3,674
Funds from operations (FFO)	3,777	4,401	5,004	3,440	2,945
Adjusted interest expense	1,118	1,104	971	813	576
Capital expenditures	2,525	2,043	3,902	5,339	5,394
Total assets	44,384	42,037	22,652	20,940	17,985
Adjusted debt	28,113	28,808	18,612	16,373	13,759
Adjusted equity	8,200	7,980	6,707	5,476	5,119
Adjusted Ratios					
EBITDA margin (%)	3.91	5.67	5.27	4.04	4.33
Pretax return on permanent capital (%)	6.32	10.61	11.76	7.30	9.96
EBITDA interest coverage (times)	4.69	5.37	6.52	5.38	6.38
Debt to EBITDA (times)	5.37	4.86	2.94	3.74	3.74
FFO to debt (%)	13.44	15.28	26.88	21.01	21.40
Debt to capitalization (%)	77.42	78.31	73.52	74.94	72.89

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

PTG Energy PLC (PTG)

Company Rating:	BBB+
Issue Ratings:	
PTG233A: THB1,000 million senior unsecured debentures due 2023	BBB+
PTG242A: THB200 million senior unsecured debentures due 2024	BBB+
PTG252A: THB1,000 million senior unsecured debentures due 2025	BBB+
Rating Outlook:	Stable

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