

Petron (PCOR PM)

FUNDAMENTAL VIEW ¹

As of 22 Aug 2024

- Petron's 1H24 results were in line with our expectations, and we expect Petron's credit metrics to worsen modestly through 2H24 as higher capex could offset low single digit % EBITDA growth amid modestly higher crude oil input costs.
- About two-third of its total revenues are derived from the Philippines and are indexed to Dubai crude prices, which allows for smooth cost pass-throughs and good insulation from crude price volatility.
- Free cash flows are typically negative due to inventory fluctuations that outweigh low capex.

RISKS & CATALYSTS

As of 22 Aug 2024

- Petron cannot fully pass on higher crude oil input costs to customers in Malaysia.
- Petron operates in low-margin business (EBITDA margins ~5%) and maintains elevated credit metrics.
- Petron is highly dependent on its Limay petroleum refining complex that makes up two-thirds of its total refining capacity (67%). Any events that disrupt the refinery's operations could adversely affect Petron's total revenues.

CREDIT QUALITY SCORE (CQS)²

As of 18 Oct 2024

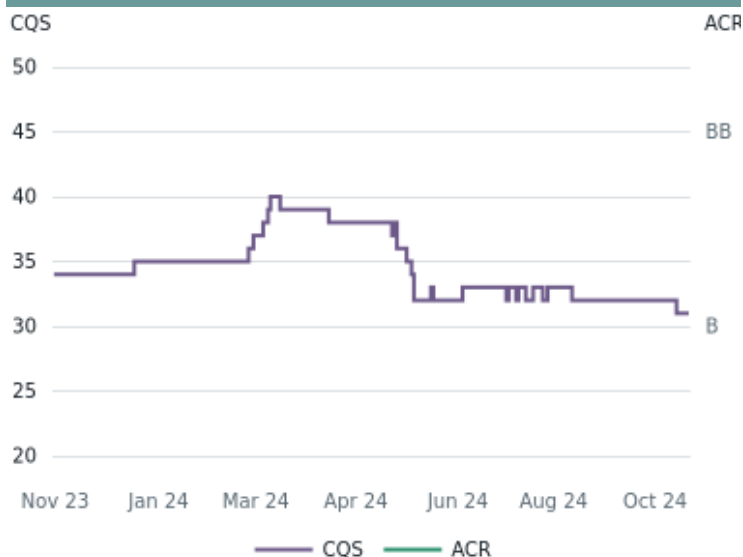
CURRENT CQS

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CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 22 Aug 2024

PHP BN	FY21	FY22	FY23	1H23	1H24
Debt to Book Cap	72.3%	74.0%	75.1%	72.5%	74.1%
Net Debt to Book Cap	63.3%	65.5%	68.2%	62.6%	66.5%
Debt/Total Equity	261.6%	284.2%	301.4%	263.3%	285.8%
Debt/Total Assets	71.2%	70.2%	67.6%	66.6%	65.1%
Gross Leverage	11.2x	10.9x	7.1x	9.8x	6.8x
Net Leverage	9.8x	9.7x	6.5x	8.5x	6.1x
Interest Coverage	2.5x	2.2x	2.2x	1.7x	2.1x
EBITDA Margin	5.9%	3.4%	5.3%	5.7%	5.1%

BUSINESS DESCRIPTION

As of 22 Aug 2024

- Petron is the largest oil refining and retailing company in the Philippines, and the third largest player in Malaysia. It maintains a 24% market share in the Philippines (followed by Shell and Caltex) and a 20% market share in Malaysia (largest being Petronas), based on total fuel sales volumes.
- Petron has a total refining capacity of 268k barrels/day (bpd) and accounts for about 30% of the Philippines' fuel needs. Its petroleum refining facilities include the Limay Refinery in Bataan, Philippines (capacity of 180k bpd; 67% of total) and the Port Dickson Refinery in Negeri Sembilan, Malaysia (capacity of 88k bpd; remaining 33% of total).
- Petron's refineries process crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals.
- It further markets and retails these fuel products through its fuel service stations located across the Philippines (2,400 outlets) and Malaysia (700 outlets).
- Petron sources its crude oil supplies from third-party suppliers, namely Saudi Aramco, Kuwait Petroleum Corporation and Exxon Mobil, which are bought on the basis of term contracts and in the spot market.
- Petron mainly supplies its petroleum and fuel products to customers in Malaysia and the Philippines (~95% of annual revenue).
- Petron is 68% owned by San Miguel Corporation (SMC), one of the largest and most diversified conglomerates in the Philippines based on total revenues and assets. SMC's CEO, Mr. Ramon Ang, is also Petron's CEO.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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