

PTT EXPLORATION AND PRODUCTION PLC

No. 27/2020
13 March 2020

CORPORATES

Company Rating:	AAA
Issue Ratings:	
Senior unsecured	AAA
Hybrid	AA
Outlook:	Stable

Last Review Date: 13/03/19

Company Rating History:

Date	Rating	Outlook/Alert
16/03/06	AAA	Stable
12/07/04	AA+	Positive
28/11/01	AA+	-
21/11/00	AA	-

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RATIONALE

TRIS Rating affirms the company rating on PTT Exploration and Production PLC (PTTEP) and the ratings on PTTEP's senior unsecured debentures at "AAA". TRIS Rating also affirms the rating of "AA" on PTTEP's subordinated capital debentures. The two notches below the company rating reflect the deferability and subordinated nature of the subordinated capital debentures. Additionally, TRIS Rating also remains the "stable" rating outlook for PTTEP.

PTTEP's ratings continue to reflect the company's leading position in the petroleum exploration and production (E&P) industry in Thailand, as well as low market risk due to the long-term gas sale agreements with PTT PLC (PTT), low production cost from legacy assets, conservative financial policy, and strong financial profile.

KEY RATING CONSIDERATIONS

Oil price is under pressure

The Organization of the Petroleum Exporting Countries (OPEC) and its key ally failed to agree on cutting oil production in the meeting on 6 March 2020, resulting in an escalating price war. The Dubai crude oil price plunged by over 30% to about US\$32 per barrel on 9 March 2020. In addition to oversupply situation, the outbreak of coronavirus (COVID-19) around the world induces the decline in oil consumptions for travel and business activities. Due to the attempt to protect market share among key players, oil supply is unlikely to reduce in tandem with the declining demand. The oil price may stay at this level for at least the next 3-6 months.

Gas mix of 70% helps stabilize cash flow

Natural gas typically accounts for about 70% of PTTEP's total sales volume while oil and condensate accounts for 30%. Long-term, take-or-pay gas sales agreements or GSAs with PTT help stabilize PTTEP's cash flow. A buyer has to take the minimum annual contracted quantity of natural gas indicated in the GSA or pay the equivalent amount. This contractual arrangement secures about 70% of PTTEP's total sales volume every year.

The pricing formula stipulated in the GSAs limits PTTEP's exposure to oil price fluctuations. The selling price of natural gas is less volatile and helps stabilize PTTEP's average selling price. About 30%-50% of the price of gas in the GSAs is indexed to fuel oil prices. The pricing formula includes adjustments for inflation and foreign exchange rate fluctuations. The pricing formulas carry time lags from three months to one year.

In 2019, PTTEP's average selling price slightly increased by 1.2% to US\$47.2 per barrel of oil equivalent (BOE), although the Dubai crude oil price dropped by 8.8% to US\$63.5 per barrel. The increase in average selling price was mainly due to the gas price adjustment with lag time.

Leading position in the Thai E&P industry

PTTEP is the core subsidiary of PTT, the Thai national oil and gas company. PTT is the sole supplier of natural gas in Thailand. PTT is also a major customer, accounting for about 80%-85% of PTTEP's sales. Therefore, PTTEP faces low credit risk from its major customer. PTT owns 65.3% of PTTEP. Both PTT and PTTEP are Thai state enterprises with respect to their statutory status.

Strategic move in 2019 extends reserve life

PTTEP's reserves increased materially at the end of 2019, strengthening its business profile. During 2014-2018, PTTEP's reserve life was only about five years and the 5-year average reserve replacement ratio was below 1 time. However, the implementation of the coming home strategy and strategic alliance strategy in the past few years has resulted in satisfactory outcomes. At the end of 2019, PTTEP's proved reserves increased by 68% to 1,140 million barrels of oil equivalent (MMBOE), extending reserve life by over two years to 7.5 years. The increases in reserves were mainly from the acquisition of Murphy's assets in Malaysia and Partex's assets in Oman and the United Arab Emirates (UAE). In addition, the success of making a finalized investment decision (FID) for the Mozambique offshore area 1 project and Algeria HBR project as well as signing a production sharing contract (PSC) for the Bongkot and Erawan projects in 2019 also boost PTTEP's reserves.

Sales volume expected to increase

PTTEP's sales volume is expected to increase as a result of the acquisition and execution of projects in the pipeline. In 2019, PTTEP's sales volume increased by 14.8% to 350.6 thousand barrel of oil equivalents per day (KBOED), mainly due to the acquisition of Murphy's assets in mid-2019. Sales volume is expected to increase to 380-430 KBOED during 2020-2022. The expectation is based on the full year contribution from the acquisition of Murphy's assets and Partex's assets in 2019, as well as commencing operations of Algeria HBR in 2021 and the Erawan and Bongkot projects during 2022-2023.

TRIS Rating views that PTTEP may face execution risk, especially with the Mozambique project which it is less familiar. However, the projects that have the biggest contribution over the next 2-3 years are the Erawan and Bongkot projects. PTTEP is currently an operator for the Bongkot project, while also having a working interest in the Erawan project. Therefore, PTTEP is familiar with the geologic conditions of these two projects, which helps relieve pressure on the execution risk.

Flexibility of production cost

PTTEP has a proven record of adjusting its operating cost in tandem with the oil price trend, maintaining the earnings before interest, tax, depreciation, and amortization (EBITDA) margin over 70%. As evidenced in 2015, PTTEP cut its cash cost by about 27% to about US\$15.5 per BOE, while the average selling price dropped by 28%. In 2019, the company's total cash cost was about US\$16 per BOE. The lifting cost (cost to produce petroleum for one barrel) has stayed around US\$4-US\$5 per BOE for the past nine years.

