PTTEP Q1/2018 Analyst Meeting

Edited Transcript

Venue: *Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand*
11 May 2018
14:00 – 15:30 Hours

Speakers: Khun Somporn Vongvuthipornchai
Chief Executive Officer

Khun Montri Rawanchaikul
Executive Vice President, Strategy and Business Development Group

Khun Pannalin Mahawongtikul
Executive Vice President, Finance and Accounting Group

The slides of the presentation, as referenced throughout the transcript, can be found here.

Introduction

Moderator

Welcome to PTTEP Q1/2018 Analyst Meeting, featuring the announcement of the Company's operating performance of the first quarter of 2018. Before we commence the session, please allow me to introduce the Company's executives who will be giving reports on the Company's operating performance today.

1. Khun Somporn Vongvuthipornchai, Chief Executive Officer
2. Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group
3. Khun Pannalin Mahawongtikul, Executive Vice President - Finance and Accounting Group

And without further ado, please join me in welcoming Khun Somporn to begin the presentation.

PART 1: Industry Highlights

Khun Somporn Vongvuthipornchai
Chief Executive Officer

I would like to welcome you all to the Analyst Meeting for the announcement of operating results and financial updates for Q1/2018. The presentation will also cover strategy updates and a recap on financial results. Now, Khun Montri will give you an industry updates during the past quarter.

Khun Montri Rawanchaikul
Executive Vice President, Strategy and Business Development Group

Slide 3

Oil Prices

Oil prices rally on signs of market rebalancing

The first part of the industry highlight is about the oil price movement. Over the past quarter, there have been a number of events that affect the crude prices. The oil price increased in early Q1/2018 before a decline at the mid to the end of the quarter, and it had rebounded in early Q2/2018 to reach the highest level at 73 USD/barrel. The major factor impacting the oil price movement was the demand and supply mechanism, especially in the U.S. where shale oil production is being accelerated.

Another significant factor was the production cut compliance rate achievement of 106% for OPEC and 86% for non-OPEC. There were a number of events, such as the sanction on Iran, which can impact oil supply. There are 3 countries that analysts have been keeping eyes on as they can cause significant impact to the future supply; Nigeria, Libya and Venezuela. Thus, the demand and supply mechanism is something that we still need to keep monitoring. More importantly, over the next 2 months, what we need to focus on is the sanction of Iran's nuclear program by the U.S.

In terms of the average oil price consensus, many houses have arrived at the conclusion that the oil price will be about 66-67 USD/barrel in average for 2018.

Slide 4

LNG Updates

LNG market remains oversupplied, but expected to rebalance from 2023 onwards

People still view LNG as the buyers' market. In this regard, there are 3 countries that can have impact on the global LNG supply. The first of which is Qatar, who has recently announced the increase in LNG production to 100 million tons per year. The second country is the U.S., where a number of new LNG projects will be sanctioned, as seen from several operational startups on the map. The last country is Australia, where new projects will be on stream later this year. Given this, LNG demand is still lower than the supply about 10 million tons in 2018, despite higher LNG demand in China, Pakistan and Bangladesh. However, going forward, LNG demand in Asia, which is accounted for 60% of global LNG demand, is likely to gradually increase, while the old/existing LNG supply will be depleting, leading to an excess demand gap from 2023 onwards. But it is still possible for the situation to turn the other way around as the U.S. is now accelerating LNG production.

Slide 5

Thailand Updates

Domestic gas volume suppressed by LNG import

This slide covered the natural gas demand and supply in Thailand and an update on the Thailand Energy Reform. From the graph, gas consumption in Thailand has been decreasing during 2016 to Q1/2018, which was partially replaced by renewable sources of energy. In terms of utilization, natural gas is mostly used in the power plants and GSPs. The graph suggested that natural gas demand in the electricity sector has declined in the first two months of 2018 as compared with the previous years.

Thailand Energy Reform plan comprised of 6 key dimensions. The first two aspects included the restructuring of the regulating body and the new Power Development Plan (PDP), which would cover several components; gas, renewable energy, and electric power from neighboring countries.

On the petroleum and petrochemical industry, several focuses included the renewal of the expiring concessions, the matter concerning the overlapping area between Thailand and Cambodia, and the framework of becoming the regional LNG trading hub. Another key focus is on the development of petrochemical industry.

The fourth component is about renewable energy, on which there will be more clarity upon implementation. The idea is to promote fast-growing biomass fuel as well as liberalized solar rooftop, and the reform of energy utilization for transportation purpose.

The fifth aspect involved energy conservation and efficiency, featuring the implementation of Building Energy Code (BEC) and measures of Energy Service Company (ESCO) for government agencies.

The last part is about technology, innovation and infrastructure, with the clear direction and development of electric vehicles, as well as studying the potential of energy storage. And this is the overall picture of the Thailand Energy Reform plan that has been announced recently.

PART 2: Strategy and Growth

Khun Somporn Vongvuthipornchai
Chief Executive Officer

Talking about the PTTEP's strategy, we have operated under the 3Rs strategy being "RESET, REFOCUS and RENEW". The "RESET" strategy is to reset our cost base to maintain competitiveness. Our successful unit cost reduction was contributed by 2 key components including the industry cost, which will be driven by market conditions, the industry cost may inflate given current improved oil price environment and the efficiency improvement, which we continue to study and seek for further improvement, we believe efficiency improvement will permanently uphold our low cost base. Besides, the hike in oil prices also causes the royalty fees to vary.

For the "RENEW" strategy, we would like to have more clarity before giving further updates. Currently, we are in the process of feasibility study of new business transformation. Hence, our current emphasis is on the "REFOCUS" strategy to focus on the growth platform to address concerns on how to boost reserve life.

Slide 7

1st Priority on the Bidding of Expiring Concessions

Strive to win Bongkot and Erawan Bidding

The key matter that we are paying attention to is the bidding of the expiring concessions in the Gulf of Thailand, which the Government decided to put this on the bidding and will be in form of Production Sharing Contract (PSC). In this session, we will highlight the key milestones including process and timeline. The bidding process was already started and is in the process of Pre-Qualification, which to date there are 6 candidates. The Data Room will be opened in June and Bid submission in September. The Government expects the award announcement by December this year and completes the new PSC signing within February 2019.

The bidding requirements have been clearly prescribed, as you may find there are a lot of new terminologies. In terms of production profiles, there are 2 major blocks; G1 (Erawan) and G2 (Bongkot) with the minimum volume of 800 MMSCFD and 700 MMSCFD, respectively, for a period of 10 years. Meanwhile, the gas price formula relies on the fixed formula which is linked to key economic upstream indices e.g. producer price index and oil price index. There is a constant gas price factor that the participant has to bid with the lower price proposal being an advantage. The key difference in the formula is the change in oil price index from previously linked to "high sulfur fuel oil price" to "Dubai oil price".

Other than that, there are a few types of bonuses; facility bonus, production bonus and signature bonus. Also, the decommissioning has been spelled out, meaning that assets that are no longer in use will be the responsibility of the previous concessionaire to conduct the decommissioning activities. But if the assets are to be continuously in use, the responsibility will be assigned in relation to the ratio of remaining reserves over total recoverable reserves.

There are 2 parts of the proposal; technical and commercial terms. In terms of technical proposal, information regarding the preparation period work plan, field development plan (FDP) and exploration work plan will be presented in order to ensure the quantity of gas production required by the Government. We are confident that we will satisfy the technical criteria, given our experiences in over 20 years of operatorship in the Bongkot field.

As for the commercial proposal, the weighting structure has also been spelled out, for instance, the gas price, profit split with contractors, bonus, Thai employee ratio and state participation, whereby it was stated in the TOR that the state participation in the investment will not exceed 25%. With this, we are conducting a thorough study of the document in order to prepare for the bid participation.

Slide 8

Push Forward Other Growth Strategies

Enhance reserves and production through concrete plans

With regards to the other "REFOCUS" strategies in order to increase reserve and foster growth, we are focusing on the number of initiatives including the execution of M&A, accelerating pre-sanctioned projects for Final Investment Decision (FID) and enhance our exploration portfolios.

The 1st priority is to strike M&A deals, apart from acquisition of additional stake in the Bongkot project from Shell, we also continue to execute more deals with the focus areas in Southeast Asia and the Middle East, especially for those producing or near-producing projects in order to speedy prove up the reserves, with the deal size of 500 -1,000 million USD.

Next is to push forward FID of key pre-development projects, for instance, the Mozambique LNG project, which has gained another level of progress, with the approval of key legal framework and development plan. Our operators have already commenced the resettlement plan in preparation for the construction site, so that the civil work is ready if we are to go ahead with the FID. Also, there was significant progress on Sales Purchase Agreement (SPA) negotiation with the execution of the first SPA of 1.2 million tons per annum with EDF, a major electricity company in France. For other projects, we are giving our best efforts in following through with the plan. Especially for the Algeria HBR project, the development plan has already been approved by the Government, and we are now in the process of finalizing documents with our partners. The Ubon field under the Contact 4 project, operated by Chevron, is another potential project that we are trying to urge our operator to accelerate the development plan, which will be eventually benefited to the Country.

More importantly, we place focus on our exploration activities to support long-term growth. We plan to execute more exploration drilling activities both in Thailand and Myanmar by the end of 2018, technically referred to as 'grow the foothold'. At the same time, our geographical focus will be in the region we are familiar with; Southeast Asia, and we are now looking at exploration blocks in Malaysia as we established the Sarawak Cluster model in Malaysia covering E&P business and the joint investment with PTT in LNG liquefaction plant. There are a number of potential fields that PTTEP can participate in the bidding, and to date, we have already secured 3 of them. Actually, Southeast Asia also has its own limitations in terms of future potential, so we are also identifying other promising locations, which may be further away. In doing so, we have to partner with prudent operators to operate in that particular area.

Slide 9

Unlocking the Exploration Potential

Expanded portfolio in high prolific areas: Malaysia and Mexico

As a result of active exploration expansion, we have secured 3 shallow-water blocks in Sarawak, Malaysia, plus 2 deepwater blocks in Mexico, with the prudent operators being Repsol, a Spanish oil company, which is a large and listed company with expertise in 3 focus regions; North America, Central/South America and Southeast Asia. Likewise, Repsol is also assessing the possibility of collaborating with us in Southeast Asia as well. In the meantime, we joined force with Petronas in operating Block 12, given its experience in deepwater drilling and existing exploration wells in Malaysia. This is the direction going forward to enhance our exploration portfolio. It is the initiative that we are viewing as a well-balanced risk and reward. If we choose not to explore high-risk wells, it will be very difficult to secure projects with high returns. All in all, this is the highlight of "REFOCUS" in 1Q18, which is grounded on building security in terms of reserves to ensure future growth.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul
Executive Vice President, Finance and Accounting Group

Slide 11

Sales Volume and Unit Cost

Higher selling price with competitive cost

With regards to financial performance, I will discuss mainly on the sales volume and unit cost, with a comparison to the Q4/2017 figure. Starting from sales volume, it dropped by around 6% compared to the previous quarter, mainly due to low gas nomination from our major buyer; PTT together with lower crude sales from Montara field due to the cyclone season and higher shutdown days for maintenance. Fortunately, the oil price has improved and is continuously on the upward trend, the liquid price in Q1/2018 was 63.12 USD/barrel which led to the improved in average selling price at 44.01 USD/BOE.

In terms of sales distribution, major sales volume still based in Thailand which accounted for 80% of total sales volume, while other Southeast Asia and the rest of the world accounted for 17% and 3% respectively. The volume mix ratio of gas and liquid has maintained at the same level at 72% and 28% respectively which is in accordance with the PTTEP's policy to emphasize on gas-weighted portfolio.

Moving on to the unit cost, with the average selling price of 44.01 USD/BOE, the unit cost turned out to be quite satisfying as we have maintained low unit cost level at 29.20 USD/BOE. This is one of the factors contributing to the improved operating performance in Q1/2018, despite lower volume.

From the slide, it can be seen that some categories in the unit cost increased from Q4/2017 such as the depreciation depletion and amortization expenses at 15.47 USD/BOE and the finance cost at 2.16 USD/BOE. This was mainly due to the volume effect as the sales volume in Q1/2018 was lower than that of Q4/2017. Meanwhile, the royalties increased in pursuit of the improved oil price. However, the G&A expenses dropped considerably due to the absence of manpower adjustment expenses in Q1/2018. Also, the exploration expense decreased from 0.80 in Q4/2017 to 0.10 USD/BOE in Q1/2018 mainly from numerous wells written off in Q4/2017. Likewise, operating expense has dropped by 8% from 5.84 to 5.34 USD/barrel due to lower maintenance activities in Q1/2018 compared to Q4/2017, all in all leading to lower unit cost in Q1/2018.

Slide 12

Cash Flow Performance

Self-funding driven by robust cash flow generation

The recurring and non-recurring net income in Q1/2018 stood at 304 million USD and 119 million USD respectively, supported by the Thai baht appreciation against US dollar by around 1.45 Baht/USD. As a result, PTTEP reported quite impressive net income at 423 million USD in Q1/2018.

The operating cash flow for Q1/2018 amounted to approximately 1 billion USD, driven by the improved average selling price and lower unit cost. In terms of use of funds, the total use amounted to 417 million USD, comprised of 330 million USD on CAPEX spending and 87 million USD of interest and finance cost, given there was 2,500 million Baht bond due in Q1/2018. The ending cash balance in Q1/2018 was 5.1 billion USD. However, there will be major payments due in Q2/2018, for instance, tax payment and dividend payment of around 350 million USD. Besides, there will be loan prepayment of 575 million USD and the payment of Bongkot acquisition in Q2/2018 as well, thus the cash on hand at the end of Q2/2018 is likely to decline.

Slide 13

Financial Position

Healthy balance sheet with net cash position

The total assets have increased compared to the year ended 2017, mainly contributed from higher cash on hand from 4 billion USD at the end of 2017 to 5.1 billion USD at the ended of Q1/2018, coupled with lower outstanding account receivables in Q1/2018.

The interest-bearing debt which displayed in green color also decreased from debt prepayment as mentioned earlier, while equity increased from higher profit. Our debt profile is 100% USD as usual, with the fixed and floating debt proportion of 80% and 20% respectively and the average loan life of 7.1 years. Nevertheless, given the loan prepayment of 575 million USD in Q2/2018, the debt proportion will be 100% fixed.

Slide 14

Financial Outlook

Expect to deliver strong core performance

For the financial outlook in Q2/2018, we expect to deliver sales volume at 297 KBOED, due to higher projected sales volume from Montara field and the Zawtika projects. Meanwhile, the average gas price is projected to be 6.3 USD/MMBTU from gas price adjustment in Myanmar and Bongkot projects. Moreover, the unit cost is likely to increase from Q1/2018 from completed assets recognition mainly in the S1 project and Montara field together with higher maintenance activities in Q2/2018. On a full-year perspective, we have projected the annual sales volume to be around 300 KBOED which does not include additional sales volume from Bongkot that has recently been acquired from Shell. The average 2018 contribution from Bongkot is likely to be around 16,000-17,000 barrels per day if we close the deal by Q2/2018. The average gas price as of FY2018 has been projected to be 6.3 USD/MMBTU, on the assumption that the oil price is at 63 USD/barrel. In the meantime, we try to maintain the unit cost at around 30-31 USD/barrel. Last but not least, the EBITDA margin has been projected to remain at 70-75%.

Khun Somporn Vongvuthipornchai
Chief Executive Officer

Slide 15

Key Takeaways
Maximizing value through solid growth platforms

It is obvious that we need to 'refocus' in order to enhance our competitive edge in terms of reserve accretion and production capacity. Key focus areas of the company are to be well-prepared on bidding and to maintain strong margin with competitive cost base. Besides, we are well prepared for future challenges by being gas-weighted company and diversification to LNG value chain. More importantly, to cope with the changing industry landscape, we are looking to transform business process and explore new business opportunities, which details will be shared in future sessions. Now, we open the floor for Q&A.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

What is your view on Thailand energy outlook, given the fact that natural gas demand was decreasing and replaced by the larger renewable energy sources?

Answer from PTTEP's management

For natural gas, wet gas from the Gulf of Thailand is still necessary as the feedstocks petrochemical industry. For renewables, the usage is increasing but growth outlook is still uncertain considering its reliability and costs at the current technology. However, the Company continue to keep an eye on any possible changes to the energy demand/supply in the new Power Development Plan (PDP), which is being finalized by the government.

Question # 2

Could you please share the bidding strategy?

Answer from PTTEP's management

We are confident that we are competitively positioned to bid for both projects due to our deep subsurface understanding and operational reliability from 20-year of operatorship in the Bongkot field as well as almost 100% Thai employment. This allows us to meet the TOR qualification, optimize operational cost within the GoT as well as supply natural gas to the Country without any disruption.

Question # 3

According to the commercial term, who will be a representative of state participation and what is the objective of this criteria?

Answer from PTTEP's management

The objectives of this condition are to ensure the energy security and to optimize revenue to the government. The representative of state participation will be determined by the Government.

Question # 4

Please discuss on the investment plan for both Bongkot and Erawan fields?

Answer from PTTEP's management

Under current operation, the Bongkot field, with 44.4445% interest, requires around 200-250 MMUSD of CAPEX and OPEX spending to maintain production plateau.

Question # 5

In case the Company does not win the Bongkot bidding, what would be the decommissioning plan?

Answer from PTTEP's management

The cash outflows will be consistent with the decommissioning plan which normally takes around 5-10 years to complete the activities.

Question # 6

Any impact to the Company's EBITDA margin given the fixed gas price to be similar level as current price?

Answer from PTTEP's management

We believe the Government will balance between the Government take and gas price to ensure the economic viability in order to attract potential bidders.

Question # 7

Does minimum gas sales volume reflect the Government's intention to prolong petroleum plateau in the GoT?

Answer from PTTEP's management

Yes, this concern should be included in the minimum gas sales of total 1,500 MMSCFD for both fields.

Question # 8

Could you please update the progress of Mozambique project?

Answer from PTTEP's management

The project continues to advance toward FID with an excellent progress including the approval of the Development Plan of Golfinho/Atum field, the commencement of resettlement plan and reached the SPA with EDF of 1.2MMTPA. We are now working to convert more HOAs into binding SPAs as well as progressing on the project finance with potential lenders.

Question # 9

Please discuss the exploration strategy and outlook?

Answer from PTTEP's management

During the oil price crisis, the number of exploration activities were lower as we have postponed high-risk wells and focused only low-risk areas e.g. Thailand and Myanmar. We expect higher exploration drilling activities during 2018-2019 following better oil price environment.

Question # 10

Is there any impact to unit cost if the Company accelerate the exploration activities in high risk wells?

Answer from PTTEP's management

We do not foresee any significant impact to unit cost during 2018-2019 as the drilling and evaluation of those high risk wells will take some time to conclude. For commercial exploration CAPEX, it will be capitalized through DD&A during production period.

Question # 11

Given the recent changes in Malaysian election, do you foresee any big impact to PTTEP's operations in Malaysia?

Answer from PTTEP's management

We expect minimal impact on E&P business in Malaysia, however, will need to wait and see the new policy.

Question # 12

Regarding your 3Rs strategy, what is your focus on new businesses?

Answer from PTTEP's management

The company's focus on new businesses includes LNG value chain, Gas-to-Power business in which we develop natural gas and convert into electricity, and decommissioning business in Thailand and this region. Also, we are studying on the business opportunities that could emerge from our expertise e.g. drone that we have been using in our operation for a few years. We expect more concrete plan on our RENEW strategy within in next few months in which we will update to the investment community during the second half of the year.

You can reach the Investor Relations team for more information and inquiry through the following channels:

http://www.pttep.com
IR@pttep.com
+66 2 537 4000

DISCLAIMER

Forward-looking Information

The information, statements, forecasts and projections contained herein reflect the Company's current views with respect to future events and financial performance. These views are based on assumptions subject to various risks. No assurance is given that these future events will occur, or that the Company's assumptions are correct. Actual results may differ materially from those projected.

Petroleum Reserves and Resources Information

In this transcript, the Company discloses petroleum reserves and resources that are not included in the Securities Exchange and Commission of Thailand (SEC) Annual Registration Statement Form 56-1 under "Supplemental Information on Petroleum Exploration and Production Activities". The reserves and resources data contained in this transcript reflects the Company's best estimates of its reserves and resources. While the Company periodically obtains an independent audit of a portion of its proved reserves, no independent qualified reserves evaluator or auditor was involved in the preparation of reserves and resources data disclosed in this transcript. Unless stated otherwise, reserves and resources are stated at the Company's gross basis.

This transcript may contain the terms "proved reserves", "probable reserves", and/or "contingent resources". Unless stated otherwise, the Company adopts similar description as defined by the Society of Petroleum Engineers.

Proved Reserves *- Proved reserves are defined as those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.*

Probable Reserves *- Probable reserves are defined as those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.*

Contingent Resources *- Contingent resources are defined as those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. The reasons for non-commerciality could be economic including market availability, political, environmental, or technological.*