TRIS RATING
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PTG ENERGY PLC

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CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 17/08/20

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) and the rating on its senior unsecured debentures at "BBB+" with a "stable" outlook. The ratings recognize PTG's strengthened market position in terms of sales volume and service station network in oil retailing, as well as its sound performance despite the ongoing impact of the Coronavirus Disease 2019 (COVID-19) pandemic. Conversely, the ratings are tempered by intense competition in the oil retail business and the fluctuation of oil prices. The ratings also take into consideration an expected rise in PTG's financial leverage to support ongoing growth.

KEY RATING CONSIDERATIONS

Extensive distribution network

PTG's strong market position is underpinned by its aggressive expansion of the "PT" service station network. Over the past several years, the company has added 189 stations per year on average. As of December 2020, PTG's network comprised 2,094 service stations including 1,888 oil stations, 81 liquefied petroleum gas (LPG) stations, and 125 mixed stations. With this growth, PTG ranks second behind market-leading PTT PLC (PTT) in terms of network size.

In expanding its sales channels, PTG entices existing service stations, whose contracts with other oil retailers are expiring to switch to PTG. This strategy helps reduce investment costs and shorten construction periods.

Strengthened brand awareness

In addition to consistent growth in the number of service stations, we view that PTG's brand recognition has improved. The company has placed greater emphasis on opening new service stations in Bangkok and surrounding areas and has earmarked annual budget to modernize existing stations. These strategies not only boost sales volume but also enable the company to offer more attractive non-oil services and products to its customers such as grocery stores, coffee shops, and auto-care services.

PTG's key marketing campaigns include "PT Max Card", which offers its members loyalty-based discounts and rewards. Last year, the number of PT Max Card members surged to 14.8 million, up from 12.6 million in 2019. The company plans to develop e-service such as e-money services and electronic money transfer service to enhance its membership ecosystem.

Second largest in oil retailer

The drop in retail oil prices combined with the government's stimulus packages helped sustain flagging demand in the wake of the COVID-19 pandemic. Thailand's retail oil consumption in 2020 remained nearly flat from the previous year. However, PTG was able to grow its oil sales volume through retail channels to 4.74 billion liters in 2020, a hefty 8.1% increase from 2019.

With the growth oil sales volume, PTG was able to retain its second rank in the oil retail market. Based on data collected by TRIS Rating, PTG's oil retail market share rose to 16% in 2020 from 14% in 2019. The rating recognizes the strengthened market position of PTG in terms of both the number of service stations and oil sales volume. We expect PTG's market position to stay firm in the foreseeable future.

Apart from the oil business, PTG continues to expand its LPG business. The company added 23 LPG stations to its network in 2020 and increased its auto LPG sales volume to 152 million liters, up from 134 million liters in 2019.

Concerted effort to expand non-oil business

Like other major oil retailers, PTG is striving to expand its non-oil business, with the objective to diversify and mitigate the impact of fluctuating oil prices. The non-oil business generally generates higher margins than the oil business. PTG plans to expand its network of "Punthai Coffee" branches in various locations, both inside and outside its service stations. The company also plans to expand its auto service business. In 2020, it increased its shareholding in Siam Autobacs Co., Ltd. (Autobacs), which operates auto services and maintenance, to 76.52% from 38.26%. Besides, PTG aims to boost its LPG sales volume by increasing sales in the household LPG segment to around 40%-50% of total LPG sales volume. We expect PTG's non-oil business to grow in line with the rising number of PT service stations in Bangkok and the vicinity. However, the centerpiece of its earnings strategy will continue to be oil sales.

Sound performance despite COVID-19 impact

Despite the fallout from the COVID-19 pandemic, PTG's operating performance came in above our forecast. In 2020, the company's oil sales volume was impacted by the COVID-19 induced lockdown for only a short period while total sales volume grew by 5.9%. PTG's revenue dropped by 12.6% to THB105 billion, due mainly to the plunge in the crude oil price, prompting the company to cut its investment budget and expenses. The company arrived at THB5.9 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA), beating our forecast.

Looking ahead, we believe PTG's oil sales volume will be on a solid course, propelled by the continuous expansion of service stations. In our base-case forecast, we project PTG's oil sales volume will edge up by around 7% per annum over the next three years. We assume a moderate level of overall marketing margin (including retail and wholesale) of around THB1.85 per liter. As a result, EBITDA is expected to range from THB5.8-THB6.7 billion per annum during 2021-2023.

