TRIS RATING
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ESSO (THAILAND) PLC

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CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 09/12/20

Company Rating History:

Date	Rating	Outlook/Alert
11/06/20	A	Stable
21/11/08	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Esso (Thailand) PLC (ESSO) at "A" with a "stable" rating outlook. The rating reflects ESSO's strong relationship with Exxon Mobil Corporation and affiliates (ExxonMobil Group), its efficient integrated refinery, and strong brand awareness. Conversely, the rating is constrained by uncertainty in oil market, its susceptibility to volatile oil prices, and severe competition in the retail business.

The company rating on ESSO incorporates a three-notch uplift from its stand-alone credit profile (SACP) of "bbb". We view ESSO is strategically important to Exxon Mobil Corporation (rated "AA-/Negative" by S&P Global Ratings). The uplift reflects our expectation of a strong parental support in a distressed scenario.

KEY RATING CONSIDERATIONS

Global oil market recovery

ESSO has demonstrated a turnaround in financial performance, led by the global oil market recovery. With the progress of the Coronavirus Disease 2019 (COVID-19) vaccination, many countries have loosened the restrictions and implemented economic stimulus packages, resulting in the rebound of global oil consumption. On the other hand, the market has entered a period of supply crunch as the Organization of the Petroleum Exporting Countries (OPEC) are holding off restoring output, coupled with low upstream investment. According to U.S. Energy Information Administration (EIA) data, global daily oil consumption started to overtake oil production in the third quarter of 2020 and remained so through 2021. As a result, the average Dubai crude oil price surged to USD66.3 per barrel in the first nine months of 2021, far above the average of USD42.3 per barrel in 2020. This also led to spikes in oil product prices.

A turnaround in financial performance

The oil prices rally has brought about a strong rebound of gross refinery margin (GRM). ESSO's total GRM (market GRM plus gain and loss in inventory) for nine months of 2021 surged to USD7.6 per barrel, up from a negative USD3.6 per barrel in 2020.

The COVID-19 outbreak of delta variant forced the Thai government to bring back the lockdown measures, plunging the domestic petroleum consumption by 8.3% year-on-year (y-o-y) in the first nine months of 2021. However, the demand recovery at the beginning of 2021 led to a slight increase in ESSO's production. The company's crude run was 122 thousand barrels per day (KBD), suggesting a 70% capacity utilization rate, compared to the company's crude run of 114 KBD the same period in 2020. As a result, ESSO recorded a net profit of THB3.7 billion and earnings before interest, tax, depreciation, and amortization (EBITDA) of THB7.0 billion for the first nine months of 2021.

A member of ExxonMobil Group

The rating affirmation in part reflects ESSO's status as a strategically important subsidiary for the Thai market of the ExxonMobil Group, a leading global refiner and distributor of petroleum products. ESSO is part of ExxonMobil's integrated business model and receives ongoing supports from the group. The company leverages ExxonMobil Group's global supply chain in procurement of crude oil and other raw materials. ESSO meantime sells its refined petroleum and petrochemical products through global sales network of the group. In addition, ESSO has obtained from the group advanced technological, operational, and engineering services, to maintain the group standards in refinery and petrochemical plant operations through various agreements. The company sells fuel products under the "Esso" brand, markets lubricants under the "Mobil" brand, and uses other trademarks licensed from ExxonMobil. More importantly, ESSO receives financial support from the ExxonMobil Group from time to time, which meaningfully helps enhance its financial flexibility. In recognition of this, we view ESSO is strategically important to the group. The rating in part embeds our expectation of potential strong parental support from ExxonMobil in times of stress.

Flexible refining facility

ESSO's refinery is considered in the top tier of energy-efficient plants in Asia-Pacific, with high operational reliability and flexibility to run a variety of crude oil and produce high-margin products. ESSO also has aromatic production which is fully integrated to its refinery. In response to the pandemic-induced contraction of demand for fuel products, ESSO was able to adjust its product mix to suit the market condition. Due to the sharp decline in jet fuel consumption, the refinery managed to cease jet fuel production and switch to diesel production. The company also suspended production of Paraxylene (PX) since April 2021.

For the first nine months of 2021, ESSO's refinery product mix was diesel (42%), gasoline (24%), feedstocks for chemicals products (11%), jet fuel and kerosene (3%), fuel oil (8%), and others (12%). The proportion of feedstocks for chemical products, including the reformate, dropped drastically from 17% of total production in 2020. ESSO sets aside a part of capital spending for the production of Euro 5 standard fuel through improvements of its refinery. The standard is slated to take effect in 2024.

Strong brand awareness

With extensive distribution network of service stations countrywide, ESSO is well-positioned to market its premium oil and related products through its service stations. The company's service stations can generate a relatively high volume of sales per station compared with most of its peers. ESSO has successively expanded its retail distribution network in hope of lifting its overall profit and mitigating the volatile effect of refining business. The company has entered into a strategic partnership with Susco PLC to transform some of Susco's service stations to ESSO brand, a strategy which largely helps reduce investment cost and expedite network expansion. The number of service stations reached 721 as of September 2021, a steady increase from 553 as of December 2017. Added to that, ESSO has renovated its service stations and offered premium products to the market. In response to change of consumer's behavior, ESSO has also placed greater emphasis on its non-oil business at service stations, such as convenience stores and coffee shops.

Severe competition in the retail business

We hold our view that ESSO's retail business remains susceptible to the threat of severe competition. Most oil retailers in the Thai market have rapidly expanded their service station networks and launched marketing campaigns to boost their shares of the business. For the first nine months of 2021, branded gas service stations increased to 7,674, up from 7,459 in 2020. In addition, oil retailers have spent heavily to renovate their petrol stations and enlarged non-oil goods and services. The investment cost for a brand-new service station could be higher as oil retailers need to differentiate and offer range of services to align with changes in consumer's behaviors. Therefore, it is very challenging to reduce operating costs while maintaining the same level of services and competitiveness.

