PTTEP Q1 2019 Analyst Meeting

Edited Transcript

Venue: Auditorium, 20th Floor, Energy Complex building A, PTTEP Head Office
9 May 2019
14:30 – 16:00 Hours

Speakers: Khun Phongsthorn Thavisin

President and Chief Executive Officer

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

Khun Sumrid Sumneing

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's Q1 2019 Analyst Meeting, featuring the announcement of the Company's operating performance in the first quarter of 2019. Before we commence the session, please allow me to invite our Chief Executive Officer; Khun Phongsthorn Thavisin, to share key highlights of the recent period and PTTEP's strategic directions, followed by Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group, who will be providing an industry update, and Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, to summarize PTTEP's financial performance for the first quarter of 2019.

PART 1: Key Highlights

Khun Phongsthorn Thavisin,
Chief Executive Officer – Strategy and Growth

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Q1 2019 Performance Highlights

First of all, I would like to extend warm greetings to analysts and valued guests attending the session today. The first topic I would like to address is key highlights taking place in the first quarter of 2019.

Since the first quarter of the year is not the spending period of the Company, the expense is not very high, which has been directly reflected upon the unit cost, which we try to maintain at around 30 USD/barrel. Meanwhile, the sales volume was reported at 319 KBOED, with zero loss time injury frequency (LTIF), marking a positive beginning for the year.

In terms of exploration activities, we have successfully executed the drilling of AC/P54, which we believe is going to help complement our asset Cash Maple in creating more values. In the meantime, we have proceeded to the FID of Algeria HBR's first phase. In about a year from now, we should be able to expect the first production from this project. For the Mozambique Project, the FID has been scheduled for around mid-June 2019 and Anadarko has always been focusing the execution plan, despite the upcoming acquisition of its business. Thus, we are quite positive that the FID of Mozambique project should be executed as planned. No matter who the operator will be, the outlook is likely to be promising.

The PSCs for Bongkot and Erawan have already been signed. Growth-wise, we have acquired 2 exploration blocks in the UAE together with ENI; a very successful Italian petroleum company. Also, we have acquired another 2 exploration blocks in Malaysia, owing to our effort in building good relationship with Petronas and our contribution in terms of knowledge and expertise acquired from our operations in the Gulf of Thailand. All of these developments form the picture of PTTEP's growth outlook, which I will explain later how the big picture will look like.

PART 2: Industry Trends

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

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Industry Trends: Oil Market Outlook

Price volatility driven by supply side

The oil price has increased quite significantly from the end of 2018 due to a number of factors. For instance, Occidental Petroleum has been accelerating to close the deal with Anadarko, signaling that the shale oil business in the USA is still positive. And if the acquisition is successful, Occidental Petroleum's CEO has announced that the production will be around 700,000-800,000 barrels/day. This is a key signal that the unconventional oil production in the USA will still continue. However, the bottleneck encountered is the limited pipeline facility, which should be resolved within 2020.

However, the issue facing unconventional oil production in the USA is the long-term environmental issue concerning the drainage of wastewater from the process. Therefore, unconventional oil production is not something that will stay permanently, but rather a trend that may only continue through to 2025.

With that, the prescription of the OPEC quota compliance has become a critical issue on the supply side. The next meeting will be held during June 25-26, 2019, with a number of issues at hands; the USA's proclamation of oil embargo on Iran and the issue in Venezuela, potentially leading to depletion of supply in the market, despite growing demand. We need to monitor who will the booster of demand be; Saudi Arabia, Russia or the USA. All in all, the factor affecting the oil business today is not only the demand-supply mechanism, but also the trade war that has once again reached its peak, foreign exchange and the overall global economy. With effects of the aforementioned factors, the oil price should be in the range of 60-80 USD/barrel during these 2 years, while the consensus said it will be 60-70 USD/barrel. The graph below displays potential sources of output to replace the disruption.

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Industry Trends

New LNG projects may create surplus again and less concern on IMO regulation

It is much clearer now that LNG demand is growing. If the Mozambique project can be sanctioned, it is likely that the market is there to accommodate the demand. However, the period between 2020-2025 is very interesting. If there are too many projects initiated during this period, supply can potentially outpace demand after 2025, given the current LNG price in the Asian market of about 6-8 USD/MMBTU. If the oversupply condition prevails, it will be difficult for price to increase. Nevertheless, if the facility construction and FID plan is well thought-out and properly launched at the right time, LNG price can possibly reach 10 USD/MMBTU. There has been new capacity added into the market and the demand is also rising, as seen from the black line on the graph.