Intense competition

We consider the cut-throat competition in the oil retail business to be a key rating constraint. Oil retailers are contending in terms of selling prices through promotional campaigns and the variety of products and services offered in their petrol stations. Major oil retailers are still continuing to expand their service station networks. At the same time, investment costs for brand-new service stations are tending to rise as oil retailers need to differentiate and offer a wider range of services in line with changing consumer preferences. Modern service stations increasingly feature franchised restaurants, coffee shops, minimarts, and auto services. It is very challenging to reduce operating costs while maintaining services and competitiveness.

Despite the improving recovery prospects from vaccination rollouts, we believe the COVID-19 will continue to have lingering impacts on travel in the short term. The fragile economic revival could also put a lid on demand growth, which is likely to drag down the profits of oil retailers.

Volatile oil prices

We view that wild fluctuations in the oil price are likely to have a significant impact on PTG's marketing margin. A steep drop in the oil price could put a tight squeeze on marketing margins. Nonetheless, we expect this kind of impact to be short-lived. We consider PTG to have efficient oil inventory management that can minimize inventory losses resulting from oil price volatility.

PTG is also sensitive to the regulatory impact if the government exercises the ceiling of the diesel price at THB30 per liter to appease diesel users. This regulation could weaken the marketing margins of oil retailers. PTG's marketing margin might endure more impact than its peers, as the company's main product is diesel, accounting for 73% of total sales volume in 2020. With lingering impacts from the COVID-19, we expect the crude oil price to rise steadily as global economic activities and population mobility gradually normalize in tandem with progress in global vaccination programs.

Potential rise in leverage

In 2020, PTG slashed its investment budget to preserve liquidity at the height of the pandemic fears. Due to the adoption of new accounting standards, PTG's adjusted debt (including financial lease) rose considerably to THB28.8 billion as of 2020, up from THB18.6 billion as of 2019. The debt to capitalization ratio grew to 78.3% while the debt to EBITDA ratio rose to 4.9 times as of 2020. However, we note that the level of cashflow against leverage is still commensurate with the assigned ratings.

Looking ahead, we anticipate that PTG will resume its expansion, given the recovery prospects of the economy. In our base-case forecast, we expect PTG will add 140 new service stations and continue to renovate existing stations. We forecast PTG's capital expenditure will total THB3.5 billion per annum over the next three years. As a result, we expect its debt to capitalization ratio to stay at around 76%-78% and the debt to EBITDA ratio to increase to 5-5.4 times during 2021-2023.

Liquidity manageable

We expect PTG's funds from operations (FFO) to reach THB4.3-THB5 billion per year during 2021-2023 and the FFO to total debt ratio to stay in the 13%-14% range. As of December 2020, PTG had short-term loans of THB2.3 billion and long-term loans of THB1.5 billion coming due in 2021. The company's sources of liquidity include THB942 million in cash as of December 2020 and forecast FFO of THB4.3 billion in 2021. However, we expect PTG to rollover most of its existing loans to support ongoing expansion. Based on PTG's positive business prospects, we consider the refinancing risk to be manageable.

BASE-CASE ASSUMPTIONS

- Oil sales volume to grow by around 7% per annum, driven mainly by expansion of new service stations.
- Oil selling price to increase by 3.3% in 2021 and 5.5% in 2022, then stay at the same level until 2023.
- Revenues to increase by 10% in 2021, 13% in 2022, and 7% in 2023.
- Overall oil marketing margin to be around THB1.85 per liter.
- Total capital spending of around THB3.5 billion per annum during 2021-2023.

RATING OUTLOOK

The "stable" outlook embeds our expectation that PTG will sustain its strong market position in the oil retailing market. Despite its ongoing expansions, we expect PTG's financial leverage and the level of cash generation against debt obligations to remain in line with our forecast.

RATING SENSITIVITIES

A credit upgrade would materialize if PTG continues to strengthen its market position and deliver sound performance. Conversely, a downward revision of the ratings could emerge in the event of substantial deterioration of the financial profile due to large debt-financed investments.

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 with the launched of service stations under its own "PT" brand. The company was listed on the Stock Exchange of Thailand (SET) in 2013. At the end of 2020, the company's major shareholders comprised the Ratchakitprakarn family (30.9%, the Vachirasakpanich family (8.6%), and the Wijitthanarak family (5.1%). PTG operates 2,094 service stations nationwide under the PT trademark.

