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PTTEP.BK - Q3 2019 PTT Exploration and Production PCL Earnings Presentation (Thai)

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to PTTEP's in the Third Quarter of 2019 Analyst Meeting featuring the announcement of the company's operating performance in the third quarter of 2019. (Operator Instructions) Before we begin, please allow me to invite our Chief Executive Officer, Khun Phongsthorn Thavisin, to share PTTEP's quarterly highlights and strategic directions; followed by Khun Montri Rawanchaikul, Executive Vice President, Strategy and Business Development Group, to provide an industry update and key highlights of the recent period; and Khun Sumrid Sumneing, Executive Vice President, Finance and Accounting Group, to summarize PTTEP's financial performance in the third quarter of 2019.

Phongsthorn Thavisin - *PTT Exploration and Production Public Company Limited - CEO, President & Director*

With regards to the strategic directions, I believe we are in the process of delivering what we have committed earlier on. However, the volatility and uncertainty are also widely recognized by other industries, not just the oil and gas industry, including the impact from external factors. Speaking of which, Khun Montri will be providing an update and our viewpoint of the situation at hand.

Montri Rawanchaikul - *PTT Exploration and Production Public Company Limited - Executive VP of Strategy & Business Development Group and Acting SVP of New Business Unit*

The oil price has been fluctuating as it has been earlier. Nevertheless, due to PTTEP's consistent effort in cost reduction, we have been able to sustain the business through challenging times given the crude oil price at the level of USD 60 per barrel. In determining the oil price trend, relevant factors are trade war, Brexit, and the most significant factor in our point of view is the production volume from the U.S.A. There are 2 major notions regarding this matter. One believes that the volume will be increasing over the next few years before beginning to decline, while the other believes that the volume increase will last more than 2 years. This is the matter that we still need to keep monitoring in the long run. However, our guideline suggests a narrower oil price range of USD 60 to USD 70 per barrel in 2020 with reference to the Oil & Money conference held last month in the U.K., which brought about the consensus among trading companies that the crude oil price range will be around USD 50 to USD 60 per barrel. We think that the oil price going below USD 50 per barrel is less likely due to the existence of the OPEC's production cut scheme, volume control and the demand and supply mechanism in the market. Thus, the oil price range of USD 60 to USD 70 per barrel seems a more possible scenario.

One of the key factors which we have to keep monitoring through end of 2019 and early 2020 is the Brexit. Meanwhile, global oil demand is likely to pick up in 2020, though not too vigorously. And we believe that the oil price scenario is not going to differ much from the current situation. All in all, what we have been doing all along since 2014 has greatly contributed to the company's business viability.

Many people asked about the impact on gas price upon the International Maritime Organization's announcement that prohibits the use of high-sulfur fuel oil in marine transportation from 2020 onwards. The concern came from the fact that PTTEP's gas sold in this region is somewhat tied to high-sulfur fuel oil price and whether or not the impact is going to be material. In response to this, we have made hedging arrangements of the spreads between high-sulfur fuel oil and dated Brent or Dubai crude as a risk management measure to partially alleviate the impact.

To elaborate, the graph on the upper right is a good demonstration of the scenario. It suggests that PTTEP's major product is gas. However, the impact caused by the high-sulfur fuel oil is only about 1/3 because the gas price formula is not solely tied to high-sulfur fuel oil price but also foreign exchange, inflation and some other factors. Moreover, the hedging and the time-lapse benefit on fuel oil price also serve as potential buffers. As a result, our exposure to high-sulfur fuel oil is actually quite low.

The graph on the lower right provides an even clearer picture. With regards to the production sharing contract in the Gulf of Thailand that is going to take effect in 2022 to 2023, high-sulfur fuel oil price will be replaced by Dubai crude price for gas sales agreement, hence, the impact will be even less.

Phongsthorn Thavisin - *PTT Exploration and Production Public Company Limited - CEO, President & Director*

The strategic direction and growth drivers are still in line with what we have discussed at the beginning of the year. We have been actively venturing into the expansion activities over the recent period with 3 major acquisitions that we believe they're going to contribute considerable growth for PTTEP. From this point forward, our focus and efforts shall be geared towards the execution activities with the business transition of newly acquired assets and producing tangible results.

