

English Transcript for Analyst Meeting

The Acquisition of Shares in Esso (Thailand) Public Company Limited

Bangchak Corporation Public Company Limited

Jan 12, 2023

Opening:

Hello analysts, fund managers, and commercial bank representatives, on behalf of Bangchak Corporation Public Company Limited or BCP, we would like to welcome you to our extraordinary analyst meeting. Our BCP Group executives who are joining us today namely:

Mr. Chaiwat Kovavisarach, Group Chief Executive Officer and President, Bangchak Corporation

Ms. Phatpuree Chinkulkitnivat, Senior Executive Vice President, Accounting and Finance

Mr. Bundit Hansapaiboon, Senior Executive Vice President, Strategic Synergy and Corporate Sustainability Development

Now, I will pass the floor to Mr. Chaiwat.

Hello analysts, fund managers, and financial institutions representatives. I would like to take this opportunity to discuss about our notification submitted to the Stock Exchange of Thailand at 8.30 a.m. today.

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Our main agenda comprises Acquisition overview, Strategic rationale and Financial considerations, which our CFO will walk you through the details.

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As understood, BCP will acquire 66% stakes in ETL or Esso Thailand from ExxonMobil Asia Holdings in Singapore. After the acquisition, our refinery nameplate capacity will increase to 294 KBD with more than 2,100 service stations. This acquisition will enhance BCP and national energy security and help transfer major energy platform to Thai ownership.

The enterprise value of ETL is THB55.5 bn. However, the acquisition price may vary, subject to the latest quarterly financial statement before the closing date. For example, the indicative purchase price would be THB8.84 per share based on 3Q22 financial statement. I will walk you through the calculation in the presentation later.

The synergy is expected to be THB1.5-2.0bn, and I am confident that this acquisition will create EPS accretion. The condition precedents comprise an approval from BCP shareholders during AGM in April, an approval from Ministry of Energy for a change of ownership from ETL to BCP under the REA agreement or Refinery Expansion Agreement. In addition, BCP needs to ensure that this transaction will not create significant trade competition in the industry.

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Last night at 9.30 p.m., BCP signed SPA with ExxonMobil. BCP will hold 66% of ETL after condition precedents are completed and will launch a tender offer to shareholders with the same acquisition price. Details are in the box below.

- ExxonMobil will retain lubricants and chemical businesses in Thailand, under their owned brand, while refinery and service stations name will be changed to “Bangchak”. Non-competition Agreement will also be signed after the deal is closed.
- At closing date, loans between ExxonMobil and ETL will be refinanced by third-party loans.
- Grace period for 750 service stations name change to “Bangchak” is expected to be two years, subject to the dealers’ agreement.
- BCP Trading in Singapore will enter into a crude supply agreement with ExxonMobil trading company for the continuous crude supply.
- After the completion of CPs, SPA will be stipulated, under purchase price completion adjustment which I will address later.

- BCP Board of Directors has approved this acquisition at noon yesterday, and will pass it to AGM for an approval.
- This transaction is fully funded as BCP has sufficient credit facilities and cash on hand.
- The deal completion is expected to be at the end of 3Q23 or beginning of 4Q23 subject to all regulatory approval. As Thai General Election will take place soon, this might impact the approval process. The deal might be closed in December under the new cabinet, or it could be closed under the existing cabinet by the third quarter.

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Overview of ETL, a listed company in SET.

ETL has nameplate capacity of 174 KBD and FCC at 43 KBD. BCP has hydro crackers mainly for diesels, while ETL has Fluid Catalytic Converter (FCC) mainly for gasoline. The FCC will help complement BCP's portfolio.

ETL has freehold land of approximately 800 rai and a paraxylene plant with capacity of 500 KTA.

ETL's refinery can run more sour and heavier crude oil than that of BCP's does. It could also refine very heavy crude oil from Russia in the past.

ETL's Jetty is relatively large and can accommodate vessels up to 120,000 ton. It also has sharing access to Thai Oil's single-point mooring (SPM) site, which can receive VLCCs.

As understood, Exxon Technology is also well-known.

ETL has 21% stakes in Thapline, a pipeline business, and 7% in BASF, a fuel tank business.

At present, ETL has approximately 750 service stations with 13% market share. Having been in the industry long before BCP, ETL has strong position in industrial and commercial fuels supply with



relatively large-fleet corporate customers. This help complementing BCP business as majority of BCP clients are retails.

ETL also has bunker oil and asphalt business, a business that is relatively lucrative.

In addition, ETL has 3.5 mn members under the loyalty program, combining with those of 6 mn from BCP, it is expected that by the end of this year, BCP will have substantial 10 mn members under Bangchak Green Miles loyalty program.