The company owns 10 oil distribution centers with a total capacity of 208 million liters (ML). PTG distributes oil via two channels: selling through 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 2020, retail sales at COCO stations accounted for 84% of total sales volume, while sales at DODO stations accounted for 12%. The remainder (4%) 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 through PT Max Card membership, which can be used to collect and swap points with PTG's partners, covering various other well-known product retailers.

In 2020, PTG's non-oil businesses (convenience store "Max Mart", coffee shops "Punthai Coffee" and "Coffee World", and other services excluding auto LPG) contributed 2.2% of total revenue and 7.3% of gross profit, compared with 1.9% and 7.8%, respectively, in 2019.

PTG aims to use the food and beverage business as one of the key drivers to boost its non-oil revenue. The company plans to expand Punthai Coffee branches in various locations, both inside and outside its service stations. The company also plans to enhance customer confidence in its coffee shops by building brand awareness. Besides the food and beverage business, PTG plans to expand its auto service business and boost its LPG sales volume by enlarging its household LPG business.

Another important business that PTG invested in is "Autobacs", the passenger car maintenance and repair service center. In 2020, PTG increased its shareholding proportion in Autobacs to 76.52% from 38.26% in 2019. The company aims to use Autobacs as one of the key drivers to boost the company's overall performance. As of 2020, the company owns 16 branches of Autobacs. The company targets to expand more branches in the potential area to be able to provide its comprehensive service to the customers.

Apart from the retail business, PTG has invested in the "Palm Complex" project with a 40% interest. The main product is B100 biodiesel. The project started operation in 2018 and became fully operational in 2020. With good results from the Palm Complex, PTG took the opportunity to expand into Oleochemical production. Besides, the company aims to invest in the renewable energy business.

KEY OPERATING PERFORMANCE

Table 1: PTG's Sales Breakdown by Channel

Unit: %

Sales Channel	2016	2017	2018	2019	2020
Total sales (mil. THB)	**64,591**	**84,625**	**107,829**	**120,027**	**104,423**
COCO	77.3	81.3	82.4	80.9	81.3
DODO	11.6	11.3	10.2	10.1	10.8
Wholesale	9.3	5.1	4.6	5.7	3.9
Others	1.8	2.3	2.8	3.3	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PTG

Table 2: PTG's Service Stations

Type of Station	2016	2017	2018	2019	2020
No. of service station					
COCO	1,136	1,471	1,638	1,748	1,808*
DODO	213	225	245	279	286
Total	**1,349**	**1,696**	**1,883**	**2,027**	**2,094**
Growth (y-o-y)	*17.3%*	*25.7%*	*11.0%*	*7.6%*	*3.3%*
Sales volume (ML)					
COCO	2,212	2,785	3,301	3,885	4,167
DODO	351	403	426	501	574
Total	**2,562**	**3,188**	**3,727**	**4,386**	**4,741**
Growth (y-o-y)	*29.5%*	*24.4%*	*16.9%*	*17.7%*	*8.1%*

Source: PTG

* *Including 81 LPG stations and 125 hybrid (oil and LPG) stations*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----------------------Year Ended 31 December ------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	104,666	120,252	108,142	84,861	64,788
Earnings before interest and taxes (EBIT)	3,400	2,894	1,557	1,643	1,621
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,930	6,335	4,374	3,674	3,074
Funds from operations (FFO)	4,401	5,004	3,440	2,945	2,432
Adjusted interest expense	1,104	971	813	576	380
Capital expenditures	2,043	3,902	5,339	5,394	3,219
Total assets	42,037	22,652	20,940	17,985	12,527
Adjusted debt	28,808	18,612	16,373	13,759	7,934
Adjusted equity	7,980	6,707	5,476	5,119	4,589
Adjusted Ratios					
EBITDA margin (%)	5.67	5.27	4.04	4.33	4.74
Pretax return on permanent capital (%)	10.61	11.76	7.30	9.96	15.15
EBITDA interest coverage (times)	5.37	6.52	5.38	6.38	8.09
Debt to EBITDA (times)	4.86	2.94	3.74	3.74	2.58
FFO to debt (%)	15.28	26.88	21.01	21.40	30.65
Debt to capitalization (%)	78.31	73.52	74.94	72.89	63.35

RELATED CRITERIA

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

PTG Energy PLC (PTG)

Company Rating:	BBB+
Issue Rating:	
PTG233A: THB1,000 million senior unsecured debentures due 2023	BBB+
Rating Outlook:	Stable

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