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## PTT Public Co. Ltd.

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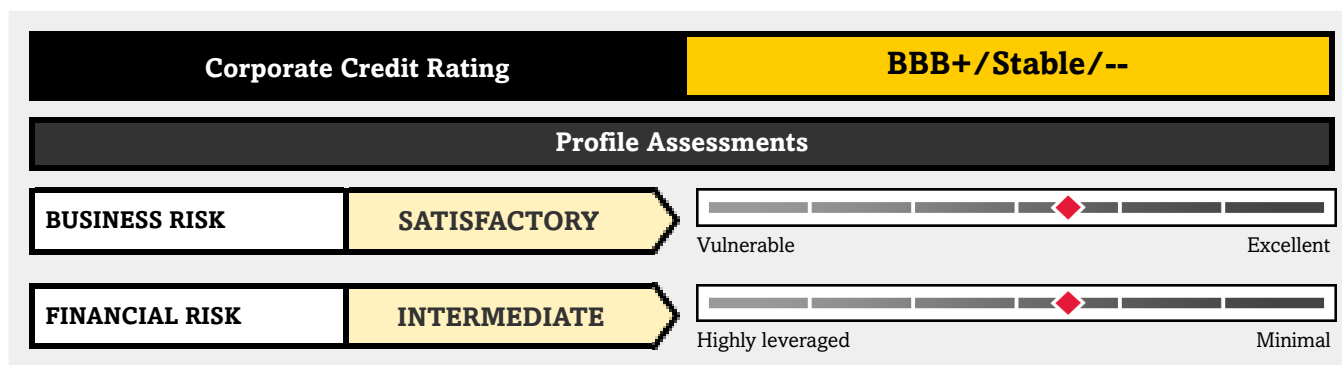
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# PTT Public Co. Ltd.



## Issuer Rating Profile

Foreign Currency: BBB+/Stable/--

Local Currency: BBB+/Stable/--

ASEAN Regional Scale: axA+/--

## Likelihood Of Government Support: Extremely High

We assess the stand-alone credit profile (SACP) of PTT Public Co. Ltd. (PTT) as 'bbb'. Our rating on the company is based on our criteria for government-related entities and our view of an "extremely high" likelihood of extraordinary government support weighing the following assessments:

- Critical role as the only integrated energy-company in Thailand (foreign currency BBB+/Stable/A-2; local currency A-/Stable/A-2; axAA/axA-1) and in developing a long-term natural gas supply for the country. PTT implements Thailand's energy policies and plays an essential role in maintaining the country's electric power supplies.
- Very strong link with the Thai government through the Ministry of Finance's 51.1% ownership in the company. The ministry has considerable influence on PTT's policies and direction through a strong representation on the company's board. The government-supported equity fund Vayupak, also owns 15.3% of PTT, taking total government ownership to 66.4%.

## Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
<ul style="list-style-type: none"> <li>• Strong domestic position in the core oil and gas business.</li> <li>• High degree of integration.</li> <li>• Lower profitability than that of other integrated national energy companies.</li> <li>• Relatively weak petrochemical and refining associates.</li> </ul>	<ul style="list-style-type: none"> <li>• Solid cash flow generation.</li> <li>• Aggressive growth plans and heavy capital expenditure requirements that will be partly debt funded.</li> <li>• Strong access to external funding.</li> </ul>

Outlook: Stable
<p>The stable outlook on PTT reflects the outlook on the sovereign credit rating on Thailand.</p> <p><b>Downside scenario</b></p> <p>We may downgrade PTT if: (1) we lower the sovereign credit rating on Thailand by two notches; (2) the Ministry of Finance 's shareholding in PTT falls below 50%; (3) the government's energy policy shifts significantly, including liberalization of the gas industry, thus eroding PTT's market share; or (4) PTT's SACP weakens by more than four notches, which we consider highly unlikely.</p> <p><b>Upside scenario</b></p> <p>We could upgrade PTT if we raise the sovereign credit rating, and the company maintains or improves its SACP.</p>

## Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"><li>Weighted average oil and gas prices for the upstream business of US\$67 per barrel of oil equivalent (boe) in 2013.</li><li>Production of about 300 thousand barrels of oil equivalent per day (mboepd) in 2013.</li><li>Growth in gas transmission and separation sales volumes of 1%-3%.</li></ul>		2012A	2013E	2014E
	EBITDA margin	8.0%	8.0%-8.5%	8.4%-8.9%
	Debt/EBITDA	2.2x	2.1x-2.3x	2.2x-2.4x
	EBITDA/Interest	11.1x	9.5x-10.0x	9.5x-10.0x
A--Actual. E--Estimate				

## Company Description

PTT is involved in upstream, midstream, and downstream oil and gas businesses. The company's SACP reflects the consolidation of its wholly and majority-owned subsidiaries, including PTT Exploration and Production Public Co. Ltd. The SACP also takes into account our expectation that PTT will continue to support its associate companies-- PTT

Global Chemical Public Co. Ltd., Thai Oil Public Co. Ltd., and IRPC Public Co. Ltd.--which it does not consolidate.

## Business Risk: Satisfactory

PTT's dominant domestic market shares in all major segments of the oil and gas sector, and the company's high business integration mitigate operating challenges in the sector. PTT's integrated operations assure steady production in its upstream businesses, and stable feedstock and lower costs in its downstream businesses.

Thailand's focus on natural gas as an energy source and the country's well-established natural gas market temper the effects of PTT's high reliance on gas. We expect gas demand to continue to grow in line with Thailand's growing economy.

PTT's associated petrochemical and refining businesses are more volatile, competitive, and capital intensive, and have higher business risks than the core gas business. However, they are strategically important to, and are closely integrated with, the overall group. Therefore, we believe that PTT has a strong incentive to provide financial support to its petrochemical and refining associates when needed.

PTT's profitability is lower than that of other integrated national energy companies, given the company's dominant marketing and trading business, and the transmission-like nature of its gas business. PTT also sells liquefied petroleum gas and natural gas vehicles at a loss because the government controls the prices.

### S&P Base-Case Operating Scenario

Our base-case scenario for PTT incorporates improved operating cash flows and margins in 2013 and 2014, primarily from higher upstream production at PTTEP. We expect moderate growth in PTT's core gas businesses. Key elements of our base-case scenario are:

- Growth in annual upstream production of about 10% in 2013;
- Growth in gas transmission and separation sales volumes of 1%-3%; and
- EBITDA margins of 8.0%-8.5%.

## Peer comparison

Table 1

### PTT Public Co. Ltd.--Peer Comparison

	PTT Public Co. Ltd.	PT Pertamina (Persero)	Petroleum Nasional Bhd.	Oil Company Rosneft OJSC	Petroleo Brasileiro S.A. - Petrobras	China National Offshore Oil Corp.
Rating as on April 17, 2013	BBB+/Stable/--	BB+/Positive/--	FC: A-/Stable/--; LC: A/Stable/--	BBB/Stable/--	BBB/Stable/--	AA-/Stable/--
Stand-alone credit profile	bbb	bb+	aa-	bb	bbb-	a
Business risk profile	Satisfactory	Fair	Strong	Satisfactory	Satisfactory	Strong
Financial risk profile	Intermediate	Significant	Minimal	Aggressive	Intermediate	Modest

**Table 1**

PTT Public Co. Ltd.--Peer Comparison (cont.)						
GRE role	Critical	Critical	Critical	Very important	Very important	Critical
GRE link	Very strong	Integral	Integral	Very strong	Very strong	Very strong
Likelihood of government support	Extremely high	Almost certain	Almost certain	Very high	Very high	Extremely high
--Average of past three years--						
EBITDA margin (%)	8.4	9.4	36.5	27.9	31.6	34.1
EBITDA interest coverage (x)	10.2	10.6	28.6	18.7	5.4	41.9
Funds from operations/total debt (%)	37.6	31.9	90.9	83.8	40.1	97.0
Total debt/EBITDA (x)	2.3	1.8	0.9	1.0	2.4	0.9
Total debt/total capitalization (%)	41.0	46.3	20.1	24.9	43.1	21.4

LC--Local currency. FC--Foreign currency. GRE--Government-related entity.

## Financial Risk: Intermediate

PTT's solid cash flows from the upstream and gas businesses offset the thin margins in the company's downstream business and volatile earnings in the petrochemical and refining operations. Gas transmission tariffs are backed by long-term contracts and are not linked to commodity prices. This reduces volatility in PTT's operating performance.