The acquisition of Murphy Oil aligns with our strategy and our exploration success at Lang Lebah have further expanded our portfolio in Malaysia. The integration with Murphy's operations in Malaysia have been going well with a smooth operational transition. With this acquisition, we have also acquired talented and experienced personnel who will also help us operate the existing exploration blocks in Malaysia. We also plan to have the Malaysian team support the deepwater exploration project in Myanmar as well as they are well-versed in the deepwater operations. By the middle of 2020, the operations in Malaysia should have been well settled.

Another key element requiring our full attention is the transition of Erawan and Bongkot projects. Since we are the operator of Bongkot or G2/61, there should be no any particular issues, and we shall be able to deliver our commitment as planned. On the other hand, operating G1/61, or Erawan, with Chevron can be a little more challenging. We have already conducted site survey for a production platform installation plan as well as the EIA baseline. Currently, the negotiations on different matters are in progress to facilitate smooth transition.

For the newly-acquired assets from Partex, the transaction was completed on November 4, 2019. The assets are in 5 countries, with addition to our sales volume of 16,000 barrels per day.

Despite the low oil price environment this year, it is fortunate that the gas price can still maintain much due to the lag time recognition in price adjustments. Therefore, the overall performance outlook for this year shall be positive. In 2020, we expect the full year volume recognition from Murphy and Partex. So all in all, the production will be increased quite considerably next year.

Going back to Malaysia. We are now in the process of carrying out development activities for Block H, which should be up and running by the second half of 2020 according to the plan. We are now in the transition phase to minimize any abrupt changes. As we operate, we have begun to identify the potential and room for improvement, to which we can add value in the future given the fact that the seller had not been putting a lot of focus on additional investments prior to the acquisition transaction. Looking forward, the transitional activities will still be ongoing.

Another key area of focus will be on exploration activities. At this stage, the exploration/operating cost is not overly high, especially in Malaysia and Myanmar. We would like to see the whole picture and to identify clear goals on our exploration areas and where is the potential to develop. Speaking of which, the focus will be on Malaysia as it is where the market already exists. We are not conducting exploration activities just for the sake of exploring, but we are very clear in our mind of the market we would pursue. For Lang Lebah, we are about to enter into the Pre-Feed stage, which is considered very advanced, provided that the discovery was just a few months ago. In the beginning of next year, we should be able to commence the drilling of MD-7 in Myanmar after a slight delay from the end of this year.

For the assets in the Middle East, after the acquisition of Partex, we would continue to look for opportunities on exploration fields in the UAE and Oman as we believe that these 2 countries have great potential. Our mother company, PTT, also purchases oil from these 2 countries so there is a certain extent of business relationship there. The CEO of Abu Dhabi National Oil Company in UAE have the target to increase production from 3.8 million barrels to 5 million barrels by 2030. We are willing to support this target if there is any opportunity.

For PTTEP, we can anticipate growth for over the next 5 years. For the future of mergers and acquisitions, if there are any opportunities arising, we will certainly be taking them into consideration under acceptable economic value.

Sumrid Sumneing - *PTT Exploration and Production Public Company Limited - EVP of Finance & Accounting Group*

In comparing the financial performance of the 9-month period in 2019 and 2018, there are some of the key events taking place in 2018. For instance, the acquisition of additional 22.22% interest in Bongkot completed in mid-2018, which have implications on the overall performance; and the divestment of Montara Field in Australia in September 2018, leading to lower volume, but at the same time, lower expenses.

In 2019, key happenings are including the Bongkot shutdown. There was a 69-day shutdown of Bongkot as of the first 9 months of 2019, whereas the shutdown at the first 9 months of 2018 was 42 days, providing an explanation for a potential drop in performance. However, there are some factors that have contributed to the improvement of operating performance.

In July 2019, we acquired Murphy Oil, leading to higher volume contribution since July onwards. Also, there was a recognition of an additional compensation of not less than 400 day's pay for the employee after serving 20 years in accordance with the new Labor Protection Act that impacted on our financial statement of approximately USD 20 million, which has been allocated both as a capital expenditure and operational expenditure. For the amendments of the related tax laws that allow tax filing to be the company's functional currency, which is the U.S. dollar. We can partially execute this in 2019 and have reversal of income tax benefits balance relating to functional currency amounting to USD 60 million on the financial statement. However, we expect that other companies in the PTTEP's group will receive further approval from the Revenue Department next year.

Moreover, there was quite a significant exploration expense mainly due to exploration wells write-off over the past 9 months, outpacing 2018 by USD 63 million, which has already been incorporated in the 9-month financial statement.

