PTTEP Q1 2023 Analyst Meeting

Edited Transcript

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Speakers:

Khun Montri Rawanchaikul
Chief Executive Officer

Khun Khun Chayong Borisuitsawat
Executive Vice President – Strategy and Sustainable Growth

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 Analyst Meeting, featuring the announcement of the Company's operating performance in the first quarter of 2023. Before we begin, please allow me to introduce the executives who will be delivering the presentation today; 1) Khun Montri Rawanchaikul, Chief Executive Officer, who will share with us the current energy situation and the global energy transition, as well as the progress of exploration and production projects, new businesses, and GHG reduction initiatives aiming towards the Company's Net Zero target, 2) Khun Chayong Borisuitsawat, Executive Vice President – Strategy and Sustainable Growth, who will discuss oil and gas market updates, as well as the future outlook, PTTEP's investment opportunities and business update in the Middle East and the Company's Net Zero aspiration, and 3) Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, who will summarize PTTEP's financial results for the first quarter of 2023, financial position, and the outlook for the second quarter and FY2023. Without further ado, please join me in welcoming our CEO to commence the presentation.

PART 1: CEO Remarks

Khun Montri Rawanchaikul,
Chief Executive Officer

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Energy Transition Re-balance:

I believe that everyone is well aware of the energy shortage and energy security issues especially oil and natural gas, made worse by the Russia-Ukraine war in 2022 and has been persistent until today, causing an imbalance between demand and supply. Thailand has particularly been affected by this as we currently import significant LNG volume, compared to indigenous domestic gas production, so LNG price volatility has caused quite an impact to us.

However, the leading energy companies and relevant institutions have discussed the possibility that energy transition will take place sooner than initially forecasted. But with the recent global energy crisis during past year, as well as natural gas shortage in Europe and several countries, fossil fuels still play critical role and was in high demand. Going forward, it is believed that natural gas will be a transitional fuel before changing to other types of energy in many decades to come.

With this, many oil companies have reviewed their strategies and realized that the investment in oil and gas has subsided considerably since before COVID-19 and during the lockdown, as seen from budget cuts during the oil price slump in 2019. Now that everyone has seen that energy security is critical to a good quality of life, IOC will be reconsidering more investment in exploration and production businesses. However, though we agree that natural gas is the most critical energy source to date, it has to be clean energy too. To cater to this issue, we have Carbon Capture Storage (CCS) to alleviate the impact on the climatic conditions. Currently, there are about 200 CCS projects globally and many of which have already been commercialized. Therefore, Decarbonization has become something that people are closely eyeing on, and it is impossible not taken into account the environmental impact when executing projects. It has even been treated as a social license to operate. Meanwhile, PTTEP is also studying and exploring for opportunities in Future Energy business to further invest in the near future.

Having said that, PTTEP has reviewed our strategies to align with the global trend, which can be summarized into 3 main areas; Drive Value, Decarbonize, and Diversify, which are closely tied to the environment and industrial outlook. Going forward, we will continue to adhere to these 3 strategic pillars, especially the Drive Value as it directly enables energy security, while at the same time, we will expedite the Decarbonization initiatives and seek new investment opportunities.

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Q1/23 Highlights:

With regards to Q1/23 highlights in the E&P projects, we have expedited G1/61 (Erawan) Project activities, which should be ramped up to 400 MMSCFD in July 2023, before reaching the target of 800 MMSCFD by April 2024. Meanwhile, Bongkot Project is indeed one of the legacy projects that has now fully transitioned into G2/61 Project under PSC, with the contractual gas sales quantity of 700 MMSCFD. However, to compensate missing gas capacity from G1/61 Project as well as the field potential of G2/61 itself, we can increase the production of G2/61 Project, so the field is now producing at about 830 MMSCFD.

We have just announced our success in the bidding of G1/65 and G3/65 Projects in the Gulf of Thailand and the Production Sharing Contract (PSC) drafting is currently in progress, whereby the signing should take place in the second quarter. These 2 blocks are located close to our existing production facilities; G1/61 and G2/61 Projects, allowing for the acceleration of the exploration activities. Both G1/65 and G3/65 Projects are in the early exploration stage, so gas price has not yet been determined. Once the exploration results are available, we can come up with the associated cost and potential gas price that would be suitable for the fields.

Apart from Thailand, another focus area of investment is Malaysia, Lang Lebah Project, with the discovery of abundant gas resource, approximately 6-7 TCF, whereby the front-end engineering design (FEED) is now underway. There are several activities involved, for instance, offshore production platform, onshore gas terminal, pipelines and gas risers. By the end of this year, we expect to see clearer commercial terms that will allow us to make a final investment decision (FID).

