

# BANGCHAK CORPORATION PLC

No. 182/2021  
27 October 2021

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
Hybrid	BBB
<b>Outlook:</b>	Stable

Last Review Date: 09/12/20

### Company Rating History:

Date	Rating	Outlook/Alert
09/12/20	A-	Stable
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

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## RATIONALE

TRIS Rating affirms the company rating on Bangchak Corporation PLC (BCP) and the ratings on its outstanding senior unsecured debentures at "A-". TRIS Rating also affirms the rating on BCP's subordinated capital debentures at "BBB". The rating outlook remains "stable".

At the same time, TRIS Rating assigns the rating of "A-" to BCP's proposed issue of up to THB10 billion in senior unsecured debentures. The proceeds from the new debentures will be used for refinancing its existing debts and working capital needs.

The ratings continue to reflect BCP's competitive edge in the oil refinery business stemming from its operating flexibility, the integration between refinery and marketing businesses, the strong market presence in the fuel marketing business, and the benefit from business diversification. On the other hand, the ratings are constrained by softened gross refinery margins (GRM) and BCP's susceptibility to fluctuating oil prices. The ratings also take into consideration the company's sizable investments, particularly in power business that will require significant borrowing over the next few years.

## KEY RATING CONSIDERATIONS

### A strong rebound in performance

BCP has staged a quick turnaround in financial performance, spurred by the oil price rally. The global economy emerges from the Coronavirus Disease 2019 (COVID-19) pandemic as many countries have eased lockdown measures and implemented economic stimulus packages. A broadly synchronous surge in the global economic activities, together with the current pace of vaccine rollouts worldwide, has led to strong revival in global oil demand.

On the other hand, the market has witnessed the supply crunch as the Organization of the Petroleum Exporting Countries (OPEC) are holding off restoring output, coupled with low upstream investment. As a result, the Dubai crude oil price surged by 56% year-on-year (y-o-y) to USD63.6 per barrel in the first half of 2021.

BCP's overall financial performance recovered strongly in the first half of 2021. The company recorded an inventory gain of about THB3.8 billion, contrary to huge losses in the previous year. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) bounced back to THB8.6 billion.

### Gross refinery margin remains fragile

Notwithstanding the spike in oil prices, BCP's GRM remained low at USD3.9 per barrel in the first half of 2021, a modest recovery from the lowest USD2.3 per barrel in the third quarter of 2020. The low GRM persists due mainly to the sharp decline in jet fuel consumption. Many refiners have pared down jet fuel production by converting to diesel, taking a toll on crack spread of both jet fuel and diesel.

With the ongoing healthier economic momentum, we view that BCP's base GRM to gradually recover. The crack spread for all products has shown an improving trend for the first half of 2021. That said, it could take one to two years for GRM to recover to pre-COVID-19 levels. We view that oil prices

could remain at high levels in the near term as demand rebounds while supply remains tight. However, there are uncertainties which could undermine the resurgent demand, particularly the lingering impact of the pandemic.

### **Refinery flexibility helps bolster margin**

The flexibility of BCP's refinery enables the company to run a variety of crude oil and churn out a host of refined oil products. Against the backdrop of slack demand for jet fuel, BCP is capable of reconfiguring its production to high-margin products such as unconverted oil (UCO) and white spirit to help bolster its base GRM. During the first half of 2021, the crack spread of UCO was about USD6-USD8 per barrel, whereas that of jet fuel ranged USD3-USD4 per barrel.

BCP has tied in a new continuous catalyst regeneration unit and completed the debottlenecking hydrocracking unit. This will help BCP extend the turnaround period and enable the company to increase refinery's crude run. BCP plans to increase crude run to about 120 thousand barrel per day (KBD), from 110 KBD. During 2022-2023, BCP plans to reduce jet fuel portion to about 8% of total production, from about 13% before 2020. At the same time, BCP will increase UCO portion to 13%, up from about 3%-5% in the recent years. With this adjustment of product mix, BCP's base GRM is expected to steadily increase to around USD4-USD5 per barrel in 2022 and about USD5-USD6 per barrel in 2023.

