Case study: financial management of PTT after privatization

Under the Corporatization Act B.E. 2542, the Petroleum Authority of Thailand was corporatized from a state enterprise established under Petroleum Authority of Thailand Act B.E. 2521 (1978), into a Public Company Limited. PTT Public Company Limited has been listed in the Stock Exchanges of Thailand since 2001. The major shareholder of PTT is still the government. The year 2002 marked the first year of the new form of PTT’s contribution to the government. Instead of appropriations as a state enterprise, PTT paid corporate tax and dividend to the government. The amount of money in 2002 was Baht 17,240 million higher than the year 2001 in which the company contributed Baht 11,269 million to the government. In the first half of 2005, PTT and the affiliates paid corporate tax and dividend of Bath 25,911 million.

Why has PTT grown by leaps and bounds despite of having the same executive and staff?

Under the same management, PTT’s Privatization and listing in the stock market alone will not result in a dramatic change unless a number of programs are undergone. There are a number of factors which contributes to the giant success of PTT; namely, the good organization, the executive with visions, and quality personnel. Additionally, the business must be conducted ethically. Most of all, agility and flexibility which allow the company to adapt itself to suit future circumstance, are pre-requisite for the achievement.

In fact, the economy crisis in 1997 predominantly forced PTT and affiliates to restructure the business to boost its performance in the long run as well as prepare themselves with all situations in the future. Privatization is a key answer to strengthen PTT to prosper in the future. For instance, in 1983, PTT listed PTT Exploration and Production Company Limited (PTTEP) in the Stock Exchanges of Thailand as the first company under PTT affiliates because PTTEP’s business is capital intensive. PTT, as the parent company, had limited budget to support PTTEP. Therefore, the listing on the stock market was regarded as another means to raise sufficient capital to acquire more assets. Today, with plentiful assets of PTTEP, it is capable to invest in oil and natural gas concessions in both Thailand and overseas e.g. S1 Field, Bongkot, Pailin, Yadana and Yetagun, and others.

If PTT had not solved financial pressure to enable PTTEP to invest more, PTT would have had only S1 Field and some other fields. It would be impossible to acquire Bongkot, Pailin, Yadana, Yetagun as well as JDA. If PTTEP was not privatized and still 100% owned by PTT, the book value of PTTEP would be Baht 50 billion. But today, with 60% stake of PTT, PTTEP has assets of Baht 300,000 million and the great potential to invest more in energy procurement.

Solving problems of PTT affiliates after stock listing

After 1997, all companies faced with loss, more debt as Thai baht depreciated. The sale price of the products declined. A number of companies could not pay debt. As for PTT, it was in a tough situation as well. The debt-equity ratio was 5:1. From public offerings, PTT
gained Baht 26,000 million. The fund was used for debt reduction and revolving capital which resulted in a stronger financial position. As the ratio was lower to 2:1 initially, PTT was able to raise sufficient fund to assist affiliates which encountered financial problem.

Due to more agility, PTT could resolve to invest and improve financial structure and efficiency of the affiliates to boost their efficiency. Finally, they were financially sound and able to expand their businesses. The implementation could not be efficiently undertaken unless PTT was privatized and listed on the stock market.

First, the task began with Thai Oil Public Company Limited which had a registered capital of Baht 20 million and liabilities of around Baht 100,000 million. During the crisis in 1997 coupled with an incredibly low refining margin of US$2 per barrel, the company inevitably faced with financial problem. The revenue of the company after expense was hardly sufficient for interest payment. The debt restructuring was thus indeed necessary.

To implement the debt restructuring plan of ThaiOil which has liabilities of US$ 2,200 million, PTT negotiated with the creditors to bring down the debt by US$ 400 million on the condition that PTT would increase its capital of US$250 million (around Baht 11,000 million). The US$250 million debt on part of creditors would be converted to equity. As a result, the refinery had a remaining debt of US$1,300 million, a reduction of US$900 million. The debt repayment was restructured with the repayment period of longer than 10 years. The interest rate was initially low and later raised in the latter years.

The debt restructuring process of ThaiOil received cooperation from all stakeholders including shareholders, creditors, as well as the company’s employees. The early retirement was initiated. Around 200 employees voluntarily joined the program to resign from the company. The remaining employees had salary frozen for three years. Meanwhile, the company had to sell some businesses and undergo the cost saving program. For example, the senior management’s car was changed from Mercedez Benz to Volvo. The middle management’s car was Toyota and junior level was not entitled for an executive car. The chartering business was sold for US$ 10 million and around 20% shares of power plant were sold.

Until 2003, ThaiOil stated earning a profit of Baht 6,750 million and in the first half of this year, ThaiOil’s profit reached Baht 7,222 million. If PTT had not restructured ThaiOil’s debt at that time, the company would have been owned by the creditors or sold to foreigners. This was because the financial institute would not invest in refinery business which was not within their area of expertise. ThaiOil would then belong to foreign business.

