

English Transcript for Analyst Meeting 2Q2023

Bangchak Corporation Public Company Limited

September 1, 2023

Opening:

Hello everyone, welcome to 2Q23 Bangchak Corporation Public Company Limited Analyst Meeting.

As we just closed our ExxonMobil acquisition deal yesterday, so our top executives are here today to discuss and walk you through the details and what has happened in 2Q23, 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, Corporate Sustainability Development and Strategic Synergy

Mr. Thamarat Paryoonsuk, Senior Executive Vice President, Refinery Business Group

Mr. Seri Anupantanan, Acting Senior Executive Vice President, Oil Retail and Corporate Marketing Business

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

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Good afternoon, everyone. Understand that you have already known about the deal, so I would like to recap some details. I will start with the first part, Bangchak at a glance, then our executives will share some views on financial and business lines as well as 2H23 outlook later on.

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There have been persistent rumors regarding the BCP Refinery, located within the urban center, indicating its aging infrastructure and decreased operational efficiency over the course of nearly a decade. However, BCP was the sole refinery in Thailand to be honored with the TQA award last year. TQA's standard is relatively high and none of high-standard industrial manufacturers have received this award in the past ten years.

Furthermore, in the previous month, BCP achieved yet another remarkable milestone by being granted a World-Class Level Quality Award from GPEA (Global Performance Excellence Award). This distinction was particularly notable as BCP emerged as the world's inaugural and exclusive recipient of this award within the performance excellence category among refineries globally. I will later delve into the specific factors and strategies contributing to BCP's unparalleled success and why we are the only company that has been granted these awards.

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Starting with the overview, during Covid time, our reported revenue ranged around THB120-130bn. In the post-pandemic period, our revenue witnessed a significant upswing, reaching THB200bn, and peaking at an impressive THB310bn last year. The market marked 2022 revenue as one-off occurrence, resulted from remarkably high crude oil price, which surged to USD120/BBL in March and remained at elevated levels throughout the remainder of the year.

On the contrary, we viewed it as a new revenue baseline. 1H23 revenue was recorded at THB150bn despite the prevailing downturn of crude oil prices. We anticipate that our revenue will reach THB380bn by the end of this year and is poised for a substantial surge, ranging between THB500-600bn in 2024. This surge is attributed to the full-year consolidation of ESSO into our operations and is also contingent upon the prevailing dynamics within the oil price market. It is noteworthy that BCP's revenue has demonstrated remarkable growth three to fourfold during the past four to five years.

Book Value and EBITDA also grew continuously. EBITDA surged nearly tenfold since the onset of the COVID-19, ascending from THB4bn in 2020 to THB44bn in 2022. In 1H23, our EBITDA was reported at THB17bn, and we anticipate it to potentially close the year below THB40bn due to the impact of an inventory loss of approximately THB3bn. If inventory loss were to be added back, our EBITDA would have been recorded at THB40bn. Furthermore, 1H23 Net Profit would have been registered at approximately THB5bn, if had excluded after-tax inventory loss of around THB2.4bn.

As of the end of June, the crude oil price hovered at USD72-73/BBL, and it has subsequently risen to USD86/BBL. Consequently, the inventory loss incurred during the 1H23 has been recouped. We anticipate to deliver better performance from last year, assuming that the crude oil price remains at USD86/BBL.

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EBITDA target remains unchanged at THB100bn in 2030, jumping from THB4bn in 2020 and THB40bn in 2022. Revenue target of THB500bn is also achievable in 2030.

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After Covid, BCP refinery has improved drastically through internal improvement initiatives such as FAST+. These efforts have culminated in accumulated savings estimated at approximately THB1.5-2.0bn. Additionally, the implementation of AI and real-time feedback control processes has enabled the precise and efficient distillation of crude oil, resulting in reduced losses. As of today, BCP refinery is running over its nameplate capacity.

During the pandemic, when the sale of jet fuel oil faced constraints, CP's research team responded with innovation by developing new and specialized products including Unconverted Oil (UO), solvents, and wax tolling in order to maintain crude run at full nameplate capacity.

