PTT EXPLORATION AND PRODUCTION PLC

No. 32/2024
21 March 2024

CORPORATES

Company Rating:	AAA
Issue Ratings:	
Senior unsecured	AAA
Outlook:	Stable

Last Review Date: 21/03/23

Company Rating History:

Date	Rating	Outlook/Alert
16/03/06	AAA	Stable
12/07/04	AA+	Positive
28/11/01	AA+	-
21/11/00	AA	-

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RATIONALE

TRIS Rating affirms the company rating on PTT Exploration and Production PLC (PTTEP) and the ratings on its senior unsecured debentures at "AAA", with a "stable" outlook. The "AAA" company rating incorporates PTTEP's stand-alone credit profile (SACP) of "aaa", and our view that PTTEP is a core subsidiary of PTT PLC (PTT, rated "AAA/Stable" *).

The ratings on PTTEP continue to reflect the company's leading position in the petroleum exploration and production (E&P) industry in Thailand, its low market risk due to long-term gas sale agreements with PTT, low production cost, and a very strong financial profile with conservative financial policy.

KEY RATING CONSIDERATIONS

Leading Thai E&P company

PTTEP is the largest Thai E&P operator. The company sources petroleum, mainly natural gas, both domestically and internationally to fulfil the country's needs for energy consumption.

At the end of 2023, PTTEP reported proven reserves of 1,436 million barrel of oil equivalent (MMBOE), indicating a reserves life of about 6.2 years. Around 52% of its proven reserves are in Thailand with the rest spread across different regions, including Asia-Pacific, the Middle East, and Africa. Sales volume in 2023 was 462 thousand barrels of oil equivalent per day (KBOED). Around 72% of production was natural gas, which helped fulfil domestic energy needs.

Highly integrated with PTT

We view PTTEP as a core subsidiary of PTT, the national energy company. PTT, directly and indirectly, holds a 65.3% equity interest in PTTEP as of March 2024. Both PTT and PTTEP are Thai state enterprises with respect to their statutory statuses.

PTT is also the largest customer of PTTEP, accounting for about 65%-70% of PTTEP's annual sales. PTTEP is vital to PTT's natural gas supply chain. Most of PTTEP's natural gas is supplied to PTT's gas separation plants, which in turn distribute the outputs to power plants, petrochemical plants, and other industrial users. During 2019-2023, PTTEP contributed about 40%-60% of PTT's earnings before interest, taxes, depreciation, and amortization (EBITDA).

High gas mix helps stabilize selling prices

In 2023, PTTEP's overall average selling price (ASP) declined by only 9.7% year-on-year (y-o-y) to USD48.2 per barrel of oil equivalent (BOE), compared with the Dubai crude oil price dropping by 15.6% y-o-y to around USD82 per barrel. The high proportion of natural gas (about 70%) in the company's sales volume mix lessens their sensitivity to volatile crude oil prices. The natural gas selling prices decreased by a lesser magnitude of about 4.4% y-o-y to USD6.0 per metric million British thermal unit (MMBTU) in 2023. The natural gas price formula in the gas sales agreements (GSAs) are indexed to either fuel oil or Dubai crude oil prices with 3-21 months of lag time adjustments. It also contains some adjustments for inflation and foreign exchange rate movements. The lag time adjustments help stabilize the company's ASP and provide a visible cost position to be managed by the company.

In addition, PTTEP's natural gas are secured under long-term GSAs with PTT, with take-or-pay basis. Therefore, the buyer is obliged to take the minimum

* *The company rating assigned to PTT is based on public information, which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of PTT. The rating is assigned without participation from PTT.*

annual contracted quantity of natural gas stipulated in each GSA or pay the equivalent amount, which help to minimize market risks to PTTEP.

Healthy performance

PTTEP's EBITDA in 2023 was USD6.8 billion, reflecting a marginal 3.4% y-o-y decrease, despite a 15.6% reduction in Dubai crude oil prices. This stability of performance in 2023 was supported by the less fluctuation in ASP, the lower cash cost, support on tax payment from the Oman government recognized as sales, and the increase in interest incomes. The company reported that cash cost per unit of sales volume decreased by 5% to USD13.84 per BOE in 2023, mainly from increases in the sales portion under production sharing contracts (PSC) which are not subject to royalty payments.

