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PTG ENERGY PLC

No. 48/2023
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CORPORATES

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

Last Review Date: 31/03/22

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 mirror the company's strong market presence in the oil retail business, widespread distribution network, and reviving operating performance. On the contrary, the ratings are tempered by the high capital expenditure, and severe competition inherent in the retail oil market. The ratings also take into account the company's vulnerability to government retail oil price controls.

KEY RATING CONSIDERATIONS

Market presence in oil retail business

The rating is predicated upon PTG's strong market presence in the oil retail business. With tremendous expansion of "PT" service station network, PTG's market share by sales volume has consistently edged up over the past years, rising from 11% in 2017 to 16.7% in 2021, according to TRIS Rating's data. The brisk growth of service station network, particularly in Bangkok and the vicinity in recent years, has meaningfully enhanced PTG's market presence and improved its brand recognition.

PTG's market share was 16% in 2022, a slight drop from the prior year. Nevertheless, the company remained the second largest oil retailer in Thailand. PTG's market position will slip to third place should Bangchak Corporation PLC (BCP)'s planned acquisition of Esso (Thailand) PLC (ESSO) be completed.

Widespread distribution network

The PT service station network is still ranked the second. The number of oil retail stations increased by 62 to 2,149 in 2022, comparable to the market leader. PTG has been prudently adding service stations owned and operated by the company (COCO) since 2020 due in part to the market uncertainties induced by the drawn-out Coronavirus Disease 2019 (COVID-19) pandemic. However, the number of stations owned and operated by dealers (DODO) kept growing and accounted for 52% of the newly added stations in 2022. The proportion of DODO to total service stations increased to 16% in 2022 from 13% in 2018.

Looking ahead, we expect the proportion of DODO will continue to increase. With its strengthened brand recognition, PTG endeavors to further increase DODO in the years ahead as part of its bid to keep expanding distribution network with prudent management of investment budget.

Apart from the ongoing network expansion, PTG has continued to improve its membership programs to push sales of PTG group's products and gain market share from competitors in both oil and non-oil segment. Membership of the company's "PT Max Card", which offers members loyalty-based discounts and rewards, increased to 18.9 million in 2022 from 16.9 million in 2021. Added to that, PTG has launched "PT Max Card Plus" for paid members, for the privilege to receive highly attractive discounts on all PTG group's products and services that will potentially further boost sales volume.

Recovery in volume and gross profit per liter

Retail oil consumption in Thailand recovered by 11% in 2022 after the lifting of COVID-19 restrictions while PTG's retail sales volume increased 6.5%. Meanwhile, PTG's oil retail gross profit per liter recovered to THB1.85 in 2022 from THB1.77 in 2021. PTG's earnings before interest, taxes, depreciation, and amortization (EBITDA) rose to THB5.8 billion in 2022, up from THB5.2 billion in 2021.

Rapid expansion of non-oil businesses

PTG's non-oil businesses, including liquefied petroleum gas (LPG) and "Punthai" coffee, have been growing vigorously. Gross profit from non-oil businesses in 2022 soared by 49%, raising its contribution to PTG's gross profit to 19% from 15% in 2021. The loyalty programs have played a vital role in boosting the non-oil businesses.

In 2022, LPG auto volume surged by 71% induced by sharp rises in gasoline prices. Additionally, PTG supported the installation of LPG tanks to taxis with the expectation of increased future LPG usage. PTG's LPG sales volume to the household and industrial segment grew 43% in 2022, partly driven by an increase in number of LPG shops to 253 from 171 in 2021. TRIS Rating expects PTG to gain market share from peers, though the overall LPG market is not expected to grow in the near future.

Meanwhile, Punthai coffee's gross profit increased by 49% in 2022 as the number of outlets rose by 53% to 537 in 2022. We assume PTG will add 200-250 coffee outlets per year in 2023-2025. Success in growing its non-oil businesses with satisfactory returns would be positive to the credit profile of PTG.

