TRIS RATING
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PTT EXPLORATION AND PRODUCTION PLC

No. 23/2022
14 March 2022

CORPORATES

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

Last Review Date: 14/09/21

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". TRIS Rating also affirms the rating of "AA" on PTTEP's subordinated capital debentures. The two notches below the company rating reflect the deferability and subordinated nature of the subordinated capital debentures. Additionally, TRIS Rating maintains the "stable" rating 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 the 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 and highly integrated with PTT

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 2021, PTTEP reported its proved reserves at 1,350 million barrel of oil equivalent (MMBOE), indicating a reserves life of about 7.5 years. About 45% of its reserves are located in Thailand with the rest spread across 14 other countries in different regions including Asia-Pacific, the Middle East, and Africa. Its sales volume in 2021 was 416 thousand barrel of oil equivalent per day (KBOED), of which around 65%-70% fulfilled domestic energy need.

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. 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 70% of PTTEP's annual sales. On the other hand, PTTEP is a vital part of PTT's natural gas supply chain. Most of natural gas supply from PTTEP is transmitted to PTT's gas separation plants, which in turn distribute the outputs to power plants, petrochemical plants, and other industrial users. During 2018-2021, PTTEP contributed about 40%-50% of PTT's earnings before interest, taxes, depreciation, and amortization (EBITDA).

High gas mix helps stabilize revenue

PTTEP's main product is natural gas, making up over 70% of its sales volumes during 2017-2021. Its 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. About 30% of the prices of natural gas in GSA are indexed to fuel oil prices with a lag-time adjustment. The natural gas price under GSA also contains some adjustments for inflation and foreign exchange rate movements. On the other hand, sales of liquid petroleum usually take the market price or are on short-term contracts.

In 2021, Dubai crude oil price has surged by 65% to USD70 per barrel fueled by the economic recovery amid subsiding economic impacts from the Coronavirus

Disease 2019 (COVID-19) pandemic. PTTEP's overall average selling price (ASP) increased by 12% to USD43.49 per BOE in 2021. PTTEP's liquid petroleum selling price increased by 61% to USD 66.70 per BOE in 2021. Natural gas prices, however, fell by 9% to USD5.69 per metric million British thermal unit (mmBtu) due to the lag-time adjustment from the oil price slump in 2020.

Strengthened petroleum reserve base, growing sales volume

PTTEP successfully acquired a 20% interest in Oman Block 61 in March 2021. This acquisition helped strengthen its operation profile by adding about 60 KBOED to sales volume and increasing the reserve life to 7.5 years, compared with 6.9 years at the end of 2020. In addition, the gas price from Oman Block 61 is also immune to oil price fluctuations, thanks to the pricing structure in the long-term take-or-pay GSA with the local government.

We expect PTTEP's sales volume to increase at a compound annual growth rate of 4.5%-5%, reaching 520-530 KBOED in 2026. The growth will come mainly from overseas projects under development in Malaysia, Mozambique, and Algeria. Domestic growth will derive from Arthit, G1/61, and G2/61, netting of the termination of its predecessor projects—Contract III and Bongkot. We expect PTTEP's sales volume from overseas to increase to 45% of the total by 2026, from 36% in 2021. PTTEP's strategy to expand its reserve base outside Thailand will strengthen its petroleum reserve base and help secure its future operation and alleviate the impact from the depleting petroleum reserves in the Gulf of Thailand.

We also expect the sales volume from projects in Malaysia to increase to around 18% by 2026 from 11% in 2021. The Block H Project, which produced its first gas in February 2021, has added 19 KBOED to sales volume. PTTEP recently discovered a huge gas resource in the Sarawak SK410B Project for which a final investment decision is expected in 2023.

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 late 2025. Combined with the completed development of Algeria HBR Project, PTTEP's sales volume in Africa will increase by about 30-35 KBOED. Hence, the sales volume contribution from Africa is expected to reach 6%-7% in 2026.

Yadana Project to continue despite of TotalEnergies SE's withdrawal

PTTEP has a 25.5% interest in the Yadana Project, contributing 2% to its sales volume. The project supplies a critical amount of natural gas to electricity generation in Myanmar and the western region of Thailand. In January 2022, TotalEnergies SE announced the withdrawal of its 31% interest in the project over its humanitarian concerns in Myanmar. The French company will continue its operatorship until July 2022. We expect the decision on the new operatorship to be announced within the first half of 2022, and do not anticipate production disruption in the Yadana Project.

PTTEP gained site access to G1/61

In December 2021, PTTEP eventually reached an agreement with the current concessionaire of the G1/61 (Erawan Field). Upon the operatorship transfer in April 2022, production will start at about 425 million standard cubic feet per day (MMscfd) then drop to around 250-300 MMscfd. PTTEP plans to ramp-up production to meet the production requirement under production sharing contracts (PSC) of 800 MMscfd within two years.

The G1/61 site access delay will temporarily affect production volume during 2022-2023. The transition in Erawan Field, to G1/61 from Contract III, however, will result in net increase of sales entitlement for 2022. PTTEP has a 60% interest in the G1/61 Project, compared with the portion of just 5% in Contract III Projects.