Profitability is still healthy

PTTEP's operating revenue continued to increase in 2019, rising by 16% to US\$6.2 billion, from US\$5.4 billion in 2018. The company's profitability has remained healthy. The EBITDA margin slightly increased to 74.7%, as EBITDA continued to improve from increases in sales volume and a slight increase in average selling price, while costs stayed steady. EBITDA increased to US\$4.6 billion, from US\$4 billion in 2018.

Although the Bongkot and Erawan PSC contracts may lower PTTEP's average selling price starting in 2022, PTTEP has plans to maintain the margin by reducing operating costs in those two fields. The synergy between the two fields using common facilities also helps lower costs. TRIS Rating believes that PTTEP will have the flexibility to maintain EBITDA margin to be over 65% over the forecast period, as evidence by the cost reduction program during 2015-2016.

Strong liquidity profile

PTTEP's liquidity is very strong. At the end of 2019, sources of funds comprised cash on hand of US\$3.2 billion and undrawn credit facilities with banks of US\$746 million, of which US\$265.3 million was a committed credit line. PTTEP does not have any debt due in 2020. During January-February 2020, PTTEP repurchased about US\$700 million debentures, which will come due in 2021. As a result, PTTEP does not have any debt due in 2021. The company's planned capital expenditures will be around US\$2.6 billion in 2020 and US\$3 billion in 2021. The company's cash on hand plus funds from operations (FFO) is assessed to be sufficient to cover capital expenditures for 2020.

BASE-CASE ASSUMPTIONS

- The price of Dubai crude is forecast at around US\$40 per barrel in 2020 and US\$50-US\$55 per barrel in 2021 and 2022.
- Total cash cost of PTTEP will hold at around US\$16-US\$17 per barrel over the forecast period.
- PTTEP's EBITDA is forecast to be in a range of about US\$3-US\$4 billion per year during 2020-2022.
- PTTEP's capital spending will total around US\$8.9 billion over 2020-2022.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating's expectation that PTTEP will maintain its strong financial position amid challenging market conditions. TRIS Rating views that PTTEP has the ability to adjust operating costs and expenditures in respond to declining oil price. Ample liquidity and the ability to rationalize capital expenditures will help PTTEP weather a downturn in the petroleum industry.

RATING SENSITIVITIES

A credit downside case may arise if crude oil prices stay below US\$30 per barrel for a prolonged period or if the financial leverage increases significantly due to any large debt-funded acquisitions.

COMPANY OVERVIEW

PTTEP is the leading petroleum E&P company in Thailand. The company was established in 1985 to develop and promote Thailand's petroleum industry and to ensure the security of Thailand's energy supply. As of February 2020, PTT, the national oil and gas company, held a 65.3% shareholding in PTTEP. Both PTT and PTTEP are state enterprises. As of December 2019, the company had E&P projects in 15 countries. The primary operational base is in Southeast Asia.

At the end of 2019, PTTEP owned proved reserves of 1,140 MMBOE. About 73% of proved reserves were natural gas and the remaining 27% were crude oil and condensate. PTTEP is the largest petroleum producer in Thailand, with a production rate of 414 KBOED in 2019, accounting about 43% of total petroleum production in Thailand.

KEY OPERATING PERFORMANCE

Table 1: Key Operating Data

	Unit	Year Ended 31 December				
		2019	2018	2017	2016	2015
Proven reserves	MMBOE	1,140	677	631	695	738
Yearly production	MMBOE	151	131	127	135	136
Reserve life	Years	8	5	5	5	5
Five-year reserve replacement ratio	Times	1.5	0.7	0.6	0.6	0.5
Lifting costs	US\$/BOE	4.3	4.3	4.2	4.2	4.6
Average sales volume	BOED	350,651	305,522	299,206	319,521	322,167
Average selling price	US\$/BOE	47.24	46.66	39.20	35.91	45.29

Source: PTTEP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: US\$ million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	6,218	5,361	4,412	4,298	5,450
Earnings before interest and taxes (EBIT)	2,492	2,100	1,567	930	1,288
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,643	3,975	3,264	3,063	4,213
Funds from operations (FFO)	3,666	2,965	2,822	2,499	3,419
Adjusted interest expense	300	277	262	279	298
Capital expenditures	1,208	1,154	1,361	1,023	1,876
Total assets	22,201	19,484	19,220	18,891	19,642
Adjusted debt	4,057	1,364	2,451	2,372	3,040
Adjusted equity	11,654	11,428	10,939	10,810	10,752
Adjusted Ratios					
EBITDA margin (%)	74.66	74.14	73.96	71.27	77.29
Pretax return on permanent capital (%)	14.04	12.44	9.27	5.52	7.01
EBITDA interest coverage (times)	15.48	14.36	12.45	10.99	14.14
Debt to EBITDA (times)	0.87	0.34	0.75	0.77	0.72
FFO to debt (%)	90.37	217.42	115.14	105.32	112.47
Debt to capitalization (%)	25.82	10.66	18.30	18.00	22.04

* Consolidated financial statements

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017
- Group Rating Methodology, 10 July 2015

PTT Exploration and Production PLC (PTTEP)

Company Rating:	AAA
Issue Ratings:	
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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