During the first quarter, we have also expanded our investment in a new exploration block, SK325 Project, in Malaysia. We focus on acquiring blocks close to our existing facilities as well as carefully consider the potential partners who will work together in the project. Hence, the SK325 Project PSC that was jointly signed with Petronas is also close to our production site.

Moving on to the Middle East, there are 3 offshore and 2 onshore projects in the UAE, 5 projects in total. One of the offshore projects, our operator; Eni, has discovered the gas resources from an exploration well, which initially considered to take some time to develop. However, currently Eni wishes to accelerate the gas development from this field, as the UAE's priority is to expedite gas production, so it is possible to see the final investment decision (FID) for this project by the end of the year.

Another highlight is Mozambique LNG Project, operated by TotalEnergies. After declaring a force majeure from the local security issue, it should be possible to resume operations in the second half of this year. Meanwhile, after having been executing in Algeria for 18 years, we have successfully started the first oil production for the second project of about 14,000 barrels per day, ramping up from 9,000 barrels per day previously. Next, we also aim to expedite the development and production of the next phase.

With regards to the decarbonization efforts, we plan to execute the CCS at Arthit Project to serve as a pilot project in proving the technological capability. The goal is to capture 1 million tons of CO_2 equivalent (tCO_2e) per year, and it is now in the final phase of the front-end engineering design (FEED) before moving towards the investment decision in due course.

In the meantime, there are a number of opportunities in renewable energy production, for instance, the installation of solar panels at S1 Project in Kamphaeng Phet and Phitsanulok, which has been making good progress. With this, we might see the use of electricity in our operation, generated from solar energy, to run the turbine instead of gas.

For GHG emission reduction target, there are a lot of initiatives we have successfully implemented, for instance, flare gas recovery and process optimization. At this point, please note that of all the gas emitted into the atmosphere by PTTEP, about 95% is carbon dioxide, while methane accounts for only 3-4%, therefore an emphasis is placed on the CCS. Furthermore, we intend to reduce the carbon footprint by moving the abandoned wellhead platform from one project to use in other producing assets.

Recently, we have signed MOUs on reforestation, which is one of the carbon offset measures, and we are also looking into the Blue Carbon project, focusing on carbon management in locations close to onshore.

Moving on to Beyond E&P businesses, there is a pilot project we are now executing in Singapore regarded as Green e-Methanol, which has been going well with the feasibility study being carried out. Should there be any updates, I will keep you all informed. Meanwhile, we are considering CCS-as-a- service business model to commercialize this technology, by providing carbon storage services and charging carbon credits. We are not only talking about the carbon emitted by our own operations, but also from industrial estates in Map Ta Phut areas and those close to the sea. Last but not least, we have started to gain momentum for ARV (AI and Robotics Ventures); the subsea pipelines maintenance services, with more customers coming in. Also, developing further from Varuna 's inspection and agricultural drones, we are now incubating the pilot project on carbon farming under Varuna by using drones to inspect carbon absorption by forests. These are part of the global trend in climate change that we are currently working on.

PART 2: Business Update

Khun Chayong Borisuitsawat,
Executive Vice President – Strategy and Sustainable Growth

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Market Update:

The average oil price in the first quarter of 2023 was 80.20 USD/barrel, decreasing from the end of 2022. There were several events which impacted the oil price throughout the first quarter, for instance, bank run in the USA and Europe, though we can notice quite a speedy recovery. The oil price had been fluctuating slightly, while we can observe a certain degree of economic growth in China from the border reopening, coupled with increased mobility in the USA and Europe. There have been concerns over the global recession so that the oil price may decrease.

From PTTEP's point of view, the oil price in 2023 should be in the range of 70-90 USD/barrel. We have to keep monitoring the situation and factors such as the tension between Russia and Ukraine and financial policy that may induce economic slowdown.

LNG followed pretty much the same scenario as oil, with a large quantity of inventory accumulation despite a rather low utilization, leading to a considerable drop in LNG price, with the average price of 16

USD/MMBTU in the first quarter. PTTEP is of the view that LNG price should be between 14-26 USD/MMBTU in 2023.

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The Middle East Portfolio:

To reiterate the CEO's point on the investment in the Middle East, sales volume in the Middle East accounts for 12% of PTTEP's total sales volume, with the potential expansion in the UAE and Oman.

