TRIS RATING
CreditNews ข่าวเครดิต

THE BANGCHAK PETROLEUM PLC

No. 98/2014 7 November 2014

Company Rating: A-

Issue Ratings:
Senior unsecured A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
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

Pravit Chaichamnapai
pravit@trisrating.com

Yingyong Chiaravutthi, CFA
yingyong@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and senior unsecured debentures ratings of The Bangchak Petroleum PLC (BCP) at "A-". The ratings reflect the proven operating record of BCP's refinery, the integration of BCP's refining and marketing segments, its leading position in renewable energy, and its diversification into solar power. The ratings are partially weighed by the recent expansion to the petroleum's exploration and production (E&P) segment and the typical fluctuations in oil prices and the gross refining margin (GRM).

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. The company owns and operates a complex oil refinery, located in Bangkok. The refinery has a capacity of 120 thousand barrels per day (KBD), accounting for approximately 11% of the total refinery capacity in Thailand. The company operated 1,062 service stations nationwide as of June 2014 under the "Bangchak" brand. Currently, BCP also operates 118 megawatts (MW) of solar power. For the first six months of 2014, the refinery segment generated 52% of BCP's EBITDA (earnings before interest, tax, depreciation, and amortization). The marketing segment comprised 26% of total EBITDA, while the solar power segment accounted for the remaining 22%. As of September 2014, PTT PLC (PTT) held 27.22% interest in BCP, the Ministry of Finance (MOF) held 9.98%, and the remaining 62.80% was held by the public.

BCP's strong business profile reflects the integration of its complex refinery with its marketing network. As a complex refinery, BCP is able to process a variety of crude oils, yielding high proportions of high GRM products such as diesel fuel and jet fuel. During the first six months of 2014, BCP's refinery was shut down for 46 days for a major turnaround and to replace new crude distillation unit (CDU). The shutdown decreased BCP's crude intake to 73.0 KBD from 97.8 KBD in the first six months of 2013. The crude intake is expected to increase to approximately 100 KBD in the second half of 2014. The company's mix of refined products was diesel (49%), gasoline (20%), fuel oil (18%), and jet fuel (9%). The base GRM was US$5.9 per barrel for the first six months of 2014.

For the first six months of 2014, despite the refinery shutdown, the volume of refined products sold through BCP's service stations increased by 2.5% from 243 million liters per month (ML/MO) for the first six months of 2013 to 248 ML/MO for the first six months of 2014. Refined products sold through BCP's service stations accounted for 64% of the total sales volume in BCP's marketing segment. The remainder (36% of the sales volume) was sold directly to industrial customers. The company focuses on offering gasohol and bio-diesel to help increase its market share of products sold through service stations. For the first six months of 2014, BCP was the second- largest oil retailer in Thailand, with a market share of 15%, up from 14.6% for the first six months of 2013.

For the solar power segment, BCP has power purchase agreements (PPA) totaling 118 MW with the Provincial Electricity Authority (PEA) and the Electricity Generating Authority of Thailand (EGAT). Each contract includes a tariff adder of Bt8 per kilowatt-hour (kWh). As of June 2014, all 118 MW were in operation. BCP expects the solar power segment to generate about Bt2,700-Bt2,800 million of EBITDA per year, or about 20%-25% of the company's EBITDA. For the first six months of 2014, solar power generated an EBITDA of Bt1,123 million to BCP.

BCP's financial profile during 2013 through the first six months of 2014 was in line with TRIS Rating's expectation. For the first six months of 2014, BCP's total revenue decreased by 2% year-on-year (y-o-y) to Bt90,433 million, as lower sales volume largely offset an increase in oil prices. The operating margin (operating income before depreciation and amortization as a percentage of sales) was 4.4% for the first six months of 2014. At the end of June 2014, BCP's total debts increased to Bt31,283 million, from Bt21,914 million at the end of December 2013. The capital structure remained satisfactory, with total debt to capitalization ratio at 46% as of June 2014.

In October 2014, BCP completed the acquisition of 81.41% interest in Nido Petroleum Ltd. (Nido). The transaction was worth approximately US$90 million (or approximately Bt3,000 million). This acquisition is BCP's first effort at backward integration into the E&P business. Nido is an independent oil and gas exploration and production company. The company is listed on the Australian Securities Exchange (ASX). It has investment interests in the Philippines and Indonesia. During the first six months of 2014, Nido had a production rate of 2,111 barrels of oil per day. It had proved petroleum reserves of 4.14 million barrels at the end of 2013. Although this investment brings BCP a new business opportunity, it also exposes the company to some operational and regulatory risks.