BCP also implemented new logistic supply chain structure. BCP Trading (BCPT), the largest independent oil trader in Singapore, generated revenue of around USD1.5-2.0bn last year. BCPT's sales volumes were 50% BCP and remaining 50% to external (out-out) group customers.

In the beginning of 2022, BCP acquired pipelines business from FPT, and formed it under the name of BFPL to operate oil logistic business via pipeline and truck, and to manage oil terminals.

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BCP business structures are clearly and thoroughly planned which helps enhance efficiency and cost reduction. As a result, crude run has shifted from 99KBD to 122KBD, exceeding nameplate capacity and has maintained this rate for two consecutive years. Our production sales have even exceeded this rate, reaching at approximately 140KBD. This has proven an excellent performance of BCP for TQA awards.

Historically, there was a belief that BCP's refinery was designed solely for sweet crude oil. However, today, our refinery operates with exceptional versatility, accommodating 47 different crude sources from around the world. This adaptability has significantly improved GRM

While commonly acknowledged niche products like WAX and solvent, typically accounted for 0.5-1% of the configuration output in the industry, BCP's niche product outputs range from approximately 2% to 12%, and they offer relatively high margins. These niche products possess quality comparable to fuel oil, yet command significantly better prices than diesel.

Most importantly is an efficiency improvement. Previously, refinery cash cost was around USD2-3/BBL, it has dropped to USD1.3/BBL in 2022 and USD1.1/BBL in 1H23, lower than newly built refinery.

Our GRM is the highest among five peers. This was previously due to the use of domestic crude, while currently was due to the combination of crude use and an efficiency of the refinery. In the past two years, our GRM has consistently outperformed industry benchmarks.

Generally, the bigger the refinery, the lower cost per unit and the better GRM. Despite being the smallest refinery in the industry, BCP cost per unit was relatively low at USD1.1/BBL, and GRM was higher than peers. This was resulted from our strong management team that have consistently been working on an improving refinery efficiency to reach the world-class scale.

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This slide shows our plan after an acquisition of ETL (“ESSO Thailand” or “Sriracha”). As understood, our acquisition price is considered low, as an appraisal price today is much more than what we have paid.

The most important aspect of analyst and creditors is cashflow. ETL refinery is similar to BCP refinery nine years ago in terms of crude run. BCP had nameplate capacity of 120KBD while crude run was 80KBD. Crude run of ETL is 140KBD while nameplate is 174KBD or 70% utilization. We view this as an opportunity, as we have previously demonstrated success in running crude above the nameplate capacity at BCP's plant. We intend to employ a similar model at ETL, and due to our extensive experience, we anticipate a shorter ramp-up period compared to BCP's initial journey, which took six to seven years.

As ETL quickly ramped up its stations from 700 to 830 stations at closing date, this will benefit BCP in terms of the balancing Gasoline-base without importing. A significant upside will be increasing channels for premium or high margin products. BCP has only 200 stations out of 1,300 stations that carry premium products while ESSO has 650 stations out of 830 stations. This will automatically increase BCP premium outlets four times from 200 stations to 800 stations. Contribution from premium products is also expected to be significant.

ETL also offers a range of high-margin car care products such as lubricants and mobiles, particularly synthetic products. We plan to rebrand these products under the "FURiO" brand. This move will enable BCP to capture a larger share of the retail market, as ETL's customer base has historically been dominated by wholesalers. BCP has also been a sponsor for AAS Porche car racers that won three titles out of four races. AAS Porche owners use Bangchak Hi Premium 97 for their cars.

For logistic, Mr. Thamarat will later walk you through the details. Initially, ETL stations in Bangkok will receive refined products from BCP refinery while those in the East, North-East, and the South will utilize products from ESSO refinery. Stations in the Central and North area, will receive oil product via BCP Bang Pa-In pipelines. This logistic management strategy will lower cost, CO2 emission, and eliminate redundancy. We also plan to implement co-loading of crude oil for larger shipments at the Sriracha terminal and then break bulk for further use in different locations.

