

# BANGCHAK CORPORATION PLC

No. 193/2022  
27 October 2022

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
Hybrid	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 18/08/22

### Company Rating History:

Date	Rating	Outlook/Alert
09/12/20	A-	Stable
11/06/20	A	Negative
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

### Contacts:

Sermwit Sriyotha

sermwit@trisrating.com

Narongchai Ponsirichusopol

narongchai@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating upgrades the company rating on Bangchak Corporation PLC (BCP) and the ratings on BCP's senior unsecured debentures to "A" from "A-". TRIS Rating also upgrades the rating on BCP's subordinated capital debentures to "BBB+" from "BBB". The rating outlook remains "stable".

The upgrade of the ratings reflects BCP's healthy rebound in performance, propelled by the high utilization of refining capacity and flexibility of its refinery, a surge in oil prices and gross refinery margin (GRM), plus reviving sales volume through its service stations.

The ratings continue to mirror BCP's competitive edge in oil refinery, the integration between refinery and marketing business, its strong presence in the oil retail market, and the expected benefits from business diversification. On the contrary, the ratings are tempered by the susceptibility to fluctuations in GRM and oil prices, as well as BCP's substantial investments over the next few years that potentially require large amounts of debt funding.

## KEY RATING CONSIDERATIONS

### A turnaround for a second straight year

BCP staged healthy rebound in performance over 2021 to the first half of 2022 with forecast-beating earnings, due in large part to the oil price rally and GRM revival. The strong revival in global economic activities boosted up demand while the supply of crude oil was slow to adjust after the pandemic-induced cut of expenditures on exploration and production (E&P) of petroleum.

The Dubai crude oil price soared by 64% year-on-year (y-o-y) to USD69.4 per barrel (bbl) in 2021. The Russia-Ukraine conflict further tightened the global supply. The Dubai crude oil price surged to USD101.8 per bbl in the first half of 2022, marking a 60% increase y-o-y. As a result, BCP successively recorded hefty inventory gains of THB6.7 billion in 2021 and THB8.5 billion in the first half of 2022.

Added to that, the contracted supply escalated the finished product prices and widened the crack spread (the difference between product price and crude oil price) for all products. In effect, BCP's operating GRM surged to USD15.9 per bbl in the first six months of 2022 from USD4.5 per bbl in 2021. At the same time, the refinery crude run increased to about 122.3 thousand barrel per day (KBD), which was the first time that BCP's refinery utilized over 100% of its capacity. The high crude run was mainly due to the increase in sales volume through service stations and the export of high-value products via its trading arm, as well as the successful from the efficiency, energy, and environment enhancement project (3E project) completed in 2021.

BCP's earnings before interest taxes, depreciation and amortization (EBITDA) rose to a fresh record of THB23.7 billion in the first half of 2022. We project BCP's EBITDA to be in the range of THB40-THB45 billion per year in 2022-2023, which is nearly double our year-ago forecast. EBITDA could decline to about THB30-THB33 billion in 2024, given our expectation of easing supply crunch. Despite the current drastic supply-demand imbalance, we view BCP's refining business remains fundamentally vulnerable to wild fluctuations in global oil prices and GRM.

### Focus on niche products to enhance GRM

BCP has leveraged its advantage in sourcing low sulfur crude oil and flexible operation to produce high-value products such as very low sulfur fuel oil, unconverted oil (UO --- feedstock for lubricant oil base), and low aromatic solvent. Since 2020, BCP has adjusted product mix to offset a sharp decline in demand for jet fuel and to enhance overall GRM. Normally, UO has a wider crack spread, compared with that of diesel and jet fuel. In the first six months of 2022, the company's refinery's product mix comprised diesel (53%), gasoline (20%), UO (12%), jet fuel (4%), and other fuels (11%). Before 2020, UO accounted for only 2%-4% of BCP's total refinery production.

### Strong recovery in sales through service stations

The ease of Coronavirus Disease 2019 (COVID-19) lockdown measures during the first half of 2022 help boosted BCP's sales volume through service stations to exceed the pre-pandemic level. The average sales volume through service stations increased to about 382 million liters per month (ML/MO) in the first half of 2022 from about 358 ML/MO in 2019. The increase in volume also reflected the company's efforts on expanding service station network and the offer of non-oil goods and services in service stations. The service stations under "Bangchak" brand increased to 1,301 stations at the end of June 2022, a steady expansion from 1,201 stations at the end of 2019.

The marketing margin of BCP was pressured by the cap of diesel prices, while crude oil prices increased rapidly in the first six months of 2022. The net marketing margin decreased to THB0.59 per liter in the first quarter of 2022 from THB0.75 per liter in the first quarter of 2021 due to the cap of diesel price. The net marketing margin improved to THB0.94 per liter in the second quarter of 2022, supported by the increasing a cap of diesel prices. We view that the marketing margin will likely improve in the second half of 2022 as the softening crude oil prices should help ease the pressure on marketing margins. We expect the marketing business to continue providing stable cash flow for BCP as the marketing margin is less volatile than the refinery margin, apart from the non-oil business that partly helps stabilize the overall earnings.

