

# PTT OIL AND RETAIL BUSINESS PLC

No. 25/2024  
14 March 2024

## CORPORATES

**Company Rating:** AA+  
**Outlook:** Stable

**Last Review Date:** 14/02/23

Company Rating History:		
Date	Rating	Outlook/Alert
14/02/23	AA+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on PTT Oil and Retail Business PLC (OR) at “AA+” with a “stable” rating outlook. OR’s stand-alone credit profile (SACP) remains at “aa”. The company rating incorporates a one-notch uplift from the SACP as we hold our view that OR is a highly strategic subsidiary of PTT PLC (PTT, rated “AAA/Stable” \*).

The SACP reflects OR’s leading position in the petroleum market in Thailand, its distinct competitive advantages in oil retail market as well as our expectation of strong financial profile over the medium term. Conversely, the SACP is weighed down by exposure to volatile oil prices and the influence of government policies on the retail oil industry. The SACP also incorporates a tendency of rising financial leverage resulting from OR’s investments in new businesses.

## KEY RATING CONSIDERATIONS

### Highly strategic subsidiary of PTT Group

We assess OR as a highly strategic subsidiary of PTT, given its close operational integration, alignment of strategies, and shared reputation with PTT. OR plays a critical role as the oil and retail flagship of the PTT Group. PTT currently holds a 75% ownership stake in OR, the highest proportion compared to other PTT major subsidiaries, underscoring OR’s significant importance to the group, despite its current small contribution to the group’s earnings.

OR’s operation is fully integrated with PTT’s value chain, facilitating the distribution of the group’s petroleum products to both retail and commercial customers. Around 70%-80% of OR’s petroleum products are sourced through long-term agreements with PTT’s refinery flagship companies. The reputational linkage between OR and PTT is also reflected in their shared “PTT Brand”.

Also, OR’s strategy is closely aligned with PTT’s objectives, which include supporting national energy security, future energy transitions, and improving the life quality of the Thai people. The company’s financial policy is also aligned with PTT. Given these solid connections, we believe PTT is highly likely to provide extraordinary support to OR in times of stress.

### Largest oil distributor in Thailand

The SACP is supported by its dominant position in the domestic oil industry. The company has maintained its No.1 position in the oil retail market and the majority of commercial petroleum markets over the decades. OR’s market share by sales volume was 42% in 2023.

We view the solid PTT brand, large operational scale and supply capability, extensive network of service stations, and strong distribution channels as the key competitive advantages helping sustain OR’s leading position. OR’s comprehensive ranges of petroleum products and services, coupled with its balanced mix of retail and commercial operations, enable the company to capture demand from multiple market segments, which help support volume growth and stability.

OR generated THB769 billion in revenue in 2023, largely from three main business units: Mobility (the oil business in Thailand), Lifestyle (the non-oil business in Thailand), and Global (the oil and non-oil business outside

\* The company rating assigned to PTT is based on public information, which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of PTT. The rating is assigned without participation from PTT.

Thailand). Mobility was the primary contributor to revenue, accounting for about 90.8% of the total. In terms of earnings before interest, taxes, depreciation, and amortization (EBITDA), Mobility represented 68.1%, followed by Lifestyle at 26.8%. The rest came from Global and other businesses.

### **Distinct competitive strengths through integrated business model**

OR's oil retail business benefits from an integrated business model that combines fuel services with two top consumer franchises, "Café Amazon" and "7-Eleven". Café Amazon, the No.1 café franchise in Thailand, is the cornerstone of OR's Lifestyle segment. Its competitiveness has developed from the well-established brand, good product quality at affordable prices, and extensive coverage of outlets. 7-Eleven is the top convenience store franchise in Thailand offering a wide range of products and services. OR has a long-term business collaboration with 7-Eleven, resulting in stores in almost all of OR's PTT stations. Both Café Amazon and 7-Eleven are exclusively located within PTT stations and serve as strong magnets, drawing customer traffic and consequently contributing to higher throughput and revenue per station than competitors.

