

BANGCHAK CORPORATION PLC

No. 61/2019
29 August 2019

CORPORATES

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

Last Review Date: 14/12/18

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

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RATIONALE

TRIS Rating affirms the company rating on Bangchak Corporation PLC (BCP) and the ratings on BCP's existing senior unsecured debentures at "A". At the same time, TRIS Rating assigns the rating of "BBB+" to BCP's proposed issue of up to Bt6,000 million in subordinated perpetual debentures (hybrid debentures) and the additional greenshoe portion of up to Bt4,000 million. The rating on BCP's hybrid debentures is two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

The proposed hybrid debentures' characteristics, including subordination, the interest deferral at the discretion of the company, the five-year non-call period, and sufficient permanence, are qualified for receiving "intermediate" equity content under TRIS Rating's criteria. TRIS Rating will treat 50% of the outstanding amount of the hybrid debentures as equity and the other 50% as debt when calculating financial ratios. The "intermediate" equity content will fall to "minimal" (or 0% of equity treatment for this issue) at the end of fifth year from the issuance date. This is because, five years after issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating's criteria, the effective maturity date of the issue will be defined as the date when there is a material step up of the coupon rate (equal to or more than 100 basis points or bps). In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year after issuing date.

Except for certain events as specified in the terms and conditions (e.g. changes in the tax and accounting treatments of hybrid securities or a change in the rating agency's criteria used to assess the equity content of the issue), BCP intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating could lower the equity content of the proposed hybrid debentures, to "minimal" from "intermediate" if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

The ratings continue to reflect BCP's long track record in oil refining and marketing business, its leading market position in the oil retailing business, and its diversification into green energy business. The ratings are partially offset by increasing leverage due to the company's investment plan for the upgrade of its refinery and the expansion into new businesses.

For the first half of 2019, BCP's performance fell short of our forecast, due mainly to the plunge in gross refinery margin (GRM). BCP's base GRM considerably declined to US\$4.2 per barrel, which was far below our expected US\$6.5-US\$7.5 per barrel. We view that the lower GRM is industry-wide, reflecting the cyclical nature of refining business. The low GRM could last into next year. However, we see the GRM improvement in the third quarter of 2019. BCP's base GRM could also revive after the International Maritime Organization (IMO) bunker fuel regulations come into effect. In addition, we expect the company's GRM will improve further when it completes the refinery improvement and debottleneck program in 2020.

BCP holds 46.62% of OKEA AS (OKEA). Currently, BCP is in the process to consolidate OKEA on its balance sheet. However, in our previous forecast, we assumed that BCP would consolidate OKEA by late 2018. Given the fact that

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

OKEA, currently, is not consolidated, we slash our forecast earnings before interest, taxes, depreciation, and amortization (EBITDA) to about Bt9.0 billion per year during 2019-2020, based on the current GRM environment. At the same time, we lower the forecast debt by about Bt10 billion. As a result, we expect the debt to capitalization ratio to remain in the range of 50%-55% as in the previous forecast.

RATING OUTLOOK

The “stable” outlook reflects the expectation that BCP will retain its strong market position in the marketing business. The investments in the power projects are expected to generate sustainable streams of cash flow and mitigate the impact from the fluctuations in oil refining and marketing business.

RATING SENSITIVITIES

An upside for BCP’s ratings may occur if the company generates sizable and recurring cash flow from its diversification efforts, while not materially deteriorating its capital structure. A rating downside may occur if BCP’s capital structure significantly deteriorates due to aggressive debt-funded investments or if the company incurs substantial losses from its investments.

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
Up to Bt6,000 million subordinated capital debentures and additional greenshoe portion of up to Bt4,000 million	BBB+
Rating Outlook:	Stable

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