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THE BANGCHAK PETROLEUM PLC

No. 129/2016

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Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: 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

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debentures ratings of The Bangchak Petroleum PLC (BCP) at "A". The ratings reflect BCP's established refining business, the advantages BCP obtains from integrating the refining and marketing business, an improving market position in the marketing business, and its success in expanding into the solar power business. The ratings are partially offset by fluctuations in oil prices and tepid economic growth, which stand to pressure the gross refining margin (GRM) and its growth plan, which may pressure the balance sheet.

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of September 2016, 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 business 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 September 2016, there were 1,065 service stations operated under the "Bangchak" brand. BCP has firmly grown its presence in renewable energy business. BCP invested in bio-diesel plant with a total capacity of 810,000 liters per day (L/D), and an ethanol plant with capacity of 150,000 L/D. BCP also invested in solar power plants in Thailand and Japan, with a combined contracted capacity of 138 megawatts (MW). BCP spun off the solar power business by establishing a new subsidiary and listed it on the SET in September 2016. In addition, BCP invested in an oil exploration and production (E&P) arm in the Philippines in an attempt to secure a source of crude oil. The unit has a production rate of 2.9 KBD.

The ratings reflect BCP's strong business profile, which is underpinned by the good performance of the refinery and the advantages of integrating the marketing business with the refining segment. The integration enhances the overall margin in the refining and marketing business, as BCP earns the 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 nine months of 2016, the mix of refined products was diesel (55%), gasoline (19%), fuel oil (12%), and jet fuel (11%). Given its product mix, BCP's base GRM was US$5.8 per barrel for the first nine months of 2016. For the first nine months of 2016, the refinery was shut down for a 45-day maintenance turnaround. As a result, the crude run rate fell to 97 KBD from 112 KBD for the first nine months of 2015. After the turnaround, the crude run was ramp up to over 110 KBD. Improvements are still underway at the refinery. When finished, BCP will gain operational flexibility and higher GRM.

The ratings also reflect BCP's improving market position in the marketing business. BCP's marketing business has 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 (CAGR) of 7%, rising from 4,200 million liters (ML) in 2011 to 5,419 ML in 2015. For the first nine months of 2016, the sales volume was 4,297 ML, a 7% year-on-year (y-o-y) rise. About 60% of the sales volume in the marketing business is distributed through "Bangchak" service stations and the rest is sold to industrial customers. Sales through service stations carry the highest margin compared with other sales channels. The company has implemented marketing campaigns, as well as improving non-oil businesses and the brand image of its service stations to increase the volume of refined products sold through the service stations. These actions helped push the sales volume sold through service stations from 205 million liters per month (ML/MO) in 2011 to 274 ML/MO in 2015, a CAGR of 8%. For the first nine months of 2016, the volume sold through service stations was 299 ML/MO, a 10% y-o-y rise. The higher volume boosted BCP's market position, making it the second-largest domestic oil retailer, with a market share of about 15%, a position BCP has held since 2014.

The solar power business stabilizes the company's earnings before interest, tax, depreciation and amortization (EBITDA). In February 2016, a company's subsidiary, BCPG PLC, acquired a solar business in Japan from SunEdison. The value of the transaction is estimated at about Bt2,900 million, of which about Bt1,300 million has been paid. As of September 2016, BCP had solar plants with total contracted capacity of 138 MW in operation. The majority, or 118 MW, is located in Thailand while 20 MW is located in Japan. All the Thailand projects receive a tariff adder of Bt8 per kilowatt-hour (kWh) on top of the base tariff. All of the plants in Japan have long-term power purchase agreements with regional utilities spanning 20 years and receive a feed in tariff (FiT) of JPY40 per kWh. BCP listed the solar power unit on the SET in September 2016, raising about Bt5,900 million in new equity through the initial public offering (IPO). The solar power business generated Bt3,005 million in EBITDA in 2015. Going forward, BCP's solar power plants are expected to generate EBITDA of Bt2,500-Bt3,500 million per year during 2016-2019. The earnings of the solar power segment cushion BCP's overall performance from the fluctuations in oil prices and GRM.

The ratings are partially constrained by the fluctuations in oil prices. Along with other refiners, BCP suffered from the oil market turmoil during 2014-2015. Crude oil prices dropped from about US$100 per barrel in the beginning of 2014 to about US$25 per barrel at the end of 2015. The drop caused substantial inventory losses, causing total GRM to plummet. However, crude oil price have fluctuated less during the first nine months of 2016, ranging between US$25 to US$50 per barrel. The ratings are also tempered by the tepid economy growth. Oil price fluctuation and slowing economy together have a pressure on the GRM.

For the first nine months of 2016, the drop in crude oil prices cut BCP's total revenue by 10% y-o-y to Bt104,225 million. The company's adjusted operating margin (operating income before depreciation and amortization as a percentage of sales) improved from 7.7% in 2015 to 8.3% for the first nine months of 2016, partly due to a higher marketing margin of the marketing business. At the end of September 2016, BCP's total debt was Bt39,323 million. The capital structure remained satisfactory. The listing of BCPG, in September 2016, improved the ratio of total adjusted debt to capitalization to 50.7% at the end of September 2016, as the company's equity base grew by about Bt5,900 million after the IPO.

During 2016-2019, TRIS Rating's base case scenario expects the company's EBITDA will be in the range of Bt11,000-Bt15,000 million per year, based on a crude intake of about 110 KBD and a base GRM at about US$6.5 per barrel on average. BCP's total capital expenditures and the investment budget for committed projects during 2016 to 2019 are expected to total approximately Bt43,000 million. About Bt35,500 million is earmarked for refinery improvements, plus expansions of BCP's marketing network, bio-diesel plant, ethanol plant, and scaling up production in the E&P business. The rest, or Bt7,500 million, is reserved for investments in solar power plants, including the acquisition cost of SunEdison in February 2016. 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 and offset the impact from the fluctuations in the oil refining and the marketing businesses.

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 the 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-Sep 2016	2015	2014	2013	2012	2011
Revenue	104,225	151,140	183,016	186,490	165,246	158,610
Gross interest expense	1,069	1,642	1,451	1,180	1,044	916
Net income from operations	3,146	4,038	1,180	4,496	3,632	6,320
Funds from operations (FFO)	6,934	8,448	4,495	7,696	6,986	8,566
Capital expenditures	6,212	4,645	7,350	4,570	5,126	5,193
Total assets	96,303	81,942	76,966	73,537	72,055	61,603
Total debts	39,323	33,658	31,203	21,914	20,183	18,582
Shareholders' equity	43,066	35,983	33,966	34,974	32,317	29,879
Operating income before depreciation and amortization as % of sales	8.3	7.7	2.1	4.4	3.6	5.8
Pretax return on permanent capital (%)	6.5**	9.3	3.3	12.0	10.5	16.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.8	5.5	3.1	6.6	5.9	8.2
FFO/total debt (%)	19.6**	21.8	13.8	31.9	30.5	39.5
Total debt/capitalization (%)	50.7	52.3	50.2	41.4	41.9	42.3

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

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