The sales volume in 2023 dropped slightly by 1.3% to 462 KBOED. This was due to a decrease in the sales volumes from Malaysia and Oman, offset by a production increase in its Thailand operations. As the G1/61 production ramp-up in 2023 was delayed from plan, PTTEP increased the production from the G2/61 and Arthit gas fields. We view that PTTEP's expertise in petroleum production in the Gulf of Thailand should help to ramp-up the natural gas production of G1/61 to meet the production requirements under the PSC of 800 MMSCFD by April 2024.

At the end of 2023, PTTEP's adjusted debt marginally declined to USD3.73 billion. PTTEP's debt to EBITDA ratio remained healthy in the 0.5-0.6 times range during 2022-2023. The capital structure remains strong with the debt to capitalization ratio of 20.4% at the end of 2023.

Petroleum reserves to strengthen

PTTEP plans to strengthen its petroleum reserve base in terms of both the reserves life and geographical diversification. PTTEP will continue to pursue its strategy to expand its overseas reserve base in the focus areas of Malaysia, Myanmar, and the Middle East. The overseas projects will contribute to sales volume growth over the long term. Regarding its presence in Africa, the delay in re-accessing the construction site of the Mozambique Area 1 Project will result in further delays in the first cargo of gas sales.

PTTEP aims to extend its reserve life, currently at 6.2 years for 2023, from projects under development in Thailand and Malaysia. Exploration well drilling for the recently acquired blocks G1/65 and G3/65 in the Gulf of Thailand is scheduled to begin during the 2024-2025 timeframe. Furthermore, PTTEP also anticipates significant reserve growth from its Malaysian operations, driven by the discovery of a major gas field in the SK410B project.

Sales volume growth offsets declining prices

We forecast PTTEP's sales volume to increase at a compound annual growth rate of 4.95% in the next three years, reaching 530-540 KBOED in 2026. PTTEP's domestic production growth in 2024-2025 will be from the G1/61 and G2/61 projects, netting of the termination of the Bongkot project. In 2026, the focus will shift to international growth, with contributions from Oman Block 61 and PTTEP's Malaysian assets.

We assume the Dubai crude oil price to decrease to USD75 per barrel in 2024 and USD70 per barrel over 2025-2026, from USD82 per barrel in 2023. This reflects our view that the petroleum market will rebalance after the geopolitical tensions, and the anticipated global economic slowdown that continued in 2024.

The rising sales volume in 2024-2026 will offset the decreasing ASPs. This will likely lead to a moderate decrease in the company's annual EBITDA to around USD6.2-USD6.4 billion over 2024-2026.

Non-E&P diversification

PTTEP made significant progress in its strategy to diversify beyond E&P by acquiring a 25.5% indirect stake in the operational Seagreen Offshore Wind Farm in Scotland (Seagreen). The acquisition valued at around USD0.7 billion, counted toward the company's 5-year provisional investment budget of USD2.0 billion.

Other non-E&P ventures in PTTEP's pipeline include a green hydrogen project in Oman, scale-up in artificial intelligence and robotics ventures, and offering carbon capture and storage as a service. We do not expect a significant contribution from these investment over the next three years.

Low leverage to maintain despite increasing investments

PTTEP's capital expenditure for production maintenance and developing new projects in pipeline over 2024-2026 is projected to total USD14.4 billion, which significantly increased from our previous forecast. This increase is primarily attributed to the escalating costs of rig and logistic contractors, alongside the investments in the new projects. We also incorporate the company's plan to invest USD1.4 billion in non-E&P businesses over 2024-2026 into our base case scenario.

We believe that the company's debt to EBITDA ratio will remain strong, despite a large investment plan. We forecast the debt to EBITDA ratio to gradually increase to about 0.6-1.1 times throughout 2024-2026, while the debt to capitalization ratio will remain under 30% over the forecast period.

Abundant liquidity

PTTEP's liquidity profile remains very strong. PTTEP's sources of liquidity at the end of 2023 comprised cash on hand of USD4.0 billion and undrawn bank credit facilities of USD854 million, of which USD575 million was on a committed basis. Also, we forecast PTTEP to generate funds from operations (FFO) in 2024 of about USD4.9-USD5.3 billion. The company's cash on hand plus FFO should be sufficient to cover capital expenditures and equity investments totaling about USD5.0 billion over the next 12 months. PTTEP does not have any interest-bearing debts due in 2024.

Debt structure

The PTTEP Group primarily acquires debt capital through debentures issued by both PTTEP and its subsidiary, PTTEP Treasury Center Co., Ltd. At the end of 2023, PTTEP's consolidated debt was USD2.79 billion, of which none was considered priority debt.

