

The Bangchak Petroleum Public Company Limited

Company Rating:

A-

Rating Outlook:

Stable

Rating History:

Company Rating

Issue Rating

5 Nov 2009
5 Nov 2008

BBB+/Positive
BBB+/Stable

Secured	Unsecured
-	-
-	-

Rating Rationale

TRIS Rating upgrades the company rating of The Bangchak Petroleum PLC (BCP) to “A-” from “BBB+”. The upgrade reflects the company’s strengthening business profile following the successful transformation to a complex refinery and increasing market share in oil marketing business as a result of its strategic direction toward renewable energy. The rating also reflects the company’s business integration and support from PTT PLC (PTT) and its diversification into energy-related business. The rating also takes into consideration the fluctuations in oil prices and gross refining margins (GRM).

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 September 2010, PTT held 28.3% of BCP, the Ministry of Finance (MOF) held 10.6%, and the remaining 61.1% was held by the public.

BCP’s refinery was fully transformed into a complex refinery after commencing operation of the hydro-cracking unit in December 2009. With the new hydro-cracking unit, BCP’s refinery is able to process more varieties of crude, especially heavy and sour crude, as well as yielding more valuable products. Currently, the product mix is diesel (53%), gasoline (18%), fuel oil (15%) and jet fuel (10%), compared with 36% diesel, 15% gasoline, 33% fuel oil and 11% jet fuel before upgrading the refinery. During the first half of 2010, BCP’s base GRM increased to US\$5.48 per barrel. Crude intake also increased from 79.2 KBD in 2009 to 83.4 KBD in the first half of 2010. The company expects its refinery utilization to reach 80% in the coming year from the historical level of 50%-60%.

BCP’s sales volume through its marketing arm continuously improved, increasing from 251 million liters per month (ML/MO) in 2007 to 324 ML/MO in the first half of 2010. According to Department of Energy Business (DOEB), BCP’s sales volume through its service stations decreased by 3% year-on-year (y-o-y) to 191 ML/MO, better than the 5% decline (y-o-y) for the market. During the first half of 2010, BCP was ranked the third largest in oil retailing through service stations, and its market share improved to 13.9%.

Combining the refining and marketing businesses, BCP’s earnings before interest, tax, depreciation and amortization (EBITDA) was Bt2,787 million in the first half of 2010. BCP’s capital structure remained satisfactory, with a debt to capitalization ratio of 38.3% as of June 2010. BCP’s capital expenditures for new projects between 2010 and 2013 are Bt6,450 million. The new projects consist of solar power project, the gasoline improvement project to meet the EURO IV specification, and tail gas treatment project.

Rating Outlook

The “stable” outlook reflects an expectation that new cracking unit will alleviate BCP’s refinery limitations and yield more high-value refined products. The company is also expected to sustain its retail market position. The investment in solar power project will generate a reliable stream of income and partially offset the fluctuations in the refinery 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.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

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