

PTT OIL AND RETAIL BUSINESS PLC

No. 14/2023
14 February 2023

CORPORATES

Company Rating: AA+
Outlook: Stable

Contacts:

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Supasith Tiensuksai, CFA
supasith@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns a company rating of “AA+” to PTT Oil and Retail Business PLC (OR) with a “stable” rating outlook. The rating reflects our view of OR as a highly strategic subsidiary of PTT PLC (PTT; rated “AAA/stable” *). The company rating incorporates a one-notch uplift from our assessment of OR’s stand-alone credit profile (SACP) of “aa”.

The SACP reflects OR’s leading position in the petroleum market in Thailand, its distinct competitive advantages as well as its sound financial profile. However, the SACP is tempered by exposure to volatile oil prices and the influence of government policies on the retail oil industry. The SACP also takes into consideration a potential rise in OR’s leverage in support of investments in new businesses.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of PTT Group

Our assessment of OR’s status as a highly strategic subsidiary of PTT is due to close operational integration, alignment of strategies, and reputation. OR is the oil and retail flagship of the PTT Group. PTT currently holds a 75% ownership stake in OR.

In our view, OR’s operation is fully integrated with PTT’s value chain, distributing the group’s petroleum products to both retail and commercial customers. Approximately 70%-80% of OR’s petroleum products are sourced through long-term agreements with PTT’s refinery flagship companies, while OR is also obligated to purchase significant capacity from these refineries. We also view that OR is closely linked with PTT’s reputation as it shares the “PTT” brand.

Besides, OR’s strategy is closely aligned with PTT’s missions in supporting national energy security, future energy transitions, and improving the life quality for the Thai people. The company’s financial policies are also in line with those of PTT. Given these strong linkages, we believe there is a high likelihood that PTT will provide extraordinary support to OR in times of stress, despite its current small contribution to the group’s earnings.

Largest oil distributor in Thailand

OR has a robust business profile, given its position as the largest oil distributor in Thailand. The company has maintained the top position in the oil retail market and the majority of commercial petroleum markets for over a decade. In 2021, OR’s market share by sales volume was 43.8%. With its dominant position, OR has long been the price leader in the Thai petroleum market.

We believe that the solid PTT brand, extensive operational scale and supply capability, large network of service stations, and strong distribution channels are key factors that will sustain OR’s leading marketing position in the foreseeable future. OR’s diversity of products and service offerings, as well as its balanced mix of retail and commercial volume, also enable the company to capture demand from multiple market segments, which help support its oil volume growth and stability.

In 2021, OR generated THB514 billion in revenue with three main business units: Mobility (the oil business in Thailand), Lifestyle (the non-oil business in Thailand), and Global (the oil and non-oil business outside Thailand). The

* 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.

Mobility unit was the primary contributor to revenue, accounting for 92.9% of the total. In terms of earnings before interest, taxes, depreciation, and amortization (EBITDA), the Mobility unit generated 75.6%, followed by the Lifestyle unit at 20.6% and the Global unit at 3.6%.

Distinct competitive strengths in oil retail

In the retail segment, OR possesses a distinctive advantages over peers due to a variety of oil products offered at competitive prices at PTT stations. On top of that, the service stations typically feature “Cafe Amazon” and “7-Eleven” convenience stores, two reputable brands in Thailand. Cafe Amazon is the key growth driver in OR’s Lifestyle segment. Its competitiveness is built from the well-established brand, rapid growth from franchising strategy, good product quality at affordable prices, and widespread outlets. Additionally, OR has a long-term business collaboration with 7-Eleven convenience stores, making the stores present in almost all of OR’s service stations. These high-demand products and services draw customer traffic to the service stations, resulting in comparatively higher throughput and revenue per station than peers.

With the strong “PTT Station” brand, OR can grow its retail network through the DODO (dealer owned dealer operated) model, a strategy that helps OR expand at a fast pace with low capital needs. This model enables OR to establish new service stations through dealer investments and share oil product margins with the dealers. This strategy allows OR to focus on leveraging marketing campaigns and supply-chain optimization while maintaining low fixed operating costs and expanding in areas with strong potential, along highways and main roads. Prior to the Coronavirus Disease 2019 (COVID-19) pandemic, OR’s station expansion rate in Thailand was approximately 100-140 new stations per annum. As of September 2022, OR had 2,108 service stations in Thailand, of which 81% were operated under the DODO model.

