THE BANGCHAK PETROLEUM PLC

No. 111/2015 4 November 2015

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

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Rating Rationale

TRIS Rating upgrades the company and senior unsecured debenture ratings of The Bangchak Petroleum PLC (BCP) to “A” from “A-“. The upgrade reflects BCP's improving market position in the marketing business and growing revenue contribution of the lucrative solar power business, which helps enhance earnings stability. The ratings also recognized BCP’s well-performed refinery operation, the advantage of refinery and marketing business integration, and its leading position in renewable energy. The ratings are partially offset by the fluctuation in oil prices and tepid economy growth, which stand to pressure on the gross refining margin (GRM).

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of 31 August 2015, the VAYUPAKSA Fund 1 held a 15.60% interest in BCP, the Social Security Office (SSO) held 14.31%, the Ministry of Finance (MOF) held 9.98%, and the remaining 60.11% was held by the public. The company's main lines of businesses are oil refining and marketing. The company owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 thousand barrels per day (KBD), accounting for approximately 11% of the country's total refinery capacity. As of June 2015, the company operated 1,053 service stations nationwide under the “Bangchak” brand. BCP has firmly grown its presence in renewable energy business. At present, BCP also owns and operates solar power plants in Thailand, with a combined contracted capacity of 118 megawatts (MW). In an attempt to secure crude oil resource, BCP has invested in an oil exploration and production (E&P) arm in the Philippines with a production rate of 3.5 KBD.

The rating upgrade reflects BCP’s improving market position in the oil business. BCP's marketing business performed well as evidenced by a steady increase in the volume of refined products sold over the past five years. The sales volume grew at a compound annual growth rate of 6%, rising from 3,918 million liters (ML) in 2010 to 5,006 ML in 2014. In the first half of 2015, the sales volume was 2,748 ML, a 12% year-on-year (y-o-y) rise. About 60% of marketing business sale volume is distributed through its "Bangchak" service stations, while the rest is sold to industrial customers. The company has implemented marketing campaigns as well as improving non-oil businesses and the brand image of its service stations. These actions are designed to increase the volume of refined products sold through its service stations. The service station channel contributes the highest margin compared with other sales channels. The company's efforts pushed the sales volume sold through service stations from 189 million liters per month (ML/MO) in 2010 to 251 ML/MO in 2014 and 270 ML/MO for the first half of 2015. The higher sales volume boosted BCP's market position, making it the second-largest domestic oil retailer, with market share of about 15% since 2014.

The rating upgrade also recognizes growing revenue contribution of the lucrative solar power business. BCP's fruitful diversification into solar power business helps stabilize BCP’s earnings. All 118 MW of the solar power plants were in operation in April 2014. The solar power business generated Bt2,572 million in earnings before interest, tax, depreciation and amortization (EBITDA) in 2014, which in part helped offset a hefty decline in EBITDA from refining business. Going forward, BCP's solar power plants are expected to generate about Bt2,700-Bt2,900 million in EBITDA per year. The earnings of the solar power segment cushion BCP's overall performance from the fluctuations in oil prices and GRM.

The ratings are also embedded in BCP's strong business profile, which is underpinned by well-performed refinery operation and the advantage of the integration of the marketing business with its complex refinery. The integration helps enhance the overall margin in the oil business, as BCP earns marketing margin on top of the GRM it earns by refining crude oil. BCP's complex refinery yields a high proportion of middle distillate products, such as diesel and jet fuel, which carry high GRM. During the first half of 2015, the mix of refined products was diesel (52%), gasoline (20%), fuel oil (14%), and jet fuel (11%). After a 46-day refinery turnaround in mid of 2014, the crude run rate was ramp up to nearly 100 KBD. The rate has held at over 100 KBD since November 2014. Given its product mix, BCP's base GRM was US$10.3 per barrel for the first half of 2015.

On the opposite end, the ratings are partially constrained by fluctuation in oil prices. In common with other operators, BCP suffered from the market turmoil in 2014. Crude oil prices plunged by 42% during 2014, causing a substantial inventory loss and plummeted total GRM. Crude oil prices have less fluctuated in 2015, ranging between US$45 per barrel to US$63 per barrel. The ratings are also tempered by the tepid economy growth. Oil price fluctuation and slowing economy together have a pressure on the company's GRM.

For the first six months of 2015, BCP's total revenue decreased by 10.7% year-on-year (y-o-y) to Bt80,802 million. Increases in sales volume plus higher revenues in the solar power and E&P businesses could not offset a drop in oil prices. However, the company's adjusted operating margin (operating income before depreciation and amortization as a percentage of sales) improved from 2.1% in 2014 to 9.6% in the first six months of 2015, mainly due to a rise in GRM and a larger contribution from the solar power business. At the end of June 2015, BCP's total debts was Bt33,170 million. The capital structure remained satisfactory, with total adjusted debt to capitalization ratio of 49% as of June 2015.

During 2015-2018, TRIS Rating's base case scenario expects the company's EBITDA will be in the range of Bt11,000-Bt13,000 million per year, based on a crude intake of 100-110 KBD and a base GRM at about US$6.5 per barrel on average. BCP's total capital expenditures and investment budget during 2015 to 2018 are expected to total approximately Bt41,000 million. Approximately Bt36,000 million is earmarked for refinery improvements, plus expansions of BCP's marketing network, bio-diesel plant, and a ramp-up in production in E&P business. The rest, or Bt5,000 million, is reserved for investments in power plants, an ethanol production plant, and the acquisition of a 33% interest in the Galoc filed in February 2015. Given the expected levels of EBITDA and capital expenditures, BCP's total adjusted 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 retain its strong market position in the marketing segment. The investments in solar power projects are expected to generate sustainable streams of cash flow and partially offset the fluctuations in the oil business.

The upside for BCP's ratings may occur if the company could generate sizable and recurring cash flow from its diversification efforts, while not materially deteriorating its capital structure. The 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 operations or its investment.

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
BCP273A: Bt2,000 million senior unsecured debentures due 2027	A
BCP303A: Bt1,000 million senior unsecured debentures due 2030	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------------------------- Year Ended 31 December -------------------------				
	Jan-Jun 2015	2014	2013	2012	2011	2010
Revenue	80,802	183,016	186,490	165,246	158,610	136,369
Gross interest expense	812	1,451	1,180	1,044	916	893
Net income from operations	3,581	859	4,496	3,632	6,320	2,422
Funds from operations (FFO)	5,826	4,495	7,696	6,986	8,566	4,268
Capital expenditures	2,507	7,350	4,570	5,126	5,193	1,319
Total assets	82,530	76,966	73,537	72,055	61,603	58,413
Total debts	33,170	31,203	21,914	20,183	18,582	19,617
Shareholders' equity	37,170	33,966	34,974	32,317	29,879	22,780
Operating income before depreciation and amortization as % of sales	9.6	2.1	4.4	3.6	5.8	3.8
Pretax return on permanent capital (%)	5.0**	3.4	12.0	10.5	16.6	10.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.9	3.1	6.6	5.9	8.2	5.4
FFO/total debt (%)	17.6**	13.8	31.9	30.5	39.5	19.0
Total debt/capitalization (%)	49.2	50.2	41.4	41.9	42.3	50.0

Note: All ratios are adjusted with operating leases
** Consolidated financial statements*
*** Annualized with trailing 12 months*

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