ESSO (THAILAND) PLC

No. 174/2017

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Company Rating: A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/11/08	A+	Stable

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Rating Rationale

TRIS rating affirms the company rating of ESSO (Thailand) PLC (ESSO) at "A+". The rating reflects the strong linkage between ESSO and the ExxonMobil Group, its efficient and integrated refinery and aromatics plant, and its strong position in retail marketing. The rating is constrained by the high volatility inherent in the petroleum and petrochemical industries, as well as intense competition in the retail business.

ESSO is the Thailand-based affiliate of Exxon Mobil Corporation (ExxonMobil), which is one of the world's largest oil refiners and petrochemical companies. ESSO has a long track record in the petroleum business in Thailand. The company and its affiliates began in the oil business in Thailand in 1894 and opened a refinery in 1971. As of March 2017, ESSO's major shareholders comprised ExxonMobil Asia Holding Pte. Ltd. (66%) and Vayupak Fund 1 (7%).

ESSO's business profile is very strong. The company's core operations comprise two business segments, the oil refining and marketing segment and the petrochemical segment. The company operates one of the 22 refineries run by ExxonMobil's affiliates worldwide. ESSO also manufactures and distributes petrochemical products, primarily aromatics.

The rating also reflects ESSO's strong linkages with the ExxonMobil Group, including commercial, operational, financial, and reputational aspects. As an affiliate of ExxonMobil, ESSO benefits from carrying out the group's advanced refinery technology and expertise, as well as operational and engineering services. Moreover, ESSO is able to leverage ExxonMobil's global network of crude oil procurement and finished product distribution. The company distributes its refined products, under the Esso brand, through ESSO's network to commercial and retail customers. Further, ESSO obtains financial support from the Group, which enhances its financial flexibility.

The rating also incorporates ESSO's efficient and integrated refinery and aromatics plant. ESSO operates a complex refinery with a maximum rated capacity of 174 thousand barrels per day (KBD), accounting for approximately 16% of the total refinery capacity in Thailand. ESSO also operates an aromatics plant, which is integrated with its refinery. The aromatics plant has a production capacity of 500 thousand tonnes per annum (KTA) of paraxylene (PX). ESSO benefits from the integration of the refinery and the aromatics plant, which gives the company the flexibility to adjust the product mix of petroleum and petrochemical products. In 2016, ESSO's refinery product mix was diesel (36.5%), gasoline (19.6%), reformate (12.7%), fuel oil (8.7%), jet fuel (8.2%), and others (14.3%). With ExxonMobil's technology and operating philosophy, ESSO's refinery is in the top tier of energy efficient plants in the Asia-Pacific region, with high operational reliability.

ESSO's rating also reflects the company's strong position in retail marketing, backed by a recognizable brand name, extensive distribution network, and the operational efficiency of its service stations as measured by sales volume per station. ESSO's strong market position is underpinned by its recognizable brand name, which enables the company to market premium oil and related products. Further, ESSO has an extensive distribution network of service stations. As of September 2017, there were 543 service stations operating under the "Esso" brand name. For the first nine months of 2017, ESSO's network of service stations was the fourth-largest retailer in terms of fuel sold through service stations. In addition, ESSO’s service stations are capable of generating relatively high volume per station compared with most of its peers. ESSO’s strong retail return helps ease the adverse impact from oil cyclicality.

On the other hand, the rating is constrained by the highly volatile nature of the petroleum and petrochemicals industries. The intense competition among oil retailing businesses is another factor in the constraint. The lower retail oil price during the past few years has pulled the demand for refined products. Many oil retailers have rapidly expanded their number of service stations. They have also launched marketing campaigns to increase market share.

