TRIS RATING
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ESSO (THAILAND) PLC

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CORPORATES

Company Rating: A+
Outlook: Stable

Last Review Date: 28/12/21

Company Rating History:

Date	Rating	Outlook/Alert
11/06/20	A	Stable
21/11/08	A+	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Esso (Thailand) PLC (ESSO) to “A+” from “A”. The rating outlook is “stable”. The rating upgrade comes after the company’s sound financial performance, driven by reviving oil demand and robust gross refinery margin (GRM).

The rating continues to mirror ESSO’s close business linkage with Exxon Mobil Corporation and affiliates (ExxonMobil Group), and its strong retail brand. Contrarily, the rating is constrained by the high volatility inherent in petroleum industries, and tough competition in the oil retail business.

The company rating on ESSO incorporates a three-notch uplift from its stand-alone credit profile (SACP). TRIS Rating raises ESSO’s SACP to “bbb+” from “bbb”. We hold the view that ESSO is strategically important to Exxon Mobil Corporation (rated “AA-/Stable” by S&P Global Ratings). The uplift embeds our expectation of strong parental support in a distressed scenario.

KEY RATING CONSIDERATIONS

Strong performance driven by tight supply of refined oil products

While ESSO’s performance picked up in 2021 mainly due to inventory gain from a crude price rally, the forecast-beating earnings in the first nine months of 2022 were mainly the result of extraordinarily strong GRM which was driven by a global demand recovery, especially for jet fuel, and additional oil demand from the utilities sector switching from more expensive gas. Meanwhile, refinery supply was slow to catch up with demand, due to permanent refinery closures during the Coronavirus Disease 2019 (COVID-19) pandemic, delays of new refinery capacities, as well as supply disruptions due to the Russia-Ukraine conflict.

These combined to widen crack spreads (the difference between refined and crude oil prices) especially in diesel and jet fuel. Unlike its competitors, ESSO had no policy to hedge oil or product prices, enabling the company to fully capture benefits from widened product spreads in 2022.

In effect, ESSO’s base GRM surged to USD9.6 per barrel (bbl) in the first nine months of 2022, up from USD2.3 per bbl in the same period of 2021. That said, we expect base GRM to soften in 2023 but remain above the long-term average before normalizing afterward.

Improving crude run rate

ESSO’s refinery has flexibility and is capable of running on a variety of crude oil types to produce high-margin products. The company’s refinery product mix in the first nine months of 2022 had been adjusted by increasing middle distillate (diesel and jet) to 49%, up from 45% year-over-year (y-o-y). Gasoline rose to 28% from 24% in the same period of the previous year. This follows ESSO’s effort to maximize profit.

ESSO’s refinery crude run was 131 thousand barrels per day (KBD) in the first nine months of 2022, suggesting a 7.4% y-o-y increase from 122 KBD. The crude run and capacity utilization rates reached 134 KBD and 77% respectively in the third quarter of 2022. We expect the refinery run rate to remain strong in the next several years.

ESSO's earnings before interest, taxes, depreciation and amortization (EBITDA) rose to a fresh record of THB16 billion in the first nine months of 2022. We project EBITDA to total THB18 billion for the full year of 2022.

Strong brand helps strengthen retail network

ESSO is well-positioned to market its premium oil and related products through its service stations. ESSO's oil retail volume market share slightly increased to about 12% in the first nine months of 2022. Looking forward, we expect ESSO to at least maintain the same level of retail volume market share. ESSO's oil retail stations have been able to generate high sales volume per station, ranking second highest and close to the market leader in the first nine months of 2022. The top three brands' volume per station including ESSO were far above those of other major and minor brands.

With strong brand perception, ESSO has been able to expand its retail network by increasing dealer-owned stations while the number of company-owned stations has not significantly increased in the last five years. The proportion of dealer-owned stations has steadily increased from 44% in 2017 to 62% in 2021. The total number of service stations reached 780 in September 2022, after a compound annual growth rate of 7% during 2017-2021. The number of non-oil outlets, which help draw traffic to service stations, also significantly increased through partnerships with other businesses. No significant investment is required in ESSO's expansion while the strengthened retail network is expected to help the company secure the sales volume of its refinery and mitigate volatile refining margins.

In our view, ESSO's strengths in the retail business are held back by the tough competition. The landscape of the Thai retail petrol sector has changed over recent years. Competition has mounted in the race to gain customer attention and loyalty. Oil retailers have pivoted to focus on offering non-oil products and services. Convenience stores and coffee chains are standard for small- to medium-sized petrol stations. The bigger stations tend to include restaurants, laundries, auto services, etc. Given the tight marketing margins, it is challenging for retailers to control operating costs while maintaining services and competitiveness.

With no major investments, debt is mainly used to finance working capital needs

The investment related to EURO V fuel standard beginning in 2024 is not expected to be large and has been spread out. We expect ESSO's capital expenditure to stay below THB2 billion per year during 2022-2024.

ESSO's adjusted net debt increased to THB41.6 billion at the end of September 2022, from THB34.3 billion at the end of 2021, mainly due to higher working capital needs following the hike in petroleum prices. ESSO also reported substantial receivables related to the oil fuel fund subsidy, which will eventually be reimbursed although the timeline is uncertain. We expect total working capital requirements to decrease along with normalized petroleum prices.