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This acquisition helps compliment BCP long-term strategy regarding energy dilemma. It will enhance energy security through Thai ownership for strategic fuel infrastructure. We will have both pipeline networks and fuel tanks that will ensure us to reach out to our customers more easily and at a competitive cost. Fuel tank capacity is relatively significant at 15 mmbbl.

This acquisition will support BCP and ETL in maintaining high environmental standards, strengthening energy transition as well as generating incremental cash flow.

After the acquisition, BCP not only does get ETL stakes but also its workforce that has international skills and working standard. This will benefit BCP to become a global organization, both in operation and management.

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This acquisition will create a transformational transaction for BCP such as refinery, supply, and optimizations. Details will be shown in the following slides.

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By the end of this year, BCP will have combined refining nameplate capacity of 294 KBD and become the largest refinery in Thailand. ETL has nameplate capacity of 174 KBD, but previously has run its plants at approximately 140-150 KBD. After the acquisition, we aim to utilize ETL refinery at full capacity. BCP used to run its refinery at 90 KBD when I first joined the company eight years ago. The utilization has increased to 123 KBD, exceeding nameplate capacity, in the previous year. It might take some time but I am quite confident that ETL refinery will be fully utilized.

As we will run our refineries at 2 different locations, it will be easier for us to manage geographic risk and balance pipeline utilization. For example, during the flood in 2011, Bangkok fuel users could only use fuel oils from BCP as other refineries in the East could not reach to Bangkok due to high water level.

Currently, BCP owns pipeline system from Bang Pa-In to Lampang, while ETL's pipeline runs from Sri Racha to Saraburi. After the acquisition, BCP can connect and optimize both pipeline networks by barging. When one has excess supply, we can barge the fuel between Bangchak and Sriracha refinery, then deliver the excess using the available pipeline. This will enhance BCP's accessibility to the pipelines.

Other benefit will be crude optimization. BCP mostly refines sweet crude oils while ETL refines the heavy ones. As such, we can blend crude oils together to refine more of various products. In addition, co-loading and co-purchasing of crude oils will help lowering the cost as we can purchase crude in bulk by using ETL's VLCCs and store them at both BCP tanks and Sri Racha tanks.

Next is FCC and HCU which I have mentioned earlier. It is quite clear that we can balance it well.

As ETL is currently under ExxonMobil's umbrella, most of their working structure is shared service, of which back office is running by Exxonmobil head quarter. We will take solely the operational team. BCP can utilize our back-office team to support ETL, and that will help lower our cost in this area.

Apart from BCPT, we will have ExxonMobil crude trading company to seek for more various crude oils and to increase the flexibility of our two refineries.

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This slide is about productions. The above pie-chart shows BCP stand-alone capacity of 120 KBD, mostly for middle distillate products such as diesels and jet-fuel as we have hydrocracker. The capacity will double from 120 KBD to 260-270 KBD with more varieties. The proportion of middle distillate will decrease while the gasoline components will increase. At present, BCP needs to import gasoline components of around 6 mn litre per month and will import less after the acquisition. We also expect to maximize production of ETL.

In terms of fuel oil, BCP produces middle-low sulfur fuel oil with sulfur of 0.3% compared to marine fuel oil sulfur standard of 0.5%. ETL, on the contrary, produces high sulfur fuel oil. After the blending, we can recapture more value of fuel oil. Asphalt portion also increases.

The combined production processes create more variety of products, which can create economic sharing and maximize returns. It is common to create economic sharing between two listed refineries, previously BCP used to partner with Thai Oil or GC for economic sharing without any concerns.

The below pie-chart is about sales volumes. Last year, BCP sales volumes were 140 KBD exceeding its productions of 123 KBD. After the acquisition, the proportion will change to more of wholesales while exports will be lower. The less of export will lead to a significant improve of margins.

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For service stations, we breakdown into three aspects. The first one is numbers of stations. Currently, Thailand has more than 20,000 stations nationwide, of which 71% is unbranded or so-called white brand. Some operators have expanded their business by using this white brand strategy. After acquisition, BCP will have service stations of approximately 2,100 stations. However, this does not include BCP's 70 new service stations that will be opened this year, of which some will be offset by stations that has to close due to contract end.

The second chart is retail fuel sales volume and market share. The numbers were LTM, last twelve month, deriving from Department of Energy Business. BCP market share was 16.3% and ETL was 12.8%, combining to approximately 29% in total. In November, combined market share was approximately 31% as BCP market share increased from 16.3% to 17.5% and ETL market share was reported at 13%, ranking No. 2 and relatively distant from No. 3.

The last figure shows total domestic fuel sales volume, including retail, wholesale, and state-owned enterprise. BCP and ETL combined sales volume significantly grew and ranked No. 2 among peers.

