

BANGCHAK CORPORATION PLC

No. 209/2020
9 December 2020

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Hybrid	BBB
Outlook:	Stable

Last Review Date: 11/06/20

Company Rating History:

Date	Rating	Outlook/Alert
11/06/20	A	Negative
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

Contacts:

Sermwit Sriyotha

sermwit@trisrating.com

Narongchai Ponsirichusopol

narongchai@trisrating.com

Parat Mahuttano

parat@trisrating.com

Monthian Chantarklam

monthian@trisrating.com



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RATIONALE

TRIS Rating downgrades the company rating on Bangchak Corporation PLC (BCP) and the ratings on its outstanding senior unsecured debentures to "A-" from "A". TRIS Rating also downgrades the rating on BCP's outstanding subordinated capital debentures to "BBB" from "BBB+". At the same time, TRIS Rating revises the rating outlook to "stable" from "negative".

The downgrade of ratings reflects BCP's deteriorating performance due to the persistent slump in the oil industry. It also reflects the uncertainty surrounding the revival of the refining business and gross refinery margin (GRM).

The ratings continue to reflect BCP's competitive strengths in the oil refinery business, solid position in the fuel marketing business, and the rewards of business diversification. Conversely, the ratings are held back by BCP's vulnerability to fluctuating oil prices, a rise in debt loads due to its softened refinery earnings, and the hefty expansion in its power business.

KEY RATING CONSIDERATIONS

Fallout from turmoil in the oil market

We expect the impact from the turmoil in the oil market to cost BCP severe losses in 2020. The fierce price war, together with the unprecedented pandemic, have had serious repercussions on global oil supply and demand. The impact has resulted in BCP's earnings from refining business falling into negative territory in 2020.

Like other refiners across the industry, BCP suffered from a hefty inventory loss resulting from the plunge in oil prices in the first half of 2020. Dubai crude oil prices fell steeply from about USD64 per barrel in January 2020 to hit the lowest level of about USD21 per barrel in April 2020. Oil prices gradually rebounded to stay above USD40-USD45 per barrel from the third quarter of 2020. For the first nine months of 2020, BCP reported THB4.9 billion in inventory loss. In addition, the collapsing oil prices also heavily impacted BCP's overseas investments in natural resources, with considerable losses and impairment from its stakes in OKEA ASA (OKEA) and Nido Petroleum Pty. Ltd. (Nido).

Gross refining margin hits lowest levels

BCP experienced its lowest GRM seen in years. Weakening oil demand, especially in the ailing aviation sector, sent the refining margin tumbling to the lowest level in years. Jet fuel consumption endured the hardest impact from the COVID-19 outbreak. In response, many refiners are struggling to minimize jet fuel production by converting to diesel fuel production.

These corrective moves of refiners have consequently put additional strain on the diesel fuel refining margin (the spread between diesel price and crude oil price), which dropped considerably from about USD10-USD12 per barrel in the first quarter of 2020 to about USD2-USD3 per barrel in October 2020.

Since around half of BCP's production is for diesel oil, the company's market GRM fell to USD3.02 per barrel in the first nine months of 2020, down from USD5.35 per barrel for the same period of the previous year. With the inclusion of inventory loss, BCP's total GRM plummeted to a negative USD2.04 per barrel.

Revival of refining business remains uncertain

On the backdrop of faltering fuel demand, BCP unavoidably slashed its production, especially its jet fuel production. In all, BCP's crude run was reduced from 112.6 thousand barrels per day (KBD) in 2019 to 96.3 KBD during the first nine months of 2020. BCP's revenue from sales dropped by 26% year-over-year (y-o-y). Earnings before interest, tax, depreciation, and amortization (EBITDA) came in at THB2.8 billion, a drastic 61% decline y-o-y.

We view that the lingering effect of the COVID-19 pandemic will continue to depress fuel demand and muddy the outlook of the industry over the next 12 months. Although the development of a vaccine raises hope for a recovery, we do not expect GRM to quickly recover to its pre-pandemic levels. In our base case forecast, we project BCP's market GRM to range between USD2.5-USD3.0 per barrel in 2020 and gradually recover to the range of USD4-USD5 per barrel over 2021-2023.

Competitive strengths in oil refinery

We expect BCP's EBITDA from the refining business to turn positive in 2021. BCP's competitive strengths in the oil refinery business have developed from flexibility in its refinery operations, which enables BCP to run a variety of crude oil and churn out a wide range of refined oil products. BCP's GRM has outperformed most of its peers in the domestic market. During 2016 through the first nine months of 2020, the company's market GRM arrived at USD5.7 per barrel on average, above the industry average of USD4.8 per barrel.