### **Retail sales to recover**

Given the prolonged impact of COVID-19, BCP's sales through its marketing business declined by 6% (y-o-y) to 2,422 million liters (ML) for the first half of 2021. However, the retail fuel segment posed a sign of recovery. The sales volume through service stations increased by 3% (y-o-y) to 2,049 ML in the first half of 2021. BCP remains one of the top leaders in the fuel marketing business, backed by its sound brand recognition, as well as its non-oil goods and services offered in service stations all over the country. The company plans to add the number of service stations to about 1,600 by 2025. This should help increase BCP's sales volume as well as absorb all of its refinery's production of gasoline and diesel to strengthen overall margin.

With the ease of lockdown measures and the imminent resumption of tourism activities, we expect BCP's sales volume through service station business will gradually recover during 2022-2023. We view the marketing business will continue to provide a reliable cash flow for BCP as the marketing margin is less volatile than the refinery margin.

### **Hefty expansions in power business**

As for the power business, BCP owns various types of power plants through its subsidiary, BCPG PLC. Currently, BCPG's operating power plants have a total capacity, proportionate to BCPG's equity interest in the power plants, of 475 megawatts (MW). We project BCPG to carry out sizable investments of THB35.5 billion during 2021-2023, covering maintenance capital expenditures (CAPEX), investments in green-field and brown-field projects, and acquisition of operating power projects.

As a result, we expect BCP's power business will provide a larger cash flow contribution. In our forecast, the power business will generate about THB4-THB6 billion per year in EBITDA during 2021-2023, up from the range of THB2.5-THB3 billion per year during 2017-2019. We view that BCP's strategic diversification will significantly enhance its resilience to the volatility of oil price and GRM in the longer term.

### **Consolidation of OKEA**

BCP currently holds 46.09% in OKEA ASA (OKEA), a Norwegian petroleum exploration and production (E&P) company. OKEA engages in production of oil and gas in the fields with proven reserves in the Norwegian Continental Shelf. Given its control over OKEA, BCP has consolidated OKEA on its financial statements starting from the back-half of 2021. OKEA sold petroleum of about 5.8 million barrels of oil equivalent (MMBOE) in 2020. Of the total, about 70% was crude oil and natural gas liquid and the rest of 30% was natural gas. The oil price slump in 2020 plunged OKEA's average selling price by 35% (y-o-y) to USD30.7 per BOE. However, the operating cost of OKEA was quite low at around USD12-USD15 per BOE. In 2020, OKEA recorded EBITDA of about THB2.9 billion, with EBITDA margin of about 50%. For the first half of 2021, OKEA's average selling price surged by 80% (y-o-y) to about USD52 per BOE, resulting in THB2 billion EBITDA.

We forecast OKEA's petroleum sales volume to increase to about 7 MMBOE in 2022, with additional production from "Yme field". Sales volume will then decline to around 4.5-5.5 MMBOE per year thereafter, given the current reserves. In our base case, we forecast OKEA will bring in THB5-THB9 billion in EBITDA per year to BCP during 2022-2023. However, the consolidation of OKEA will add about THB8.8 billion of interest-bearing debts and about THB15.4 billion of asset retirement obligation on BCP's balance sheet.

### **Leverage to remain significant**

We forecast BCP's financial leverage will remain significant in the wake of its investment plans. In total, we project BCP to defray about THB52 billion for capital expenditures and investments during 2021-2023. Of this budget, THB35.5 billion is

earmarked for the power business, THB8.5 billion for the oil refining and marketing businesses, THB1.8 billion for bio-based business, THB5.7 billion for E&P activities, and the rest of THB0.5 billion for others. In our base case, we forecast BCP's debt to capitalization ratio to increase to stay at around 60% during 2021-2023 from about 50% as of June 2021.

We forecast BCP's EBITDA to be THB18-THB20 billion in 2021, including EBITDA from OKEA recognized in the second half of 2021. The EBITDA is expected to increase to the range of THB21-THB25 billion per year during 2022-2023 in anticipation of resurgent GRM, heightening sales volume, as well as a contribution from OKEA. The debt to EBITDA ratio is forecast to hover around 4-4.5 times during 2022-2023.

