

PTT EXPLORATION AND PRODUCTION PLC

No. 27/2021
17 March 2021

CORPORATES

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

Last Review Date: 13/03/20

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 PTTEP's senior unsecured debentures at "AAA". TRIS Rating also affirms the rating of "AA" on PTTEP's subordinated capital debentures. The two notches below the company rating reflect the deferability and subordinated nature of the subordinated capital debentures. Additionally, TRIS Rating also maintains the "stable" rating outlook.

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

KEY RATING CONSIDERATIONS

Leading position in the E&P industry in Thailand

PTTEP is the largest E&P operator in Thailand. The company has sourced petroleum, especially natural gas, both domestically and internationally to satisfy the country's need for energy. As of December 2020, the company had proven petroleum reserve of 1,074 million barrels of oil equivalent (MMBOE). Approximately 50% of PTTEP's reserves are in Thailand while 50% are distributed in petroleum assets in 15 countries. Natural gas accounts for about 70% of PTTEP's total reserves while oil and condensate together account for 30%. The company's sales volume for 2020 was 354,052 barrels of oil equivalent per day (BOED) with 70% supplied for domestic consumption.

PTTEP has a gas sales agreement (GSA) with PTT on a take-or-pay basis, under which the buyer is obliged to take the minimum annual contracted quantity of natural gas stipulated in the GSA or pay the equivalent amount. This contractual arrangement secures about 70% of PTTEP's total sales volume every year.

Strong relationship with PTT

PTTEP is a core subsidiary of PTT. PTT is the national oil and gas company and the sole supplier of natural gas in Thailand. PTT holds a 65.3% equity interest in PTTEP. Both PTT and PTTEP are Thai state enterprises with respect to their statutory status.

In terms of commercial interest, PTT is a major customer of PTTEP, accounting for about 70%-80% of PTTEP's sales. PTTEP is a key part of PTT's natural gas supply chain. Natural gas from PTTEP is delivered to PTT's gas separation plant before being distributed to petrochemicals and other industrial users. During 2018-2020, PTTEP contributed about 40%-50% of PTT's earnings before interest, taxes, depreciation and amortization (EBITDA).

High gas mix buffers oil price slump

PTTEP's operation has been cushioned from the impact of oil price slump in 2020, as 70% of its petroleum sales is natural gas. In 2020, the company's EBITDA dropped by 18.8% to USD3.8 billion compared with a 33.4% drop in Dubai crude oil price. This was mainly attributed to the lag-time adjustment for natural gas price under the GSA with PTT. The pricing formula stipulated in the GSA limits PTTEP's exposure to oil price fluctuations. About 30% of the price of gas in the GSA is indexed to fuel oil prices. The pricing formula

includes adjustments for inflation and foreign exchange rate fluctuations. The pricing formula carries a lag-time adjustment of about six months to two years.

“Oman Block 61” acquisition strengthens business profile

TRIS Rating views that the acquisition of a 20% interest in Block 61 in Sultanate of Oman (Oman Block 61) has strengthened PTTEP’s business profile. Oman Block 61 comprises two gas fields, “Khazzan” and “Ghazeer”. Both fields have a combined daily production of 1.5 billion cubic feet of gas and 65,000 barrels of condensate, supplying about 35% of total gas output in Oman. They also have natural gas proved and probable reserves (2P) of approximately 10.5 trillion cubic feet.

Oman Block 61 has a long-term take-or-pay gas sale agreement with the Oman government totaling 1.5 billion cubic feet per day. The gas selling price is not subject to oil price volatility as it is fixed with escalation adjustment each year. As Oman Block 61 is already in operation, we forecast that the acquisition will increase PTTEP’s sales volume by 10% once the transaction is completed, and its EBITDA to increase by USD350-USD450 million per year after a full-year contribution from 2022 onwards.

The acquisition value stands at USD2.45 billion, with a contingent payment of up to USD140 million. PTTEP plans to use its available cash on hand to fund this acquisition. After completing the transaction, PTTEP will hold a 20% interest in Oman Block 61. Other participating interests are BP PLC (40%, operator), Makarim Gas Development LLC (OQ, 30%) and PC Oman Ventures Limited (PETRONAS, 10%). The transaction is expected to be completed within 2021 subject to the approval of Oman’s government and the project’s partners.

Sales volume continues to increase

We expect the assets acquisition and projects in the pipeline to boost PTTEP’s sales volume over the next five years. We project the company’s sales volume to increase by an annually compound growth rate of 6%-7%, reaching 480-490 thousand barrel of oil equivalent per day (KBOED) in 2025 from 350 KBOED in 2020. The increase in sales volume is based on the full-year contribution from Oman Block 61 and the commencements of operation of “Sabah H” project and “Algeria HBR” in 2021, the “Erawan” and “Bongkot” projects during 2022-2023, and the “Mozambique Offshore Area 1” project in 2024.

Lower production cost helps maintain margin

PTTEP maintained an EBITDA margin of over 70% despite the crude oil price slump in 2020. The company’s cash cost dropped by 9.3% year-on-year (y-o-y) to USD14.4 per barrels of oil equivalent (BOE) in 2020, mainly due to the reduction in royalty expenses, general and administrative expenses, and exploration expenses. The lifting cost (cost to produce petroleum for one barrel) slightly increased by 3.7% to about USD4.5 per BOE.