Vulnerability to impact from government's policy

We view PTG remains vulnerable to the impacts of the government policy on diesel retail prices as diesel accounts for the majority of the company's sales volume. With inflationary pressure, the government has implemented a policy to cap the diesel retail price through several measures. This caused immense pressure on the marketing margins of oil retailers. The revival of marketing margins has been seen recently following relaxation of the government intervention. That said, we do not expect the marketing margin to rise significantly as the government intervention will likely linger on to reduce the heavy financial burden on the oil fuel fund.

Competition remains high

We view the competition remain high as most major oil retailers continue expanding amidst the changing landscape of petrol stations in recent years. Competition has intensified in the race for customers attraction and loyalty. Oil retailers have pivoted to focus on offering non-oil products and services. Convenience stores and coffee chain have become standard components of small-to-medium sized petrol stations. The bigger stations typically include restaurants, laundry, auto services, etc. Given the tight marketing margins, it is challenging for retailers to control operating costs while maintaining services and competitiveness.

In view of the combined retail operations of BCP and ESSO, the competition could heighten further. Although the market will have fewer major players, BCP's enhanced refinery capacity could accelerate the pace of BCP's retail business expansion. More importantly, BCP will move up to rank second with an enlarged market share of about 26%, narrowing the gap to the market leader. In the meantime, PTG aims to raise its market share to 25%, about the same level as BCP, in the medium term.

Improvement in financial performance expected to continue

In our base case, we project PTG's EBITDA in 2023-2025 to be THB5.9-THB6.7 billion per annum. The company's total oil sales volume is expected to increase by around 4.5% per year during 2023-2024 and 4% in 2025, considering its strong membership programs and small increase in the number of oil stations. We assume an average overall marketing margin (including retail and wholesale) of approximately THB1.82-THB1.83 per liter. The gross profit from non-oil businesses is expected to grow by around 16%-17% per year during 2023-2025 driven by a higher numbers of retail outlets and LPG stations as well as strong loyalty programs.

High CAPEX potentially holds back deleveraging

PTG spent THB2.7 billion on capital expenditure in 2022 compared with an initial budget of THB3.0-THB4.0 billion. The capital expenditure was also much lower than that during 2017-2019 as PTG tried to preserve liquidity amid tough and uncertain market conditions. PTG's adjusted net debt (including lease liabilities) decreased to THB27.2 billion as of 2022, from THB28.1 billion as of 2021. As EBITDA also recovered, the debt to EBITDA ratio decreased to 4.7 times in 2022. The debt to capitalization ratio declined to 76.7%.

Looking ahead, we anticipate that PTG will increase capital expenditure focusing on expansion of non-oil and new businesses. Our base-case forecasts incorporate PTG's waste-to-energy power plant project in Songkhla province which is qualified for entering a 20-year power purchase agreement with the Provincial Electricity Authority (PEA). The contracted capacity is 4.5 megawatts. We forecast PTG's capital expenditure to be THB3.1-THB3.4 billion per annum during 2023-2025. As a result, we expect the debt to EBITDA ratio to remain at about 4.7 times in 2023 before decreasing to about 4.2-4.5 times in 2024-2025, with a debt to capitalization ratio of about 75% throughout the forecast period.

Manageable liquidity

As of December 2022, PTG had short-term loans of THB2.0 billion and long-term debt obligations totaling THB4.4 billion coming due in the next 12 months. The company's sources of liquidity include THB2.1 billion in cash and projected funds from operations of THB4.3 billion in the next 12 months. We expect PTG to rollover most of its existing loans to support its capital expenditure. Based on PTG's business strengths, we consider the refinancing risk to be manageable.

Debt structure

At the end of December 2022, PTG had bank loans and debentures of THB8.9 billion, including approximately THB2.6 billion of priority debt, which was unsecured debt at the subsidiary level. The company's priority debt to total debt ratio was 29%.

BASE-CASE ASSUMPTIONS

- Oil sales volume to grow by around 4.5% per annum in 2023-2024 and 4% in 2025.
- Oil selling price to decrease by 2% in 2023 then decrease by 6% and 7% in 2024-2025, respectively.
- Revenues to increase by 3% in 2023 and then decrease by 2% per annum in 2024-2025, mainly due to expected decrease in oil price.
- Overall oil marketing margin to stay around THB1.82-THB1.83 per liter.
- Capital expenditure to total around THB9.8 billion during 2023-2025.