In Oman, we partner with BP and there are 3 projects that have already commenced production, together with 1 exploration project and 1 midstream project. Meanwhile, we work with ADNOC and Eni for the 5 exploration projects, one of which (Abu Dhabi Offshore 2 Project) the discovery has already been made and first production is now being expedited. There is also an LNG project in the UAE.

There are also several Beyond E&P opportunities in the Middle East, for example, hydrogen and renewable energy, which we are studying in greater details.

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Net Zero GHG Emissions Aspiration:

This slide is a summary of PTTEP's pathway to minimize greenhouse gas emissions from our operations. We have implemented 2 major strategies to ensure achievement of the Net Zero target; 1) exploring for lower carbon E&P portfolio for a better carbon management and for a gradual decrease in carbon emissions through new assets in the future and 2) production and planet in balance through initiatives implemented to reduce carbon emissions from existing projects, as well as reforestation projects to offset with carbon dioxide released from our producing activities.

The investment capital in these initiatives over 5-year horizon is about USD 460 million. The key initiative is carbon capture and storage (CCS), which contributes approximately 48% of total accumulated greenhouse gas reduction, together with other initiatives; energy efficiency, renewable energy in our operations, process optimization by incorporation of technology.

For the remaining greenhouse gas that we cannot reduce further, we are going to come up with the ways to offset greenhouse gas emissions by reforestation, which are land and mangrove forestation and blue carbon, as part of our Net Zero Pathway.

PART 3: Financial Results

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

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Financial Results Q1/23:

The net profit in the first quarter was reported at USD 569 million or THB 19,000 million. With regard to key events in the first quarter, Bongkot Project has ended the concession and transferred to G2/61 Project. There are outstanding items related to this project to be settled, which are 1) the reversal of decommissioning liabilities of about USD 100 million, subjected to 50% tax and 2) goodwill write-off of USD 75 million from the previous acquisition of additional stakes in this project. We have, therefore, reported net losses from this event of USD 24 million, which has already been reflected in the net profit of USD 569 million.

Next, the divestment of an asset in Brazil was completed, with no impact to net profit as we have already booked the provision for impairment of USD 95 million in the fourth quarter of 2022. Meanwhile, Montara's case has been approved by the court and we are preparing to make payment of USD 129 million, which has been booked the provisional liability in the fourth quarter of 2022.

Comparing to the fourth quarter of 2022, the net profit increased by 36% from USD 417 million to USD 569 million. The profit from normal operations decreased slightly from a decrease in sales volume by 8% resulting from 28-day production halt of Malaysia Block H Project, which is caused by the technical issue of the buyer's vessel with an inability to transport the gas.

Oman Block 61 Project was also a part of the sales volume decrease, as the cost recovery has been almost used up, which led to a lower sales volume entitlement under conditions in the PSC. Besides, there was some impact from Arthit Project with low nomination from buyer due to its LNG stock management, subsequently leading to the sales volume drop of about 8%. The price also decreased by 5% from 52.76 USD/BOE to 50.01 USD/BOE following the oil price trend.

In the first quarter, there were not a lot of non-operating items as we tried to manage oil price hedging, coupled with the fact that the oil price had not been that volatile. This can be seen from USD 1 million oil price hedging gain in the first quarter of this year, compared to oil price hedging losses of USD 240 million in the first quarter of 2022. Apart from that, if we compare with Q4/22, there were impairment losses and some other items impacted on non-operating items as well.

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Financial Results I Volume & Price:

Sales volume decreased by 8% QoQ, while it increased by 8% YoY. Comparing to the fourth quarter of 2022, we reported a decrease in sales volume from Malaysia Block H Project, Oman Block 61 Project, as well as Arthit Project, where a decrease of Bongkot Project was offsetting with and increase in G2/61 Project. However, compared to the first quarter of 2022, there was a contribution from G1/61 and G2/61 Projects, despite some production issues at Block H Project, SK309 and SK311 Project in Malaysia. All in all, the sales volume in the first quarter of 2023 was reported at 460,817 BOED, and we will provide further guidance for 2023 later on.