### **DODO expansion strategy supports expansion of new PTT stations**

With the strong "PTT Station" brand, OR can grow its retail network through the DODO (dealer owned dealer operated) model, a strategy that helps OR expand new stations with low capital needs. This model enables OR to establish new service stations through dealer investments and share oil product margins with the dealers. Consequently, OR has maintained its status as the operator with the largest number of oil stations, adding 80-140 new stations annually over the past five years. As of December 2023, OR had 2,253 PTT stations nationwide, of which about 80% operated under the DODO model.

### **Exposure to fuel price volatility and influence of government policies**

OR's profitability is exposed to oil price volatility as its core business is driven by the Mobility business. Being a state-owned enterprise and the largest oil distributor in Thailand with 54 oil terminals nationwide, OR implements a stringent oil reserve policy that exceeds the legal requirement to ensure sufficient inventory to meet market demand. As a result, the company's profitability tends to fluctuate more from plunges in oil prices than other firms in the same industry.

In addition, the government's policies related to retail oil prices can impact both the oil retail industry as well as OR's retail selling price. In dealing with inflationary pressure, the government has implemented policies to cap the diesel retail price through several measures, occasionally pressuring the marketing margins of oil retailers.

### **Focusing on EBITDA growth in Lifestyle segment**

OR's corporate strategy primarily prioritizes expanding the Lifestyle business, with Café Amazon serving a crucial growth driver. We view the Café Amazon business to still have considerable growth potential, considering the continued fast expansion of outlets and steady growth of number of cups sold. Café Amazon in Thailand sold a total of 371 million cups in 2023, with an 8.8% annual growth rate over the past five years. The number of outlets rose to 4,159 at the end of 2023, adding 300-450 new outlets per annum over the past five years. In 2024, the company plans to open 300 new outlets with two-thirds being outside of PTT station.

Furthermore, we anticipate that OR will keep diversifying its Lifestyle portfolio, partnering with local retailers or companies to tap new revenue streams. The new segments the company has invested in include food & beverage, washing machine services, online platforms for health and wellness services and delivery platform services. The scope of business is expected to broaden further as the company keeps entering into untapped markets, such as beauty, hotels, and potentially virtual banking in the near future.

Although we expect the diversified lifestyle portfolio to enhance overall earnings stability, the success of these new ventures remains uncertain. The effective integration of new businesses with OR's platform remains a key challenge. We view there to be significant execution risks involved in new businesses, including unfamiliar competitive landscapes, fast-changing consumer behavior, and heavy reliance on partners.

### **Expected enhancement of EBITDA**

OR's EBITDA in 2023 improved continuously, brought about by a recovery of oil sales volume and stronger performance from the Lifestyle businesses. The company's domestic oil sales volume grew by about 3%, reaching 27,642 million liters and returning to the pre-pandemic levels. OR arrived at THB22.2 billion in EBITDA in 2023, up by 7.3% year-on-year (y-o-y). The EBITDA margin was 2.9%, in line with the historical range.

Going forward, we forecast OR's domestic oil sales volumes to rise by 2%-3% annually during 2024-2026. We assume OR will open around 90-100 service stations in Thailand per year. The averaged sale throughput per station may decline, reflecting intensified competition and fewer prime areas available for new stations. The Lifestyle business is likely to deliver constant growth in EBITDA driven by the expansion of Café Amazon. In our base-case forecast, we assume global oil prices will decline

over the next three years. The company's annual revenue is projected to between THB720-THB760 billion over the forecast period. EBITDA is projected to range between THB22-THB24 billion per annum.

### Financial profile to remain strong

We expect OR will maintain a robust financial position over the next 2-3 years. OR held a large amount of cash as of December 2023, due to considerable reimbursements from the Oil Fuel Fund and a slower-than-expected pace of acquisition activities. The cash equivalent and short-term investment of around THB52 billion plus its incoming operating cash flows should be sufficient to support its investment or potential acquisitions over the next few years. We forecast the company's net debt to EBITDA ratio to stay below 1 time during 2024-2026.