Strong financial profile

Despite the impact of crude oil price slump in 2020, the company’s financial profile was not materially affected. The company’s EBITDA dropped by 18% to USD3.8 billion in 2020. The company’s debt to EBITDA ratio remained at a very low level of about 1.0 times in 2020. We forecast the company’s EBITDA to be in the range of USD3.4-USD3.5 billion in 2021 and to increase to about USD4.0-USD4.5 billion per year during 2022-2024. The projected lower EBITDA in 2021 was due to the lower selling price from the lag-time adjustment of the natural gas sales. We expected an increase in EBITDA during 2022-2024 from increased sales volume.

PTTEP plans to fund a 20% interest in Oman Block 61 worth about USD2.5 billion with its cash on hand. We project the debt to EBITDA ratio to peak at 1.8-2.0 times in 2021 and then drop to the range of 1.6-1.8 times during 2022-2024.

Although the Bongkot and Erawan under production sharing contracts (PSC) may lower PTTEP’s average selling price from 2022 onwards, PTTEP plans to maintain the margin via the reduction of operating costs of these two fields by using common facilities. TRIS Rating believes that PTTEP will be able to maintain an EBITDA margin of over 65% during the forecast period.

Ample liquidity

PTTEP has very strong liquidity. At the end of 2020, sources of funds comprised cash on hand of USD3.8 billion and undrawn bank credit facilities of USD855 million, of which USD600 million was a committed credit facility. We forecast the company’s funds from operation (FFO) to be around USD2.7 billion in 2021. The company’s cash on hand plus FFO is sufficient to cover capital expenditures of about USD5.0 billion in 2021, including the acquired interest in Oman Block 61. PTTEP does not have any debt due in 2021.

BASE-CASE ASSUMPTIONS

- The price of Dubai crude to be around USD45 per barrel in 2021, USD50 per barrel in 2022-2023, and USD55 per barrel in 2024.
- Total cash cost of PTTEP to be around USD12.5-USD14.5 per barrel over the forecast period during 2021-2024.
- PTTEP's capital spending to total around USD14.4 billion over 2021-2024, including the USD2.5 billion for the acquisition of Oman Block 61.

RATING OUTLOOK

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

RATING SENSITIVITIES

A credit downside case may arise if crude oil prices stay below USD30 per barrel for a prolonged period or if the financial leverage increases significantly due to any large debt-funded acquisitions. Any change in the credit profile of PTT or weaker linkage between PTTEP and PTT could also impact PTTEP's ratings.

COMPANY OVERVIEW

PTTEP is the leading petroleum E&P company in Thailand. 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 February 2021, PTT, the national oil and gas company, held a 65.3% shareholding in PTTEP. Both PTT and PTTEP are state enterprises. As of December 2020, the company had E&P projects in 15 countries. The primary operational base is in Southeast Asia.

At the end of 2020, PTTEP owned proved reserves of 1,074 MMBOE. About 73% of proved reserves were natural gas and the remaining 27% were crude oil and condensate. PTTEP is the largest petroleum producer in Thailand, with a production rate of 422 KBOED in 2020.

KEY OPERATING PERFORMANCE

Table 1: Key Operating Data

	Unit	Year Ended 31 December				
		2020	2019	2018	2017	2016
Proven reserves	MMBOE	1,074	1,140	677	631	695
Yearly production	MMBOE	155	151	131	127	135
Reserve life	Year	7	8	5	5	5
Five-year reserve replacement ratio	Times	1.5	1.5	0.7	0.6	0.6
Lifting costs	USD/BOE	4.5	4.3	4.3	4.2	4.2
Average sales volume	BOED	354,052	350,651	305,522	299,206	319,521
Average selling price	USBOE	38.92	47.24	46.66	39.20	35.91

Source: PTTEP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. USD

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	5,173	6,218	5,361	4,412	4,298
Earnings before interest and taxes (EBIT)	1,653	2,492	2,100	1,567	930
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,796	4,643	3,975	3,264	3,063
Funds from operations (FFO)	2,922	3,666	2,965	2,822	2,499
Adjusted interest expense	271	300	277	262	279
Capital expenditures	1,215	1,208	1,154	1,361	1,023
Total assets	22,493	22,201	19,484	19,220	18,891
Adjusted debt	3,833	4,057	1,364	2,451	2,372
Adjusted equity	11,643	11,654	11,428	10,939	10,810
Adjusted Ratios					
EBITDA margin (%)	73.40	74.66	74.14	73.96	71.27
Pretax return on permanent capital (%)	8.68	14.04	12.44	9.27	5.52
EBITDA interest coverage (times)	13.99	15.48	14.36	12.45	10.99
Debt to EBITDA (times)	1.01	0.87	0.34	0.75	0.77
FFO to debt (%)	76.25	90.37	217.42	115.14	105.32
Debt to capitalization (%)	24.77	25.82	10.66	18.30	18.00

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

PTT Exploration and Production PLC (PTTEP)

Company Rating:	AAA
Issue Ratings:	
PTTEP296A: THB11,400 million senior unsecured debentures due 2029	AAA
PTTEP12PA: THB5,000 million subordinated capital debentures	AA
Rating Outlook:	Stable

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