BCP's refinery can shift away from jet fuel toward diesel to avert loss-making production. During the first nine months of 2020, BCP's refinery yielded diesel constituting 60% of total production while jet fuel was minimized to about 4%. In 2019, diesel and jet fuel made up 51% and 13% of total production, respectively. BCP's refinery also yields heavy distillates which generally render negative spreads, approximately 10% of total refined products. That said, BCP can sell them at a premium, as its products have very low sulfur content.

BCP's complex refinery has been undergoing a necessary revamp to help reduce utility costs, enhance plant reliability, and extend the refinery's turnaround period. The company has revamped its hydrocracker unit and constructed a new continuous catalyst regeneration unit. These will help the company increase the utilization rate of its refinery. In all, BCP expects to improve GRM by about USD0.2-USD0.5 per barrel after these activities are completed in 2021.

Retail sales started to rebound

BCP is one of the top leaders in the fuel marketing business, propelled by its sound brand recognition, as well as its non-oil goods and services offered in service stations. BCP's sales through the marketing business rose to 6,218 ML (million liters) in 2019, steadily up from 5,410 ML in 2015. This suggests a compound annual growth rate (CAGR) of 3.5% over the past four years. Over the same period, the industry grew at 2.3% (CAGR).

BCP's marketing business is mainly contributed by its retail sales, which have recovered following the easing of COVID-19 containment measures. Domestic demand for transportation fuel is returning close to the pre-COVID level. For the first nine months of 2020, BCP's sales through service stations declined by only 3% y-o-y to 3,095 ML, compared with a drop of about 11% (y-o-y) in the second quarter of 2020.

Given the higher contribution from retail sales, BCP's marketing margin increased to THB0.86 per liter in the first nine months of 2020, from THB0.77 per liter in the same period last year. We expect the marketing business will continue to provide a reliable cash flow for BCP as the marketing margin is less volatile than the refinery margin.

Greater contribution from power business

In our view, BCP's strategic business diversification enhances its ability to weather the volatility of oil price and GRM. We expect BCP's power portfolio and bio-based products will continue to bring in sizable cash flows. As for the power business, BCP owns various types of power plants via its subsidiary, BCPG PLC (BCPG). Currently, BCPG's operating power plants have a total capacity, proportionate to BCPG's equity interest in the power plants, of 472 megawatts (MW).

In our forecast, we expect BCP's power business will undergo tremendous growth and bring a rising earnings contribution for BCP. The newly acquired hydropower projects (Nam San 3A and Nam San 3B) will bring in EBITDA of about THB500-THB700 million per year. BCPG recently raised capital of about THB7.4 billion, of which THB2.2 billion BCP injected, to support its ongoing expansion. We project BCPG to invest a total amount of about THB45.2 billion over 2020-2023, covering maintenance capital expenditures (CAPEX), investment in green-field projects, and the acquisition of operating power projects. In total, we expect the power business will generate about THB3.5-THB6.0 billion per year in EBITDA over the next three years, up from the range of THB2.5-THB3.0 billion per year during 2017-2019.

Impending rise in debt loads

We expect a rise in BCP's debt loads due to its sizable investments plan. In our base case, we project the company to incur capital expenditures of about THB63.6 billion over the period of 2020-2023. Of the total expenditures, THB45.2 billion is earmarked for the power business, THB15.8 billion for the oil refining and marketing business and the rest, THB2.6 billion, for bio-based business and others. The new debt to fund the planned investments is projected to push up BCP's debt to capitalization ratio from 50% at the end of 2019 to stay at around 60% during 2021-2023.

We forecast BCP's EBITDA to be THB3.5-THB4.5 billion in 2020, down from THB9.9 billion in 2019. The EBITDA is expected to increase to around THB11-THB15 billion per annum during 2021-2023 in anticipation of a gradual recovery in oil prices and GRM as well as a higher contribution from the power business. The debt to EBITDA ratio is forecast to shoot up over 10 times in 2020, before declining to around 6 times during 2021-2023.

Sound liquidity profile

BCP has a satisfactory liquidity profile. As of September 2020, BCP had cash on hand and cash equivalents of about THB12.2 billion and undrawn credit facilities (both committed and uncommitted) of about Bt15.6 billion. BCP's funds from operations (FFO) over the next 12 months are expected to be about THB9.0 billion. At the same time, BCP will have an amount of debt coming due, comprising long-term loans, finance lease and bonds of around THB6.7 billion.

BASE-CASE ASSUMPTIONS

- Crude oil price of USD40 per barrel for the rest of the year 2020, USD45 per barrel in 2021, and USD50 per barrel in 2022-2023.
- BCP's market GRM to range USD2.5-USD3.0 per barrel in 2020 and USD4.0-USD5.0 per barrel during 2021-2023
- Sales volume through service stations to grow at about 4%-6% (CAGR) over 2021-2023
- Total capital spending is forecast at about Bt63.6 billion over 2020-2023
- The base case does not incorporate a plan for listing the bio-based product business and potential monetization of power projects in Japan.
- Investment in OKEA is not consolidated.