### Adequate liquidity

We assess OR's sources of funds as sufficiently covering the use of funds over the next 12 months. The sources of funds totals TH72 billion, including THB52 billion cash equivalent and short-term investment at the end of December 2023, and estimated funds from operations (FFO) of THB18-THB19 billion over the next 12 months. These should enable OR to comfortably meet the debt obligations of THB10 billion, planned capital expenditures and investments of THB23 billion, and projected dividend payout of about THB6 billion.

### Debt structure

At the end of December 2023, OR's consolidated debt (excluding lease liability) was THB25.1 billion. OR's priority debt totalled about THB4.0 billion, translating to a priority debt to total debt ratio of 16%.

### BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for OR's operations during 2024-2026:

- Dubai crude price to fall from USD75 per barrel in 2024 to US70 per barrel in 2026.
- Total oil volume growth in Thailand of 2%-3%.
- Overall oil gross profit at THB0.9-THB1.0 per liter.
- Capital expenditures and investments to total THB46.8 billion.
- Dividend payout at 55% of net profit.

### RATING OUTLOOK

The "stable" outlook embeds our expectation that OR will maintain its leading position in the domestic petroleum market, with strong cash generation. Although OR is pursuing acquisitive growth, we expect OR to keep the level of cash flow against debt obligations aligning with our forecast. In addition, we expect OR will remain a highly strategic subsidiary of PTT.

### RATING SENSITIVITIES

An upward revision on the SACP could develop if OR can substantially enhance profitability and resiliency against volatility in oil demand and prices. This could be a result of increasing the revenue and profit contributions of Lifestyle businesses and new investments. Contrarily, we could lower the SACP if OR's operating performance falls materially below our forecast or the company engages in aggressive debt-financed investments that lead to a material deterioration in its financial profile.

According to TRIS Rating's "Group Rating Methodology", a downward revision of the credit profile of PTT or material changes in the linkage between OR and PTT could also impact the company rating on OR.

### COMPANY OVERVIEW

OR is the largest oil distributor in Thailand and serves as the oil and retail flagship of the PTT Group. In 2018, the company changed its business structure by transferring the oil business unit, along with related investments, from PTT to OR. In February 2021, the company was listed on the Stock Exchange of Thailand (SET) following the initial public offering (IPO). PTT is the major shareholder, owning 75% of its total shares. Therefore, OR is considered a state-owned enterprise.

The company operates through three business units: Mobility, Lifestyle, and Global. The Mobility business is engaged in distribution of petroleum products through retail PTT stations and commercial businesses. The Lifestyle business comprises the Café Amazon business, 7-Eleven and "Jiffy" convenience stores, and other F&B retail outlets (such as "Texas Chicken" and "Pacamara Coffee Roasters"). The global business includes the oil distribution business as well as Café Amazon and 7-Eleven, mainly in the Philippines, Cambodia, and the Lao People's Democratic Republic (Lao PDR).

At the end of December 2023, OR had 2,652 PTT service stations, including 2,253 stations in Thailand and 399 stations in other countries. In addition, OR had 4,552 outlets of Café Amazon, including 4,159 outlets in Thailand, and 393 outlets in overseas markets, such as the Philippines, Cambodia, the Lao PDR, Oman, Japan, and Vietnam.

**KEY OPERATING PERFORMANCE**
**Table 1: OR's Sales Breakdown by Business Units**

Unit: %

Business Unit	2019	2020	2021	2022	2023
<b>Total sales (mil. THB)*</b>	<b>577,134</b>	<b>428,804</b>	<b>511,799</b>	<b>789,785</b>	<b>769,224</b>
<b>% Breakdown by Business**</b>					
Mobility	91.2	91.0	91.1	90.8	90.8
Lifestyle	2.9	3.9	3.3	2.6	2.8
Global	5.7	4.9	5.4	6.4	6.2
Others	0.2	0.2	0.2	0.2	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* The amount after inter-transaction elimination