PTT's cash flows should remain solid for the next one to two years, given our expectation of continuing gas demand growth in Thailand and PTTEP's higher production. However credit protection measures are unlikely to improve materially in the period due to the company's significant capital expenditure.

We expect PTT's consolidated capital expenditure over 2013-2015 to be higher than planned. Most of the additional spending is at PTTEP and is necessary given PTTEP's weakening reserve life and a decline in its reserve replacement ratio to below 1x in 2012. We expect PTT to use debt to partially fund these investments. PTT, however, has some flexibility in its investment plans. Some of the planned capital expenditure over 2013-2017 is related to mergers and acquisitions, and is discretionary.

## S&P Base-Case Cash Flow And Capital Structure Scenario

Our base case suggests stable credit metrics over 2013-2015. Higher operating cash flows from increasing production should mitigate significant capital expenditures. Key elements of our base-case scenario are:

- Weighted average oil and gas prices for the upstream business of US\$67/boe and production of around 300 mboepd in 2013.
- Consolidated capital spending of about Thai baht (THB) 226 billion in 2013.
- Free operating cash flow to remain negative and leverage to average around 2.2x-2.3x through 2013-2014.

## Financial summary

Table 2

PTT Public Co. Ltd. -- Financial Summary					
	--Fiscal year ended 31--				
(Mil. THB)	2012	2011	2010	2009	2008
Revenues	2,793,833.1	2,428,126.1	1,898,682.2	1,586,174.5	2,000,815.8
EBITDA	222,955.3	208,519.6	166,012.7	140,589.7	151,580.3
Net income from continuing operations	104,665.8	106,260.3	83,992.1	59,547.6	51,704.8
Funds from operations (FFO)	196,701.6	176,705.7	133,310.4	98,718.0	135,677.1
Capital expenditures	115,767.5	106,941.5	106,716.5	129,397.0	83,635.6
Free operating cash flow	54,872.7	71,643.8	46,529.1	(29,127.6)	49,216.0
Discretionary cash flow	12,567.0	30,542.0	14,774.4	(52,374.5)	8,460.5
Cash and short-term investments	143,322.9	127,093.8	157,584.6	112,858.8	92,036.7
Debt	488,859.8	433,918.4	417,278.6	391,668.0	273,201.8
Equity	731,664.1	643,713.4	557,413.9	498,090.6	430,535.5
<b>Adjusted ratios</b>					
EBITDA margin (%)	8.0	8.6	8.7	8.9	7.6
EBITDA interest coverage (x)	11.1	10.9	8.5	8.2	10.8
EBIT interest coverage (x)	9.7	10.1	7.4	7.0	8.8
Return on capital (%)	16.2	18.2	15.0	14.7	18.0
FFO/debt (%)	40.2	40.7	31.9	25.2	49.7
Free operating cash flow/debt (%)	11.2	16.5	11.2	(7.4)	18.0
Debt/EBITDA (x)	2.2	2.1	2.5	2.8	1.8
Debt/debt and equity (%)	40.1	40.3	42.8	44.0	38.8

THB--Thai baht.

## Liquidity: Adequate

PTT has "adequate" liquidity, as our criteria define the term. We expect the company's sources of liquidity to exceed its uses by at least 1.2x in the next 12 months.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>Cash and cash equivalents of THB143.3 billion as of Dec. 31, 2012.</li> <li>Average funds from operations of about THB185 billion in 2013 and 2014.</li> <li>Strong access to external funding, given PTT's market position and connection to the government.</li> </ul>	<ul style="list-style-type: none"> <li>Capital expenditure averaging THB234 billion (not including acquisitions) in 2013 and 2014.</li> <li>Dividends and debt repayments of about THB70 billion in 2013 and THB85 billion in 2014.</li> </ul>

## Debt maturities

Table 3

PTT Public Co. Ltd. -- Debt Maturities*				
(Bil. THB)	2013	2014	2015-2107	2018 and thereafter
Maturities	29.1	26.6	91.4	141.1

\*As of Dec. 31, 2012.

## Covenant Analysis

PTT has no financial covenants.