### Sizable earnings contribution from OKEA

BCP's record EBITDA was in part the result of the financial consolidation of OKEA ASA (OKEA), an oil producer in Norway, in the second half of 2021. OKEA accounted for significant amounts of about THB7.8 billion in BCP's total EBITDA in 2021 and THB7.8 billion in the first half of 2022. OKEA largely profited from the spike in oil prices as well as natural gas prices during the period, while it maintained low production expenses. OKEA's average selling price increased to about USD75.9 per barrel of oil equivalent (BOE) in 2021, a robust 147% increase y-o-y. The selling price rocketed to about USD110 per BOE in the first half of 2022. On the contrary, the company's production expenses remained about USD16-USD23 per BOE over 2021 to the first half of 2022. OKEA's sales volume totaled 5.8 million barrel of oil equivalent (MMBOE) in 2021 and 2.8 MMBOE in the first half of 2022.

We expect the sales volume to increase in the second half of 2022, aided by the ramp up in production of "Yme" project. In addition, OKEA's announcement to acquire petroleum production assets from Wintershall Dea AG also increase production volume of about 7 KBOED to OKEA. The transaction is expected to be completed by the fourth quarter of 2022.

In our base case, we project OKEA's sales volume to reach 9-10 MMBOE in 2023 and decline to about 8-9 MMBOE in 2024. We expect the average selling price to gradually decline from 2022 but should remain at a high level due to the strong demand for natural gas. We forecast OKEA to contribute about THB18-THB23 billion in EBITDA per year over 2022-2023 and about THB13.5-THB14.5 billion in 2024.

### Heavy investments in green power business

BCP has placed growth in sustainable energy at the forefront of its business strategy. Over the past years, BCP has developed and invested in various types of renewable power plants through its subsidiary, BCPG PLC (BCPG). Currently, BCPG's operating power plants have a total capacity, proportionate to BCPG's equity interest in the power plants, of 390 megawatts (MW). We project BCPG's total outlays of THB48.5 billion over 2022-2024, covering maintenance capital expenditures (CAPEX), investments in green-field and brown-field projects, and acquisition of operating power projects. In our base case, we expect BCP's green power business will provide a larger cash flow contribution, bringing in about THB3.5-THB5.0 billion per year in EBITDA during 2022-2024. We hold our view that BCP's strategic diversification to green power business will enhance its resilience against the volatility of oil prices and GRM.

### Significant improvement in financial profile

BCP's financial profile improved materially due to its strong operating performance as well as its financial discipline. Despite its concerted plan for heavy investments in years ahead, BCP endeavors to maintain a prudent capital structure. In the first quarter of 2022, BCPG sold its investment in geothermal power project, receiving cash of about THB14.6 billion. In addition, BBGI PLC (BBGI), a bio-based products subsidiary of BCP, raised new capital of about THB4.45 billion via an initial public offering (IPO) of shares in March 2022.

As a result, the company's adjusted debt decreased to THB62.7 billion at the end of June 2022. The debt to capitalization ratio improved to 44.7% as of June 2022, down from 55.1% at the end of 2021. The debt to EBITDA ratio improved to 3.2 times in 2021 and 1.6 times (annualized with trailing 12 months) in the first half of 2022, from 9.2 times in 2020.

Over 2022-2024, we forecast BCP to spend about THB92.4 billion in CAPEX and investments. Of this budget, THB48.5 billion will go into the green power business, THB21.7 billion for the oil refining and marketing businesses, THB18.7 billion for E&P activities, THB3.1 billion for bio-based business, and the rest of THB0.3 billion for others. In our base case, we forecast BCP's debt to capitalization ratio to be in the range of 50%-55% during 2022-2024.

We forecast BCP's debt to EBITDA ratio at around 1.5-2.0 times in 2022. The ratio is expected to climb to about 2.5-3.5 times in 2023-2024 due to the planned investments. We expect BCP's new projects, including the sustainable aviation fuel (SAF) project and paraffin wax project worth about THB11.2 billion, would generate meaningful earnings from 2025 onwards.

### Sound liquidity position

BCP has a sound liquidity position. As of June 2022, BCP had cash on hand and cash equivalents of about THB42.6 billion and undrawn credit facilities (both committed and uncommitted) of about THB16.3 billion. BCP's funds from operations (FFO) over the next 12 months are expected to be THB20-THB23 billion. At the same time, BCP will have maturing debt, comprising long-term loans, financial lease, and debentures of around THB12.9 billion.

### Debt structure

As of June 2022, BCP's consolidated debt was about THB83.3 billion (including hybrid debentures). BCP's priority debt consisted of THB18.7 billion in secured debt and THB20.1 billion in senior unsecured debt owed by subsidiaries. The ratio of priority debt to total debt was about 46.6% at the end of June 2022.