In the note to financial statement, Exxon Mobile charged ETL approximately THB3bn yearly for back-office services. Through shared services with BCP, we anticipate a significant cost reduction, bringing this expense down to just THB 1.5 billion, resulting in a 50% cost saving.

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With all the process mentioned, we believe that an upside of THB3bn shall occur from this acquisition.

In the bar chart below, this year expenses will be significant but shall be offset by PPA one-time gain on price adjustment. Book value of 800 rai land in Sriracha is approximately THB60mn while market price is THB8bn (THB10mn per rai). This adjustment, however, will be reflected in 3Q23 financial statement. The realized synergies from the acquisition are expected to be prominently demonstrated in 2024. It's important to note that our projections are set to be conservative, and we anticipate that the actual benefits will be even more substantial.

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Credit rating remains the same at A (stable) by TRIS and is expected to be upgraded when synergies are financially realized. We expect that our rating will improve and reflect all the synergies in the near future.

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This section is ESSO acquisition detail. BCP has already completed the purchase of 65.5% of ESSO shares from Exxon Mobile and is poised to initiate the tender offer process. The timeline for this process will be shown in a subsequent slide.

Upon successful completion of this acquisition, BCP will emerge as a formidable player in the refinery sector with a total nameplate capacity of 294KBD with 2,200 service stations under Bangchak brand. Infrastructure will be fully integrated with jetty, two pipelines connected system and oil terminals that cover all area nationwide.

Tender offer price is set to be THB9.8986 per share. Expected debt financing will be 35% with D/E ratio of approximately 1.1 times. Synergy is expected to be not less than THB3bn per year. Tender offer period falls in the range between 8 September and 12 October.

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Next is timeline. We are now in the orange zone and about to enter the blue zone that we already completed change in control on 31 August and will submit tender offer form (Form 247-4) on 5 September and start tender offer process on 8 September. Tender offer will be 25 working days and will complete on 12 October. BCP will settle the tender offer on 17 October and will submit the report (Form 256-2) on 20 October.

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Purchase price is THB9.8986 per share which does not vary from what we previously announced. Total amount will be THB34.3bn should 100% of tender offer is complete. However, in the event that only 10% of the tender offer shares are assumed or 76% of the total acquired shares are realized, resulting in a total amount of THB27.6bn, we anticipate that debt financing will account for 35% of this amount.

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This slide shows debt financing details. We have secured THB32bn clean loan from Bangkok Bank , which is designated for the Exxon Mobil payment and the tender offer associated with our strategic initiatives. Tenor is quite flexible at around 2.5 years and interest rate is THOR +spread.

The proportion of debt financing for the Exxon Mobil payment was relatively low, at around 22%, with approximately THB 5 billion from the loan and THB 17 billion from our existing cash reserves. In the event that the tender offer is 100% complete, the total amount paid for the deal would be approximately THB 34.3 billion. The source of these funds will be equally distributed, with 50% sourced from our existing cash reserves and the other 50% obtained through debt financing. We will draw down an additional THB 12 billion in loans to facilitate the tender offer.

We initially estimated incremental borrowing cost to be THB2. , assuming 100% debt financing with relatively high-interest rates. These loans are intended for BCP and to refinance ETL's existing debt. With our development in the past few months, BCP could save half of borrowing cost to approximately THB1.0bn from lower loan amount due to high cash on hand, coupled with lower interest rate. This could be converted to an increase in earnings per share of around THB0.80, and can offset with incremental expenses, resulted in positive performance.

Leverage ratio, debt to equity, was anticipated to be 1.7 times when the deal was first announced. At present, before the payment to Exxon Mobil had taken place, our net debt to equity was 0.5 times. Once the deal is successfully closed, accounting for the 100% tender offer, our net debt-to-equity ratio will increase to only 1.3 times, which remains comfortably below the financial covenant of 2.0 times.

