

Press Release

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TRIS Rating Affirms "PTTEP's" Company & Senior Unsecured Debt Ratings at "AAA" and Subordinated Capital Debt Rating at "AA", with Stable" Outlook

TRIS Rating has affirmed the company rating of PTT Exploration and Production PLC (PTTEP) and the ratings of PTTEP's senior unsecured debentures at "AAA". TRIS Rating has also affirmed the rating of "AA" to PTTEP's subordinated capital debentures (hybrid). The outlook remains "stable". The two notches below the corporate credit rating reflect the deferability and subordinated nature of the capital debentures.

PTTEP's ratings reflects the company's leading position in the petroleum exploration and production (E&P) industry in Thailand, its strong financial profile, the support it receives as the E&P arm of the national oil and gas company. The ratings also take into consideration its ability to manage costs and expenditures during the down cycle of petroleum prices. The execution risk PTTEP faces in its overseas operations remains rating concerns.

The "stable" outlook reflects TRIS Rating's expectation that PTTEP will be able to maintain its strong financial position amid challenging market conditions. The company's ability to rationalize capital expenditures (CAPEX) and its ample liquidity will help PTTEP weather the current downturn in the petroleum industry.

PTTEP's credit downside may arise if crude oil prices stay below US\$30 per bbl for a prolonged period, which would impact the company's ability to generate cash, and if PTTEP's financial leverage increases significantly due to any large debt-funded acquisitions.

PTTEP is the leading petroleum E&P company in Thailand. The company was established in 1985 to hold petroleum concession rights on behalf of the Thai government. As of February 2017, PTT PLC (PTT), the national oil and gas company, held a 65.3% stake in PTTEP. Both PTT and PTTEP are state enterprises. As the E&P arm of PTT and the Thai government, PTTEP can participate in petroleum projects with high potentials both in Thailand and abroad. As of December 2016, the company had 37 E&P projects across 10 countries. Almost two-thirds, or 23 projects, were in the production phase, while the remainders were in the exploration and development phases.

In 2016, PTTEP's production volume slightly dropped by 1.5% to 368,255 barrel of oil equivalent per day (boed) from 373,888 boed in 2015. The decrease was mainly due to the sale of the Oman 44 project in the second half of 2016, as well as the depletion of some projects such as Yetagun in Myanmar and Vietnam 16-1. At the end of 2016, PTTEP owned proved petroleum reserves of 695 million barrels of oil equivalent (mmbobe). At the production rate achieved in 2016, PTTEP's proved reserves will last about five years. However, PTTEP holds large petroleum contingent resources of about 5,000 mmbobe (including proved and probable reserves). If PTTEP finalizes its decision to develop the projects in the pipeline such as a liquefied natural gas (LNG) project in Mozambique, Contract 4 (Ubon) and Algeria HBR projects, some of the petroleum resources will be converted into proved reserves, allowing PTTEP to gain one to two years of proved reserves, based on the production rate in 2016.

The price of Dubai crude oil dropped by almost 19% from an average of US\$50.9 per barrel in 2015 to US\$41.3 per barrel in 2016. PTTEP's average selling price was impacted by both oil and gas prices. The gas prices normally carry the adjustment in tandem with oil prices and other factors with a lag time of about three months to one year. As a result, PTTEP's average selling price decreased by 20.7% from US\$45.3 per barrel of oil equivalent (boe) in 2015 to US\$35.9 per boe in 2016.

During 2016, PTTEP continued to cut capital expenditures and reduced operating costs in response to the low oil price environment. The company's CAPEX for 2016 were cut by more than 40% to US\$1.047 billion from the original plan. With the cost reduction program, the company's cash cost fell to US\$12.7 per boe in 2016 from US\$15.8 per boe in 2015. The company's prompt response to a drop in earnings before interest, tax, depreciation and amortization (EBITDA) preserved its liquidity. Its operating cash flow has been well managed to cover CAPEX, dividends, and debt repayments. The cut in cash cost also helped PTTEP maintain EBITDA margin.

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In 2016, PTTEP's sales volume decreased by 0.8% from 322,167 boed in 2015 to 319,521 boed, while its average selling price dropped by 20.7% to US\$35.9 per boe in 2016. Revenue decreased by 21% to US\$4.19 billion and EBITDA dropped to US\$2.996 billion in 2016. Despite the drop, EBITDA was sufficient to cover debt repayment, CAPEX, and dividend payment. In 2016, the company repurchased US dollar bonds of US\$176.5 million in principal amount, worth US\$183.9 million. The prepayment gave PTTEP more financial flexibility and strengthened its capital structure. At the end of 2016, the ratio of total adjusted debt to capitalization was healthy at 24.4%. PTTEP's liquidity is very strong. At the end of 2016, PTTEP had cash on hand and short-term investment of US\$4.022 billion versus its total debt of US\$2.832 billion. The company also had unused credit facilities of approximately US\$978 million, of which US\$554 million was a committed credit line, at the end of 2016.

Over 2017-2019, PTTEP's CAPEX is expected to be US\$5.522 billion, down by 13% from the previous plan. PTTEP is rationalizing its planned expenditures so as to maintain production in the main areas in the Gulf of Thailand and Southeast Asia. The recent cut in CAPEX is not expected to deteriorate PTTEP's long-term production capability.

During 2017-2019, TRIS Rating's base case expects the company's EBITDA will be in the range of US\$3-US\$3.4 billion per year. This is based on average sales volume of approximately 307,000 boed, and a price of Dubai crude oil of about US\$50-US\$60 per barrel during 2017-2019. Total CAPEX during 2017-2019 will be worth US\$5.522 billion. PTTEP has no debt repayments in 2017, but a debt of US\$406 million will come due in 2018, and about US\$413 million will be due in 2019. Given the expected levels of EBITDA, CAPEX, and debt repayments, the adjusted debt to capitalization ratio is expected to stay below 30% during 2017-2019. However, PTTEP may be pressured to pursue inorganic growth to lengthen its reserve life and increase production level. The company also aims to acquire producing or near-producing assets that should generate cash promptly. TRIS Rating believes that the acquisitions by PTTEP in the near to medium term might not deteriorate PTTEP's capital structures as it had cash on hand and short-term investment of US\$4.022 billion as of 31 December 2016.

PTT Exploration and Production PLC (PTTEP)

Company Rating:

AAA

Issue Ratings:

PTTEP183A: Bt2,500 million senior unsecured debentures due 2018 AAA

PTTEP195A: Bt5,000 million senior unsecured debentures due 2019 AAA

PTTEP196A: Bt8,200 million senior unsecured debentures due 2019 AAA

PTTEP296A: Bt11,400 million senior unsecured debentures due 2029 AAA

PTTEP12PA: Bt5,000 million subordinated capital debentures AA

Rating Outlook:

Stable

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