## Reconciliation

Table 4

Reconciliation Of PTT Public Co. Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB)										
--Fiscal year ended Dec. 31, 2012--										
PTT Public Co. Ltd. reported amounts										
	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	455,221.1	605,783.9	2,793,833.1	215,682.1	150,444.6	18,570.2	177,401.5	177,401.5	42,305.7	114,875.9
Standard & Poor's adjustments										
Operating leases	9,202.2	--	--	432.1	432.1	432.1	2,411.1	2,411.1	--	1,730.2
Postretirement benefit obligations	--	--	--	211.3	211.3	216.7	(412.6)	(412.6)	--	--
Capitalized interest	--	--	--	--	--	838.6	(838.6)	(838.6)	--	(838.6)
Asset retirement obligations	21,945.6	--	--	--	--	--	--	--	--	--
Exploration costs	--	--	--	6,629.8	--	--	--	--	--	--

**Table 4**

Reconciliation Of PTT Public Co. Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB) (cont.)										
Reclassification of nonoperating income (expenses)	--	--	--	--	43,077.5	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(6,993.7)	(6,993.7)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	25,134.0	--	--
Minority interests	--	125,880.2	--	--	--	--	--	--	--	--
Debt - Other	2,491.0	--	--	--	--	--	--	--	--	--
Working capital - Other	--	--	--	--	--	--	(927.5)	--	--	--
Total adjustments	33,638.7	125,880.2	0.0	7,273.2	43,720.9	1,487.5	(6,761.3)	19,300.1	0.0	891.6
<b>Standard &amp; Poor's adjusted amounts</b>										
	<b>Debt</b>	<b>Equity</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Cash flow from operations</b>	<b>Funds from operations</b>	<b>Dividends paid</b>	<b>Capital expenditures</b>
Adjusted	488,859.8	731,664.1	2,793,833.1	222,955.3	194,165.5	20,057.7	170,640.1	196,701.6	42,305.7	115,767.5

THB--Thai baht.

## Related Criteria And Research

- Standard & Poor's Revises Its Oil And Natural Gas Liquids Price Assumptions; Natural Gas Price Assumptions Remain Unchanged, Feb. 11, 2013
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Key Credit Factors: Global Criteria For Rating The Oil And Gas Exploration And Production Industry, Jan. 20, 2012
- Key Credit Factors: Criteria For Rating The Global Oil Refining Industry, Nov. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Business and Financial Risks In The Commodity And Specialty Chemical Industry, Nov. 20, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008



**Business And Financial Risk Matrix**

<b>Business Risk</b>	<b>Financial Risk</b>					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

**Note:** These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

**Ratings Detail (As Of April 25, 2013)****PTT Public Co. Ltd.**

Corporate Credit Rating

BBB+/Stable/--

*ASEAN Regional Scale*

axA+/-/--

Senior Unsecured

BBB+

**Corporate Credit Ratings History**10-Dec-2010 *Foreign Currency*

BBB+/Stable/--

01-Dec-2008

BBB+/Negative/--

31-Oct-2006

BBB+/Stable/--

10-Dec-2010 *Local Currency*

BBB+/Stable/--

14-Apr-2009

BBB+/Negative/--

01-Dec-2008

A-/Negative/--

22-Nov-2012 *ASEAN Regional Scale*

axA+/-/--

**Related Entities****IRPC Public Co. Ltd.**

Issuer Credit Rating

BBB-/Watch Neg/--

*ASEAN Regional Scale*

axA-/Watch Neg/--

Senior Unsecured

BBB-/Watch Neg

**PTT Exploration and Production Public Co. Ltd.**

Issuer Credit Rating

BBB+/Stable/--

*ASEAN Regional Scale*

axA+/-/--

Senior Unsecured

BBB+

**PTT Global Chemical Public Co. Ltd.**

Issuer Credit Rating

BBB/Stable/--

*ASEAN Regional Scale*

axA/-/--

Senior Unsecured

BBB

## Ratings Detail (As Of April 25, 2013) (cont.)

**Thai Oil Public Co. Ltd.**

Issuer Credit Rating	BBB/Stable/--
<i>ASEAN Regional Scale</i>	axA/--/--
Senior Unsecured	BBB

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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