During 2014-2017, TRIS Rating's base case expects the company's EBITDA will exceed Bt9,000 million per year, based on a crude intake of 100-110 KBD and a base GRM at about US$6 per barrel on average. BCP's total capital expenditures and investment budget during 2014 to 2017 are expected to total approximately Bt30,000 million. Approximately Bt26,000 million are earmarked for refinery improvements and debottlenecking, plus expansions of BCP's marketing network, solar power projects, and bio-diesel plant. The rest of Bt4,000 million is budgeted for investment in Nido and an ethanol plant. Given the expected levels of EBITDA and capital expenditures, BCP's total debt to capitalization ratio may increase slightly during the investment period. However, TRIS Rating expects that the ratio will not exceed 50% over the next three years.

Rating Outlook

The "stable" outlook reflects the expectation that BCP will sustain its strong market position in the oil retailing segment. The investments in solar power projects are expected to generate reliable streams of income and partially offset the fluctuations in the oil refining and marketing segments.

The Bangchak Petroleum PLC (BCP)

Company Rating:	A-
Issue Ratings:	
BCP174A: Bt2,000 million senior unsecured debentures due 2017	A-
BCP194A: Bt2,000 million senior unsecured debentures due 2019	A-
BCP194B: Bt2,000 million senior unsecured debentures due 2019	A-
BCP214A: Bt2,500 million senior unsecured debentures due 2021	A-
BCP224A: Bt1,000 million senior unsecured debentures due 2022	A-
BCP244A: Bt3,500 million senior unsecured debentures due 2024	A-
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Proven record of refinery operation
- Integration of refining and marketing segments
- Leading position in renewable energy
- Diversification into solar power

Weaknesses/Threats

- Fluctuations in oil prices and gross refining margin
- Operational and regulatory risks associated with foray into E&P segment

CORPORATE OVERVIEW

BCP was established in 1985 as a state-owned oil refining and marketing company. The company was listed on the SET in 1993. PTT became the major shareholder of BCP after a capital increase in May 2006. As of September 2014, PTT held 27.22% of BCP, the Ministry of Finance (MOF) held 9.98%, and the remaining 62.80% was held by the public. BCP owns and operates a complex refinery, located in Bangkok. The refinery has a capacity of 120 KBD, accounting for approximately 11% of the total refinery capacity in Thailand. As of June 2014, the company operated 1,062 service stations under the "Bangchak" brand. BCP also operates eight solar farms with a combined capacity of 118 MW.

As its complex refinery, BCP is able to process a variety of crude oils, yielding high proportions of products with high GRM. In the first six months of 2014, the product mix comprised diesel (49%), gasoline (20%), fuel oil (18%), jet fuel (9%), LPG (3%), and internal use and loss (1%).

In the first six months of 2014, BCP's total revenues were Bt90,433 million, with the refining segment comprising the largest portion (94.4%), followed by the marketing segment (4.3%), and the solar power segment (1.3%). EBITDA for the first six months of 2014 was Bt4,989 million, generated by the refining segment (51.9%), the marketing segment (25.6%), and the solar power segment (22.5%).

Table 1: BCP's Revenue and EBITDA Breakdown by Business Segment

Unit: %

	2011	2012	2013	Jan- Jun 2014
Revenues (Bt mil.)	**158,610**	**165,246**	**186,514**	**90,433**
Refining	96.5	95.8	95.6	94.4
Marketing	3.5	4.0	3.7	4.3
Solar power	-	0.2	0.8	1.3
Total	**100**	**100**	**100**	**100**
EBITDA (Bt million)	**9,108**	**7,770**	**9,348**	**4,989**
Refining	85.7	71.6	70.3	51.9
Marketing	14.2	23.0	14.8	25.6
Solar power	0.2	5.4	14.9	22.5
Total	**100**	**100**	**100**	**100**

Source: BCP

RECENT DEVELOPMENTS

- ***Upstream integration to E&P***

BCP upstream integrated into exploration and production (E&P) by acquiring an 81.41% interest in Nido. BCP spent approximately US$90 million (or approximately Bt3,000 million) on this transaction in October 2014. Nido, listed on the ASX, is an independent oil and gas E&P company. Its E&P activities focus in projects in the Philippines and Indonesia. At the end of 2013, Nido proved petroleum reserves of 4.14 million barrels. Nido had an oil production rate of 2,111 barrels per day from two main areas in the Philippines. Although the investment provides BCP a new business opportunity, BCP is also exposed to some operational and regulatory risks because it is not familiar with the E&P business.