\*\* % before inter-transaction elimination

Source: OR

**Table 2: OR's EBITDA Breakdown by Business Units**

Unit: %

Business Unit	2019	2020	2021	2022	2023
<b>Total EBITDA (mil. THB)*</b>	<b>17,005</b>	<b>17,619</b>	<b>20,335</b>	<b>20,608</b>	<b>21,206</b>
<b>% Breakdown by Business**</b>					
Mobility	70.6	69.1	75.6	67.6	68.1
Lifestyle	25.0	25.5	20.6	25.4	26.8
Global	4.2	4.9	3.6	7.1	6.6
Others	0.2	0.5	0.2	(0.1)	(1.5)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* The amount after inter-transaction elimination

\*\* % before inter-transaction elimination

Source: OR

**Table 3: OR's Oil Service Station and Sales Volume**

Oil Service Station	2019	2020	2021	2022	2023
<b>No. of service station</b>					
Thailand	1,911	1,997	2,080	2,158	2,253
- DODO	1,571	1,625	1,685	1,753	1,835
- COCO	340	372	395	405	418
Overseas	302	337	359	393	399
<b>Total</b>	<b>2,213</b>	<b>2,334</b>	<b>2,439</b>	<b>2,551</b>	<b>2,652</b>
<b>Sales volume (Million Liters)</b>					
Thailand	27,627	24,399	23,145	26,846	27,642
- Retail	12,078	12,546	11,777	13,133	12,433
- Commercial	15,549	11,853	11,368	13,713	15,209
Overseas	1,636	1,212	1,289	1,496	1,695
<b>Total</b>	<b>29,263</b>	<b>25,611</b>	<b>24,434</b>	<b>28,342</b>	<b>29,337</b>
<b>Growth (y-o-y)</b>	<b>1.3%</b>	<b>(12.5%)</b>	<b>(4.6%)</b>	<b>16.0%</b>	<b>3.5%</b>

Source: OR

**Table 4: OR's Café' Amazon**

	2019	2020	2021	2022	2023
<b>No. of outlets</b>					
Thailand	2,912	3,290	3,607	3,875	4,159
Overseas	238	285	324	378	393
<b>Total</b>	<b>3,150</b>	<b>3,575</b>	<b>3,931</b>	<b>4,253</b>	<b>4,552</b>
<b>Growth (y-o-y)</b>	<b>19.6%</b>	<b>13.5%</b>	<b>10.0%</b>	<b>8.2%</b>	<b>7.0%</b>
<b>No. of Cups Sold (Million)</b>					
Thailand	264	274	297	357	371
Overseas	21	20	17	24	29
<b>Total</b>	<b>285</b>	<b>294</b>	<b>314</b>	<b>381</b>	<b>400</b>
<b>Growth (y-o-y)</b>	<b>17.4%</b>	<b>3.0%</b>	<b>6.6%</b>	<b>21.3%</b>	<b>5.0%</b>

Source: OR

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	773,820	793,199	514,998	432,612	582,927
Earnings before interest and taxes (EBIT)	14,966	14,208	15,473	12,241	14,929
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,193	20,667	21,734	18,254	18,693
Funds from operations (FFO)	15,887	19,181	17,694	16,169	16,572
Adjusted interest expense	1,432	1,197	1,285	1,674	1,901
Capital expenditures	9,143	6,485	5,667	7,332	9,998
Total assets	220,236	225,504	207,659	144,979	152,176
Adjusted debt	0	6,539	0	43,028	35,885
Adjusted equity	109,508	103,761	99,872	37,916	38,708
<b>Adjusted Ratios</b>					
EBITDA margin (%)	2.9	2.6	4.2	4.2	3.2
Pretax return on permanent capital (%)	10.1	9.6	12.5	12.2	15.6
EBITDA interest coverage (times)	15.5	17.3	16.9	10.9	9.8
Debt to EBITDA (times)	0.0	0.3	0.0	2.4	1.9
FFO to debt (%)	n.m.	293.3	n.m.	37.6	46.2
Debt to capitalization (%)	0.0	5.9	0.0	53.2	48.1

n.m. = Not meaningful

\* Based on TRIS Rating's calculation

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**PTT Oil and Retail Business PLC (OR)**

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<b>Company Rating:</b>	AA+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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