TRIS RATING

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# The Bangchak Petroleum Public Company Limited

**Company Rating:** BBB+
**Rating Outlook:** Positive

| Rating History: | Company Rating | Issue Rating | |
| --- | --- | --- | --- |
| | | Secured | Unsecured |
| 5 Nov 2008 | BBB+/Stable | - | - |

## Rating Rationale

TRIS Rating affirms the company rating of The Bangchak Petroleum PLC (BCP) at "BBB+". The rating reflects the company's satisfactory refinery operations, strengthened balance sheet, and integration and support from PTT PLC (PTT). The rating also takes into consideration the fluctuations in oil prices and gross refining margins as well as declining demand for refined petroleum products.

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. The company owns and operates an oil refinery located in Bangkok with a capacity of 120 thousand barrels per day (KBD). The company also operates approximately 1,000 service stations under the "Bangchak" brand. After a capital increase in May 2006, PTT became the major shareholder of BCP. As of April 2009, PTT held 29.7% of BCP, the Ministry of Finance (MOF) held 11.2%, and the remaining 59.1% was held by the public.

As a simple refinery, BCP produces a higher portion of fuel oil, which is a lower-value product, than a complex refinery. The average product mix during 2005 to 2009 was diesel (35%), fuel oil (32%), gasoline (17%) and other refined products (16%).

BCP's operating performance has continuously improved. The refinery utilization rate increased from 48% in 2006 to 69% for the first half of 2009 as the company has been able to export premium-grade fuel oil to China and Japan. Cheaper domestic crude now makes up a larger portion of stock feed needs. Higher selling prices for premium-grade fuel oil plus a substantial gain from hedging pushed BCP's total gross refining margin (GRM) to US$13.08 per barrel for the first half of 2009. The marketing margin of BCP improved continually in the second half of 2008 through the first half of 2009, after recording a negative margin in the first half of 2008. BCP could adjust retail prices in line with changes in the ex-refinery prices, resulting in a favorable marketing margin of Bt0.64 per liter in the first half of 2009. Combining the refining and marketing businesses, earnings before interest, tax, depreciation and amortization (EBITDA) improved to Bt7,094 million in the first half of 2009 from Bt4,384 million in first half of 2008.

The product quality improvement (PQI) project will enhance refinery performance and gross refining margin. The refinery will be able to process more varieties of crude, especially heavy and sour crude. The proportion of gasoline and middle distillates is expected to increase from the existing level of 64% to 82%. In addition, two trains of the crude distillation unit (CDU), operating at 80 KBD and 40 KBD, may enhance gross refining margin. The CDU with 80 KBD of capacity may be utilized as a complex refinery to maximize the amount of gasoline and middle distillates produced. The other CDU may operate as a simple refinery to produce very low sulfur fuel oil (FOVS) for export.

BCP's capital structure remained healthy, with a debt to capitalization ratio of 42.5% as of June 2009. The construction of the cracking unit and the bio-diesel plant have been completed and will be ready for the Commercial Operation Date (COD) in late 2009. BCP's capital expenditures in the coming years will be moderate and the debt to capitalization ratio is expected to maintain at 40%-45%.

The global economic slowdown has reduced demand for refined petroleum products. New refining capacity in the Asia-Pacific region during 2009-2011 would possibly lead to a regional over-supply situation and, in turn, put more pressure on gross refining margin.

**Rating Outlook**

The "positive" outlook reflects the expectation that the new cracking unit will alleviate the existing refinery limitations and yield more high-value refined products. The flexibility in operating two CDU trains will enable BCP to capture new opportunities to maximize gross refining margin and help BCP weather the down cycles of the refining business.

## Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

*AAA* The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

*AA* The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

*A* The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

*BBB* The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

*BB* The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

*B* The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

*C* The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

*D* The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

*T1* Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
*T2* Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
*T3* Issuer has acceptable capacity for meeting its short-term obligations.
*T4* Issuer has weak capacity for meeting its short-term obligations.
*D* The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a **"Rating Outlook"** that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for *"Rating Outlook"* are as follows:

*Positive* The rating may be raised.
*Stable* The rating is not likely to change.
*Negative* The rating may be lowered.
*Developing* The rating may be raised, lowered or remain unchanged.

TRIS Rating may announce a **"CreditAlert"** as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

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