TRIS RATING
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CreditNews ข่าวเครดิต

ESSO (THAILAND) PLC

No. 167/2023
31 August 2023

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 19/01/23

Company Rating History:

Date	Rating	Outlook/Alert
19/01/23	A+	Alert Negative
21/12/22	A+	Stable
11/06/20	A	Stable
21/11/08	A+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Esso (Thailand) PLC (ESSO) to "A" from "A+". The rating outlook is "stable". At the same time, we remove the CreditAlert with a "negative" implication that was placed on the company rating since 19 January 2023. This follows Bangchak Corporation PLC (BCP)'s announcement on 31 August 2023 of its completed acquisition of 65.99% of ESSO's shares. In effect, ESSO has become a subsidiary of BCP.

The rating downgrade follows the change of ESSO's group parent, from Exxon Mobil Corporation (ExxonMobil, rated "AA-/stable" by S&P Global Ratings) to BCP (rated "A/stable").

ESSO's stand-alone credit profile (SACP) remains at "bbb+". The company rating of "A", which is two notches above its SACP, reflects our view of ESSO as a core subsidiary of BCP.

The SACP reflects ESSO's integrated refinery, a trend toward improved operating performance over the next few years, and its strengthening financial risk profile. The SACP is constrained by the high volatility inherent in the petroleum industries.

KEY RATING CONSIDERATIONS

Core subsidiary of BCP

Following the shares acquisition, we assess ESSO to be a core subsidiary of BCP. We view ESSO as highly integral to BCP's existing refinery and marketing businesses. More importantly, ESSO will significantly enhance BCP's competitive strengths. In assessing ESSO's group status as a core member, we also assume ESSO will continue to own and operate its key operating assets, including its refinery and oil retail networks. Our assessment also factors in post-acquisition operational integration, alignment of strategies, and financial policy, as well as reputation.

ESSO's refinery capacity of 174 thousand barrels per day (KBD) is larger than BCP's existing 120 KBD capacity refinery. Both refineries will operate collaboratively for optimization. Refined products from both refineries will share brand names.

In the marketing business, all ESSO-owned petrol stations will soon be renovated and rebranded as "Bangchak" stations. We expect almost all dealer-owned petrol stations using the "ESSO" brand to gradually convert within two years.

BCP's shareholding in ESSO is substantial. BCP has bought all of ExxonMobil's 65.99% shareholding in ESSO and is obliged to carry out a tender offer for the remaining shares. The tender offer could result in an even higher stake of BCP in ESSO.

Potential rise in refinery crude intake

We expect ESSO's refinery crude intake in 2023 will be only 122 KBD, decreasing from 131 KBD in 2022. For the first half of 2023, crude intake was 124 KBD, a 4.6% decrease year-on-year (y-o-y) from 130 KBD. This was due to a planned partial shutdown in the second quarter as a part of the EURO V fuel standard project. ESSO also has another planned partial shutdown for one and a half months starting in September. Excluding the shutdown effect, the crude intake in the first quarter of 2023 reached 138 KBD, which was 8% higher y-o-y.

Looking ahead, we believe that the underutilization of ESSO's refinery will be improved after ramping up production to meet BCP's current demand. Currently, BCP has to purchase gasoline and diesel to satisfy its demand from marketing networks, given the full utilization of BCP's refinery. We expect the crude intake to rise significantly to a record 150.5 KBD in 2024. Despite potential minor shutdowns, we expect ESSO's crude intake to stay around 150 KBD on average during 2025-2026.

Strong gross refinery margin expected to normalize over mid-term

ESSO's operating gross refinery margin (GRM) was USD5.8 per barrel for the first half of 2023, lower than the extraordinary USD9.0 per barrel in 2022. Crack spreads (the difference between refined product prices and crude oil prices) remained strong in the first quarter of 2023. They were strong again in August and could remain so in September due in part to many refinery shutdowns in the global market. However, we expect ESSO will not be able to fully benefit from such strong spreads during its planned partial shutdown. We predict ESSO's operating GRM to be around USD5 per barrel in 2023 before decreasing to around USD4 per barrel during 2024-2025.

Long-term crude oil prices to remain high

Due to the easing demand-supply imbalance, the Dubai crude oil price decreased from USD96.4 per barrel on average in 2022 to around USD80 per barrel in the first eight months of 2023. In anticipation of OPEC+ stabilizing crude oil prices through supply cuts, we forecast the Dubai crude oil price to average USD80 per barrel in 2023 and to stay high at USD80 per barrel on average during 2024-2025, which is a flattening trend and higher long-term prices than previous forecasts.

Financial performance expected to strengthen

We expect ESSO will benefit from several post-acquisition synergies. These could potentially be achieved through production optimization and several cost savings spread out in the refinery operation, retail market network and back-office operation. We expect collaboration between the two refineries will enhance overall profitability. However, we view that it may take time for the benefits to be realized due to the transitionary process, given ESSO's large scale of operation.

Our base forecast incorporates post-acquisition synergies such as the cut in expenses by replacing services from ExxonMobil group with those of BCP. This could be the first area to see reductions. At the same time, we incorporate potential compensation expenses for converting dealer-owned fuel stations to Bangchak stations.