At the same time, the prolonged COVID-19 outbreak caused domestic petroleum sales through service stations to fall by 6.7% for the first nine months of 2021. The impact from the outbreaks of the Delta variant, led to a plunge in demand by 19.3% in the third quarter alone. However, we expect ESSO's retail business will benefit from the easing of travel restrictions and the resumption of tourism activities.

Operating performance to improve

The global economy and oil consumption are seen recovering strongly from the COVID-19 fallout. We view that oil prices could remain at high levels in the near term as demand rebounds while supply remains tight. The crack spreads (the difference between refined and crude oil prices) for all oil products have exhibited an improving trend. As a result, we expect the market GRM to gradually recover. However, it will likely take time to return to the pre-COVID level. In addition, there are uncertainties which could undermine the resurgent demand, particularly the emergence of new COVID-19 variants.

In our base-case projection, we forecast crude oil price to average about USD69 per barrel in 2021 and increase to stay at USD70 per barrel in 2022-2023. We assume total GRM in 2021 to finish at about USD5.7 per barrel. In absence of inventory gain, we assume total GRM at USD3-USD4 per barrel in 2022-2023. As a result, we forecast ESSO's EBITDA to be about THB8.9 billion in 2021. and range THB6.0-THB7.2 billion per year during 2022-2023. We project the debt to capitalization ratio to be in the range of 55%-65% and the debt to EBITDA ratio to stay at around 4-5 times during 2021-2023.

Financial support enhances ESSO's financial flexibility

Given its strong link with the ExxonMobil Group, we believe ESSO will continue to receive financial support from the ExxonMobil Group. As of September 2021, about 68% of ESSO's total debt was owed to the ExxonMobil Group. Moreover, on top of the outstanding inter-company debt, the ExxonMobil Group has provided a credit facility of THB54 billion to ESSO, which currently remains undrawn. However, ESSO plans to maintain its inter-company loans proportion at about 60%-70%. The availability of inter-company loans plus ESSO's cash on hand and undrawn credit facilities from commercial banks are more than enough to cover its financial obligations over the next 12 months.

Capital structure

At the end of September 2021, ESSO had THB28.65 billion in debt without any priority debt. The loans are extended by financial institutions and related parties, all of which are on clean basis.

BASE-CASE ASSUMPTIONS

- Dubai crude oil price to average at USD69 per barrel in 2021, and around USD70 per barrel during 2022-2023.
- GRM to end at USD5.7 per barrel in 2021 and to range from USD3-USD4 per barrel during 2022-2023.
- ESSO's crude run to be in the range of 125-135 KBD during 2021-2023.
- Capital expenditure (CAPEX) to be expected to total about THB5.3 billion over 2021-2023.

RATING OUTLOOK

The "stable" outlook embeds our expectation that ESSO will maintain its sound market position, and the company's performance will be in line with our forecast in anticipation of economic recovery and resurgence of oil consumption. We also expect the linkage between ESSO and the ExxonMobil Group to remain unchanged.

RATING SENSITIVITIES

The prospect of a rating upgrade could develop if ESSO is able to sustain profitability despite fluctuating oil prices, which could be a result of a steady rise in its GRM. Conversely, a downward revision to the rating could emerge if ESSO's operating performance significantly falls short of estimates.

Any material changes in the linkage between ESSO and the ExxonMobil Group that weakens the potential support from the ExxonMobil Group, could also impact the rating lift from company's SACP, and ultimately the rating assigned to ESSO.

COMPANY OVERVIEW

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 the oil business in Thailand in 1894 and opened a refinery in 1971. As of March 2021, ESSO's major shareholders comprised ExxonMobil Asia Holding Pte. Ltd. (65.99%) and Vayupak Fund 1 (8.5%).

ESSO operates a complex refinery with a maximum rated capacity of 174 KBD, accounting for approximately 14% of the total refinery capacity in Thailand. ESSO also operates an aromatics plant, which is integrated with the refinery. The aromatics plant has a production capacity of 500 thousand tonnes per annum of paraxylene. In addition, there were 721 service stations operating under the "Esso" brand name as of September 2021.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021		-----------Year Ended 31 December 2020	2019	2018	2017 ------------
Total operating revenues	120,588		126,739	169,430	200,864	178,839
Earnings before interest and taxes (EBIT)	4,800		(9,494)	(3,403)	3,105	9,553
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,009		(6,839)	(1,315)	5,158	11,570
Funds from operations (FFO)	5,902		(5,255)	(977)	4,279	9,306
Adjusted interest expense	235		464	554	450	562
Capital expenditures	873		1,668	1,659	1,345	1,161
Total assets	68,345		61,378	66,243	61,750	59,020
Adjusted debt	34,764		34,410	32,405	19,779	16,650
Adjusted equity	18,241		14,360	22,118	25,832	28,182
Adjusted Ratios						
EBITDA margin (%)	5.81		(5.40)	(0.78)	2.57	6.47
Pretax return on permanent capital (%)	10.75	**	(18.29)	(6.75)	6.80	20.51
EBITDA interest coverage (times)	29.85		(14.74)	(2.37)	11.47	20.58
Debt to EBITDA (times)	4.17	**	(5.03)	(24.64)	3.83	1.44
FFO to debt (%)	19.93	**	(15.27)	(3.01)	21.64	55.89
Debt to capitalization (%)	65.59		70.56	59.43	43.36	37.14

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

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Esso (Thailand) PLC (ESSO)

Company Rating:	A
Rating Outlook:	Stable

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