Susceptibility to fuel price volatility and influence of government’s policies

OR’s operating performance is susceptible to fluctuating oil prices as its oil sales in Thailand remain the primary source of earnings, representing approximately 70%-75% of OR’s total EBITDA over the past few years. As a state-owned enterprise, OR is entrusted with the responsibility of assisting PTT’s missions to ensure national energy security. In effect, the company, which is the largest oil distributor in Thailand, has implemented a stringent oil reserve policy that exceeds legal requirement to ensure a sufficient volume to meet market demand. As a result, we view that the company’s profitability tends to be more fluctuated by a drop of the oil price than that of other firms in the same industry.

In addition, we believe the government policy associated to retail oil prices could have impacts on the oil retail industry as well as OR’s pricing decision. With inflationary pressure, the government has implemented its policy to cap the diesel retail price through several measures, such as direct subsidies through oil fuel funds, reduction of biodiesel content, and a temporary cut in excise tax. The prolonged diesel price cap has pressured the marketing margins of oil retailers with material financial burdens arising from delay subsidy from oil fuel fund.

Concerted efforts to strengthen the Lifestyle businesses

OR has made ongoing efforts to diversify into the Lifestyle business, which offer higher margins and more stable earnings. Generally, the Lifestyle businesses deliver EBITDA margins of around 25%, significantly higher than the 2%-3% range of the Mobility business. Cafe Amazon has been OR’s core Lifestyle business. The strong growth rate in Cafe Amazon outlets and numbers of cups sold in Cafe Amazon demonstrate growth potential of this business. We believe this coffee franchise can still maintain its pace of expansion in Thailand as planned with a target to grow by about 400 outlets per annum, with 75% of them being stand-alone ones.

In addition to Cafe Amazon, OR seeks to strengthen its Lifestyle revenue base by forming strategic partnership with other food & beverage (F&B) companies. OR has invested in healthy food restaurant (Ohkajhu) and Japanese premium buffet (Koeun). The company is also broadening the services it offers beyond F&B, such as washing machine services (Otteri) and online platform for booking health and wellness services (Gowabi). In our view, these efforts to diversify Lifestyle portfolio demonstrate OR’s commitment to diversify its revenue streams and strengthen its overall business resilience.

Shifting towards community’s stations

OR has set a strategic goal to transform its PTT stations into living communities, offering a wide range of basic products and services, community areas, and facilities. The approach is aimed at increasing enhanced customer engagement and time spent in the stations. Ultimately, this should drive into higher revenues per station in the long term. Coupled with modernizing its service stations, the company plans to broaden the business scope of its digital platforms and innovations, including tele pharmacy, cloud-kitchen, and online ordering platform.

Overall, we anticipate OR’s ongoing strategies to play a role in supporting earnings stability and profit enhancement. The successful implementation of its retail community business model should help address disruption risks over the long term. However, the effective integration of new businesses with the PTT station platform has yet to be seen. We view there are

significant execution risks involved in new businesses including unfamiliar competitive landscapes, fast-changing consumer behavior, and heavy reliance on partners.

Performance on recovery path

OR's financial performance is recovering after being hit by the COVID-19 pandemic. OR's oil sales volume in the first nine months of 2022 rebounded rapidly thanks to the reviving economic activities. However, OR's overall gross profit was somewhat affected by declining oil price.

In our forecast, the Mobility business in Thailand will remain the key driver. We forecast that OR's total oil sales volumes in Thailand will rise by 15% in 2022, 7% in 2023, and 2%-3% annually in 2024-2025. We assume OR will open around 100 service stations per year in Thailand. In our base case, OR's annual revenue is likely to soften to THB650 billion in 2025 from THB780 billion in 2022, following the expected oil price downturn. Nonetheless, we expect the EBITDA to remain in a range of THB23-THB25 billion per annum. Over the forecast period, the EBITDA margin is forecast to improve to 4.0% from 3.3%.

