

PTT EXPLORATION AND PRODUCTION PLC

No. 37/2023
21 March 2023

CORPORATES

Company Rating:	AAA
Issue Ratings:	
Senior unsecured	AAA
Outlook:	Stable

Last Review Date: 14/03/22

Company Rating History:

Date	Rating	Outlook/Alert
16/03/06	AAA	Stable
12/07/04	AA+	Positive
28/11/01	AA+	-
21/11/00	AA	-

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RATIONALE

TRIS Rating affirms the company rating on PTT Exploration and Production PLC (PTTEP) and the ratings on PTTEP's senior unsecured debentures at "AAA", with a "stable" outlook. PTTEP's ratings continue to reflect the company's leading position in the petroleum exploration and production (E&P) industry in Thailand, its low market risk due to long-term gas sale agreements with PTT PLC (PTT), low production cost, conservative financial policy, and strong financial profile.

The "AAA" rating incorporates PTTEP's stand-alone credit profile (SACP) of "aaa", and our view that PTTEP is a core subsidiary of PTT.

KEY RATING CONSIDERATIONS

Leading Thai E&P company

PTTEP is the largest Thai E&P operator. The company sources petroleum, mainly natural gas, both domestically and internationally to fulfil the country's need for energy consumption.

At the end of 2022, PTTEP reported proved reserves of 1,442 million barrel of oil equivalent (MMBOE), indicating a reserves life of about 6.8 years. Around 49% of its proven reserves are in Thailand with the rest spread across different regions, including Asia-Pacific, the Middle East, and Africa. Its sales volume rate in 2022 was 468 thousand barrels of oil equivalent per day (KBOED). Approximately 70% of production was natural gas which helped fulfil domestic energy needs.

Highly integrated with PTT

We view PTTEP as a core subsidiary of PTT, the national oil and gas company. PTT, directly and indirectly, holds a 65.3% equity interest in PTTEP, as of March 2023. Both PTT and PTTEP are Thai state enterprises with respect to their statutory statuses.

PTT is also the largest customer of PTTEP, accounting for about 65%-70% of PTTEP's annual sales. PTTEP is vital to PTT's natural gas supply chain. Most of the PTTEP's natural gas is supplied to PTT's gas separation plants, which in turn distribute the outputs to power plants, petrochemical plants, and other industrial users. During 2018-2022, PTTEP contributed about 40%-60% of PTT's earnings before interest, taxes, depreciation, and amortization (EBITDA).

High gas mix helps stabilize earnings

PTTEP's main product is natural gas, making up over 70% of its sales volumes during 2018-2022. Its natural gas sales are secured under long-term gas sales agreements (GSAs), with contractual periods of 15-30 years. PTTEP's GSAs with PTT are on a take-or-pay basis, under which the buyer is obliged to take the minimum annual contracted quantity of natural gas stipulated in the GSA or pay the equivalent amount. A significant portion of the prices of natural gas in the GSAs are indexed to either fuel oil or Dubai crude oil prices with a lag-time adjustment. Natural gas prices under the GSAs also contain some adjustments for inflation and foreign exchange rate movements. In contrast, sales of liquid petroleum usually refer to the market price or are on short-term contracts.

Dubai crude oil price continued to surge in 2022 by 39% to USD96 per barrel. This followed the impact on global energy supply from the Russia-Ukraine conflict. As a result, PTTEP's overall average selling price (ASP) increased by

23% to USD53.39 per barrel of oil equivalent (BOE) in 2022. PTTEP's liquid petroleum selling price increased by 42% to USD 94.89 per BOE in 2022. Its natural gas prices in 2022 averaged at USD6.27 per metric million British thermal unit (MMBTU), increasing by 10%, due to 3-21 months lag-time adjustment in the selling price formulas.

Production ramp-up for G1/61

It is crucial that the ramp-up progress for G1/61 stay on track. Sales volumes from the G1/61 field will account for a large portion of the company's additional sales volume over 2023-2025. The G1/61 field was transferred to PTTEP in April 2022. As previously anticipated, the production rate from G1/61 in January 2023 was 210 million standard cubic feet per day (MMSCFD)

We view that PTTEP's expertise in petroleum production in the Gulf of Thailand should help to ramp-up the natural gas production of G1/61 to meet the production requirement under production sharing contracts (PSC) of 800 MMSCFD by April 2024.

