TRIS RATING
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PTG ENERGY PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 11/04/19

Company Rating History:

Date	Rating	Outlook/Alert
14/02/17	BBB+	Stable
12/02/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on PTG Energy PLC (PTG) at "BBB+" with a "stable" outlook. The rating reflects PTG's strengthened market position in oil retailing, extensive distribution network, and steady earnings growth. However, the rating is tempered by PTG's high financial leverage, susceptibility to oil price intervention by the government, and stiff competition in the oil retailing business.

KEY RATING CONSIDERATIONS

Strengthened market position in oil retailing

The growing network of PTG's "PT" service stations has solidified its market position over the past years. PTG's network reached 2,027 service stations as of December 2019, up from 1,883 stations a year ago. In light of service stations, PTG ranks second behind market-leading PTT PLC (PTT).

In 2019, PTG's sales volume through retail channels grew to 4.39 billion liters, a hefty 18% increase from the previous year. Over the same period, the country's retail oil consumption grew by about 5%. In the retail segment, based on data collected by TRIS Rating, PTG's market share expanded to 14.1% in 2019 from 12.7% in 2018.

PTG's market presence in city areas has improved as well, thanks to its strategy to expand in Bangkok and vicinity. These areas not only boost the company's sales volume but also allow PTG to offer more non-oil products and services such as grocery stores, coffee shops, and auto-care services. Looking ahead, PTG plans to continue with this strategy to forge stronger brand recognition in the upmarket segment.

PTG's membership program, "PT Max Card", which offers members loyalty-based discounts and rewards, has also helped strengthen PTG's market position. PT Max Card has seen a significant growth in memberships. In 2019, PTG mustered 12.6 million card members, up from 10.2 million in the previous year. The revenue from the PT Max Card members accounted for 73% of oil sales volume in 2019. TRIS Rating expects the PT Max Card program to further improve the company's ability to retain customers and increase sales.

Solid growth of earnings

PTG continued its fast-paced business expansion. In 2019, PTG's oil sales volume through all channels grew to 4.68 billion liters, a hefty 19% increase from the previous year.

PTG's sales surged by 11% to Bt120 billion in 2019 and its EBITDA (earnings before interest, taxes, depreciation, and amortization) grew sharply by 44% to Bt6.34 billion, due to higher volume and marketing margins.

Going forward, TRIS Rating expects PTG's oil sales volume will continue on an upward trend, driven by continued expansion of service stations. We conservatively expect PTG's oil sales volume to expand by 6%-7% per annum. We conservatively assume a moderate level of overall marketing margin (including retail and wholesale) of around Bt1.70 per liter. As a result, EBITDA is expected to range between Bt5.9-Bt6.2 billion per annum during 2020-2022.

Small but growing contribution from non-oil businesses

PTG has been expanding into non-oil businesses such as “Max Mart” convenience stores as well as “Punthai Coffee” and “Coffee World” coffee shops. The non-oil businesses (excluding LPG) contributed around 2% of total revenue and 7.8% of gross profit in 2019, compared with 1% and 2.3%, respectively, in 2015.

PTG aims to uplift the profit contribution from non-oil businesses to 20%. TRIS Rating believes this move, if successfully implemented, will lessen PTG’s exposure to oil price volatility and significantly improve its profitability. However, the contribution from non-oil businesses is still small and uncertainty remains as some of these businesses have not yet surpassed breakeven point. The overall success of the non-oil businesses remains to be seen.

Apart from PTG-owned non-oil operations, the company has invested in 40% interest in the “Palm Complex” project which has a B100 biodiesel production capacity of 500,000 liters per day. The project went operational in 2018. However, during 2018-2019, the project ran at low capacity and underwent some production fine-tuning. The Palm Complex has managed to run at a higher utilization rate since late 2019. The government’s policy to promote more biodiesel consumption should partly improve the B100 demand-supply balance in Thailand. As such, the Palm Complex’s operating performance is expected to improve in 2020-2022.

Headwinds from COVID-19 outbreak and intense competition

TRIS Rating expects PTG could face some pressure on sales from the COVID-19 outbreak in the short term. The outbreak, which has partly harmed Thailand’s economic activities, could dent Thailand’s oil consumption growth in 2020. However, we view consumption growth should rebound to normal levels in 2021. Over the medium term, TRIS Rating views that domestic oil consumption could be flat or experience marginal growth, given the slower pace of Thailand’s economic expansion. The country’s consumption of refined oil products grew at around just 3% per annum over the past three years.