### Sound liquidity profile

BCP has a satisfactory liquidity profile. As of June 2021, BCP had cash on hand and cash equivalents of about THB16.4 billion and undrawn credit facilities (both committed and uncommitted) of about THB17.2 billion. BCP's funds from operations (FFO) over the next 12 months are expected to be THB15-THB17 billion. At the same time, BCP will have maturing debt, comprising long-term loans, financial lease, and debentures of around THB8.6 billion.

### Debt structure

As of June 2021, BCP's consolidated debt was about THB70.3 billion (including hybrid debentures). BCP's priority debt consisted of THB23.2 billion in secured debt and THB8 billion in senior unsecured debt owed by subsidiaries. The ratio of priority debt to total debt was about 44% at the end of June 2021.

### BASE-CASE ASSUMPTIONS

- Crude oil price of USD66 per barrel for 2021, USD65 per barrel in 2022, and USD60 per barrel in 2023.
- Refinery's crude run at about 110-120 KBD in the second half of 2021 through 2023.
- BCP's base GRM to range USD3.5-USD4 per barrel in 2021, USD4-USD6 per barrel during 2022-2023.
- Sales volume through service stations to grow at about 4%-6% (CAGR) over 2021-2023.
- Total capital spending, including investment, is forecast at about THB52 billion over 2021-2023.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that BCP's earnings from the refining business will continue its recovery over the forecast period, led by the gradual recovery of oil demand and GRM, as well as its improved 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

An upgrade of ratings is unlikely in the near term. Contrarily, negative rating pressure would develop if BCP's operating performance is significantly worse than our expectation or its capital structure weakens further, which could develop from a deluge of 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 September 2021, VAYUPAK Fund 1 held a 19.84% interest in BCP, the Social Security Office (SSO) held 14.40%, the Ministry of Finance (MOF) held 4.76%, and the remaining 61% was publicly held. The company's main businesses are oil refining and marketing. BCP 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 June 2021, there were 1,247 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. As of June 2021, BCPG had contracted capacity in operation, based on BCPG's stakes, of 475 MW. BCPG's power portfolio comprises solar power plants (180 MW), geothermal power plant (158 MW), hydropower plant (114 MW), and wind power (23 MW). The company's power plants are located in Thailand (175 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 THB8 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 ML per day (ML/D), and ethanol plants, with capacity of 600,000 liters (L) per day (L/D). In addition, BCP has consolidated an investment in oil and gas exploration and production in Norway beginning in July 2021.

For resource business, BCP currently holds 46.09% in OKEA. OKEA is an oil producer in Norway that owns a 44.6% stake in the production field "Draugen". The company also holds a 12% interest in production field named "Gjoa" and 0.55% in production field named "Ivar Aasen". In addition, OKEA also holds a 15% interest in the Yme field, which is under development. The Yme field is expected to commence operation in the fourth quarter of 2021.

#### FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	85,323	136,826	190,826	192,310	173,048
Earnings before interest and taxes (EBIT)	5,889	(2,124)	4,658	5,065	9,332
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,607	6,194	9,950	10,345	15,739
Funds from operations (FFO)	6,897	5,189	7,588	7,904	13,785
Adjusted interest expense	1,107	2,594	2,294	1,947	1,913
Capital expenditures	2,832	5,993	8,491	8,814	6,728
Total assets	147,367	148,323	127,788	117,369	113,868
Adjusted debt	58,643	57,055	53,809	46,526	37,799
Adjusted equity	58,563	53,346	53,845	49,538	51,890
<b>Adjusted Ratios</b>					
EBITDA margin (%)	10.09	4.53	5.21	5.38	9.09
Pretax return on permanent capital (%)	6.11 **	(1.72)	4.18	4.87	9.75
EBITDA interest coverage (times)	7.78	2.39	4.34	5.31	8.23
Debt to EBITDA (times)	3.95 **	9.21	5.41	4.50	2.40
FFO to debt (%)	19.91 **	9.09	14.10	16.99	36.47
Debt to capitalization (%)	50.03	51.68	49.98	48.43	42.14

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

#### RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Hybrid Securities Rating Criteria, 28 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Bangchak Corporation PLC (BCP)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
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-
Up to THB10,000 million senior unsecured debentures due within 12 years	A-
BCP19PA: THB10,000 million subordinated capital debentures	BBB
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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