In all, we project ESSO's earnings before interest taxes, depreciation, and amortization (EBITDA) to decline from the extraordinarily high of THB15 billion in 2022 to THB4.4 billion in 2023 due to refinery shutdowns and lower GRM. We project EBITDA to rise to the THB6.3-THB7.3 billion range per year in 2024-2025, hence our expectation of higher refinery crude intake.

During 2023-2025, we expect ESSO's total capital expenditures to remain in the THB1.1-THB2.2 billion range per year. We forecast the ratio of debt to EBITDA to increase from the extraordinarily low of 2.7 times in 2022 to around 6.5 times in 2023. The ratio is likely to decrease to around 3-4 times in 2024-2025. Over the forecast periods, we project the debt to capitalization ratio to be in the 45%-55% range.

Susceptibility to high GRM volatility and fluctuating oil prices

We view ESSO's business as remaining highly vulnerable to wild fluctuations in global oil prices and GRM, given uncertainties in the global oil market. These include supply chain constraints, the dynamics of the global economic slowdowns and recoveries, and possible supply cuts or supply additions by OPEC+. ESSO's financial performance remains at risk of a narrowing GRM, as well as large inventory losses in the event of market turmoil.

Sufficient liquidity

We assess ESSO's liquidity as sufficient. As of June 2023, ESSO had cash on hand and cash equivalents of about THB567 million and undrawn credit facilities from non-related parties of about THB30 billion. ESSO's funds from operations (FFO) over the next 12 months are expected to be THB5.0-THB5.7 billion. In July 2023, ESSO entered a THB20 billion long-term facility agreement with banks to replace all related parties' debt. Over the next 12 months, we estimate ESSO's net maturing debt, comprising loans and leases liabilities of around THB11.6 billion.

Debt structure

At the end of June 2023, ESSO had THB24 billion in total debt (excluding lease liabilities), without any priority debt. This comprised loans which were extended on a clean basis.

BASE-CASE ASSUMPTIONS

- Dubai crude price around USD80 per barrel on average in 2023-2025.
- Refinery's crude to run at about 122 KBD in 2023, and 150.5 KBD in 2024, and 143 KBD in 2025.
- ESSO's operating GRM to be about USD5 per barrel in 2023 and around USD4.0 per barrel in 2024-2025.
- Total capital spending to be THB5.5 billion over 2023-2025.

RATING OUTLOOK

The "stable" outlook embeds our expectation that ESSO will deliver satisfactory performance although GRM is likely to decline from the extraordinary level in 2022. Given the potential synergies with BCP, we expect ESSO's earnings and financial leverage to be aligned with our estimates. Added to this, we expect ESSO to remain a core subsidiary of BCP and continue to own and operate its key operating assets.

RATING SENSITIVITIES

According to TRIS Rating's "Group Rating Methodology", the company rating on ESSO will move in tandem with the company rating on BCP. Hence, any change in the rating on BCP will result in the same change to the rating on ESSO. In addition, the rating on ESSO could be downgraded if, in our view, there is a change in our assessment of ESSO's group status to a weaker level within the Bangchak Group.

ESSO's SACP could be raised upon ESSO's demonstration of successful business integration and optimization with BCP, which would result in sustained earnings improvement. Conversely, ESSO's SACP could be revised downward if ESSO's performance falls considerably short of our estimates.

COMPANY OVERVIEW

ESSO has a long track record in the petroleum business in Thailand. Since 1971 until 2023, the company's refinery had been operated as the Thailand-based affiliate of ExxonMobil, which is one of the world's largest oil refiners and petrochemical companies.

In 2023, ESSO's major shareholder has been changed to BCP whose key businesses are oil refining and marketing, Oil & Gas E&P, power business, and bio-fuel products.

ESSO operates a complex refinery with a maximum rated capacity of 174 KBD, accounting for approximately 14% of the total refinery capacity in Thailand. ESSO also has an aromatics plant, which is integrated with the refinery. The aromatics plant has a production capacity of 500,000 tonnes per annum of paraxylene.

In addition, there were 832 service stations operating under the "ESSO" brand name as of June 2023.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December ---------			
	Jan-Jun 2023	2022	2021	2020	2019
Total operating revenues	111,528	263,023	172,904	126,739	169,430
Earnings before interest and taxes (EBIT)	(394)	12,297	5,909	(9,494)	(3,403)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,074	15,005	8,777	(6,839)	(1,315)
Funds from operations (FFO)	790	13,917	8,361	(7,304)	(1,866)
Adjusted interest expense	283	467	414	464	554
Capital expenditures	859	1,652	1,654	1,668	1,659
Total assets	72,345	85,541	70,055	61,378	66,243
Adjusted debt	29,444	41,187	34,338	34,410	32,405
Adjusted equity	25,670	27,204	19,208	14,360	22,118
Adjusted Ratios					
EBITDA margin (%)	0.96	5.70	5.08	(5.40)	(0.78)
Pretax return on permanent capital (%)	(10.28) **	19.94	11.43	(18.29)	(6.75)
EBITDA interest coverage (times)	3.79	32.10	21.18	(14.74)	(2.37)
Debt to EBITDA (times)	(8.95) **	2.74	3.91	(5.03)	(24.64)
FFO to debt (%)	(3.36) **	33.79	24.35	(21.23)	(5.76)
Debt to capitalization (%)	53.42	60.22	64.13	70.56	59.43

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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

ESSO (Thailand) PLC (ESSO)

Company Rating:	A
Rating Outlook:	Stable

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