- ***Secured a source of ethanol***

In July 2014, BCP announced it would purchase 85% stake in BCP Bioethanol Co., Ltd. from Sima Inter Product Co., Ltd. (SIMA). The transaction is worth Bt765 million and is expected to be completed within the first quarter of 2015. BCP Bioethanol will operate an ethanol plant with a capacity of 150,000 liters per day, using cassava as feedstock. The plant is expected to commence operation within the first quarter of 2015. By owning a major stake in BCP Bioehtanol, BCP can secure a reliable source of ethanol, as BCP focuses on offering gasohol to its customers. Demand for gasohol has been rising. BCP used approximately 700,000 liters per day of ethanol in the first six months of 2014 but its requirement is expected to reach 1 million liters per day by 2020. The increase in ethanol demand is driven by government policy designed to boost the use of ethanol in fuel from approximately three million liters per day nationwide currently to approximately nine million liters per day in 2021.

BUSINESS ANALYSIS

BCP's strong business profile reflects its proven record of operating its refinery, the integration of complex refinery with its marketing network, the company's leading position in renewable energy, and the recent diversification into solar power. The company's business profile also reflects its upstream integration into E&P.

- ***Proven record of refinery operations***

BCP's proven record stems from its ability to operate its refinery to yield products with high GRM. BCP's refinery is a complex refinery, comprising two CDUs. One unit is a 40-KBD unit, and the other is a 80-KBD unit. The refinery also contains a vacuum distillation unit (VDU) and a hydrocracking unit (HCU). These facilities enable its refinery to feed a wide range of crude types, yielding high proportions of products with high GRM.

For the first six months of 2014, BCP's refinery was shut down for 46 days for a major turnaround and the replacement of 80-KBD CDU with new 100-KBD CDU. The shutdown decreased BCP's crude intake to 73 KBD, from 97.8 KBD for the first six months of 2013. The crude intake is expected to increase to approximately 100 KBD in the second half of 2014.

Table 2: BCP's Utilization Rate, Product Mix, and Base GRM

Unit: %

	2011	2012	2013	Jan-Jun 2014
Product Utilization				
Capacity (KBD)	120	120	120	120
Crude run (KBD)	86	74	99	73
Utilization rate	72	62	83	61
Product Mix				
LPG	0	1	3	3
Gasoline	19	20	20	20
Jet fuel	12	10	11	9
Diesel	51	54	49	49
Fuel oil	15	13	17	18
Internal use/loss	3	2	0	1
Base GRM (US$/bbl)	**6.7**	**8.3**	**5.8**	**5.9**

Source: BCP

For the first six months of 2014, the company's crude intake comprised crude from domestic sources (52%), the Far East and Australia (42%), and the Middle East (6%). In general, the crude mix depends on the refinery configuration and the expected mix of product output to maximize its GRM. For the first six months of 2014, the refinery's product mix of BCP was diesel (49%), gasoline (20%), fuel oil (18%), and jet fuel (9%). The company's base GRM was US$5.9 per barrel.

For the past three years, BCP's base GRM ranged from US$5.8-US$8.3 per barrel. Other than the refinery configuration, BCP's base GRM reflects in part its high utilization of domestic crude. Domestic crude has a number of advantages. The freight cost is considerably lower than imported crude. Domestic crude has a lower sulfur content, which adds value to BCP's refined products.

Table 3: BCP's Gross Refining Margin

Unit: US$/barrel

	2010	2011	2012	2013	Jan-Jun 2014
BCP-GRM					
Base GRM	**5.6**	**6.7**	**8.3**	**5.8**	**5.9**
Hedging	0.0	(0.2)	0.8	0.7	0.4
Inventory effect	0.4	2.7	(0.8)	1.0	0.8
Total GRM	**6.1**	**9.2**	**8.3**	**7.5**	**7.1**

Sources: BCP

A refinery's performance is normally affected by the volatility of oil prices. BCP's operating performance has been less volatile than oil prices due to the partial use of hedging instruments. The company's policy is to hedge about 30% of its total exposure, based on its total production volume.

- ***Plan to improve refinery efficiency to increase GRM***

Refinery efficiency is another factor which can enhance the GRM. BCP has budgeted expenditures of approximately Bt7,000 million over 2014 to 2018 in order to improve efficiency in its refinery under 3E (efficiency, energy, and environment) improvement program. BCP will replace the existing fuel oil-fired power plant with co-generation power plant, which will help lower its utility cost. Major processing units, such as the VDU, the HCU, and the Kerosene Treating Unit (KTU), will be debottlenecked to support the addition of a new CDU and expand the marketing side of the business. In addition, the company will replace the old technology used in continuous catalyst regeneration unit with newer technology. The improvements are expected to raise BCP's GRM by US$1 - US$2 per barrel.