Sound financial profile

The proceeds from the initial public offering (IPO) have greatly strengthened OR's financial profile and enabled the company to manage the impacts of escalating working capital needs, which were a result of the spike in oil prices and hefty receivables related to the oil fuel fund subsidy. OR's capital structure remains at a strong level. As of September 2022, the debt to capitalization ratio stood at 23.5% while the debt to EBITDA ratio was low at 1.3 times (annualized with the trailing 12 months).

Looking ahead, we expect OR's financial leverage to increase gradually, given the company's planned capital expenditures and business acquisitions. However, OR's strong cash generation and prudent financial policy will likely prevent overleveraging. We forecast the debt to EBITDA ratio will remain below 1.5 times and the debt to capitalization in the 20%-23% range during 2022-2025.

Adequate liquidity to cover debt obligation

We believe OR has an adequate level of liquidity to fund debt repayments and planned capital spending over the next 12 months. The sources of funds consist of cash and short-term investments totaling THB20.3 billion at the end of September 2022, an estimated funds from operations (FFO) of THB20 billion over the next 12 months, and undrawn credit facilities of THB5.8 billion. The major uses of funds over the next 12 months will include loan repayments of THB5.7 billion and capital expenditures of THB25-THB31 billion. OR's liquidity is expected to improve due to a reduction of working capital needs, assuming a decreasing oil prices and gradual reimbursements from the oil fuel fund.

Capital structure

At the end of September 2022, OR's consolidated debt (excluding financial lease) was THB39.6 billion. OR's priority debt totaled THB3.3 billion, translating to a priority debt to total debt ratio of 8.3%.

BASE-CASE ASSUMPTIONS

- Dubai crude price around USD96 per barrel on average in 2022, and USD65-USD80 per barrel in 2023-2025.
- Total oil volume growth in Thailand of 15% in 2022, 7% in 2023, and 2%-3% in 2024-2025.
- Overall oil gross profit at THB1.0-THB1.1 per litre during 2022-2025.
- Capital expenditures and investments to total THB82 billion during 2022-2025.
- Dividend payout at 50% of net profit.

RATING OUTLOOK

The "stable" outlook reflects our expectation that OR will maintain its leading position in the domestic petroleum market, with strong cash generation. Despite ongoing investment, we expect OR to keep the level of cash flow against financial leverage within our forecast range. In addition, we expect OR will remain a highly strategic subsidiary of PTT.

RATING SENSITIVITIES

An upward assessment of the SACP could occur if OR can substantially enhance profitability and heighten its resilience to adverse changes in oil demand and prices. This could be a result of increasing the revenue and profit contributions of Lifestyle businesses and new investments. Conversely, negative pressure on the SACP could emerge if OR's operating performance falls materially below our forecast or the company enters into substantial debt-funded investments that lead to a material deterioration in its financial profile.

According to TRIS Rating's "Group Rating Methodology", a downward revision of the credit profile of PTT or material changes in the linkage between OR and PTT could also impact the company rating on OR.

COMPANY OVERVIEW

OR is the largest oil distributor in Thailand and serves as the oil and retail flagship of the PTT Group. In 2018, the company changed its business structure by transferring the oil business unit, along with related investments, from PTT to OR. In February 2021, the company was listed on the Stock Exchange of Thailand (SET) following the IPO. PTT is the major shareholder, owning 75% of its total shares. Therefore, OR is considered a state-owned enterprise.

The company operates through three business units: Mobility, Lifestyle, and Global. The Mobility business is engaged in distribution of petroleum products through retail PTT stations and commercial businesses. The Lifestyle business comprises the Cafe Amazon business, 7-Eleven and "Jiffy" convenience stores, other F&B retail outlets (such as "Texas Chicken" and "Peaberry"), and rental space management. The global business includes the oil distribution business as well as Cafe Amazon and 7-Eleven, mainly in the Philippines, Cambodia, and the Lao People's Democratic Republic (Lao PDR).

At the end of September 2022, OR had 2,484 PTT service stations, including 2,108 stations in Thailand and 376 stations in other countries. In addition, OR had 4,120 outlets of Cafe Amazon, including 3,765 outlets in Thailand, and 355 outlets in overseas markets, such as the Philippines, Cambodia, Lao PDR, Oman, Japan, Vietnam, and Singapore.