Furthermore, PTG is exposed to intense competition among oil retailers in Thailand. Many oil retailers continue to expand their service station networks and launch promotional campaigns to gain more market shares. The petrol station makeover is a trend seen industry-wide. Retailers have spent heavily to renovate their petrol stations and offer non-oil goods and services.

Exposure to oil price volatility and susceptibility to government intervention

We view the wild volatility of oil prices as a downside risk for the company. Oil price volatility could hurt PTG’s operating performance in the short run. For instance, in the event of a precipitous drop in the oil price, PTG’s marketing margin could be heavily squeezed. However, we expect such impacts to be temporary and short-lived. In addition, we view that PTG is able to somewhat limit its inventory loss from oil price volatility given its efficient oil inventory management.

PTG is also susceptible to government intervention in retail prices, which would undermine oil retailers’ marketing margin. For instance, in mid-2018 when oil prices surged briefly, the government capped the diesel price at Bt30 per liter to appease diesel users. As a result, PTG’s marketing margin was affected more than peers as diesel sales made up 71% of the company’s total oil sales volume in 2018. Under the current circumstances, however, there is limited chance of the diesel price being capped by the government as the crude oil price has plunged to US$30-US$40 per barrel territory from the US$60 per barrel level. Despite the slim possibility for now, we view that PTG is still at risk of the government’s intervention.

Leverage expected to rise further

The rating is weighed down by PTG’s high leverage following a streak of major expansions over the past several years. PTG has spent around Bt4.4 billion per annum on capital expenditure over the past four years. This amount covered network expansion and new ventures, such as an integrated palm oil complex, food and beverage, convenience stores, auto maintenance services, etc. As a result, the company’s adjusted debt rose considerably to Bt18.6 billion as of 2019, a steady increase from Bt3.9 billion as of 2015. The ratio of debt to capitalization grew to 74% and the debt to EBITDA ratio was 2.9 times as of 2019.

Going forward, TRIS Rating anticipates PTG’s hefty expansion to continue and its leverage to rise further. We expect capital outlays of Bt4.5 billion per annum over the next three years which will mainly be used for expansion of the service station network. As such, we expect the debt to total capitalization ratio would climb to around 75% and the debt to EBITDA ratio should rise to 3.5-3.7 times during 2020-2022.

Manageable liquidity

PTG’s cash flow protection remains at a reasonably comfort level. The ratio of funds from operations (FFO) to debt was 26.9% and the EBITDA interest coverage ratio was 6.5 times in 2019. In our three-year forecast, we expect PTG’s FFO will range around Bt4.5-Bt4.7 billion per year during 2020-2022. We project the FFO to total debt ratio to stay around 20%-

22% while EBITDA interest coverage will be around 5 times.

PTG has bank loans and bonds of Bt2.4 billion coming due in 2020. Its sources of liquidity include Bt1 billion in cash as of December 2019 and forecast FFO for the next 12 months of Bt4.6 billion. However, we expect PTG will need to roll over most of its existing loans as the company continues to expand. Given its ability to generate cash flow in the years ahead, we view that the refinancing risk is acceptable.

BASE-CASE ASSUMPTIONS

- PTG's oil sales volume to grow 6%-7% per annum, driven mainly by expansion of new service stations.
- Oil selling price to drop by 10% in 2020 and recover by 5% in 2021.
- Revenues to decrease by 4% in 2020 and rise again by 13% in 2021 and 7% in 2022.
- PTG's overall oil marketing margin to be around Bt1.70 per liter.
- Total capital spending of around Bt4.5 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that PTG will be able to maintain its strong market position in the oil retailing market. Furthermore, PTG will be more prudent in its expansion plan. Based on that, we expect the company to keep its debt to capitalization ratio at around 75% and its debt to EBITDA ratio lower than 4 times.

RATING SENSITIVITIES

A credit upside for PTG is limited in the near term given its lingering high financial leverage. Conversely, downward rating pressure could emerge if the company makes aggressive debt-funded investments. A sustained deterioration of operating performance could also prompt a rating downgrade.