As for Dubai crude price, it was reported at an average of 96.21 USD/barrel in the first quarter of 2022 and decreased to 84.77 USD/barrel in the fourth quarter, with the whole-year average in 2022 of 96.38 USD/barrel. Then in the first quarter of 2023, Dubai crude was reported at an average of 80.23 USD/barrel, which is well within the range of 70-90 USD/barrel that we have previously forecasted. The impact from oil price can somewhat be reflected on gas prices, which decreased from 6.70 USD/MMBTU in the fourth quarter of 2022 to 6.52 USD/MMBTU in the first quarter of 2023. The gas price is usually reset in April and October, so it is likely that the gas price in the second quarter of 2023 will decrease. Meanwhile, liquid price is largely aligned with Dubai crude price, whereby the liquid price in the first quarter of 2023 was 78.14 USD/barrel; about 2-3 USD/barrel discounted to Dubai crude price. The volume mix between gas and liquid was 72% and 28%.

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Financial Results I Unit Cost:

The unit cost decreased from 29.32 USD/barrel in the fourth quarter of 2022 to 26.07 USD/barrel in the first quarter of 2023 because quite a large sum of OPEX and G&A expenses were usually booked in the fourth quarter of the year.

Another factor contributing to lower unit cost was the decrease in DD&A from 14.10 USD/barrel in the fourth quarter of 2022 to 11.82 USD/barrel in the first quarter of 2023 mainly due to Bongkot's decommissioning liabilities of USD 100 million, as well as lower OPEX and G&A expenses from lower human resources-related expense and consulting fees as mentioned previously.

On a YoY perspective, the unit cost in the first quarter of 2022 was 26.54 USD/barrel, mainly due to lower DD&A, despite an increase in OPEX from the start-up of G1/61 and G2/61 Projects.

However, since the decommissioning liabilities were a one-time adjustment, the unit cost in the first quarter of 2023 should have been around 27 USD/barrel if this was taken out of consideration.

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Financial Results I Cashflows & Financial Position

Our cashflows remained healthy, with the EBITDA margin of 73%. The amount of cash on hand at the end of March 2023 was approximately USD 4.2 billion. However, the dividend of about USD 600 million was paid out in April and will be followed by tax payment of about USD 800 million in May, so the remaining cash will be about USD 3 billion. This is just to clarify that the abundant cash amount as of March will be paid out shortly. In this regard, the majority of cash inflow has been generated from our operations.

The increase in cash on hand has led to an increase in assets, while liabilities have remained pretty much unchanged as we have not drawn any additional loans. Shareholders' equity increased mainly due to the net profits generated in the first quarter.

The average cost of debt has remained unchanged at about 4%, while the Debt to Equity ratio was 0.27x. The interest rate is 100% fixed rate, so the impact from market interest rate was very minimal to our debt profile. As a side note, we are going to issue Thai Baht bonds soon as a gesture of support to the Stock Exchange of Thailand and the Securities and Exchange Commission in testing the efficiency of the e-filing system, though the total sum will not be that significant.

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Results Guidance

The sales volume is likely to decrease in the second quarter to about 437 KBOED mainly due to lower sales volume entitlement of Bongkot Project as a consequence of the transition to PSC, and lower production capacity from B8/32 & 9A Project resulting from the FSO vessel incident, which led to a temporary production suspension for about 1 year. With our 25% participating interest in the project, we can expect a certain portion of missing sales volume. With the same reasons, we expect the full-year sales volume to be around 456 KBOED; lower sales volume from B8/32 & 9A Project, Oman Block 61 Project, Bongkot PSC and the possibility of certain blocks in Malaysia slipping the targets.

With the price reset in April, we view that gas price in the second quarter will be 5.9 USD/MMBTU as a result of lag time in price adjustment. In the meantime, the unit cost should be maintained in the range of 27-28 USD/barrel, while the EBITDA margin is likely to be between 70-75% for this year. That's the wrap for the outlook.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

Can you provide an update on the company's M&A plans and the progress of the CCS project?

Answer from PTTEP's management

Our M&A strategy is focused on strategic areas that can add value to our business, and we currently have several projects in the pipeline. With regards to our CCS project at Arthit, it is currently undergoing FEED studies, and we anticipate making a final investment decision around the end of 2023. The first injection for this project is expected to take place in a few years. Additionally, we have another CCS project at Lang Lebah, which is currently in progress.

Question # 2

What is the potential size of near-term M&A, and what can we expect in terms of return and the timeline for monetization?

Answer from PTTEP's management

It's unlikely that the size of near-term M&A will be as large as the previous deals made in the past 2-3 years. During periods of high oil prices, completing M&A transactions may take longer as buyers and sellers may have different price expectations. However, we have approximately 3-4 billion US dollars in cash available, and if opportunities arise that fit our investment criteria, such as early production or late-stage development projects that can be quickly monetized, we will consider them.