Moreover, our annualized consolidated net debt-to-EBITDA ratio remains healthy, at approximately 2.0 times. In conclusion, our leverage ratio is well within acceptable limits, and we are in a strong financial position to execute our strategic plans.

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BCP has been studying the synergy between BCP and ESSO refinery since the announcement of acquisition in January this year. Before CIC, the first synergy already took place as BCP bought one diesel cargo from ESSO in August.

After the acquisition is completed, the first synergy will be a Single LP. Linear Programming (LP) is a program designed for the selection and sourcing of crude oil in order to produce specific products requested by the marketing team. As Mr. Chaiwat has mentioned earlier, BCP refinery has high portion of niche products such as UO and solvent at 12%. This was BCP's intention to run LP to produce both specialty products and retail products.

ESSO refinery ("Sriracha") also run its LP. Currently, Sriracha crude run is 75% of its nameplate capacity or 130KBD out of 174KBD. BCP and Sriracha have different refinery configurations. Therefore, the initial work for BCP is to drive up Sriracha crude run. Each incremental barrel will generate more income to the company. The strategies and processes which are implemented at BCP refinery that Mr. Chaiwat has mentioned earlier will be transferred to Sriracha. BCP is now on the confirming and managing process with Sriracha and will later implement strategy under Single LP, which will create synergy between the two plants starting from Day 1 and will eventually generate mutual EBITDA.

As mentioned earlier, BCP refinery is located next to Chaopraya river, thus, the company must have oil terminal in different areas such as Koh Srichang and Petchburi province and need small vessels to load crude oil from the terminal and transport them to the plants. After the acquisition, BCP will have oil terminal in the ocean, the Sriracha refinery. Looking forward, BCP can accommodate bigger vessels or even VLCC at Thai Oil terminal under Sriracha contract with Thai Oil. This emphasizes crude oil synergy between two plants. In term of operation, it is called co-loading, where crude oil is loaded in the same and bigger vessels, resulting in lower transportation cost, and will be delivered at different terminals.

For the logistic, BCP is the only refinery that has pipelines connected to Don Muang and Suvarnabhumi Airport and linked up to the North of Thailand. Sriracha's logistic to the North, on the contrary, must be done by train to Lampang province. From now on Sriracha can access BCP pipelines and make it more convenient to service to the North.

BCP and Esso share southern oil terminal, both in Surat Thani and Songkla province. Cargo will be combined and vessels size will be bigger in order to supply BCP and Esso's demand.

Numbers of gasoline trucks will grow 1.5 times and zoning will be improved e.g. both Bangchak and Esso service stations in Sri Racha province will receive products from Sriracha refinery, making it more convenient to customers and reducing costs.

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For marketing business, the number of BCP and ETL's retail stations in each region fall between 100-200 stations. All over the country, the number of service station of BCP and ETL are 1,361 and 832 stations respectively, resulting in total of approximately 2,200 stations nationwide. We expect the service stations rebranding and logo changing from ETL to Bangchak to be completed within two years, of which 280 company-owned stations are forecasted to be done in 2023.

The number of nearby service stations of BCP and ETL are not many and most of them are in high traffic area. This will help provide full-service coverage to customers.

Plan for the expansion of service station will be developed and implemented under Bangchak brand while ETL service stations shall be maintained at the current level of around 800 stations. The synergy will be the use of facilities such as membership card, fleet card, and non-oil products. This will enhance traffic, volumes, and revenue to ETL. Six million of BCP members and three million of ETL members will be merged under Bangchak Green Mile program. The points and benefits will remain the same. ETL points will be maintained for one year, but members can convert them to Bangchak

points, and will get extra points if the conversion is made within November this year. These activities will ensure customers' confidence under BCP and ETL membership program.

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There are two groups of products under industrial or commercial business, non-overlapping and overlapping products. Non-overlapping products are specific products, of which BCP and ETL shall maintain their owned distribution channels. Synergy will be from logistic system which help enhance service efficiency and reduce operating cost.

Overlapping products such as diesel, benzene, and fuel oil, will be managed and distributed by BCP to facilitate customers and provide after sales services with the same team. Logistic system will also be managed by BCP.