Earnings expected to normalize

In anticipation of an improvement in the demand-supply imbalance, we forecast crude oil prices to average about USD80 per bbl in 2023 and USD75 per bbl in 2024, a steady decline from about USD96 per bbl in 2022. In our forecast, we also expect ESSO's base GRM to move downward from its extraordinary level in 2022 to USD4.5-USD6.0 per bbl in 2023-2024. As a result, we project EBITDA to decline to the range of THB5-THB9 billion per year in 2023-2024. The ratio of debt to EBITDA will likely stay at 4-5 times over the forecast period, increasing from about 2 times in 2022. At the same time, we project a debt to capitalization ratio in the 52%-57% range.

Exposed to high GRM volatility and fluctuating oil prices

Despite the windfall from soaring oil prices, we believe ESSO's business remains susceptible to wild fluctuations in global oil prices and GRM, given the current uncertainties in the global oil market. These include the lingering pandemic, supply chain constraints from the prolonged Russia-Ukraine conflict, a global economic slowdown, and possible supply cuts by OPEC+. ESSO's financial performance remains at risk of a narrowing GRM, as well as inventory losses in the event of market turmoil.

Linkage with the ExxonMobil Group remains strong

We maintain our view of ESSO as representing the strategic interest of the ExxonMobil Group in Thailand. ESSO carries out ExxonMobil's integrated business model and receives ongoing support from the group. ESSO has access to expertise in crude oil and raw material procurement services from ExxonMobil Group, access to a global petroleum and chemical products sales network, access to advanced technological, operational and engineering services, and access to research and development programs. The company also benefits from the use of ESSO and other ExxonMobil trademarks licensed from ExxonMobil.

Extensive liquidity support from the group

Considering the close linkage with the ExxonMobil Group, we believe ESSO will continue to receive financial support from the group. As of September 2022, 51% of ESSO's total debt was owed to the ExxonMobil Group. ESSO has been granted THB66 billion in short-term credit lines from ExxonMobil Group, of which only 18% had been used.

We assess that the availability of inter-company loans plus ESSO's cash on hand and undrawn credit facilities from commercial banks are adequate to cover its financial obligations coming due over the next 12 months, totaling THB31.8 billion.

Capital structure

At the end of September 2022, ESSO had THB36.4 billion in total debt (excluding lease obligations), without any priority debt. This comprised loans which were extended on a clean basis by financial institutions and related parties.

BASE-CASE ASSUMPTIONS

- Dubai crude price around USD96 per bbl on average in 2022, USD80 per bbl in 2023 and USD75 per bbl in 2024.
- Refinery's crude run at about 133 KBD in 2022 and 2023, and 138 KBD in 2024.
- ESSO's base GRM to be about USD9 per bbl in 2022 and in the range of USD4.5-USD6.0 per bbl in 2023-2024.
- Total capital spending to be THB6 billion over 2022-2024.

RATING OUTLOOK

The "stable" outlook embeds our expectation that ESSO will continue to deliver satisfactory earnings although GRM is likely to decline from the extraordinary level in 2022. In addition, ESSO is expected to maintain its competitiveness in the oil retail business. We expect the linkage between ESSO and the ExxonMobil Group to remain unchanged.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited over the next 12-18 months. In contrast, a downward revision to the rating could emerge if ESSO's operating performance falls significantly short of estimates or its debt to EBITDA ratio increases and stays above 6 times on a sustained basis.

Any material changes in the linkage between ESSO and the ExxonMobil Group that weakens the potential support from the ExxonMobil Group, could also impact the rating lift from the company's SACP, and ultimately the company rating on ESSO.

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 September 2022, ESSO's major shareholders comprised ExxonMobil Asia Holding Pte. Ltd. (65.99%) and Vayupak Fund 1 (7.44%).

ESSO operates a complex refinery with a maximum rated capacity of 174 KBD, accounting for approximately 14% of the total refinery capacity in Thailand. ESSO also has an aromatics plant, which is integrated with the refinery. The aromatics plant has a production capacity of 500,000 tonnes per annum of paraxylene. In addition, there were 780 service stations operating under the "ESSO" brand name as of September 2022.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	2021	2020	2019	2018
		-------------Year Ended 31 December ------------			
Total operating revenues	199,377	172,904	126,739	169,430	200,864
Earnings before interest and taxes (EBIT)	14,004	5,909	(9,494)	(3,403)	3,105
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,094	8,777	(6,839)	(1,315)	5,158
Funds from operations (FFO)	13,162	8,361	(7,304)	(1,866)	4,360
Adjusted interest expense	214	414	464	554	450
Capital expenditures	1,111	1,654	1,668	1,659	1,345
Total assets	95,817	70,055	61,378	66,243	61,750
Adjusted debt	41,630	34,338	34,410	32,405	19,779
Adjusted equity	28,781	19,208	14,360	22,118	25,832
Adjusted Ratios					
EBITDA margin (%)	8.07	5.08	(5.40)	(0.78)	2.57
Pretax return on permanent capital (%)	24.26 *	11.43	(18.29)	(6.75)	6.80
EBITDA interest coverage (X)	75.37	21.18	(14.74)	(2.37)	11.47
Debt to EBITDA (X)	2.33 *	3.91	(5.03)	(24.64)	3.83
FFO to debt (%)	35.43 *	24.35	(21.23)	(5.76)	22.04
Debt to capitalization (%)	59.12	64.13	70.56	59.43	43.36

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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

ESSO (Thailand) PLC (ESSO)

Company Rating:	A+
Rating Outlook:	Stable

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