Another key highlight is foreign exchange. Thai baht has appreciated by THB 1.86 per U.S. dollar over the past 9 months while depreciating by THB 0.27 per U.S. dollar from the first 9 months of 2018.

The sales volume has increased by 12% from 300,000 barrels of oil equivalent per day in the first 9 months of 2018 to 336,000 barrels of oil equivalent per day in the first 9 months of 2019, mainly from the additional volume from Bongkot, despite higher shutdown and additional volume from the acquisition of Murphy's business in Malaysia.

The average Dubai crude price was decreased to USD 64.02 per barrel in the first 9 months of 2019 from USD 70.10 per barrel in the first 9 months of 2018, leading to lower liquid price. However, the gas price has increased year-on-year from USD 6.24 per MMBtu in the first 9 months of 2018 to USD 6.91 per MMBtu in the first 9 months of 2019, all in all, slightly increasing the weighted average selling price from USD 46.25 per barrel to USD 46.83 per barrel.

In terms of unit cost, the unit cost has slightly increased from the recognition of additional compensation from the new Labor Protection Act and wells written-off. On the other hand, noncash cost has slightly dropped, mainly from the divestment of Montara Field.

At the first 9 months of 2019, cash flow from operations stood at approximately USD 2.4 billion, while expenses incurred from business acquisitions account for about USD 2 billion. With the beginning cash of about USD 4 billion, the ending cash is equivalent to about USD 2 billion.

With regards to the capital structure, the debt-to-equity ratio has increased slightly from 0.16x in 2018 to 0.18x at first 9 months of 2019 due to new bond issuance. In the meantime, assets have slightly increased from USD 19.4 billion to USD 19.8 billion, while the debt profile is still 100% in U.S. dollars. As a result, our weighted average cost of debt has decreased from 5.32% to 5.04%.

In terms of the guidance for 2019, sales volume has been projected to be about 345,000 barrels of oil equivalent per day from operational resumption of Bongkot in the fourth quarter, coupled with additional volume of Murphy. The average gas price is likely to be about the same at around USD 6.90 per MMBtu, while the unit cost shall be maintained at around USD 31 per barrel.

Lastly, the EBITDA margin has been projected to be about 70% to 75%.

We will now open the floor for questions.

QUESTIONS AND ANSWERS

Unidentified Analyst

Is there any reason for the minimum DCQ of 1,500 million standard cubic feet per day from G1/61 and G2/61 together? Any upside potential? And how much will the consolidated unit cost reduce?

Unidentified Company Representative

The minimum DCQ of 1,500 million standard cubic feet per day is a requirement from the government. However, in terms of reserves, we expect additional upside that is more than the minimum DCQ, in which the sales volume also depends on the demand. For the unit cost, we aim to reduce the unit cost from the operational synergy, which mainly from the areas of drilling, standardized of wellhead platform and logistics. Also, the depreciation will be lower from no major upfront capital expenditure since we are able to utilize the existing facilities.

Unidentified Analyst

Besides the new G1/61 and G2/61, some of PTTEP's other legacy assets are depleting, expiring in 2026 to 2027 onwards. What do you see as a new volume to replenish these depleting assets?

Unidentified Company Representative

Beyond 5 years, we expect to see productions from Lang Lebah and additional potential volume from the line of expirations, wells like MD-7 in Myanmar and exploration blocks in Peninsular Malaysia, if successful. We also plan to maximize value from our legacy assets before expiration as well.

Unidentified Analyst

Is there any progress for the Gas to Power project in Myanmar?

Unidentified Company Representative

For the Gas to Power project in Myanmar, we have submitted the project plan to the government of Myanmar and now awaiting approval. The Myanmar government has a goal to fully electrify the country. For PTTEP, we have the plan to support this policy by supplying gas from Zawtika and M3 projects to the power plant.

Unidentified Analyst

For the new 5-year investment plan that will be announced at the end of this year, will there be any impact on the sales volume guidance from the low nomination?

Unidentified Company Representative

We usually incorporate the low nomination situation in our sales guidance. Within these coming 2 to 3 years, we expect the amount of low nomination to be lower towards the concession expiry, Bongkot.

Unidentified Analyst

Will the IPO of Saudi Aramco have any impact on the oil prices?

Unidentified Company Representative

The main driven factors on the oil prices are from demand and supply. If the IPO of Saudi Aramco have an effect on these factors, it may have an impact on the oil prices.