BASE-CASE ASSUMPTIONS

- The price of Dubai crude oil to be around USD75 per barrel in 2024, declining to around USD70 per barrel in 2025-2026.
- Total cash cost to be about USD12.5-USD14.0 per barrel over the forecast period of 2024-2026.
- Capital expenditure over 2024-2026 to total USD14.4 billion, plus USD1.4 billion allocated for the acquisition cost of the Seagreen Wind Farm Project in 2024 and a provisional budget for beyond-E&P investments.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PTTEP will maintain its robust operating performance and strong financial position amid challenging market conditions. We believe its production cost advantage, ample liquidity, and ability to rationalize capital expenditures will help the company weather volatility in the petroleum industry.

RATING SENSITIVITIES

A credit downside on PTTEP's SACP may arise if Dubai crude oil prices drop below USD40 per barrel for a prolonged period, or if its financial leverage increases significantly due to any large debt-funded acquisitions. Any material change in the credit profile of PTT could also impact the ratings on PTTEP.

COMPANY OVERVIEW

PTTEP is a leading petroleum E&P company in Thailand with the primary operational base in Southeast Asia. The company was established in 1985 to develop and promote Thailand's petroleum industry and to ensure the security of Thailand's energy supply. As of March 2024, PTT, the national energy company, directly and indirectly held 65.3% of shares in PTTEP. Both PTT and PTTEP are Thai state enterprises. As of December 2023, the company had E&P projects in 12 countries.

At the end of 2023, PTTEP held 1,436 MMBOE in proven reserves. About 75% of the proven reserves were natural gas and the remaining were crude oil and condensate. PTTEP remains the largest petroleum producer in Thailand, with a total production rate of 635 KBOED and sales volume entitlement of 462 KBOED in 2023.

The company is focusing on its E&P expansion in Southeast Asian and Middle Eastern countries. PTTEP is also pursuing the diversification of its businesses towards decarbonization and energy transition, including renewable energy and green hydrogen.

KEY OPERATING PERFORMANCE

Table 1: PTTEP's Key Operating Data

		---------------------- Year Ended 31 December				---------------------
	Unit	2023	2022	2021	2020	2019
Proven reserves	MMBOE	1,436	1,442	1,350	1,074	1,140
Yearly production	MMBOE	233	214	181	155	151
Reserve life	Years	6.2	6.8	7.5	6.9	7.6
Five-year reserve replacement ratio	Times	1.8	2.0	1.9	1.5	1.5
Lifting costs	USD/BOE	4.7	4.4	4.1	4.5	4.3
Average sales volume	BOED	462,007	468,130	416,141	354,052	350,651
Average selling price	USBOE	48.2	53.4	43.5	38.9	47.2

Source: PTTEP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. USD

	------------------Year Ended 31 December				-----------------
	2023	2022	2021	2020	2019
Total operating revenues	8,784	9,617	6,956	5,173	6,218
Earnings before interest and taxes (EBIT)	4,388	4,600	2,548	1,653	2,492
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,809	7,049	5,001	3,796	4,643
Funds from operations (FFO)	5,036	5,184	3,518	2,799	3,253
Adjusted interest expense	302	244	218	271	300
Capital expenditures	2,392	1,892	1,661	1,215	1,208
Total assets	26,380	25,168	23,445	22,493	22,201
Adjusted debt	3,731	3,809	4,756	3,870	4,049
Adjusted equity	14,594	13,515	12,272	11,643	11,654
Adjusted Ratios					
EBITDA margin (%)	77.5	73.3	71.9	73.4	74.7
Pretax return on permanent capital (%)	20.2	22.7	13.1	8.7	14.0
EBITDA interest coverage (times)	22.5	28.9	22.9	14.0	15.5
Debt to EBITDA (times)	0.5	0.5	1.0	1.0	0.9
FFO to debt (%)	135.0	136.1	74.0	72.3	80.3
Debt to capitalization (%)	20.4	22.0	27.9	24.9	25.8

* *Consolidated financial statements*

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

PTT Exploration and Production PLC (PTTEP)

Company Rating:	AAA
Issue Ratings:	
PTTEP26NA: THB6,000 million senior unsecured debentures due 2026	AAA
PTTEP296A: THB11,400 million senior unsecured debentures due 2029	AAA
Rating Outlook:	Stable

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