TRIS RATING
A Strategic Partner of S&P Global
CreditNews ข่าวเครดิต

BANGCHAK CORPORATION PLC

No. 168/2024
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CORPORATES

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

Last Review Date: 18/06/24

Company Rating History:

Date	Rating	Outlook/Alert
31/08/23	A	Stable
19/01/23	A	Alert Negative
27/10/22	A	Stable
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

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RATIONALE

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

The ratings upgrade reflects the company's strengthened business profile following the successful integration of its oil refinery and marketing (R&M) operations, along with expansion in its upstream petroleum exploration and production (E&P) activities. The ratings also consider the benefit of vertical integration in the petroleum sector and diversified portfolio. However, the ratings are weighed down by BCP's heightened susceptibility to volatility in oil prices and gross refining margin (GRM), as well as the execution risk associated with its upcoming projects.

KEY RATING CONSIDERATIONS

Strengthening business profile in R&M

We assess BCP's business profile as having been reinforced after successfully integrating Bangchak Sriracha PLC (BSRC) into the group since September 2023. The integration has added EBITDA of at least THB6.0-THB7.0 billion per annum to the group's baseline with a more than doubled capacity in refinery crude run and higher sales volume through reinforced marketing arms. We expect the overall refinery crude run to increase to 260-275 thousand barrels per day (KBD) from 110-120 KBD. Sales volume through marketing channels is projected to double to about 12,900 million liters (ML) in 2024 from 6,500 ML in 2023 prior to the integration.

Looking ahead, we view BCP as still having further potential to enhance its earnings from the refinery and marketing businesses, driven by the benefits of collaborative optimization between the two refineries. This enables greater flexibility in crude selection and product mix. BCP also expects to achieve cost savings in logistics through network rezoning, co-loading of crude purchases, and the use of shared corporate services.

Greater scale of E&P supported business position

The strengthened business profile also factors in the greater scale of E&P operation, via OKEA ASA (OKEA), a petroleum E&P company in Norway. The sales volume almost doubled to 28.2 thousands of oil equivalent per day (KBOED) in 2023, from about 15.8-16.3 KBOED in 2021-2022. We expect OKEA's sales volume to increase further to 29-36 KBOED in 2024-2026, driven by the interest in Statfjord acquired in late 2023 and OKEA's investment plan. The larger scale of R&M and E&P businesses should help it better absorb the impact of fluctuation in oil prices. Also, BCP has more geographical diversified operating assets, enabling more balanced sources of earnings. This will mitigate the impact of any disruption occurred with one asset on overall earnings.

Vertical integration, diversified portfolio enhance price volatility resilience

Given the volatile nature of the global oil market, BCP remains vulnerable to significant changes in oil prices and refining margins. Factors like supply chain issues, economic downturns, and OPEC+'s decisions can materially impact the company's financial performance. Declining refining margins or sudden drops in oil prices can cause immediate impacts on BCP's financial performance.

Furthermore, the addition of 125 KBD of refining capacity by Thai Oil PLC (TOP) in 2025 is expected to pressure BCP's marketing margin, especially in the domestic wholesale market.

Despite these challenges, BCP's vertical integration and business diversification offer some resilience against oil price volatility and fluctuations in GRM. We expect the synergy between BCP's refineries and marketing network to sustain the high crude run levels, enhance economies of scale, and reduce production cost. This should mitigate the impact on GRM and support earnings during challenging market conditions. Furthermore, the increase in sales volume from the E&P business could help mitigate any potential decline in overall earnings due to falling oil prices. Additionally, the stable earnings from the marketing business under BCP and BSRC plus the power business under BCPG PLC contribute a baseline EBITDA of about THB8.5-THB9.5 billion per annum, accounting for about 15%-20% of the total.

Improving earnings support intensive investment plans

Under our base case, we project BCP's EBITDA to rise from THB42 billion in 2023 to THB44-THB45 billion annually in 2024-2025 and about THB53 billion in 2026. Despite our assumptions of declining crude oil and natural gas prices, we expect an increase in sales volume from OKEA. These projections also assume a high refinery crude run of 260 KBD in 2024 and above 269 KBD in 2025-2026, driven by demand from its marketing network. In addition, we expect lower crude premiums (the difference between actual crude costs and Dubai prices) and cost-saving benefits from planned investments will boost overall operating GRM to around USD6.0-USD6.5 per barrel during 2025-2026 from about USD4.5-USD5.0 per barrel in 2024.

We forecast BCP to spend about THB78 billion during 2024-2026 on net capital expenditures and investments which is lower than the last three years but still considered intensive. A large portion of capital expenditures and investments will go into the expansion of the E&P business and the refineries business improvement programs, including energy efficiency improvements and investment in a Multi Buoy Mooring System (MBM) to support Very Large Crude Carrier (VLCC) cargo, aiming to maximize the benefits of co-loading crude and to reduce logistic costs. The rest will be used in marketing business rebranding, network expansion, construction of a sustainable aviation fuel (SAF) plant, and bio-based business. The power business also has planned for several investments, but it will likely be funded partly by some of its divestments for a more balanced leverage.

With its improving operating performance, we expect BCP's financial leverage to gradually improve from current levels. In our base-case scenario, we project BCP's debt to EBITDA ratio to decrease to around 2.5-2.8 times in 2024-2025, from 2.9 times in 2023. The ratio will likely fall further to 2.0-2.5 times by 2026. The ratio of funds from operations (FFO) is projected at around 24%-27% in 2024-2025 and is expected to increase to over 30% in 2026. We also expect the debt to capitalization ratio to decrease to about 48.5%-55.5% during 2024-2026 from 56% in 2023.

