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Summary:
PTT Public Co. Ltd.

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Summary:

PTT Public Co. Ltd.

Credit Rating: BBB+/Stable/--

Rationale

The rating on PTT Public Co. Ltd. (PTT) reflects the company's stand-alone credit profile and the extremely high likelihood of extraordinary support from the government of Thailand (foreign currency BBB+/Stable/A-2; local currency A-/Stable/A-2; ASEAN scale axAA/axA-1) in the event of financial distress.

PTT's stand-alone credit profile reflects the consolidation of its wholly owned and majority-owned subsidiaries, including PTT Exploration and Production Public Co. Ltd. (PTTEP; BBB+/Stable/--). It also takes into account our expectation that PTT will continue to support its associate companies, PTT Chemical Public Co. Ltd. (PTT Chem; BBB/Stable/--), Thai Oil Public Co. Ltd. (BBB/Stable/--), PTT Aromatics and Refining Public Co. Ltd. (BBB-/Watch Pos/--; axA-/Watch Pos), and IRPC Public Co. Ltd. (BBB-/Stable/--), which are not consolidated into its accounts.

The company's consolidated financial performance in the past 12 months has been better than our expectations due to improved product prices and increased sales volumes. PTT's annualized ratio of funds from operations to adjusted total debt was about 35% for the six months ended June 2011. Including income from associate companies, the ratio improves to about 44%.

PTT's cash flows will remain solid because of enhanced scale. But a further improvement in the company's credit protection ratios is unlikely in the next 12-18 months, in our view. The uncertain global economic outlook and slower economic growth in China could weaken oil and petrochemical product prices. Planned maintenance shutdowns in several PTT businesses will also reduce production capacity in the second half 2011.

Peak capital expenditure requirements of Thai Baht (THB) 173.4 billion in 2011-2012 will also limit the improvement in PTT's credit protection ratios. Capital expenditure requirements in 2011-2012 represent about 53% of total capital expenditure of THB330 billion over 2011-2015. We expect PTT to use debt in the next 18 months to fund these investments, and we forecast the ratio of funds from operations (not including associate income) to adjusted total debt to average about 32% in 2011 and 2012. These measures remain adequate for the rating, in our view. The company also maintains some flexibility in its investment plans with about 28% of planned capital expenditure over 2011-2015 related to mergers and acquisitions. This spending is discretionary.

We view PTT's business risk profile as satisfactory. The group is dominant across all major segments of oil and gas exploration and production, transmission, distribution, and separation; and petrochemical and refining businesses in Thailand. PTT's profitability, which is lower than other integrated national energy companies, reflects the company's dominant marketing and trading business and the transmission-like nature of its gas business.

We do not expect a material impact on PTT's business and financial risk profiles from proposed changes to energy policies for PTT and its associate companies. We expect government intervention to remain negative, through government controlled prices without adequate subsidy relief, for the next 12 months.

Liquidity

PTT has adequate liquidity, in our view. As of June 30, 2011, the company had cash and cash equivalents of THB111.8 billion, compared with THB91.9 billion in short-term debt due (including short-term provision for decommissioning costs). PTT also has access to short-term credit facilities with 15 banks totaling THB12 billion, of which THB1.5 billion is committed. All lines are currently unutilized.

We believe PTT's financial flexibility and access to external funding sources is strong. This is because it is the only integrated energy company in Thailand and has solid business positions in its respective segments.

PTT's financial flexibility will be important, given the company's large capital requirements and our expectations of negative free operating cash flow in the next two years. We forecast its ratio of net cash flow to capital expenditure to average 70% in the next two years. We expect PTT's sources of liquidity, including cash and facility availability, to exceed its uses of liquidity by at least 1.22x in the next 12 months.

Outlook

The stable outlook on PTT reflects the outlook on the sovereign rating on Thailand. We could raise the rating on PTT if the sovereign credit rating on Thailand is raised, and the company maintains or improves its existing stand-alone credit profile.

We may lower the rating on PTT if:

- We lower the sovereign credit rating on Thailand;
- The government's shareholding in PTT falls below 50%;
- The government's energy policy shifts significantly, including liberalization of the gas industry, thus eroding PTT's market share; or
- PTT's stand-alone credit profile weakens by more than four notches, which we consider highly unlikely given the company's relationship with the government, its strong and integrated domestic competitive position, and its intermediate financial risk profile.

Related Criteria And Research

- Assumptions: Revised Oil Price Assumptions For 2011, 2012 And 2013, July 22, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Business and Financial Risks In The Commodity And Specialty Chemical Industry, Nov. 20, 2008
- Business and Financial Risks In The Oil And Gas Exploration & Production Industry, Nov. 10, 2008
- Corporate Ratings Criteria 2008, published April 15, 2008