The oil refining and marketing segment is a major source of ESSO’s revenue. It accounts for about 92% of ESSO's revenue, while the remaining 8% derived from the petrochemical segment. The continued drop in oil price and PX price in 2016 caused ESSO's revenue to decline by 11.1% to Bt151,013 million. The oil price bottomed out in the first quarter of 2016 and gradually increased to the current level inducing a favorable inventory impact for the company. The strong industry margin and favorable inventory impact in 2016 pulled ESSO's gross refining margin (GRM) to US$7.7 per barrel from US$4.7 per barrel in 2015. The stronger GRM, plus slight improvement in the PX margin, increased ESSO's operating profit by 254.8% to Bt8,238 million.

The improvement has continued in the first nine months of 2017. ESSO's revenue increased by 17.3% year-on-year (y-o-y) to Bt129,072 million, mainly due to an improvement in oil price. The GRM was US$7 per barrel in the first nine months of 2017, compared with US$6.7 per barrel in the same period of 2016. ESSO's operating profit was Bt5,187 million in the first nine months of 2017.

The stronger margin during 2016 and into the first nine months of 2017 helped increase cash flow protection. The company repaid a significant portion of its debt during 2016 and into the first nine months of 2017 by using its operating cash flow. Total debt decreased from Bt29,120 million at the end of 2015 to Bt16,850 million at the end of September 2017. The ratio of funds from operations (FFO) to total debt improved significantly from 12.8% in 2015 to 61.2% (annualized) in the first nine months of 2017. The debt to capitalization ratio also improved to 39.8% at the end of September 2017.

About 63% of the total debt as of September 2017 was granted by the ExxonMobil Group. On-top of the outstanding inter-company debt, the ExxonMobil Group also provides credit facility of Bt54,000 million to ESSO, which currently remains undrawn. These financial supports helped enhance ESSO’s financial flexibility.

Over 2018-2020, TRIS Rating's base case scenario expects that the company's FFO will be in the range of Bt4,000-Bt5,000 million per year. Capital expenditures during this period are expected at about Bt1,300-Bt1,400 million per year, covering refinery maintenance and network expansion. The debt to capitalization ratio is expected to be in the range of 40%-45%. This forecast is based on a crude oil price of about US$55-US$60 per barrel during the period.

Rating Outlook

The “stable” outlook takes into account the strong linkage between ESSO and the ExxonMobil Group, together with the anticipated benefits it receives from the Group. The company is also expected to maintain its sound market position in the petroleum business in Thailand. Over the next one to two years, the chance of a rating upgrade is limited due to the volatility of oil prices plus the oversupply of PX. However, ESSO’s rating could be downgraded if the company fails to secure ongoing support from the ExxonMobil Group, or if the ExxonMobil Group dilutes its majority stake in ESSO.

Esso (Thailand) PLC (ESSO)

Company Rating:	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2017	---------------------- Year Ended 31 December -------------------- 2016	2015	2014	2013	2012
Revenue	129,072	151,013	169,891	220,735	245,173	245,127
Gross interest expense	299	506	775	902	989	1,196
Net income from operations	4,330	6,649	1,700	(9,658)	(379)	(1,699)
Funds from operations (FFO)	6,890	10,505	3,732	(10,881)	2,169	1,872
Capital expenditures	660	1,403	927	1,162	1,127	844
Total assets	59,684	58,751	56,702	63,974	74,010	75,862
Total debt	16,850	22,969	29,120	35,675	34,396	31,608
Shareholders' equity	25,514	20,752	13,769	11,920	22,579	22,932
Operating income before depreciation and amortization as % of sales	5.2	6.8	2.7	(4.4)	1.1	1.0
Pretax return on permanent capital (%)	20.5**	20.1	6.1	(21.7)	1.8	1.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	23.8	21.2	6.4	(10.2)	3.3	2.5
FFO/total debt (%)	61.2**	45.7	12.8	(30.5)	6.3	5.9
Total debt/capitalization (%)	39.8	52.5	67.9	75.0	60.4	58.0

*   *Consolidated financial statements*
**   *Annualized with trailing 12 months*

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