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Purchase Price Allocation or PPA will be implemented, starting with an assessment of ESSO Thailand's assets fair value.

Significant assets under ESSO Thailand's financial statement totaling THB50.25bn are as follows:

Refinery, oil tank terminal, office space at Rama IV area totaling THB14.6bn. Service stations of THB7.39bn, 50% is for land and 50% is machines. Shareholding in BASF and Thapline of approximately THB3.56bn. 7.8 million barrel of oil inventory with value of THB24bn and 800 rai of freehold land with book value of approximately THB660mn. All these mentioned assets will be assessed for fair value by the end of 3Q23.

Concept of PPA calculation is to compare its fair value with purchase price. The difference will be negative goodwill (100% level), which needs to deduct 20% for deferred tax. Negative goodwill after tax for this deal will be pro-rated by percent share acquisition at 65.99%. A final fair value adjustment

shall be complete in 3Q23, and the amount of the negative goodwill is expected to be significant enough to cover one-time expenses.

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This slide shows summary of BCP after consolidation of ESSO Thailand. Nameplate capacity will be close to 300KBD, comparable to top rank peer. Retail market share will be 30%, only 10% lower than top rank peer. However, there will be some gap of enterprise value and market capitalization compared to top rank peer, which we need to clarify to investors and shareholders later on.

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2H23 outlook for each business segment are as follows.

Refinery and oil trading business, in 1H23 GRM was USD8.1/BBL and recognized an Inventory Loss. However, we see positive improvement in 2H23 as GRM recorded at USD6.6/BBL in July and grew doubled in August. If crude oil price remains at high level until the end of the year, inventory loss in 1H23 will be reversed by an Inventory Gain in 2H23. 4-month recognition of ETL will significantly mark better overall performance despite the shutdown of Sriracha.

Marketing business, inventory loss was realized in 1H23. In 2H23, sales volumes are expected to grow at 8-10% due to the seasonality of traveling at the end of the year coupled with an expansion of service stations. We also expect an Inventory Gain in 2H23.

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Clean power business or BCPG, 1H23 performance was impacted by the hydropower projects in Laos which were in preparation to sell electricity to Vietnam. However, the problem is solved and sales can be made in 2H23. Electricity sales is expected to be high in 3Q23 during peak season of hydro power plant. Realized share profit from new investment of 857MW power plants will start to come in in 3Q23 and will fully integrate in 4Q23.

BBGI, 1H23 performance was pressured by ethanol. However, 2H23 sales volumes shall resume at the end of the year. BBGI also plans to sell B100 and ethanol to ETL in 4Q23 and this will reflect in better performance by the end of the year.

OKEA, performance significantly grew from consecutive acquisitions, resulted in a continuous rise in production per day. In 2022 production was at 16 KBOEPD. It jumped 50% in 2023 and is expected to jump another 50% in 2024 from a 28% working interest acquisition in Stratfjord area.

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A construction contract for Sustainable Aviation Fuel (SAF) plant has been signed. Currently, demand for SAF is higher than capacity of 1 million litre per day. BSGF has already secured raw material with major food manufacturer in Thailand for used cooking oil. CAPEX is roughly THB8-10bn and construction period is expected to be within 20 months.

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What is BCP's view on carbon neutral and carbon net zero? We need to clarify that the new assets acquired are operating fossil assets. What we have to do is to improve its efficiency and lower emission intensity, same as what we do at our refinery. The seller (EXXON Mobil) is also confident that BCP will be able to further develop and improve efficiency of Sriracha refinery.

BCP gear towards environmental-friendly projects for new greenfield investment such as SAF, the first and sizable plant in the region. We believe that liquid form of energy is the best solution as it contains high energy, easy to transport, and convenient to use. Energy in solid form such as battery is heavy and difficult to transport while that of gas form cannot be transported unless to be liquified or to build up pipelines. It also needs energy to store gas or to convert it for use. Thus, energy in liquid form will play a major role for energy use for a long time.