Regarding the high-sulfur fuel oil that affects gas price, from a period of monitoring we have seen a narrower spread. It is not as high as we have initially expected as there are a lot of refineries that can process fuel oil, so fuel oil will still be in demand. From 2020 onwards, fuel oil spread is expected to be narrower. Despite our concern on the spread, we have arranged the hedging to a certain extent. The key change regarding fuel oil is the commencement of the PSC in the Gulf of Thailand, and since the new gas price according to the agreement is tied to Dubai crude price, our concern on fuel oil will be lower, despite the fact that the gas price in our neighboring countries is still tied to fuel oil price. All in all, fuel oil spread will begin to be narrower.

PART 3: Strategy and Growth

Khun Phongsthorn Thavisin,
Chief Executive Officer – Strategy and Growth

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"Expand" for sustainable growth

Focus growth in strategic investment areas and diversify into energy related business

This session is essentially to clarify the notion of being the 'Energy Partner of Choice' and our direction to 'expand' and 'execute' the business. Given the industrial landscape that is quite facilitative of securing the deals this year in terms of portfolio expansion via M&A, we have been working in accordance with our 'coming home' strategy, focusing primarily on Thailand, Myanmar and Malaysia. We are also looking at other strategic locations that may be further away from home; the UAE and Oman in the Middle East via strategic alliance.

In Thailand, we have won the bidding of Erawan and Bongkot, which are potentially going to secure sufficient reserve and production capacity. Meanwhile, there are other assets we are looking at that can help strengthen the Company's business, which is being worked on at the moment. Currently, the Department of Mineral Fuels, Ministry of Energy, is preparing to launch a bid round and we are also getting ready to participate in those bid rounds to develop new resources.

We are now discussing with the government of Myanmar regarding the Gas to Power project. If this project can be successfully executed, our production capacity will increase, given the current 300 MMSCFD capacity of the Zawtika project. Thus, I challenged the team that we should strive to make Zawtika to be like Bongkot. During the first period of operations, Bongkot's capacity was only about 150 MMSCFD, gradually ramping up to 300, 450 and 900 MMSCFD upon addition of Bongkot South. Hence, we believe in the potential of Zawtika project. Khun Montri and several working teams have been identifying the market for our gas production, ultimately leading to the materialization of the Gas to Power project, which we expect to get the notice to proceed in the second or the third quarter of 2019. Also in Myanmar, we have been taking a rather proactive approach in the exploration activities, given 3 on-shore exploration wells, 1 off-shore well and 1 deep-water well. The deep-water well is a collaboration between PTTEP and Total, with high expectation for further development.

For Malaysia, even we have been familiar with Petronas for a long time, we have not had a chance to form collaborations all that much. Until about 2 years ago, when both parties suffered from a dramatic drop in oil price, a collaboration has become a possibility. We have been awarded 3 exploration blocks in Sarawak in 2018, where we are in the process of drilling one of those 3 and the outcomes are quite positive. Also, we have acquired 5 blocks from Murphy Oil in Malaysia, making it a rather fertile portfolio. Meanwhile, we have about 20,000 barrel-capacity to be produced next year from Sabah H. Thus, we now have 2 blocks in Sarawak and 5 blocks from Murphy Oil, which complement one another. Once the exploration activities are successfully executed, we will need a production facility, and with Murphy Oil's facilities, we can save a lot of development costs. And as mentioned, we have another 2 blocks on the Peninsular Malaysia, where we believe we have expertise to operate. All in all, there are 11 blocks altogether, moving the Company upwards to the third rank for securing the highest amount of remaining resources in Malaysia.

Another key puzzle is the UAE through "Strategic Alliance" strategy. The UAE has never opened a bid round before. We have acquired 2 blocks from the first bid round. We will be working alongside a world-class operator; ENI, while we get a very warm welcome from ADNOC (Abu Dhabi National Oil Company). This is basically the overall summary of our vision to become the Energy Partner of Choice for everyone and not placing a primary focus on competition but rather on creating values through collaboration.

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"Execute" for long-term value creation

Accelerate FID projects and resources discovery

Towards the vision to become the Energy Partner of Choice, this slide is a recap of what we plan to do. In Myanmar, we will be putting efforts in the exploration activities and Gas to Power project to bring out the potential we have in the Zawtika project. In Australia, we have been successful with the drilling of the

AC/P54, which the result will be further incorporated in development planning of Cash-Maple field. For the progress in Malaysia, details and updates have already been shared previously. Meanwhile, the Mozambique project's FID has been scheduled for June 18, 2019, while development activities for Algeria HBR have commenced since March 2019. Ultimately, we can expect to see the addition of reserves from all of these developments.