COMPANY OVERVIEW

PTG was established in 1988 as Paktai Chueplerng Co., Ltd. to operate an oil distribution center. In 1992, PTG became an oil retailer when it opened service stations under its own "PT" brand. The company was listed on the Stock Exchange of Thailand (SET) in 2013. At the end of 2019, the company's major shareholders comprised the Ratchakitprakarn family (32%), the Wijitthanarak family (10.5%), and the Vachirasakpanich family (8.6%). PTG operates 2,027 service stations nationwide under the "PT" trademark. PTG operated about 7% of all service stations in Thailand at the end of 2019.

The company owns 10 oil distribution centers with a total capacity of 208 million liters (ML). PTG distributes oil via two channels: selling through its "PT" brand service stations to retail customers and selling wholesale directly to industrial customers. In the service station segment, PTG vends oil through two types of stations: COCO (stations owned and operated by the company) and DODO (stations owned and operated by dealers). In 2019, retail sales at COCO stations accounted for 83% of total sales volume, while sales at DODO stations accounted for 11%. The remainder (6%) comprised direct sales to wholesale customers. In addition to the oil retailing segment, the company owns and operates minimarts under the "Max Mart" brands, as well as coffee shops under the "Punthai Coffee" and "Coffee World" brands.

PTG's marketing campaigns mainly comprise the launch of loyalty-based discounts and offers. The company has also embarked on television advertising to raise "PT" brand awareness. In addition, PTG recently launched a new PT Max Card system, which can be used to collect and swap points with PTG's partners, covering various other well-known retailers of several products.

KEY OPERATING PERFORMANCE

Table 1: PTG's Sales Breakdown by Channel

Unit: %

Sales Channel	2015	2016	2017	2018	2019
Total sales (Bt mil.)	**53,678**	**64,591**	**84,625**	**107,829**	**120,027**
COCO	75.4	77.3	81.3	82.4	80.9
DODO	12.7	11.6	11.3	10.2	10.1
Wholesale	10.9	9.3	5.1	4.6	5.7
Others	1.0	1.8	2.3	2.8	3.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PTG

Table 2: PTG's Service Stations

Type of Station	2015	2016	2017	2018	2019
No. of service station					
COCO	936	1,136	1,471	1,638	1,748*
DODO	214	213	225	245	279
Total	**1,150**	**1,349**	**1,696**	**1,883**	**2,027**
Growth (y-o-y)	*20.9%*	*17.3%*	*25.7%*	*11.0%*	*7.6%*
Sales volume (ML)					
COCO	1,684	2,212	2,785	3,301	3,885
DODO	294	351	403	426	501
Total	**1,979**	**2,562**	**3,188**	**3,727**	**4,386**
Growth (y-o-y)	*28.9%*	*29.5%*	*24.4%*	*16.9%*	*17.7%*

Source: PTG
* *Including 75 LPG stations and 108 hybrid (oil and LPG) stations*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----------------------Year Ended 31 December -------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	120,252	108,142	84,861	64,788	53,833
Earnings before interest and taxes (EBIT)	2,894	1,557	1,643	1,621	1,009
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,335	4,374	3,674	3,074	1,933
Funds from operations (FFO)	5,004	3,440	2,945	2,432	1,573
Adjusted interest expense	971	813	576	380	189
Capital expenditures	3,902	5,339	5,394	3,219	1,919
Total assets	22,652	20,940	17,985	12,527	7,805
Adjusted debt	18,627	16,373	13,759	7,934	3,942
Adjusted equity	6,707	5,476	5,119	4,589	4,001
Adjusted Ratios					
EBITDA margin (%)	5.27	4.04	4.33	4.74	3.59
Pretax return on permanent capital (%)	11.76	7.30	9.96	15.15	14.18
EBITDA interest coverage (times)	6.52	5.38	6.38	8.09	10.25
Debt to EBITDA (times)	2.94	3.74	3.74	2.58	2.04
FFO to debt (%)	26.86	21.01	21.40	30.65	39.90
Debt to capitalization (%)	73.52	74.94	72.89	63.35	49.63

RELATED CRITERIA

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

PTG Energy PLC (PTG)

Company Rating:	BBB+
Rating Outlook:	Stable

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