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Moody's gives Baa1 rating to flagship

Moody's Investors Service has rated PTT Plc's senior unsecured ratings at Baa1, and its baseline credit assessment (BCA) at Baa2.

"The affirmation of PTT's Baa1 ratings reflects its strong credit metrics, solid liquidity profile and healthy cash flow generation, even after taking into account its proposed \$4.3 billion debt-funded acquisition of Glow Energy Plc, a power company based in Thailand," said Rachel Chua, a Moody's assistant vice-president.

Moody's expects PTT's post-acquisition retained cash flow/adjusted net debt to stay at around 55%-60% over the next two years, which is healthy relative to the quantitative downward rating guidance of 25% for its rating level. Its earnings before interest, tax, depreciation and amortisation (Ebitda) interest coverage will remain strong at 9-10 times.

Through its 75% effective stake in Global Power Synergy Plc (GPSC), PTT announced it has signed a sales purchase agreement with French utility company Engie SA (A2 stable) to acquire Engie's 69.11% stake in Glow Energy Plc for 97.6 billion baht (\$2.9 billion). GPSC will also have to make a tender offer for the remaining 30.89% stake held by public shareholders at the same price, bringing the cost of acquiring 100% of Glow to \$4.3 billion.

"We believe this acquisition is in line with PTT's strategy to grow its presence in the Thai power sector such that it more than doubles total power generation capacity to over five gigawatts. It will also allow the company to leverage on Glow's operational expertise in the sector," said Ms Chua, who is also Moody's lead analyst for PTT.

PTT's Baa1 rating reflects the high likelihood of extraordinary support from the Thai government, she said.

PTT's BCA remains constrained by its low and declining hydrocarbon reserves, which translate into higher capital investment and acquisition risk, execution risks associated with its expansion plans in the downstream segments and less than majority ownership in many of its key operating companies.

The BCA also reflects PTT's inherent exposure to the cyclical nature of oil prices and refining/petrochemical margins.

On a standalone basis, the company's

liquidity remains strong, with cash and short-term investments totalling 104 billion baht versus 22 billion in short-term maturities.

The stable rating outlook is in line with the outlook on Thailand's sovereign rating and reflects our expectation that PTT will maintain a prudent financial profile as it pursues growth.

An upgrade of PTT's Baa1 issuer rating is unlikely given its domestically focused operations. The Baa1 rating will only be upgraded if Thailand's Baa1 sovereign rating is upgraded, said Moody's.

Near-term upward rating pressure on PTT's BCA is limited, given its low and declining hydrocarbon reserves, and large planned expansion projects.

PTT's BCA can improve to baa1 if the company maintains its current credit profile and liquidity position, while (1) expanding its upstream oil and gas business through a combination of organic and inorganic growth resulting in a meaningful increase in its reserves to over seven years; (2) strengthening its cash flows from its stable natural gas business segment; or (3) growing its other downstream refining and petrochemical segments, said Moody's.

PTT's Baa1 issuer rating will be downgraded if (1) Thailand's sovereign rating is lowered; (2) the company's BCA deteriorates below baa3; or (3) government ownership is reduced to below 51%, or government control is reduced by some other means, which would require a reassessment of the level of support incorporated into its rating.

Moody's would lower PTT's BCA to baa3 if there is a significant deterioration in oil prices and/or refining margins such that it weakens operating cash flows or if its oil and gas reserves continue to decline to below four years. Negative pressure on the BCA could also develop if the company undertakes large debt-funded acquisitions, resulting in weaker credit metrics and higher execution risk.

Credit metrics indicative of a deterioration of its BCA include adjusted retained cash flow/net debt below 25%, adjusted debt/capitalisation exceeding 45% and adjusted Ebitda/interest below 5 times. A lowering of the BCA to Baa3 will not automatically result in a downgrade of PTT's issuer rating.