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PTTEP's High Priority Technology Programs

To support E&P business and future investment opportunities

In terms of new businesses, we have established AI and Robotics Ventures (ARV) in September 2018 and we plan to officially launch the office in the end of May 2019. The key essence of this venture is to develop dynamic robots that can move around for aerial and subsea inspection activities, driven by the AI technology. As part of the advanced exploration technology, we will be incorporating the AI and big data technology to enhance effectiveness of the exploration.

For S1 Enhanced Oil Recovery project (EOR), we aim to extract more production from the reservoir by advanced EOR technology, increasing from 27,000-28,000 barrels per day to over 30,000 barrels per day. A few weeks ago we have managed to extract about 35,000 barrels per day and it is our intention to keep striving for better. I do believe that we have the potential but we need to identify the optimum point that will bring out the most of our resources. Having said that, we will make sure that S1 can yield higher output after taking some time to work on it.

We will also aim to develop the high-CO2 gas production technology to bring the most of our available resources. Last but not least, with PTTEP's environmental awareness, we will be working on the carbon capture technology to reduce CO2 emission by 25% in 2030. These are the summary of recent developments that will form the basis for PTTEP's growth on a sustainable manner.

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PTTEP's Aspired Portfolio in 2030

Target for sustainable growth

We anticipated 5% CAGR on production target over the next 10 years, and we are quite certain that this is achievable, given what we have in the pipeline. We believe that the R/P ratio will not be lower than 7 years and can be sustained in 10 year timeframe.

After a certain period of acquisition, we aims to focus on the exploration activities to order to fill up the reserve. It is not only serves the purpose of securing the amount of reserve, but it will also help maintain our production capacity. Turning to the cost side, we try to maintain the unit cost at about 30 USD/barrel, as we believe it is a suitable benchmark that can accommodate the potential volatility of the oil price. In fact, trying to keep the unit cost lower is possible, but we have to bear in mind that in operating this business, we need to invest on well drilling or building platforms in order to generate future cash flow.

Hence we cannot expect static operations and keep lowering the cost. The more important question is how we can manage the business to keep the cost at an appropriate level. The unit cost can fluctuate at times, but as long as we have sales volume to serve as the divider, the unit cost will not be too high. The implication of this matter is that if we are not willing to take risk in terms of investment, at one point we will not have sufficient volumes, and the unit cost will increase.

In order to execute all of these endeavors, the compliance and governance risks as key determinants. Being a state enterprise, we are under the inspection of both the government and the private sector, and we believe that this serves as a strong foundation for us to thrive. Therefore, I believe that we can be assured of PTTEP's competitive landscape that we will remain viable over the next 10 years.

PART 4: Financial Performance

Khun Sumrid Sumneing,
Executive Vice President – Finance and Accounting Group

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Q1 2019 Key Financial Performance

Delivered healthy EBITDA margin supported by cost management

All of the spending decisions over the recent period have been for the purpose of securing growth and stability for the Company. At the end of 2018, our cash stood at roughly 4 billion USD, with about 300 million USD from cash inflow adding up in Q1/19. Our additional expenditure about to incur in Q2/19 will be tax and dividend payments.

Speaking of the performance in Q1/19, the overall outlook is quite positive, despite a slightly lower sales volume compared to the previous quarter due to the shutdown of Bongkot in the first quarter of 2019 of around one and a half month. However, sales volume of other assets such as S1 and Arthit have increased, ultimately leading to only about 1% drop in sales volume QoQ.

The average selling price has slightly declined by 3% QoQ, since there was a drop in the Dubai crude price from 68.30 USD/barrel to 63.41 USD/barrel, whereby the average gas price remain stable at about 6.9 USD/MMBTU. On the other hand, the unit cost has also declined sharply by 10%, largely driven by the adjustment of reserves in S1 and Arthit. Also, the G&A expense in Q1/19 has decreased from Q4/18, since G&A expenses are usually high in Q4/18 from manpower-related costs adjustment and professional fees. Moreover, maintenance costs have also decreased from lower maintenance activities.

The Company's cash flow from operations stood at 943 million USD in Q1/19, however the acquisition cost of 2.1 billion USD for Murphy Oil's acquisition is excluded from the CAPEX shown on the slide. So far, we have seen a rather positive progress and our cash on hands has been maintained at around 4 billion USD for a certain period of time. All in all, the expense incurred in the first quarter of the year is usually lower than other quarters, only with some interest payment, while some loan repayment will be settled in the second and third quarters, providing an explanation for an additional cash of about 300 million USD, leading to cash on hand at the ended of Q1/19 of 4.4 billion USD.