### BASE-CASE ASSUMPTIONS

- Crude oil price of USD95-USD100 per bbl for 2022, USD85 per barrel in 2023, and USD75 per barrel in 2024.
- Refinery's crude run at about 110-120 KBD in the second half of 2022 through 2024.
- BCP's operating GRM to range USD13-USD14 per barrel in 2022, and USD7-USD8 per barrel during 2023-2024.
- Sales volume through service stations to grow at about 6%-8% (CAGR) over 2022-2024.
- Total capital spending, including investment, is forecast at about THB92.4 billion over 2022-2024.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that BCP will maintain its production flexibility and efficiency at its refinery. In addition, BCP will maintain its solid position in its marketing business, and that the expansion of its green power business will add sizable and more predictable earnings to the company. We also expect BCP will maintain its financial discipline such that its leverage will be in line with our forecast.

### RATING SENSITIVITIES

The prospect of rating upgrade is limited over the next 12-18 months. Contrarily, negative rating pressure would emerge if BCP's operating performance falls significantly short of our expectation or its capital structure weakens materially, which could occur from excessive debt-funded investments or considerable losses incurred from its investments.

### COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of September 2022, VAYUPAK Fund 1 held a 19.84% interest in BCP, the Social Security Office (SSO) held 14.40%, the Ministry of Finance (MOF) held 4.76%, and the remaining 61% was publicly held. The company's main businesses are oil refining and marketing. BCP owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 KBD. This accounts for approximately 10% of the country's total refinery capacity. As of June 2022, there were 1,301 service stations operated under the "Bangchak" brand.

Other lines of BCP's business are power generation, bio-based products, and resources. BCP's green power business is operated under its SET-listed subsidiary, BCPG. As of June 2022, BCPG had contracted capacity in operation of 390 MW. The bio-based productions comprise a bio-diesel plant, with a total capacity of 1 ML per day (ML/D), and ethanol plants, with capacity of 600,000 liters per day (L/D). For resource business, BCP currently holds 45% in OKEA. OKEA is an oil producer in Norway with the production volume of about 15-16 thousand barrel of oil equivalent per day (KBOED) for the first half of 2022.

In 2021, BCP's EBITDA came from refining business (35%), marketing business (10%), green power business (16%), E&P and other new business (32%), and bio-fuel products business (7%).

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	153,666	200,696	136,826	190,826	192,310
Earnings before interest and taxes (EBIT)	19,058	17,301	(2,124)	4,658	5,065
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	23,679	24,537	6,194	9,950	10,345
Funds from operations (FFO)	15,677	18,593	3,411	7,332	8,014
Adjusted interest expense	2,003	3,129	2,594	2,294	1,947
Capital expenditures	3,919	10,888	5,993	8,491	8,814
Total assets	231,914	201,785	148,323	127,788	117,369
Adjusted debt	62,685	79,396	57,049	53,809	46,526
Adjusted equity	77,490	64,589	53,346	53,845	49,538
<b>Adjusted Ratios</b>					
EBITDA margin (%)	15.41	12.23	4.53	5.21	5.38
Pretax return on permanent capital (%)	19.24**	11.19	(1.72)	4.18	4.87
EBITDA interest coverage (times)	11.82	7.84	2.39	4.34	5.31
Debt to EBITDA (times)	1.58**	3.24	9.21	5.41	4.50
FFO to debt (%)	42.85**	23.42	5.98	13.63	17.22
Debt to capitalization (%)	44.72	55.14	51.68	49.98	48.43

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

**Bangchak Corporation PLC (BCP)**

<b>Company Rating:</b>	<b>A</b>
<b>Issue Ratings:</b>	
BCP238A: THB400 million senior unsecured debentures due 2023	A
BCP23NA: THB2,000 million senior unsecured debentures due 2023	A
BCP244A: THB3,500 million senior unsecured debentures due 2024	A
BCP258A: THB600 million senior unsecured debentures due 2025	A
BCP258B: THB4,500 million senior unsecured debentures due 2025	A
BCP260A: THB3,000 million senior unsecured debentures due 2026	A
BCP26NA: THB1,000 million senior unsecured debentures due 2026	A
BCP273A: THB2,000 million senior unsecured debentures due 2027	A
BCP275A: THB500 million senior unsecured debentures due 2027	A
BCP278A: THB2,000 million senior unsecured debentures due 2027	A
BCP28DA: THB7,000 million senior unsecured debentures due 2028	A
BCP29NA: THB1,400 million senior unsecured debentures due 2029	A
BCP303A: THB1,000 million senior unsecured debentures due 2030	A
BCP305A: THB4,500 million senior unsecured debentures due 2030	A
BCP31NA: THB2,600 million senior unsecured debentures due 2031	A
BCP328A: THB3,500 million senior unsecured debentures due 2032	A
BCP19PA: THB10,000 million subordinated capital debentures	BBB+
<b>Rating Outlook:</b>	<b>Stable</b>

**TRIS Rating Co., Ltd.**

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

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