Strengthened petroleum reserves

PTTEP's reserve growth in 2022 mainly came from domestic gas fields; however, PTTEP will continue to pursue its strategy to expand its reserve base outside Thailand. The strategy will strengthen its petroleum reserve base and help secure its future operation while alleviating the impact from the depleting petroleum reserves in the Gulf of Thailand.

The overseas projects will contribute to revenue growth over the long term. The projects in Malaysia including the SK410B and SK405B blocks are scheduled for first gas in 2027. As for its presence in Africa, the delayed construction of Mozambique Area 1 Project, incorporated into our forecast, will result in delayed liquefied natural gas (LNG) sales volume of about 20-25 KBOED to 2027.

In addition, PTTEP recently won the offshore exploration blocks G1/65 and G3/65 in the Gulf of Thailand. This will help the company secure its domestic natural gas supply in the longer term.

Healthy performance strengthened financial profile

PTTEP's financial profile remains strong supported by healthy performance. In 2022, the company's EBITDA reached a record high of USD7.05 billion, a 41% growth from the previous year. The increase in EBITDA stems from the combined effect of a 22.8% price increase and 12.5% sales volume growth, mainly from a full year contribution from Oman Block 61 and the commencement of gas supply from G1/61.

PTTEP production cost is, to some extent, immune to the rising energy prices. The company's production cash cost increase by 9.9% to USD14.56 per BOE in 2022. Besides, the company recorded a one-time expense of USD129 million for the Montara mediation agreement on Class Action, which marginally affected the overall cost structure.

At the end of 2022, PTTEP's adjusted debt declined to USD3.50 billion. PTTEP's debt to EBITDA ratio improved to 0.50 times in 2022. PTTEP has strengthened its capital structure, with the debt to capitalization ratio dropping to 20.55% at the end of 2022.

Sales volume to grow amidst declining prices

We expect PTTEP's financial profile remains strong over the forecast period. We forecast PTTEP's sales volume to increase at a compound annual growth rate of 4.6%, reaching 530-540 KBOED in 2025. Growth will come mainly from domestic projects, including G1/61, Arthit, and G2/61 (netting of the termination of its preceding projects—Contract III and Bongkot).

However, we forecast the Dubai crude oil price to gradually decrease to around USD60 per barrel by 2025 from USD96 per barrel in 2022. This reflected our view on the petroleum market to rebalance following the geopolitical tension, and the anticipated global economic recession in 2023.

As a result, we forecast the company's annual EBITDA to soften to stay in the range of USD5.9-USD6.4 billion over 2023-2025. The company's debt to EBITDA ratio is expected to remain strong, staying in the range of 0.5-1.0 times during 2023-2025.

Abundant liquidity

PTTEP's liquidity profile remains very strong. PTTEP's sources of liquidity at the end of 2022 comprised cash on hand of USD3.5 billion and undrawn bank credit facilities of USD855 million, of which USD574 million was on a committed basis. In addition, we forecast PTTEP to generate funds from operations (FFO) in 2023 of about USD4.6-USD5.2 billion. The company's cash on hand plus FFO should be sufficient to cover capital expenditures and uncommitted investments of USD3.6 billion over the next 12 months. PTTEP does not have any debts due during 2023-2025.

Debt structure

At the end of 2022, PTTEP's consolidated debt was USD2.81 billion, of which USD490 million was senior unsecured debt owed by PTTEP's subsidiaries. The ratio of priority debt to total debt was about 17% at the end of 2022.

BASE-CASE ASSUMPTIONS

- The price of Dubai crude oil to be around USD80 per barrel in 2023, before declining to the range of USD60-USD70 per barrel in 2024-2025.
- Total cash cost of PTTEP to gradually decline from about USD15.7 in 2022 to about USD11-USD15 per barrel over the forecast period of 2023-2025. This decline stems from the greater proportion of sales volume from G1/61, and G2/61 which have lower production cost per unit than the company's current level.
- PTTEP's capital spending to total USD12.7 billion over 2023-2025, including a USD1.4 billion provisional budget for non-E&P investments.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PTTEP will maintain its robust operating performance and strong financial position amid challenging market conditions. We believe its production cost advantage, ample liquidity, and ability to rationalize capital expenditures will help the company weather volatility in the petroleum industry.