RATING OUTLOOK

The "stable" outlook embeds our expectation that BCP's earnings from the refining business will gradually recover over the next few years, led by the gradual recovery of oil demand and GRM, as well as its heightened production efficiency. We also expect BCP will maintain its solid position in its marketing business, and that the expansion of its power business will add sizable and more predictable earnings to the company.

RATING SENSITIVITIES

The prospect of a rating upgrade for BCP is limited over the next 12-18 months. Pressure on the ratings could develop if BCP's operating performance is significantly worse than our expectation or its capital structure weakens further, which could stem from aggressive debt-funded investments or considerable losses incurred from its investments, such that the company's debt to EBITDA ratio stays over 8 times for a sustained period.

COMPANY OVERVIEW

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. As of May 2020, VAYUPAK Fund 1 held a 14.66% interest in BCP, the Social Security Office (SSO) held 14.40%, the Ministry of Finance (MOF) held 9.98%, and the remaining 60.96% was publicly held. The company's main businesses are oil refining and marketing. The company owns and operates a complex oil refinery, located in Bangkok, with a capacity of 120 KBD. This accounts for approximately 10% of the country's total refinery capacity. As of September 2020, there were 1,223 service stations operated under the "Bangchak" brand.

Other lines of BCP's business are power generation, bio-based products, and resources. BCP's power business is operated under its SET-listed subsidiary, BCPG PLC. As of September 2020, BCPG had contracted capacity in operation, based on BCPG's stakes, of 472 MW. BCPG's power portfolio comprises solar power plants (177 MW), geothermal power plant (158 MW), hydropower plant (114 MW), and wind power (23 MW). The company's power plants are located in Thailand (172 MW), Indonesia (158 MW), the Lao People's Democratic Republic (114 MW), Japan (15 MW), and the Philippines (14 MW).

Most of the solar projects in Thailand receive a tariff adder of Bt8 per kilowatt-hour (kWh) on top of the base tariff. All plants in Japan have long-term power purchase agreements with regional utilities spanning 20 years and receive a feed in tariff (FIT) of JPY32-JPY40 per kWh.

The bio-based products comprise a bio-diesel plant, with a total capacity of 1.0 million liters per day (ML/D), and ethanol plants, with capacity of 684,000 L/D (including 21%-owned Ubon Bio Ethanol PLC). In addition, BCP has an investment in oil and gas exploration and production in Norway.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	103,729	190,826	192,310	173,048	145,049
Earnings before interest and taxes (EBIT)	(3,025)	4,658	5,065	9,332	7,058
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,748	9,883	10,345	15,739	13,504
Funds from operations (FFO)	2,680	7,520	7,904	13,785	10,790
Adjusted interest expense	1,611	2,294	1,947	1,913	2,026
Capital expenditures	5,237	8,491	8,814	6,728	10,313
Total assets	141,179	127,788	117,369	113,868	101,783
Adjusted debt	66,911	53,809	46,526	37,799	26,586
Adjusted equity	49,224	53,845	49,538	51,890	43,909
Adjusted Ratios					
EBITDA margin (%)	2.65	5.18	5.38	9.09	9.31
Pretax return on permanent capital (%)	(1.30) **	4.18	4.87	9.75	8.30
EBITDA interest coverage (times)	1.71	4.31	5.31	8.23	6.67
Debt to EBITDA (times)	11.88 **	5.44	4.50	2.40	1.97
FFO to debt (%)	7.11 **	13.98	16.99	36.47	40.58
Debt to capitalization (%)	57.61	49.98	48.43	42.14	37.71

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Bangchak Corporation PLC (BCP)

Company Rating:	A-
Issue Ratings:	
BCP214A: THB2,500 million senior unsecured debentures due 2021	A-
BCP224A: THB1,000 million senior unsecured debentures due 2022	A-
BCP225A: THB3,000 million senior unsecured debentures due 2022	A-
BCP238A: THB400 million senior unsecured debentures due 2023	A-
BCP244A: THB3,500 million senior unsecured debentures due 2024	A-
BCP258A: THB600 million senior unsecured debentures due 2025	A-
BCP273A: THB2,000 million senior unsecured debentures due 2027	A-
BCP275A: THB500 million senior unsecured debentures due 2027	A-
BCP28DA: THB7,000 million senior unsecured debentures due 2028	A-
BCP303A: THB1,000 million senior unsecured debentures due 2030	A-
BCP305A: THB4,500 million senior unsecured debentures due 2030	A-
BCP19PA: THB10,000 million subordinated capital debentures	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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