As for Rayong Refinery in which PTT held stake of 36%, the company had accrued loss due to the economic turmoil as well as the lower demand of oil and refinery margin. Facing with such dilemma, the company recorded a high debt of around US$ 1,335 million. To assist the company, PTT negotiated with the creditors to lower US$ 200 million-debt. Around US$ 5 million or Baht 200 million from PTT was allocated to purchase a 64%-stake from Shell. As a result, PTT fully owned RRC. Fortunately, following the ownership by PTT, the refining margin in the first half of the year picked up and the company had earned a profit of Baht 11,000 million (including the gains from debt restructuring of US$ 200 million.
or Baht 7,700 million) The increasing profit enabled the company to pay debt. Today, RRC’s debt was down from US$ 1,135 million to around US$ 600 million.

With respect to Thai Olefins Public Company Limited and Aromatics (Thailand) Public Company Limited or ATC, they both implemented the same scheme in capital restructure through decreasing capital and shares in the company to reduce accumulated losses to strengthen the company. By doing so, the company was able to pay dividend. Later, the company increased the capital and was listed on the Stock Exchange of Thailand in order to raise fund for debt payment and various expansion projects.

TOC and ATC shared the similar dilemma in terms of operations. That is, they are not world scale-plants; the costs of production were thus higher than the larger plants. During the crisis, the companies were unable to pay loan principal but interest. Therefore, debt extension and production cost reduction were necessary. As for TOC, it put forward with a plan to produce additional 300,000 tons of ethylene, a rise from 575,000 tons per year which required a budget of US$140 million. The project would bring down the cost of production per unit to be more competitive. PTT thus resolved to inject US$ 70 million (around Baht 2,800 million) into the company. Another US$ 70 million was loan secured from financial institutes. In addition, PTT also provided a revolving fund of US$100 million (around Baht 4,000 million) as a cash support. The plant was completed in December 2004. Despite the price slump of the product during the year, the low cost of production per unit realized the growth of income of TOC over the year. Without the expansion, the profit of TOC would have been lower.

With respect to ATC which undertook a debottleneck project, PTT anticipated that the price of the product would recover and the break-even period would take only 1-2 years. PTT provided revolving fund of US$ 90 million (or around Baht 3,600 million). The project went well as planned. In addition, PTT also assisted in negotiation with the creditors in debt restructuring scheme which resulted in a stronger financial status of ATC. Also thanks to performance improvement, ATC could successfully perform its own negotiation to secure financial loan for the second aromatic plant.

Overall, since privatization, PTT has been reporting strong financial position. With improved efficiency, PTT has invested in a number of energy projects of both PTT (the construction of the Gas Separation Plant Unit V, the improvement of the present transmission and the construction of the third pipeline project) and affiliates. In addition, PTT also restructured its management which paid off well as witnessed in the past year and this year’s performance. Namely, main profit of PTT is contributed from the affiliates, a result from PTT's financial support for both refineries and petrochemical. Those affiliated companies which were hit hard during the crisis between the years 2000-2001 are performing well today and contributing their profit to PTT.

Additionally, as the natural gas business is the core business of PTT, the profit also grew due to the rising gas sale (natural gas, the products from gas separation plants). During the past 3-4 years after privatization, PTT invested over Baht 120,000 million to improve the gas transmission, and construct the Gas Separation Plant Unit V, the largest of its kind in the kingdom which was completed in late 2004. As a result, the products from gas separation plants and the gas sale from the fields rose by 50% and 20% respectively.
If PTT had not been privatized, the government would have solely owned PTT. The business could earn a profit of around Baht 20,000-30,000 million. But today, the government and various Thai funds have a 70% stake of PTT and the affiliates earn a profit of Baht 7-80,000 million. After privatization, PTT has undergone a number of projects for the progress of its affiliates. Most of all, the debt restructuring of ThaiOil and RRC, also reduced the debt of the country. Conversely, if PTT had not been privatized, all companies would have not been able to increase the revenue and generate income to PTT, all business would have belonged to the banks and later sold to any unknown business entities.

Today, PTT conducts the business under the same rules as of those other oil companies and other private refineries and petrochemical plants. The privatization alone is not the only variable to enable PTT to become the country’s leading company. The success incorporates a number of factors; for instance, the flexibility in working, the management system that is conducive to working, personnel development in addition to the executives with farsighted vision and sound judgments in long term investment. Those investments must be prudent and based on extensive research. Thinking out of the box is sometimes necessary. Above all, the strong financial status is regarded crucial. Last but not least, the business buyback can be undertaken when deems vital. Prior to or after the privatization, the business strength of PTT as of today and in the future, rests upon the credo of the company to establish the energy and economy stability of the country by taking an account of reasonable and ethical business undertaking.

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