The net profit of 394 million USD in Q1/19 is considered impressive, increasing by about 46% QoQ. In this regard, the exchange rate does have some impact on PTTEP's operating performance; the more appreciated Thai Baht lead to higher non-recurring profit from tax savings. This scenario is typical in the first quarter as THB/USD is appreciated by 0.64 THB/USD while Thai Baht was depreciated in the fourth quarter last year.

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Outlook & Takeaways

Solid fundamental with significant shareholders value creation

Going forward in the second quarter, we anticipated the average sales volume of about 330 KBOED, as Bongkot has resumed operations as usual with no planned shutdown, despite potentially lower volume from some assets such as Arthit due to planned maintenance activities. However, the average sales volume for the whole year shall be about 321 KBOED, with possible decline in the third quarter resulting from LNG import, before resuming to high gas nomination in the fourth quarter.

The average gas price remains unchanged at around 6.9 USD/MMBTU. In the meantime, despite the fact that the unit cost in the first quarter is normally low, the full-year average is likely to be around 31 USD/barrel. We expected higher unit cost in Q2/19 from the impact from new Labor Protection Act that increase the severance pay from 300 days to 400 of the wage for terminating an employee with an employment period of 20 year or more around 20 million USD together with higher maintenance activities in the second quarter.

The EBITDA margin in Q1/19 is about 76%, whereas the full-year guideline will be around 70-75%. To summarize the key takeaways, for the industry outlook, the oil price volatility will still be prevalent within the range of 60-80 USD/barrel, driven by the supply side while there is a potential oversupply from new LNG projects, before the arrival of demand from 2023 onwards. Lastly, we see less concern on IMO.

In terms of the strategy, our focus will be on 'expand' and 'execute' for sustainable growth and long-term value creation. Meanwhile, our financial remains healthy, with strong leverage to accommodate new investment opportunities.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

How the company plan to monetize on the successful drilling result of AP/C54?

Answer from PTTEP's management

We already announced the successful drilling results of the exploration well in March 2019 which encountered gas and condensate with the net pay thickness around 34 metres. The well result will be incorporated in development planning of Cash-Maple field, with total of 3.5 TCF resources.

Question # 2

What is the company's view on future spread between HSFO and Brent and impact on company's selling price?

Answer from PTTEP's management

We foresee a wider spread of HSFO and Brent in 2020 and expect it to return normal range in 2021, with less concerns on the IMO regulation. According to PTTEP gas sale agreement especially in the Gulf of Thailand, HSFO is a factor accounted in the gas pricing formula which led to a risk of lower selling price. However, the impacts are expected to be gradual thanks to lagging of fuel price linked to gas sale formula varied from 6-12 months. In the meantime PTTEP started to hedge against volatility of HSFO. However, PTTEP expects material decrease of the impacts from 2022 onwards as the gas selling price of Bongkot and Erawan under the new production sharing contracts linked to Dubai crude price.

Question # 3

What is the incremental upside value on the Murphy's acquisition?

Answer from PTTEP's management

This transaction contains several sources of upside such as 1) the synergy with existing PTTEP's nearby exploration blocks in Sarawak; if those exploration blocks are discovered, they can utilize existing facilities (pipeline, CPP, including onshore facilities) to monetized 2) Upside to additional resources that need more activities in both producing and development blocks and high potential Exploration blocks which can be developed to tie-backs to existing production facilities 3) An opportunity for PTTEP to enhance its deep water capability to support future deep water developments.

Question # 4

What is PTTEP's focused investment area in SEA?

Answer from PTTEP's management

With the Coming Home Strategy, we focused the investment in Thailand, Myanmar and Malaysia where we have full range of expertise.

Question # 5

As the market is expected the oversupply situation of global LNG market in 2025, will there be any impact to Mozambique Area 1 Project?

Answer from PTTEP's management

As the Mozambique Area 1 Project already secured long term LNG SPA (sale purchase agreement) with various buyers totaling 9.5 MTPA and more to come, the oversupply situation will have no impact on the project's viability.

Question # 6

Please give us a view on potential gas demand in Myanmar?

Answer from PTTEP's management

We foresee increasing gas demand in Myanmar as the country needs more electricity and the demand for coal has decreased. This is an opportunity for PTTEP to supply gas to domestic market with the plan from uplift Zawtika and M3 production in the first phase.

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

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Forward-looking Information

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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.*