

# ESSO (THAILAND) PLC

No. 45/2020  
11 June 2020

## CORPORATES

**Company Rating:** A  
**Outlook:** Stable

**Last Review Date:** 25/12/19

### Company Rating History:

Date	Rating	Outlook/ Alert
21/11/08	A+	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on ESSO (Thailand) PLC (ESSO) to "A" from "A+". The downgrade is induced by the company's deteriorating performance and the dim prospects of the refining and petrochemicals sectors in the face of the economic recession brought on by the COVID-19 pandemic.

The rating continues to reflect ESSO's strong ties with the Exxon Mobil Corporation and affiliates (ExxonMobil Group), its efficient integrated refinery, and strong market presence. Conversely, the rating is held back by the company's rising leverage and intense competition in the retail business.

ESSO reported negative earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt1.3 billion in 2019. The weaker-than-expected performance was mainly due to the low level of gross refining margin (GRM), and the oversupply of petrochemical products. In addition, the company carried out a major turnaround for about 60 days, slashing its production by 20% year-on-year (y-o-y).

As a result of the turmoil in oil markets, ESSO's performance is likely to weaken further in 2020. During the first quarter of 2020, the unprecedented COVID-19 pandemic ravaged global demand for oil products, induced by lockdown measures imposed in most parts of the world. The situation was aggravated by the price war between Saudi Arabia and Russia. The plunge in economic activity drove the global economy into recession. As a result of a supply glut and collapsing demand, the crude oil price slumped from about US\$64 per barrel in January 2020 to about US\$21 per barrel in April 2020.

In effect, ESSO suffered from a huge inventory loss in the first quarter of 2020 while its production plummeted by 16% y-o-y. Given the dwindling demand for refined products, especially jet fuel and gasoline, ESSO's total GRM (or market GRM plus gain or loss in inventory) plunged to negative US\$19.3 per barrel, compared with positive US\$4.5 per barrel in the same period last year. ESSO reported negative EBITDA of Bt7.3 billion in the first quarter of 2020. In response, the company aims to cut the production of jet fuel and lower its operating expenses.

The rating downgrade embeds TRIS Rating's expectation of ESSO's deteriorating performance. We view that the recovery of global oil consumption remains fragile although many countries are re-opening from the lockdowns. The outlook for refining is highly uncertain as a second outbreak remains a possibility.

We have revised our forecast of the company's performance given the dim prospects of the refining industry. We assume that the Dubai crude oil price will range from US\$30-US\$35 per barrel in 2020 and increase to the US\$50-US\$55 per barrel range in 2021-2022. Further, we expect ESSO to utilize around 70% of its refining capacity, or 120 thousand barrels per day (KBD) in 2020, before increasing production to 135 KBD in 2021-2022.

We expect the market GRM to decline further in the second quarter of 2020 but gradually improve from the second half of the year onwards. In all, we project total GRM to remain in negative territory in 2020, before bouncing back to US\$5-US\$6 per barrel in 2021-2022.

In our base-case forecast, we project ESSO to incur negative EBITDA in 2020 in

the range of Bt5.0-Bt7.0 billion and post a retained loss. The ratio of debt to capitalization will likely be 70% in 2020, up from 59% in 2019.

We expect ESSO's revenue will improve each year thereafter and its EBITDA should turn positive in 2021-2022. However, we expect the retained losses to remain until the end of 2022. The debt to capitalization ratio is expected to be in the 60%-65% range during 2021-2022, a significantly higher level than our previous forecast. The ratio of debt to EBITDA is projected to hover around 4-5 times in 2021-2022. TRIS Rating forecasts ESSO's 3-year average EBITDA at about Bt2.0 billion per year during 2020-2022.

We have no concerns over ESSO's liquidity. As of March 2020, ESSO had undrawn credit facilities with banks of about Bt18.8 billion and a back-up credit facility from the ExxonMobil Group of Bt54.0 billion. We believe ESSO will continue to receive financial support from the ExxonMobil Group if needed. This is evidenced by the utilization of credit lines from the Group over the past few years. As of March 2020, about 64% of ESSO's outstanding debts were granted by the ExxonMobil Group.

## RATING OUTLOOK

The "stable" outlook takes into account the strong linkage between ESSO and the ExxonMobil Group, together with the anticipated benefits it receives from the Group. TRIS Rating also expects the company to maintain its sound market presence in the petroleum business in Thailand and improve its operating performance in the years ahead.

## RATING SENSITIVITIES

ESSO's credit upside is limited over the next 12-18 months but it could occur if ESSO stages a quick turnaround, with significant improvement of profitability and lower gearing. However, negative pressure could build if ESSO's operating performance weakens further, which could result from a slow recovery of oil demand or a protracted excess supply of oil, or if there is evidence of weakening support from the ExxonMobil Group.

## COMPANY OVERVIEW

ESSO is the Thailand-based affiliate of Exxon Mobil Corporation (ExxonMobil), which is one of the world's largest oil refiners and petrochemical companies. ESSO has a long track record in the petroleum business in Thailand. The company and its affiliates began the oil business in Thailand in 1894 and opened a refinery in 1971. As of March 2020, ESSO's major shareholders comprised ExxonMobil Asia Holding Pte. Ltd. (66%) and Vayupak Fund 1 (9%).

ESSO operates a complex refinery with a maximum rated capacity of 174 thousand barrels per day (KBD), accounting for approximately 14% of the total refinery capacity in Thailand. ESSO also operates an aromatics plant, which is integrated with the refinery. The aromatics plant has a production capacity of 500 thousand tonnes per annum of paraxylene. In addition, there were 641 service stations operating under the "Esso" brand name, as of March 2020.

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

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**Esso (Thailand) PLC**

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<b>Company Rating:</b>	A
<b>Rating Outlook:</b>	Stable

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