Other upside will be from BBGI as it can sell more of ethanol and B100. Currently, BBGI only supplies its products to BCP. As volume increases, it can supply more products to associated companies, and that will help enhance the production of our bio-based plants.

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This slide shows the breakdown of service stations. BCP has two different kinds of stations, Standard and COOP stations. In the past before I joined the company, BCP had more of 100 Standard stations and 600 COOP stations, totaling 800 stations. Currently, we have approximately 1,300 stations, of which 750 are standard and 600 are COOP stations.

In the graph, the light green color represents BCP standard stations, the dark green color represents BCP COOP stations, and the orange color represents ETL standard stations. In the past, we have less branches in the North region, and most of them are COOP stations. After the acquisition, ETL stations will double the numbers of group standard stations in the North as well as in the North-East. Looking forward, BCP will have more standard stations in each region. This will facilitate customers to get into our service stations more easily.

ETL also has an opportunity to increase BCP non-oil business into its service stations. The more channels we have, the higher bargaining power for non-oil operators and Greenovative experience we will get.

In the below dotted box on the right-hand side, BCP's throughput of standard stations is relatively high at approximately 440K litres/month/station, slightly higher than that of industry average, while throughput of ETL is 380K litres/month/station. If we can increase throughput of ETL to 440K litres/month/station, it will generate an upside of 40K litres per station. If we multiply the incremental volume with 700 stations, it will generate about 28 mn litres per month in total which is clearly the upside for the group.

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Next is the synergy, which I have partially mentioned earlier such as the synergy in optimization, co-loading and bulk purchase of crude oil, the utilization and optimization of refinery, the logistic of two pipelines access as well as the back-office cost saving from cost allocation from ETL head quarter in the US. The synergy value is expected to be approximately THB 1.5-2.0 bn per annum, which is quite solid. This does not include the synergy value from maximizing utilization rate and product blending as presented earlier. It is fair to say that the synergy value shown is conservative as the final value would be higher.

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For the purchase price, you may need to digest it in your own way. It took me a few months to discuss about the mechanism in the price calculation, which we finally come up with the fair value for both buyer and seller. As understood, fuel oil price drastically fluctuates over the year. Sometimes, it reaches the ceiling at USD110/bbl and the bottom at USD70/bbl, leaving USD40/bbl price gap. As ETL inventory is around 7.4 mnbbl, it will significantly impact the transaction price.

Our mechanism is to fix enterprise value at THB55.5 bn and adjust it with net debt (any related debt-like minus cash) and some other financial figures from the latest quarterly financial statement as of closing date. In general, EV minus net debt equals to equity value. However, besides net debt, we add two other adjustments to the calculation.

First is working capital adjustment. The rationale is based on account receivable that is relatively equivalent to cash as our sales takes place at the service station. Account payables, on the contrary, have terms of payment of 30-40 days and typically correlates to crude oil price. The higher crude oil price, the higher account payables. We will fix working capital at THB 10 bn and adjust it with any variations effecting to this number.

Next is hydrocarbon inventory or oil stock. As agreed, oil stock will be 7.4 mnbbl. If the stock is higher, BCP will pay more to ETL, and vice versa, if the stock is less than 7.4mnbbl, ETL will return the money to BCP. The additional payment or returning amount will be calculated by using weighted average of such surplus/ deficit stock and multiplying by crude oil price at closing date. The difference will be used as an adjustment to the purchase price.

The final purchase price will be fair for all parties, and will be used to calculate for price per share.

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This slide shows an example of calculation. Starting with fixed EV at THB55.5 bn and adjusting with numbers from 2Q22 and 3Q22 financial statements. We will see the change of net debt, partially resulted from a change in working capital. While net debt increases, working capital changes, from negative THB9 bn to positive THB1.4 bn. These are the dynamics of the adjustment, including changes in inventory of approximately THB2 bn. After the adjustment, the purchase price per share will be THB 9.60 based on 2Q22 financial statement and THB 8.80 based on 3Q22 financial statement.

The exact numbers in the black box on the right-hand side are still unknown, and related to each other. For example, a rise in crude oil price will lead to higher payables, inventory value needs to be adjusted, and other receivables such as money received from Oil fund. We believe this mechanism for purchase price calculation is detailed and fully addressed.

Let's see the scenarios from the table. If we can fill in all the numbers in the black box while ETL is assumed to generate negative cashflow of THB5.0 bn, either from the adjustment or cashflow from operation, the purchase price per share will drop to THB7.40. On the other hand, if cashflow improves TH5.0 bn, the purchase price per share will increase to THB10.25, and will be THB11.73 if the cashflow increases to THB10.0 bn. This shows an uncertainty of the purchase price is relatively high. However, under our sensitivity analysis, the expected purchase price is quite close to what we demonstrate in the table of THB8-9 per share.

