

# BANGCHAK CORPORATION PLC

 No. 182/2018  
 14 November 2018

## CORPORATES

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

### Company Rating History:

Date	Rating	Outlook/Alert
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](mailto:sermwit@trisrating.com)

Pravit Chaichamnapai, CFA

[pravit@trisrating.com](mailto:pravit@trisrating.com)

Parat Mahuttano

[parat@trisrating.com](mailto:parat@trisrating.com)

Wiyada Pratoomsuwan, CFA

[wiyada@trisrating.com](mailto:wiyada@trisrating.com)

[WWW.TRISRATING.COM](http://WWW.TRISRATING.COM)

## RATIONALE

TRIS Rating affirms the company rating on Bangchak Corporation PLC (BCP) and the ratings on BCP's outstanding senior unsecured debentures at "A". The ratings reflect BCP's long track record in oil refining and marketing businesses, its leading market position in the oil retailing business, and its diversification into green energy businesses. The ratings are partially offset by increasing leverage due to the company's investment plan for the upgrade of its refinery and the expansion into new businesses.

### KEY RATING CONSIDERATIONS

#### Long track record in the oil business

BCP's refinery is a complex refinery with a capacity of 120 thousand barrels per day (KBD). BCP yields a high proportion of light distillates (liquefied petroleum gas and gasoline) of about 20% and middle distillates (jet fuel and diesel) of about 65%. Over the past three years, the gasoline and diesel spread was about US\$10-US\$15 per barrel (bbl) and BCP's gross refining margin (GRM) averaged at US\$6-US\$7 per bbl.

BCP's GRM is expected to improve due to the completion of refinery's improvements and the debottleneck program by the end of 2020. The company believes that the GRM will resolutely increase by US\$0.5-US\$1.0 per bbl.

#### Number two position in marketing businesses

BCP will continue to benefit from the integration between its refining and marketing businesses. The integration has enhanced BCP's overall margin as it earns marketing margin on top of the GRM.

The strong position of its marketing business helps maximize the refinery's utilization rate and GRM by minimizing the proportion of exports that are sold at discount prices.

Currently, BCP ranks number two for the oil retailing business. Its market share has been improving to 15.8% at the end of August 2018 from 15.4% in 2017. TRIS Rating expects BCP will maintain its strong market position over 2018-2021. The expectation is supported by its large network of service stations and its solid non-oil business that help boost traffic to the service stations. This was evidenced by BCP's steady increase in sales volume through its service station at a compound annual growth rate (CAGR) of 7.4%, rising to 3,820 million liters (ML) in 2017 from 2,679 ML in 2012. For the first nine months of 2018, the volume sold through service stations continued to increase by 6.3% (y-o-y) to 2,996 ML.

#### Power business helps stabilize EBITDA

The power business stabilizes the company's earnings before interest, tax, depreciation and amortization (EBITDA). As of September 2018, BCP's power business, through its subsidiary (BCPG PLC), comprised solar power plants with total contracted capacity of 154 megawatts (MW) in operation. The majority, or 139 MW, are located in Thailand with 15 MW located in Japan. In addition, BCPG also invested a 40% stake in a wind power plant project in the Philippines and a 33.3% stake in a geothermal power plant project in Indonesia. These investments contribute about 172 MW to BCPG.

Most of Thailand projects receive a tariff adder of Bt8 per kilowatt-hour (kWh) on top of the base tariff. All plants in Japan have long-term power purchase agreements with regional utilities spanning 20 years and receive a feed in tariff (FIT) of JPY32-JPY40 per kWh.

TRIS Rating views that the power business will continue to be a cushion for BCP's overall performance. During 2015-2017, the power business contributed about Bt2,500-Bt3,000 million in EBITDA per year to BCP. TRIS Rating views this earnings trend will continue from its existing power portfolio because all power generated will be purchased by reputable off-takers.

#### **Exposure to unfamiliar country risk**

In June 2018, BCP announced the investment in OKEA AS (OKEA), a Norwegian petroleum exploration and production (E&P) company. BCP will partner with Seacrest Capital Group (Seacrest) to purchase interest in the Norwegian oil & gas fields, "Draugen field" and "Gjoa field", from A/S Norske Shell (Shell). The investment will be in the form of injecting capital of about NOK939 million (or about Bt3,760 million) through OKEA's capital increase. When the transaction is completed, by the end of 2018, BCP will hold 49% shareholding in OKEA, and OKEA will hold 44.6% interest in Draugen field and 12% in Gjoa field. Both fields have a reserve life of more than 10 years based on a gross production rate of about 122 KBD (about 22 KBD contributed to OKEA).

TRIS Rating views the recent investment in the Norwegian E&P business changes BCP's business risk profile. This is because BCP will be exposed to the unfamiliar country risk that raises concerns on operational and regulatory risks. However, these risks are mitigated by mature and highly stable business and regulatory of Norway industry, as well as, the experience of BCP's E&P team and the transfer of the operating team from Shell (the former owners).

#### **Leverage to increase slightly**

For the first nine months of 2018, BCP's total revenue increased by 14% y-o-y to Bt143,244 million, mainly due to an increase in oil prices. The company's operating margin (operating income before depreciation and amortization as a percentage of total operating revenues) was 7.6% for the first nine months of 2018. BCP's adjusted debt was Bt45,472 million. The capital structure remained at a prudent level. The debt to capitalization ratio was 46.7% at the end of September 2018.