KEY OPERATING PERFORMANCE

Table 1: OR's Sales Breakdown by Business Units

Unit: %

Business Unit	2018	2019	2020	2021	9M22
Total sales (mil. THB)	594,129	577,134	428,804	511,799	583,517
Mobility	94.1	93.5	92.6	92.9	93.1
Lifestyle	2.6	2.9	3.9	3.3	2.6
Global	5.3	5.8	5.0	5.6	6.9
Others	0.3	0.3	0.3	0.2	0.1
Inter-transaction	(2.3)	(2.6)	(1.8)	(2.0)	(2.7)
Total	100.0	100.0	100.0	100.0	100.0

Source: OR

Table 2: OR's EBITDA Breakdown by Business Units

Unit: %

Business Unit	2018	2019	2020	2021	9M22
Total EBITDA (mil. THB)	15,059	17,005	17,619	20,335	19,354
Mobility	68.7	70.7	69.1	75.6	72.9
Lifestyle	28.9	25.0	25.5	20.6	20.7
Global	4.6	4.2	4.9	3.6	6.3
Others	0.6	0.2	0.5	0.2	(0.1)
Inter-transaction	(2.8)	(0.0)	(0.0)	(0.1)	0.2
Total	100.0	100.0	100.0	100.0	100.0

Source: OR

Table 3: OR's Oil Service Station and Sales Volume

Oil Service Station	2018	2019	2020	2021	9M22
No. of service station					
Thailand	1,770	1,911	1,997	2,080	2,108
- DODO	1,458	1,571	1,625	1,685	1,705
- COCO*	312	340	372	395	403
Overseas	254	302	337	359	376
Total	2,024	2,213	2,334	2,439	2,484
Sales volume (Million Litres)					
Thailand	27,470	27,627	24,399	23,145	19,867
- Retail	11,603	12,078	12,546	11,777	9,850
- Commercial	15,867	15,549	11,853	11,368	10,017
Overseas	1,417	1,636	1,212	1,289	1,132
Total	28,887	29,263	25,611	24,434	20,999
Growth (y-o-y)	(2.4%)	1.3%	(12.5%)	(4.6%)	19.2%

Source: OR

* company owned company operated

Table 4: OR's Cafe Amazon

	2018	2019	2020	2021	9M22
No. of outlets					
Thailand	2,449	2,912	3,290	3,607	3,765
Overseas	184	238	285	324	355
Total	2,633	3,150	3,575	3,931	4,120
<i>Growth (y-o-y)</i>	24.1%	19.6%	13.5%	10.0%	8.5%
No. of cubs sold					
Thailand	225	264	274	297	267
Overseas	18	21	20	17	18
Total	243	285	294	314	285
<i>Growth (y-o-y)</i>	27.9%	17.4%	3.0%	6.6%	28.2%

Source: OR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	585,948	514,998	432,612	582,927	598,736
Earnings before interest and taxes (EBIT)	15,167	15,468	12,048	14,929	12,661
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	20,042	21,696	17,409	18,693	16,558
Funds from operations (FFO)	15,991	17,661	15,517	16,572	14,088
Adjusted interest expense	802	1,279	1,481	1,901	880
Capital expenditures	4,492	5,667	7,332	9,998	5,296
Total assets	225,338	207,659	144,979	152,176	144,356
Adjusted debt	32,422	0	43,060	35,885	52,291
Adjusted equity	105,352	99,872	37,916	38,708	27,943
Adjusted Ratios					
EBITDA margin (%)	3.4	4.2	4.0	3.2	2.8
Pretax return on permanent capital (%)	12.1 **	12.5	12.0	15.6	17.9
EBITDA interest coverage (times)	25.0 **	17.0	11.8	9.8	18.8
Debt to EBITDA (times)	1.3	0.0	2.5	1.9	3.2
FFO to debt (%)	61.1 **	n.m.	36.0	46.2	26.9
Debt to capitalization (%)	23.5	0.0	53.2	48.1	65.2

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. = Not meaningful

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

PTT Oil and Retail Business PLC (OR)

Company Rating:	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria