

THE BANGCHAK PETROLEUM PLC

No. 10/2015

20 February 2015

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

Company Rating History:

Date	Rating	Outlook/Alert
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 the current senior unsecured debenture ratings of The Bangchak Petroleum PLC (BCP) at "A-". At the same time, TRIS Rating assigns the rating of "A-" to BCP's proposed issue of up to Bt10,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for debt refinancing and business expansion. The ratings reflect the proven operating record of BCP's refinery, the integration of BCP's refining and marketing segments, leading position in renewable energy, and diversification into solar power. The ratings are partially weighed by execution risk in the recently acquired petroleum's exploration and production (E&P) segment and the typical fluctuations in oil prices and the gross refining margin (GRM).

BCP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1993. The company owns and operates a complex oil refinery, located in Bangkok. The refinery has a capacity of 120 thousand barrels per day (KBD), accounting for approximately 11% of the total refinery capacity in Thailand. The company operated 1,070 service stations nationwide at the end of 2014 under the "Bangchak" brand. BCP also operates 118 megawatts (MW) of solar power. As of September 2014, PTT PLC (PTT) held 27.22% interest in BCP, the Ministry of Finance (MOF) held 9.98%, and the remaining 62.80% was held by the public.

BCP's strong business profile reflects the integration of its complex refinery with its marketing network. As a complex refinery, BCP is able to process a variety of crude oils, yielding high proportions of high GRM products such as diesel fuel and jet fuel. In 2014, BCP's crude intakes were 86.5 KBD lower than the intake of 99.3 KBD in 2013 due to a scheduled refinery turnaround in May 2014. The mix of refined products was diesel (49%), gasoline (20%), fuel oil (17%), and jet fuel (10%) in 2014. The base GRM was US\$7.0 per barrel in 2014.

In 2014, despite the refinery shutdown, the volume of refined products sold through BCP's service stations increased by 3% from 245 million liters per month (ML/MO) in 2013 to 251 ML/MO in 2014. Refined products sold through BCP's service stations accounted for 60% of the total sales volume in BCP's marketing segment. The remainder (40% of the sales volume) was sold directly to industrial customers. The company focuses on offering gasohol and bio-diesel to help increase its market share of products sold through service stations. In 2014, BCP was the second-largest oil retailer in Thailand, with a market share of 15.1%, up from 14.8% in 2013.

In the solar power segment, BCP has power purchase agreements (PPA) totaling 118 MW with the Provincial Electricity Authority (PEA) and the Electricity Generating Authority of Thailand (EGAT). Each contract includes a tariff adder of Bt8 per kilowatt-hour (kWh). BCP expects the solar power segment to generate about Bt2,700-Bt2,800 million of EBITDA per year, or about 20%-25% of the company's EBITDA. In 2014, the solar power segment generated EBITDA of Bt2,572 million serving a cushion for BCP.

In 2014, BCP's revenue decreased by 1.9% to Bt183,016 million. The drop was mainly due to the lower oil price, which were offset by higher revenue from solar power segment. The sharp drop in oil price in the second half of 2014 caused inventory loss for BCP. Dubai crude oil price dropped by 44% from an average of

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US\$108 per barrel in June 2014 to an average of US\$60 per barrel in December 2014. BCP's operating margin (operating income before depreciation and amortization as a percentage of sales) dropped from 4.1% in 2013 to 1.8% in 2014. The company's EBITDA decreased from Bt9,463 million in 2013 to Bt5,162 million in 2014. However, the operating cash flow was not materially impacted, as the company need less working capital due to a fall in crude oil price. The capital structure remained satisfactory. BCP's total debts were Bt31,203 million and total debt to capitalization ratio stood at 48% at the end 2014.

During 2015-2017, TRIS Rating's base case expects the company's EBITDA to exceed Bt8,000 million per year, based on a crude intake of 100-110 KBD, a base GRM averaging US\$6 per barrel and assuming no significant further drop in oil price. BCP's total capital expenditures and investment budget during 2015 to 2017 are expected to total approximately Bt36,000 million. Approximately Bt24,500 million are earmarked for its existing program including refinery improvements and debottlenecking, plus expansions of BCP's marketing network, and a bio-diesel plant. The rest of Bt11,500 million is reserved for the opportunity growth focusing in E&P, power plants, and ethanol plant. Given the expected levels of EBITDA and the planned capital expenditures, BCP's total 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 sustain its strong market position in the oil retailing segment. The investments in solar power projects are expected to generate reliable streams of income and partially offset the fluctuations in the oil refining and marketing segments.

A credit downside for BCP would occur due to following factors: further eroding oil price, lower-than-expected GRM and deterioration of the company's balance sheet due to debt-funded investment. The credit upside scenario for BCP is in the case that the company's cash flows is more resilience to the volatility of oil prices as a result of business diversification.

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-
Up to Bt10,000 million senior unsecured debentures due within 2030	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2014	2013	2012	2011	2010
Revenue	183,016	186,490	165,246	158,610	136,369
Gross interest expense	1,451	1,180	1,044	916	893
Net income from operations	859	4,496	3,632	6,320	2,422
Funds from operations (FFO)	4,495	7,696	6,986	8,566	4,268
Capital expenditures	7,350	4,570	5,126	5,193	1,319
Total assets	76,966	73,537	72,055	61,603	58,413
Total debts	31,203	21,914	20,183	18,582	19,617
Shareholders' equity	33,966	34,974	32,317	29,879	22,780
Operating income before depreciation and amortization as % of sales	1.8	4.1	3.3	5.6	3.5
Pretax return on permanent capital (%)	3.1	12.1	10.5	17.0	10.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.6	8.0	7.4	10.7	7.0
FFO/total debt (%)	14.4	35.1	34.6	46.1	21.8
Total debt/capitalization (%)	47.9	38.5	38.4	38.3	46.3

* Consolidated financial statements

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