RATING SENSITIVITIES

A credit downside on PTTEP's SACP may arise if Dubai crude oil prices stay below USD30 per barrel for a prolonged period or if financial leverage increases significantly due to any large debt-funded acquisitions. Any change in the credit profile of PTT or weaker linkage between PTTEP and PTT could also impact PTTEP's ratings.

COMPANY OVERVIEW

PTTEP is the leading petroleum E&P company in Thailand with the primary operational base in Southeast Asia. The company was established in 1985 to develop and promote Thailand's petroleum industry and to ensure the security of Thailand's energy supply. As of March 2023, PTT, the national oil and gas company, directly and indirectly held 65.3% of shares in PTTEP. Both PTT and PTTEP are state enterprises. As of December 2022, the company had E&P projects in 15 countries.

At the end of 2022, PTTEP owned proved reserves of 1,442 MMBOE. About 75% of the proved reserves were natural gas and the remaining 25% were crude oil and condensate. PTTEP remains the largest petroleum producer in Thailand, with a total production rate of 581 KBOED and sales volume entitlement of 468 KBOED in 2022.

The company is focusing its E&P expansion in the Southeast Asia and Middle East, and African regions. In addition, PTTEP is determined to diversify toward other innovation-based businesses via the company's strategy of 'Beyond E&P'.

KEY OPERATING PERFORMANCE

Table 1: PTTEP's Key Operating Data

	Unit	Year Ended 31 December				
		2022	2021	2020	2019	2018
Proven reserves	MMBOE	1,442	1,350	1,074	1,140	677
Yearly production	MMBOE	214	181	155	151	131
Reserve life	Years	6.8	7.5	6.9	7.6	5.2
Five-year reserve replacement ratio	Times	2.0	1.9	1.5	1.5	0.7
Lifting costs	USD/BOE	4.4	4.1	4.5	4.3	4.3
Average sales volume	BOED	468,130	416,141	354,052	350,651	305,522
Average selling price	USBOE	53.39	43.49	38.92	47.24	46.66

Source: PTTEP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. USD

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	9,617	6,956	5,173	6,218	5,361
Earnings before interest and taxes (EBIT)	4,600	2,548	1,653	2,492	2,100
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,049	5,001	3,796	4,643	3,975
Funds from operations (FFO)	5,184	3,518	2,922	3,666	2,965
Adjusted interest expense	244	218	271	300	277
Capital expenditures	1,892	1,661	1,215	1,208	1,154
Total assets	25,168	23,445	22,493	22,201	19,484
Adjusted debt	3,495	4,491	3,833	4,057	1,364
Adjusted equity	13,515	12,272	11,643	11,654	11,428
Adjusted Ratios					
EBITDA margin (%)	73.30	71.90	73.40	74.66	74.14
Pretax return on permanent capital (%)	23.07	13.21	8.68	14.04	12.44
EBITDA interest coverage (times)	28.91	22.90	13.99	15.48	14.36
Debt to EBITDA (times)	0.50	0.90	1.01	0.87	0.34
FFO to debt (%)	148.32	78.34	76.25	90.37	217.42
Debt to capitalization (%)	20.55	26.79	24.77	25.82	10.66

* Consolidated financial statements

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
- Issue Rating Criteria, 15 June 2021
- Government-Related Entities Rating Methodology, 30 July 2020

PTT Exploration and Production PLC (PTTEP)

Company Rating:	AAA
Issue Ratings:	
PTTEP296A: THB11,400 million senior unsecured debentures due 2029	AAA
THB15,000 million senior unsecured debentures under Medium-term Note Programme 2021:	AAA
- PTTEP26NA: THB6,000 million senior unsecured debentures due 2026	AAA
Rating Outlook:	Stable

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