

# BANGCHAK SRIRACHA PLC

No. 170/2024  
30 September 2024

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

**Last Review Date:** 13/05/24

### Company Rating History:

Date	Rating	Outlook/Alert
31/08/23	A	Stable
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 upgrades the company rating on Bangchak Sriracha PLC (BSRC) and the ratings on its outstanding senior unsecured debentures to “A+” from “A”. The rating outlook is “stable”. The upgrade follows the upgrade of the company rating on its parent company, Bangchak Corporation PLC (BCP), to “A+/Stable” from “A/Stable”. Since BSRC is considered a “core subsidiary” of the BCP Group, the ratings on BSRC are at the same level as that assigned to BCP.

We have also revised BSRC’s stand-alone credit profile (SACP) upward to “a-” from “bbb+” to reflect the company’s strengthened earnings fundamentals, resulting from the synergy benefits achieved during its integration with BCP. The SACP also incorporates the company’s improving operating efficiency, driven by the smooth integration of its refinery operations, as well as the expected improvement in financial profile. However, the SACP remains constrained by the inherent volatility in the petroleum industry and anticipated pressure on the marketing margin due to the new refining capacity expected to be added in 2025.

## KEY RATING CONSIDERATIONS

### Core subsidiary of BCP

We assess BSRC as a core subsidiary of BCP based primarily on its full integration with BCP’s key operation in refining and marketing fuel products. This integration is demonstrated by its collaboration with BCP in crude sourcing, production planning, and product distribution, all aimed at enhancing overall group profitability. BSRC’s reputation is also closely linked to BCP as their marketing businesses share the same brand name. Therefore, we believe BCP has a strong incentive to offer extraordinary support to BSRC when needed. BCP and its Treasury Center currently provides credit facility of THB8.0 billion to support BSRC’s normal operation.

We expect BSRC to continue to own and operate its key operating assets, including its refinery and oil retail networks. BSRC intends to replace any closed service stations and aim to maintain around 830 service stations in the long run. BCP’s shareholding in BSRC is also substantial at 78.97% and we believe BCP will maintain this level of ownership over the long-term.

### Smooth integration with BCP boosts earnings

BSRC’s earnings fundamentals have improved since its integration to the BCP Group in September 2023. Demand from BCP’s marketing networks has contributed to an increase in BSRC’s refinery utilization rate. For the first half of 2024, the average crude run rose to 152 KBD (thousand barrels per day). This was higher than 124 KBD in the first half of 2023 and a typical annual crude run of 130-143 KBD during 2013 to 2018, based on normal operation. The increased crude run has enhanced BSRC’s overall earnings through higher sales volume. Also, BSRC benefits from collaborative optimization between the two refineries, enabling flexible crude selection and product mixing. This has also led to cost savings in logistics through market network rezoning, co-loading for crude purchases, and shared corporate services.

The company has retained its marketing business but collaborates with BCP to distribute refined products under the “Bangchak” brand. As of June 2024, around 59% of BSRC’s service stations have been rebranded to “Bangchak”.

BSRC anticipates that all service stations will be fully rebranded by the end of 2024, which is ahead of previous expectations. A unified brand is expected to strengthen the marketing network and ensure continued demand for BSRC's refinery.

### **Profitability susceptible to oil price volatility, and additional supply**

Given the volatile global oil market, BSRC is highly susceptible to significant changes in oil prices and refining margins. Factors like supply chain disruptions, economic downturns, and OPEC+'s decisions can materially impact the company's financial performance. A decline in refining margins or drops in oil prices could result in losses to BSRC. Furthermore, the planned addition of 125 KBD of refining capacity by Thai Oil PLC (TOP) in 2025 is expected to put pressure on the marketing margin, especially in the domestic wholesale market.

However, the increased crude run and various cost-saving benefits from the synergy with BCP are expected to help BSRC maintain its normal EBITDA margin in the 2.7%-3.7% range. Looking ahead, we project BSRC's EBITDA to remain in the THB6.0-THB6.5 billion range for 2024, increasing to THB8-THB9 billion annually in 2025-2026. These projections are based on our assumption that BSRC will maintain high refinery utilization rates above 150 KBD on a stream day, driven by demand from the BCP market network. Also, we expect lower crude premiums (the difference between actual crude costs and Dubai prices) and cost saving benefits from planned investments to boost BSRC's operating gross refinery margin (GRM) to around USD5.5-USD6.0 per barrel during 2025-2026, from about USD4.0-USD4.5 per barrel in 2024.