Our current focus is on the organic growth of the company, including monetizing our current discoveries in Malaysia and UAE. Therefore, the expected return and timeline for monetization will depend on the success of these projects.

Question # 3

Could you provide an update on the current ownership structure of G1/61 (Erawan)? When will the partner return to share the investment in the project?

Answer from PTTEP's management

According to the Production Sharing Contract (PSC) and the Joint Operating Agreement, PTTEP ED and MP G2 hold 60% and 40% participating interest, respectively, in the ownership structure of G1/61 (Erawan). However, MP G2 has currently stepped aside, and PTTEP ED is the sole investor, bearing 100% of the investment and entitlement to 100% of the revenues. Once successful production ramp-up is achieved, the back-in decision of MP will be reconsidered.

Question # 4

Does PTTEP factor in the risk of monsoon season into the ramp-up plan for G1/61, where in the ERC (Energy Regulatory Commission) interview seems to have concern on this?

Answer from PTTEP's management

Yes, we have already factored in potential risks related to ramp up preparation, including those associated with the monsoon season. While the monsoon season is unpredictable, we are doing our best to ramp up production as planned. We remain confident that the production of the G1/61 project will reach 400mmscfd in July, 600mmscfd at the end of 2023, and 800mmscfd in April 2024.

Question # 5

Regarding the FSO vessel incident at B8/32 which has resulted in the suspension of production for approximately a year, will the company need to set up any liability for gas losses under take-or-pay obligations, or receive any compensation from other fields to make up for the shortfall?

Answer from PTTEP's management

B8/32 gas production rate is 50mmscfd and crude production rate is 12KBPD. The FSO vessel incident has caused equipment malfunctions which require approximately 9-12 months of maintenance before the vessel can be back in service. To compensate for the shortage in gas production, we plan to utilize gas from the Arthit and Bongkot projects, as well as our Myanmar project.

Question # 6

Could you provide more information about the Mozambique project? Are there any other issues, besides security concerns, such as consent from all partners and potential cost overruns, that need to be addressed before construction can resume at the site?

Answer from PTTEP's management

We have been closely monitoring the situation in Mozambique and have been informed by the operator, TotalEnergies, that they are eager to return to the site as soon as possible, but this is largely dependent on the security situation. As for cost overruns, we do not anticipate any significant impact. Additionally, all partners are ready to give their consent for resuming construction. Currently, a soldier force has been established with support from several countries for defense purposes. We expect to have a clearer picture of the situation in Q2/2023.

Question # 7

Could you update on the company's position in Myanmar?

Answer from PTTEP's management

Currently, PTTEP is the operator for gas production of two projects in Myanmar, Yadana and Zawtika. Chevron is still the partner in Yadana project with 41% interest (highest stake). Gas imported into Thailand from these two projects was fed to 11 power plants in western Thailand, contribute nearly 20% of Domestic Gas Consumption, so it is crucial for the energy security of Thailand.

Question # 8

Regarding FPSO vessel issue in Malaysia projects, is the company able to claim for any compensation?

Answer from PTTEP's management

Sabah-H is a gas project, and the gas feeds into Petronas floating LNG. The take-or-pay obligation in the Gas Sales Agreement (GSA) is quite unique and is typically found in projects in Thailand. When the issue occurred with the compressor of the FPSO in Sabah-H, the buyer stopped taking the gas, which led to our production being suspended. However, the project is currently operating normally. Sabah-K is an oil project and was acquired as a brownfield asset from Murphy. The issue occurred with the FPSO vessel, where residual sand was left over in the storage and led to the operation being suspended. The FPSO vessel is now being repaired, and the project will be ready to resume operation shortly.

Question # 9

Could you please provide update on the Company's hedging strategy?

Answer from PTTEP's management

Our policy on oil price hedging is focused on downside protection of Net cashflow and Net income. The percentage of volume we hedge largely depends on market oil price outlook at the time of hedging. The exposure volume will be determined based on economic model with several financial assumptions. In 2023, our oil price hedging will be more dynamic than in the past. Outstanding hedged volume as of the end of Q1/2023 was 4.6mmbbl.

Question # 10

Why was the sales volume target for 2023 revised down from previous guidance (YE2022 Analyst Meeting)? Any further potential downside?

Answer from PTTEP's management

Mainly from the operational issues of Malaysia projects, and FSO vessel incident at B8/32 project, which Chevron is the operator, caused unplanned production shutdown for 9-12 months from mid-March 2023.

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.*