Before I pass the floor to CFO, I would like to take this opportunity to discuss about sum of the part of THB 55.5 bn EV. This number is derived from 20 - year discounted cashflow. As I mentioned earlier that ETL has 7.4 mnbbbl of hydrocarbon inventory, of which 60% is crude oils and 40% is refined products. Crude oil price as of today is approximately USD 85-90 per bbl and refined product price is USD110-115 per bbl, relatively high due to high gross refining margin for most products. For easy calculation I will assume average oil price of USD100 per bbl with volumes of 7.4 mnbbbl, total oil price

will be USD740 or approximately THB 25 bn (FX at THB34-35/ 1 USD). Market value of investment in Thapline and BASF is approximately THB 3 bn. Land price in Sri Racha is assumed to be THB40,000 per square wa or THB 15 mn per rai. The price of ETL 800 rai land will be THB12 bn. ETL has 750 service stations, assuming value of each station is approximately THB 20 mn, comparing to investment cost of new service station of around THB 30-40 mn per station. Service station value will be THB 15 bn. These items altogether total THB 55 bn. In addition, steel scrap price at ETL refinery is estimated to be THB 500 mn while the land price at headquarter in Klongtoey is approximately THB 900 mn. With all the numbers combined, we believe that ETL's EV of THB 55.5 bn is reasonable.

I will pass the floor to CFO for financial and timeline presentation.

Slide 20: 00.37.17

Hello everyone, I will start with financial part first and will follow by timeline.

This slide shows BCP financial position after the acquisition. First, this transaction will be funded by bank loans and cash on hand; thus, capital increase is not necessary. Second, EPS accretion will grow as our funding will not be from capital increase. Third, as BCP currently has relatively low leverage ratio, despite an increase in bank loans after the acquisition, net debt to equity is forecasted to be 1.5x and net debt to EBITDA at 1.9x. We believe that we can maintain our leverage at this level.

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Next is details of sources and uses of fund for this transaction.

Starting from the uses of fund, the first part will be an acquisition of ETL from Exxon of approximately 65%. The second use of fund will be for tender offer of approximately THB30 bn, under an assumption of purchasing price of THB8.84 per share. Third, in the dotted box above, will be for refinancing of ETL debt from Exxon and financial institutions. For Exxon's part, BCP will repay the whole amount at closing. For bank debts, BCP will refinance and/or issue BE for this amount.

At present, BCP has already fully secured sources of fund with financial institutions. In addition, BCP group has cash on hand of approximately THB40 bn, of which THB20 bn is from our wholly-owned companies. This will ensure that BCP will have sufficient cash for the transaction if needed.

BCP will consider the proportion between bank loans and cash on hand for funding before closing the transaction.

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This slide shows pro forma financial overview before synergy and transaction cost, by using simple sum method.

In 2021, BCP revenue was approximately THB200 bn, and would be double if included ETL revenue. The picture will be the same for 9M2022.

EBITDA would grow significantly. In 2021, BCP EBITDA was approximately THB26 bn, and would increase to THB35 bn when ETL EBITDA was included. 9M2022 EBITDA would grow in-line with that of 2021.

Net Income was THB7.6 bn in 2021 and almost doubled to THB12.1 bn in 9M2022. Both BCP and ETL EBITDA increased almost twofold from 2021 to 9M2022.

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This slide demonstrates EPS accretion. We compare BCP's EPS in 2021 and LTM as of September 2022.

In 2021, BCP's EPS stand-alone was THB 5.25. With the inclusion of ETL, an increasing financing cost, and PPA amortization, EPS would grow 10% to THB 5.76. It would also grow 27% to THB 6.6 per share when synergy value of THB 1.5 bn per annum was included.

For the last twelve month (LTM) as of September 2022, EPS would grow as in 2021, but growth would be more significant due to an exceptional circumstances of oil business.

Next is the leverage impact. Pre-acquisition, net debt to equity was 0.6x while net debt to EBITDA was 1.1x. Post-acquisition, under an assumption of fully funding, net debt to equity would increase to 1.5x, still not exceeding 2.0x, while net debt to EBITDA would increase to 2.2x, remaining at a sustainable level.

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This slide is timeline summary.

- On 11 January, BCP signed SPA with ExxonMobil.
- Next, both BCP and ETL will start their regulatory approval process.
- Tentative AGM for the transaction approval is set to be in early April.
- CPs are expected to be fulfilled in 2H23 while transaction completion is forecasted to be in 3Q23.
- Tender offer is planned to be 25-45 business days after the completion and all the processes shall be completed within 2023.