Healthy liquidity

We assess BCP's liquidity as sufficient to meet its long-term debt obligations coming due in the next 12 months. As of June 2024, BCP had cash on hand and cash equivalents of about THB45.3 billion. We forecast BCP's FFO over the next 12 months to be THB27-THB28 billion. BCP also has undrawn credit facilities from financial institutions (both committed and uncommitted) of about THB34.8 billion. At the same time, BCP will have maturing debt, comprising long-term loans, lease liabilities, and debentures of around THB11 billion, and planned CAPEX and investment of about THB32-THB37 billion. The company has short-term loans coming due in the next 12 months of about THB16 billion, which are expected to roll over.

Debt structure

As of June 2024, BCP's consolidated debt was about THB143 billion (including its subordinated capital debentures). BCP's priority debt totaled THB73 billion, entirely comprising debt owed by its subsidiaries. The priority debt to total debt ratio was about 51% at the end of June 2024, which exceeds our threshold of 50%. However, we view the subordination risk as significantly mitigated since BCP owns operating assets that contribute significant cash generation to its consolidated financial performance. We also expect BCP to reduce its priority debt ratio to below 50% in the near term.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for BCP's operations during 2024-2026 are as follows:

- Dubai crude price of around USD80 per barrel in 2024 and USD77 per barrel in 2025-2026.
- Natural gas price in Europe of about USD12.5 per million British thermal unit (MMBTU) in 2024 and in the USD10-USD12 per MMBTU range in 2025-2026.
- Refineries' crude run to be about 260 KBD in 2024, 269 KBD in 2025, and 275 KBD in 2026.
- Operating GRM to be about USD4.5-USD5.0 per barrel in 2024 and USD6.0-USD6.5 per barrel in 2025-2026.
- Net total capital spending, including investment, forecast at about THB78 billion over 2024-2026.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BCP will perform in line with our projections. Given the several plans for improvement in operation efficiency, we expect BCP’s earnings and financial leverage to align with our estimates, with its debt to EBITDA ratios staying below 3.5 times.

RATING SENSITIVITIES

The potential of an upward revision to the ratings is limited over the near term. Conversely, a downward revision to the ratings could occur from a material deterioration in BCP’s financial risk profile. This could happen if BCP’s operating performance significantly falls short of our estimates, or if the company engages in aggressive debt-financed investments or acquisitions.

COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of September 2024, VAYUPAK Fund 1 held a 19.84% interest in BCP, the Social Security Office (SSO) held 15.30%, the Ministry of Finance (MOF) held 4.76%, and the remaining 60.10% 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. A scale of refining and marketing has been enlarged after its acquired BSRC (previously ESSO (Thailand) PLC) on 31 August 2023. As of June 2024, BCP owns two refineries with total capacity of 294 KBD and there were 2,214 service stations operated under BCP Group

Other lines of BCP’s business are clean power, bio-based products, and natural resources, which are operated under its listed subsidiaries, BCPG BBGI and OKEA. As of June 2024, BCPG had installed capacity in operation of 1,235 megawatts (MWe). 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 800,000 liters per day (L/D). For natural resource business, BCP currently holds 45.58% in OKEA. OKEA is an petroleum E&P in Norway with the production volume of about 40 KBOED in the first half of 2024.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

			---------------Year Ended 31 December ------------			
	Jan-Jun 2024		2023	2022	2021	2020
Total operating revenues	295,030		388,610	314,044	200,696	136,826
Earnings before interest and taxes (EBIT)	15,235		27,765	32,784	17,301	(2,124)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	27,607		42,031	42,766	24,537	6,194
Funds from operations (FFO)	17,509		24,843	28,655	18,593	3,411
Adjusted interest expense	3,618		5,542	4,373	3,129	2,594
Capital expenditures	12,461		13,008	9,903	10,888	5,993
Total assets	353,122		340,429	242,344	201,785	148,323
Adjusted debt	122,144		120,964	57,581	67,226	57,049
Adjusted equity	94,466		95,061	78,408	64,589	53,346
Adjusted Ratios						
EBITDA margin (%)	9.4		10.8	13.6	12.2	4.5
Pretax return on permanent capital (%)	13.5	**	12.7	18.8	11.7	(1.7)
EBITDA interest coverage (times)	7.6		7.6	9.8	7.8	2.4
Debt to EBITDA (times)	2.4	**	2.9	1.3	2.7	9.2
FFO to debt (%)	25.5	**	20.5	49.8	27.7	6.0
Debt to capitalization (%)	56.4		56.0	42.3	51.0	51.7

* *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)

Company Rating:	A+
Issue Ratings:	
BCP258A: THB600 million senior unsecured debentures due 2025	A+
BCP258B: THB4,500 million senior unsecured debentures due 2025	A+
BCP26OA: THB3,000 million senior unsecured debentures due 2026	A+
BCP26NA: THB1,000 million senior unsecured debentures due 2026	A+
BCP26NB: THB3,000 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+
BCP276A: THB2,500 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+
BCP296A: THB2,500 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+
BCP346A: THB5,000 million senior unsecured debentures due 2034	A+
BCP19PA: THB10,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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