For the projected period of 2019-2021, TRIS Rating's base case scenario projects the company's EBITDA to be about Bt20,000 million per year on average. This expectation is based on a crude oil price of US\$65 per bbl in 2019 and US\$60 per bbl over 2020-2021. In addition, TRIS Rating forecasts BCP's crude intake in the range of 110-115 KBD and a base GRM at about US\$6.5-US\$7.5 per barrel, reflecting the company's refinery improvement program. The higher EBITDA is due to the contribution from the E&P business, which is expected to add about Bt7,000-Bt8,000 million in EBITDA per year to BCP. BCP's total capital expenditures and the investment budget for committed projects during 2018 to 2021 are set at Bt68,000 million. Given the expected levels of EBITDA and capital expenditures, BCP's debt to capitalization ratio may deteriorate to a 50%-55% range during the next three years. TRIS Rating's base case does not incorporate a plan for listing the bio-based products business.

#### **RATING OUTLOOK**

The "stable" outlook reflects the expectation that BCP will retain its strong market position in the marketing segment. The investments in the power projects are expected to generate sustainable streams of cash and will offset the impact from fluctuations in the oil refining and marketing businesses for BCP.

#### **RATING SENSITIVITIES**

An upside for BCP's ratings may occur if the company generates sizable and recurring cash flow from its diversification efforts, while not materially deteriorating its capital structure. A rating downside may occur if BCP's capital structure significantly deteriorates due to aggressive debt-funded investments or if the company incurs substantial losses from its investments.

#### **COMPANY OVERVIEW**

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of March 2018, VAYUPAKSA Fund 1 held a 14.66% interest in BCP, the Social Security Office (SSO) held 13.49%, the Ministry of Finance (MOF) held 9.98%, and the remaining 61.87% was publicly held. The company's main businesses are oil refining and marketing. The company owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 KBD. This accounts for approximately 11% of the country's total refinery capacity. As of September 2018, there were 1,154 service stations operated under the "Bangchak" brand.

Other lines of business are power generation, bio-based products, and resources. As of September 2018, BCPG PLC, a subsidiary of BCP, owned solar power plants located in Thailand and Japan with total contracted capacity of 154 MW. It also invests in a wind power plant project in the Philippines and a geothermal power plant project in Indonesia, which contribute about 172 MW to the company. The bio-based products comprise a bio-diesel plant, with a total capacity of 930,000 liters per day (L/D), and ethanol plants, with a capacity of 900,000 L/D (including investment 21% in Ubon Bio Ethanol PLC). In addition, BCP invested in an oil E&P arm in Norway and divested from its field in the Philippines.

#### KEY OPERATING PERFORMANCE

**Table 1: Revenue Breakdown by Business**

Business	Unit	2014	2015	2016	2017	Jan-Sep 2018
Refining	%	91.4	88.0	86.5	87.5	87.6
Marketing	%	4.0	4.9	5.5	5.0	4.7
Power	%	1.5	2.0	2.1	1.9	1.7
Bio-based products	%	2.9	3.6	4.9	4.7	5.3
Resource & others	%	0.2	1.6	1.0	0.9	0.7
<b>Total revenues</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BCP

**Table 2: EBITDA Breakdown by Business**

Business	Unit	2014	2015	2016	2017	Jan-Sep 2018
Refining	%	2.7	46.0	50.7	55.6	50.9
Marketing	%	42.8	22.5	22.2	16.8	16.3
Power	%	49.8	27.1	22.5	22.6	28.5
Bio-based products	%	5.9	3.2	2.9	3.9	5.9
Resource & others	%	(1.1)	1.1	1.7	1.1	(1.6)
<b>Total EBITDA</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BCP

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	144,375	173,048	145,049	151,359	183,282
Operating income	10,915	14,629	13,074	11,519	4,713
Earnings before interest and taxes (EBIT)	7,529	9,574	7,058	6,736	2,007
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,360	15,739	13,504	11,947	5,554
Funds from operations (FFO)	8,966	13,785	10,790	9,250	4,544
Adjusted interest expense	1,392	1,913	2,026	2,024	1,700
Capital expenditures	6,741	6,728	10,313	5,142	7,793
Total assets	115,324	114,110	101,783	81,942	76,966
Adjusted debt	45,472	37,531	27,016	31,425	28,146
Adjusted equity	51,970	52,132	43,909	35,983	33,966
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	7.56	8.45	9.01	7.61	2.57
Pretax return on permanent capital (%)	9.97**	10.00	8.30	9.03	3.04
EBITDA interest coverage (times)	8.16	8.23	6.67	5.90	3.27
Debt to EBITDA (times)	3.00**	2.38	2.00	2.63	5.07
FFO to debt (%)	26.11**	36.73	39.94	29.44	16.14
Debt to capitalization (%)	46.67	41.86	38.09	46.62	45.32

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## BANGCHAK CORPORATION PLC (BCP)

**Company Rating:**

A

**Issue Ratings:**

BCP194A: Bt2,000 million senior unsecured debentures due 2019	A
BCP194B: Bt2,000 million senior unsecured debentures due 2019	A
BCP208A: Bt3,000 million senior unsecured debentures due 2020	A
BCP214A: Bt2,500 million senior unsecured debentures due 2021	A
BCP224A: Bt1,000 million senior unsecured debentures due 2022	A
BCP238A: Bt400 million senior unsecured debentures due 2023	A
BCP244A: Bt3,500 million senior unsecured debentures due 2024	A
BCP258A: Bt600 million senior unsecured debentures due 2025	A
BCP273A: Bt2,000 million senior unsecured debentures due 2027	A
BCP303A: Bt1,000 million senior unsecured debentures due 2030	A

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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