- ***Integration boosts earnings***

The integration of oil refining and marketing enhances earnings and cash flows because BCP, like other integrated oil companies, can earn the marketing margin on top of the refining margin. In addition, a captive marketing segment enables BCP to run its refinery at a high utilization rate and maximize the refining margin by minimizing the proportion of exports that are sold at discount prices. The marketing margin reflects ability to adjust retail fuel prices, which are influenced by government policy and competition among oil retailers. Over the past three years, BCP's net marketing margin ranged from Bt0.53-Bt0.73 per liter (or US$2.63-US$3.63 per barrel of crude run). The company's net marketing margin increased from Bt0.53 per liter in 2013 to Bt0.73 per liter for the first six months of 2014. The increase reflected higher portion of gasohol sold.

Table 4: BCP's Marketing Margin

Unit: Bt/liter

	2010	2011	2012	2013	Jan-Jun 2014
Net retail margin	0.80	0.75	0.87	0.73	1.00
Net industrial margin	0.28	0.34	0.34	0.23	0.32
Net marketing margin	**0.60**	**0.58**	**0.65**	**0.53**	**0.73**

Source: BCP

Table 5: Sales Volume through Marketing Segment

Unit: Million liter/month

	2010	2011	2012	2013	Jan-Jun 2014
Retail sales	202	205	223	245	249
% Growth (y-o-y)	*3.3*	*1.7*	*8.9*	*9.6*	*2.5*
Industrial sales	125	145	157	173	160
% Growth (y-o-y)	*22.9*	*16.1*	*8.6*	*9.5*	*(7.6)*
Total sales volume	**327**	**350**	**381**	**417**	**408**
% Growth (y-o-y)	***10.0***	***7.2***	***8.8***	***9.6***	***(1.7)***

Source: BCP

BCP's marketing segment comprises retail, or sales through service stations, and sales made directly to industrial customers. For the first six months of 2014, the total sales volume of the marketing segment dropped by 1.7% y-o-y to 408 ML/MO. The refinery shutdown in May 2014 caused the sales volume to drop. The drop mainly impacted the sales to industrial customers, as BCP tried to maintain its sales through service stations that gained higher margin. The volume sold through service stations increased by 2.5% to 249 ML/MO for the first six months of 2014. At its service stations, BCP has focused on offering gasohol (E10, E20, and E85) and bio-diesel. This boosts BCP's sales volume because most drivers shifted from 91 octane gasoline to gasohol E10 and E20 in response to the government's ban on the sale of 91 octane gasoline in early 2012. The easy availability of gasohol outlets help BCP gain market share. For the first six months of 2014, BCP's market share of sales through service stations was 15%, up from 14.6% from the first six months of 2013. Currently, BCP is the second-largest oil retailer in Thailand.

- ***Leading position in renewable energy***

BCP has a clear policy to be a leader in renewable energy. The company offers gasohol and bio-diesel through its service stations. The company also invested in ethanol and bio-diesel plants in order to secure its supplies of these fuels. The company's efforts reflect the government's policy to increase the portion of renewable energy to 25% of total energy consumption by 2021, under renewable energy development plan. The government will push the use of ethanol from three million liters per day in 2014 to nine million liters per day in 2021. In addition, the use of bio-diesel (B100) will rise from 2.8 million liters per day in 2014 to 7.2 million liters per day in 2021. BCP is ready to capture these opportunities.

- ***Solar energy farms provide a reliable source of income***

BCP diversified into solar power in 2011. The company has secured power purchase agreements with EGAT and the Provincial Electricity Authority (PEA) totaling 118 MW. Each agreement includes a tariff adder of Bt8 per kWh for 10 years after the commercial operation date (COD). In addition, all of the company's solar power plants are granted tax exemptions for eight years, plus a 50% tax discount for an additional five years granted by the Board of Investment (BOI). The eight sites of BCP's solar farm are located in the central and northeastern regions of Thailand. These regions of Thailand have the levels of solar irradiation higher than the country's average levels. The last one of the eight solar farms was commenced operation in April 2014.