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

The ratings could be revised upward should the company deleverage at a materially faster pace than our forecast. This could develop if operating performance significantly surpasses our projections while market position is at least maintained at the current level. Conversely, downward pressure on the ratings could emerge in the event of a substantial weakening of the company's financial profile due to a significant deterioration of operating performance or heavy 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 2022, the company's major shareholders comprised the Ratchakitprakarn family (30.9%), the Vachirasakpanich family (8.6%), and the Nitayanurak family (5%). 2,149 oil service stations are operated 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 and DODO. In 2022, retail sales at COCO stations accounted for 82% of total sales volume, while sales at DODO stations accounted for 14%. The remainder (4%) 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. The company plans to expand Punthai Coffee outlets both inside and outside its service stations. 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. The company added 9 LPG stations to 231 in 2022.

In 2022, PTG's non-oil businesses excluding auto LPG ("Max Mart" convenience store, "Punthai Coffee"and "Coffee World" coffee shops, and other services) contributed 2.0% of total revenue and 10.4% of gross profit.

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" producing B100 biodiesel as main product. The project started operation in 2018 and became fully operational in 2020. Palm Complex has launched palm cooking oil under the brand "Mee-suk" as an extension of the business's product.

KEY OPERATING PERFORMANCE

Table 1: PTG's Sales Breakdown by Channel

Unit: %

Sales Channel	2018	2019	2020	2021	2022
Total sales (mil. THB)	**107,829**	**120,027**	**104,423**	**133,759**	**179,273**
COCO	82.4	80.9	81.3	80.3	78.1
DODO	10.2	10.1	10.8	11.8	13.5
Wholesale	4.6	5.7	3.9	3.7	3.2
Others	2.8	3.3	4.0	4.2	5.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PTG

Type of Station	2018	2019	2020	2021	2022
No. of service station					
COCO*	1,590	1,673	1,727	1,779	1,809
DODO	245	279	286	308	340
Total	**1,835**	**1,952**	**2,013**	**2,087**	**2,149**
Growth (y-o-y)	*11.0%*	*7.6%*	*3.3%*	*3.5%*	*3.0%*
Oil Sales volume (ML)					
COCO	3,301	3,885	4,167	4,173	4,350
DODO	426	501	574	633	771
Total	**3,727**	**4,386**	**4,741**	**4,806**	**5,120**
Growth (y-o-y)	*16.9%*	*17.7%*	*8.1%*	*1.4%*	*6.5%*

* *Including hybrid (oil and LPG) stations*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	------------------------Year Ended 31 December				--------------------
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	179,786	134,088	104,666	120,252	108,142
Earnings before interest and taxes (EBIT)	2,437	2,395	3,400	2,894	1,557
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,818	5,239	5,930	6,335	4,374
Funds from operations (FFO)	4,230	3,777	4,348	4,954	3,394
Adjusted interest expense	1,123	1,118	1,104	971	813
Capital expenditures	2,743	2,525	2,043	3,902	5,339
Total assets	45,135	44,384	42,037	22,652	20,940
Adjusted debt	27,216	28,113	28,824	18,612	16,373
Adjusted equity	8,275	8,200	7,980	6,707	5,476
Adjusted Ratios					
EBITDA margin (%)	3.24	3.91	5.67	5.27	4.04
Pretax return on permanent capital (%)	6.45	6.32	10.61	11.76	7.30
EBITDA interest coverage (times)	5.18	4.69	5.37	6.52	5.38
Debt to EBITDA (times)	4.68	5.37	4.86	2.94	3.74
FFO to debt (%)	15.54	13.44	15.08	26.62	20.73
Debt to capitalization (%)	76.68	77.42	78.32	73.51	74.94

RELATED CRITERIA

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

PTG Energy PLC (PTG)

Company Rating:	BBB+
Issue Ratings:	
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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