Strong financial profile, ample liquidity

In 2021, the company's EBITDA increased by 32% to USD5.0 billion. The strong operation helped improve PTTEP's debt to EBITDA ratio to 0.90 times in 2021. This is due to the combined effect of a 12% price increase and 18% sales volume growth, mainly from the commencement of gas supply from Block H and the major acquisition of Oman Block 61. After the historical transaction, PTTEP's capital structure remains lowly leveraged, with debt to capitalization ratio of 26.79%.

We forecast the company's EBITDA in 2022 to increase to around USD5.6-USD5.8 billion, as a result of increased sales volume and the ongoing geopolitical conflict that is driving oil prices to extremely high levels. For the period 2023-2024, we forecast the annual EBITDA to soften to the range of USD5.0-USD5.3 billion, based on our assumption of the Dubai crude oil price to return to about USD60-USD65 per barrel in 2023-2024. We project the debt to EBITDA ratio to stay around 1.0 times during 2023-2024.

PTTEP's liquidity profile remains strong from internal cash generation and support from banks. PTTEP's sources of liquidity at the end of 2021 comprised cash on hand of USD2.6 billion and total undrawn bank credit facilities of USD803 million, of which USD579 million was a committed credit facility. In addition, we forecast PTTEP to generate funds from operations (FFO) in 2022 of about USD4.3-USD4.5 billion. The company's cash on hand plus FFO should be sufficient to cover capital expenditures, non-E&P investment, and the debentures due in 2022, that add up to around USD4.1 billion.

Debt structure

At the end of 2021, PTTEP's consolidated debt was USD3.7 billion (including hybrid debentures). PTTEP's priority debt consist of USD490 million in senior unsecured debt owed by PTTEP's subsidiaries. The ratio of priority debt to total debt was about 13% at the end of 2021.

BASE-CASE ASSUMPTIONS

- The price of Dubai crude oil to be around USD75 per barrel in 2022, and USD60-USD65 per barrel in 2023-2024.
- Total cash cost of PTTEP of about USD12.0 to USD15.0 per barrel over the forecast period of 2022-2024.
- PTTEP's capital spending to total around USD11.6 billion over 2022-2024, including USD1.3 billion uncommitted investment for non-E&P businesses.

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. 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 February 2022, 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 2021, the company had E&P projects in 15 countries. The primary operational base is in Southeast Asia.

At the end of 2021, PTTEP owned proved reserves of 1,350 MMBOE. About 74% of the proved reserves were natural gas and the remaining 26% were crude oil and condensate. PTTEP maintain the largest petroleum producer in Thailand, with a total production rate of 495 KBOED and sales volume entitlement of 416 KBOED in 2021.

KEY OPERATING PERFORMANCE

Table 1: PTTEP's Key Operating Data

		------------------------- Year Ended 31 December				-----------------------
	Unit	2021	2020	2019	2018	2017
Proven reserves	MMBOE	1,350	1,074	1,140	677	631
Yearly production	MMBOE	181	155	151	131	127
Reserve life	Years	7.5	6.9	7.6	5.2	5.0
Five-year reserve replacement ratio	Times	1.9	1.5	1.5	0.7	0.6
Lifting costs	USD/BOE	4.1	4.5	4.3	4.3	4.2
Average sales volume	BOED	416,141	354,052	350,651	305,522	299,206
Average selling price	USBOE	43.49	38.92	47.24	46.66	39.20

Source: PTTEP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. USD

	-----------------------Year Ended 31 December --------------------				
	2021	2020	2019	2018	2017
Total operating revenues	6,956	5,173	6,218	5,361	4,412
Earnings before interest and taxes (EBIT)	2,548	1,653	2,492	2,100	1,567
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,001	3,796	4,643	3,975	3,264
Funds from operations (FFO)	3,518	2,922	3,666	2,965	2,822
Adjusted interest expense	218	271	300	277	262
Capital expenditures	1,661	1,215	1,208	1,154	1,361
Total assets	23,445	22,493	22,201	19,484	19,220
Adjusted debt	4,491	3,833	4,057	1,364	2,451
Adjusted equity	12,272	11,643	11,654	11,428	10,939
Adjusted Ratios					
EBITDA margin (%)	71.90	73.40	74.66	74.14	73.96
Pretax return on permanent capital (%)	13.21	8.68	14.04	12.44	9.27
EBITDA interest coverage (times)	22.90	13.99	15.48	14.36	12.45
Debt to EBITDA (times)	0.90	1.01	0.87	0.34	0.75
FFO to debt (%)	78.34	76.25	90.37	217.42	115.14
Debt to capitalization (%)	26.79	24.77	25.82	10.66	18.30

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Group Rating Methodology, 13 January 2021
- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019

PTT Exploration and Production PLC (PTTEP)

Company Rating:	AAA
Issue Ratings:	
PTTEP296A: THB11,400 million senior unsecured debentures due 2029	AAA
PTTEP12PA: THB5,000 million subordinated capital debentures	AA
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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