Table 6: BCP's Solar Power Project Portfolio

Phase		#1	#2	#3	Total
Installed capacity	MW	44	50	75	170
Contracted capacity	MW	38	32	48	118
Investment	Bt mil.	4,100	3,615	4,220	11,935
Expected EBITDA	Bt mil.	740	785	1,200	2,725
COD	Year	2012	2013	2014	

Source: BCP

The solar farms are expected to generate Bt2,700-Bt2,800 million of EBITDA per year, or about 20%-25% of total EBITDA. The cash flows from the solar power segment will reduce BCP's exposure to the volatile oil refining and marketing segments.

FINANCIAL ANALYSIS

BCP's financial performance was satisfactory and in line with TRIS Rating's expectation. The company has a policy to keep the net debt to capitalization ratio below 50% and the net debt to EBITDA ratio lower than 3 times. BCP's liquidity profile is adequate.

- ***Performance was in line with expectations***

BCP's financial performance during 2013 through the first six months of 2014 was in line with TRIS Rating's expectations. In 2013, BCP's total revenue increased by 12.9% to Bt186,514 million, as sales volume rose. The operating margin was 4% in 2013. For the first six months of 2014, BCP's total revenue declined by 2% y-o-y to Bt90,433 million. Revenue fell because the refinery shutdown in May cut BCP's sales volume. The operating margin improved from 3.7% for the first six months of 2013 to 4.4% for the first six months of 2014. During the past three years, the operating margin fluctuated considerably, due to the fluctuations in the prices of crude oil and refined products. However, TRIS Rating's base case expects the company's operating margin will be more stable, as all of BCP's solar power plants have been in operation since April 2014.

- ***Cash flows are expected to improve***

In 2013, BCP's funds from operations (FFO) increased to Bt7,558 million from Bt6,986 million in 2012 and EBITDA increased to Bt9,348 million from Bt7,769 million in 2012. The rises were due to higher sales volume and an increased contribution from the solar power segment. The higher cash flow improved the company's debt service ability. In 2013, the FFO to total debt ratio was 34.5% and the EBITDA interest coverage ratio was 8.4 times. Despite the refinery turnaround in May 2014, the company's EBITDA held at about Bt5,000 million for the first six months of 2014. This level is comparable to the same period of 2013. The EBITDA contribution from the solar power segment helped support BCP's cash flows.

During 2014-2017, TRIS Rating expects BCP's EBITDA to be at least Bt9,000 million per year, based on a crude intake of 100-110 KBD and a base GRM at about US$6 per barrel on average. The expected rise in EBITDA is due to a higher contribution from the solar power segment as well as the sales volume increase at BCP's service stations.

- ***Capital structure remains satisfactory***

The company's capital structure remains satisfactory. Total debt increased to Bt31,283 million at the end of June 2014, from Bt21,914 million at the end of December 2013. The total debt to capitalization ratio was satisfactory at 46% as of June 2014. BCP's total capital expenditures and investment budget during 2014 to 2017 are expected at approximately Bt30,000 million. Approximately Bt26,000 million is earmarked for refinery improvements and debottlenecking, plus expansions of BCP's marketing network, solar power projects, and expansion of bio-diesel plant. The rest, or Bt4,000 million, is budgeted for the investment in Nido and an ethanol plant. Given the expected levels of EBITDA and capital expenditures, BCP's total debt to capitalization ratio may increase slightly during the investment period. However, TRIS Rating expects that the ratio will not exceed 50% over the next three years.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------- Year Ended 31 December	------------------------			
	Jan-Jun 2014	2013	2012	2011	2010	2009
Revenue	90,433	186,514	165,246	158,610	136,369	108,681
Gross interest expense	632	1,117	1,044	916	893	916
Net income from operations	2,512	4,497	3,632	6,320	2,422	6,817
Funds from operations (FFO)	4,209	7,558	6,986	8,566	4,268	7,870
Capital expenditures	5,592	4,570	5,126	5,193	1,319	3,380
Total assets	84,769	73,537	70,853	61,603	58,413	53,891
Total debts	31,283	21,914	19,023	18,582	19,617	15,920
Shareholders' equity	36,773	34,974	32,323	29,879	22,780	25,953
Operating income before depreciation and amortization as % of sales	4.4	4.0	3.3	5.6	3.5	5.1
Pretax return on permanent capital (%)	5.9 **	12.1	10.7	17.0	10.4	27.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.9	8.4	7.4	10.7	7.0	12.6
FFO/total debt (%)	13.5 **	34.5	36.7	46.1	21.8	49.4
Total debt/capitalization (%)	46.0	38.5	37.0	38.3	46.3	38.0

* *Consolidated financial statements*
** *Non-annualized*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com