### **Financial leverage improving despite increasing CAPEX**

With its improving operating performance, we expect BSRC's financial leverage to gradually improve from the current level. In our base-case scenario, we project BSRC's debt to EBITDA ratio to decrease to around 4.5-5.0 times in 2024, from 5.2 times in 2023. The ratio is likely to fall further to below 3.5 times by 2025-2026. The ratio of funds from operations (FFO) to debt is projected at around 15%-16% in 2024 and is expected to increase to over 20% in 2025-2026.

The projections incorporate BSRC's planned capital expenditures (CAPEX) of around THB9 billion during 2024-2026, increasing from the last three years, driven by the company's maintenance and improvement plans. BSRC plans to invest in a Multi Buoy Mooring System (MBM) to support Very Large Crude Carrier (VLCC) cargo, aiming to maximize the benefits of co-loading crude and reduce freight costs. Also, BSRC intends to invest in energy efficiency improvements and carbon reduction for its refinery and extend the useful life of the catalysts used in the refining process. The CAPEX also includes a budget for rebranding the remaining service stations, upgrading existing ones, and replacing any closed stations.

### **Sufficient liquidity**

We assess BSRC's liquidity as sufficient. As of June 2024, BSRC had cash on hand and cash equivalents of about THB538 million, and an undrawn intercompany loan from BCP of THB8 billion. BSRC's FFO over the next 12 months are expected to be THB4.5-THB5.5 billion. BSRC also has undrawn credit facilities from financial institutions (both committed and uncommitted) of about THB17 billion. Over the next 12 months, BSRC's maturing debt comprised long-term loans and lease liabilities of around THB5 billion. The company has short-term loans coming due in the next 12 months of about THB9 billion, which are expected to roll over.

### **Debt structure**

At the end of June 2024, BSRC had THB26.8 billion in total debt (excluding lease liabilities), without any priority debt. This comprised loans which were extended on a clean basis.

### **BASE-CASE ASSUMPTIONS**

Key assumptions in TRIS Rating's base-case forecast for BSRC's operations during 2024-2026 are as follows:

- Dubai crude price of around USD80 per barrel in 2024 and USD77 per barrel in 2025-2026.
- Refinery's crude to run at about 150 KBD in 2024, 149 KBD in 2025, and 155 KBD in 2026.
- BSRC's operating GRM to be about USD4.0-USD4.5 per barrel in 2024 and USD5.5-USD6.0 per barrel in 2025-2026.
- Total capital spending to be THB9 billion spread over 2024-2026.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that BSRC will maintain its status as a core subsidiary of BCP and continue to receive strong supports from its parent company. The outlook further reflects our expectation that BSRC will perform in line with our projections. Given the planned actions for business improvement, we expect BSRC's earnings and financial leverage to align with our estimates.

## RATING SENSITIVITIES

The ratings and/or outlook for BSRC could be revised upward or downward should there be any changes in BCP's credit profile or if there are changes in BSRC's status relative to BCP.

## COMPANY OVERVIEW

BSRC 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, BSRC's major shareholder was changed to BCP, whose key businesses are oil refining and marketing, oil & gas exploration and production (E&P), power business, and bio-fuel products.

BSRC operates a complex refinery with a maximum rated capacity of 174 KBD, accounting for approximately 13% of the total refinery capacity in Thailand. BSRC 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.

As of June 2024, there were 821 service stations, with 488 operating under the Bangchak brand, while the remaining stations are in the process of rebranding to Bangchak.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	129,710	229,777	263,023	172,904	126,739
Earnings before interest and taxes (EBIT)	1,846	3,447	12,297	5,909	(9,494)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,527	6,317	15,005	8,777	(6,839)
Funds from operations (FFO)	2,758	5,025	13,917	8,361	(7,304)
Adjusted interest expense	564	854	467	414	464
Capital expenditures	753	2,081	1,652	1,654	1,668
Total assets	74,516	71,062	85,541	70,055	61,378
Adjusted debt	31,101	33,129	41,187	34,338	34,410
Adjusted equity	28,515	28,323	27,204	19,208	14,360
<b>Adjusted Ratios</b>					
EBITDA margin (%)	2.7	2.7	5.7	5.1	(5.4)
Pretax return on permanent capital (%)	12.8 **	5.2	19.9	11.4	(18.3)
EBITDA interest coverage (times)	6.3	7.4	32.1	21.2	(14.7)
Debt to EBITDA (times)	3.0 **	5.2	2.7	3.9	(5.0)
FFO to debt (%)	28.0 **	15.2	33.8	24.3	(21.2)
Debt to capitalization (%)	52.2	53.9	60.2	64.1	70.6

\* 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
- Issue Rating Criteria, 15 June 2021

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**Bangchak Sriracha PLC (BSRC)**

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<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
BSRC267A: THB2,500 million senior unsecured debentures due 2026	A+
BSRC277A: THB1,500 million senior unsecured debentures due 2027	A+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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