



Star Petroleum Refining Public Company Limited

Management's Discussion and  
Analysis of Financial Condition and  
Result of Operations

For Quarter 1/2019

"One family...  
Fueling the future of Thailand"

**SPRC**

Star Petroleum Refining Public Company Limited

## 1) Company's Operating Result

(US\$ Million)	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Total Revenue	1,492	1,658	(166)	1,560	(68)
EBITDA	86	(128)	214	117	(32)
EBIT	65	(149)	214	96	(31)
Gain on foreign exchange	10	1	9	22	(12)
Net income (loss)	53	(118)	171	81	(28)
Net income (loss) (US\$ per share)	0.01	(0.03)	0.04	0.02	(0.01)
Accounting gross refining margin (US\$/barrel) <sup>(1)</sup>	7.87	(5.96)	13.83	8.40	(0.53)
Market gross refining margin (US\$/barrel) <sup>(2)</sup>	3.07	4.40	(1.33)	7.17	(4.10)

Crude intake (thousand barrels/day)	163.8	165.3	(1.5)	165.1	(1.3)
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(Baht Million)	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Total Revenue	47,397	54,668	(7,270)	49,458	(2,060)
EBITDA	2,734	(4,216)	6,951	3,732	(997)
EBIT	2,068	(4,910)	6,978	3,061	(993)
Gain on foreign exchange	328	36	292	713	(386)
Net income (loss)	1,690	(3,881)	5,571	2,573	(883)
Net income (loss) (Baht per share)	0.39	(0.90)	1.28	0.59	(0.20)

<sup>(1)</sup> margin includes inventory gain/loss based on weighted average inventory cost.

<sup>(2)</sup> margin is calculated based on current replacement cost.

Exchange rate (Baht/US\$)	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Average FX	31.79	32.99	(1.20)	31.71	0.08
Closing FX	31.98	32.61	(0.64)	31.41	0.57

In Q1/19, SPRC crude intake was slightly below Q4/18 but still at high utilization rate of 99.3% of the refining capacity or 163.8 thousand barrels per day, a slight decrease of 1.5 thousand barrels per day from Q4/18. Total sale revenue in Q1/19 decreased from Q4/18 primarily due to lower sales volume reflecting from lower throughput and lower average product selling price. However, Q1/19 EBITDA, EBIT and NIAT turned from negative in Q4/18 to be positive. Net income was US\$53 million (Baht 1,690 million) in Q1/19 comparing to net loss of US\$118 million (Baht 3,881 million) in Q4/18. The significant improvement in earnings during Q1/19 was mainly due to higher accounting gross refining margin which including stock gain from the recovery of global oil price after sharp drop in Nov and Dec last year, and a reversal of inventory write down at 31 Dec 2018. Excluding stock gain or loss, Q1/19 market gross refining margin was still weak at US\$3.07/bbl, comparing to US\$4.40/bbl in Q4/18 due to the continuing of poor crack spread in Jan and Feb 19. Earnings in Q1/19 was also favorably impacted from exchange gain of US\$10 million (Baht 328 million) due to stronger Baht during Q1/19 comparing to US\$1 million (Baht 36 million) in prior quarter.

Compared Q1/19 with Q1/18, crude intake and sale revenue also decreased. Sale revenue in Q1/19 decreased US\$68 million (Baht 2,060 million) from prior year quarter mainly due to lower sales volume reflecting from lower throughput. SPRC's EBITDA, EBIT and NIAT in Q1/19 were also below prior year quarter's numbers, impacted from the lower market gross refining margin and lower foreign exchange gain, but partially offset by higher stock gain from the rebound of oil price during Q1/19. Excluding stock gain or loss, SPRC market refining margin in Q1/19 was low at US\$3.07/bbl which negatively impacted from ongoing oversupply of refinery product in the market.

## 2) Market Condition

MOPS Pricing	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Dubai crude oil	63.49	67.44	-3.95	63.92	-0.43
Light Naphtha (MOPJ)	57.68	63.07	-5.39	64.60	-6.91
Gasoline (premium)	67.27	72.16	-4.90	77.63	-10.37
Jet Fuel	76.46	83.07	-6.61	79.99	-3.53
Diesel	76.27	82.20	-5.93	78.68	-2.41
Fuel Oil	64.05	68.77	-4.72	58.98	5.07

Spread over Dubai	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Light Naphtha (MOPJ)	-5.81	-4.37	-1.44	0.68	-6.49
Gasoline (premium)	3.77	4.72	-0.95	13.71	-9.94
Jet Fuel	12.96	15.63	-2.67	16.07	-3.11
Diesel	12.78	14.76	-1.99	14.76	-1.98
Fuel Oil	0.55	1.32	-0.77	-4.94	5.49

Average Dubai price for Q1/19 was US\$63.49/bbl, decreased from US\$67.44/bbl in Q4/18, as a result of Libya's production capacity, which was expected to rise after the El Sharara resumes production and concern over global economic growth and global crude demand due to U.S.-China trade war was likely to continue. U.S. sanctions against Iran and Venezuela also supported the market. In Q2/19, Dubai price was expected to rise as sign that OPEC and Russia agree to continue cut their combined crude output by 1.2 million barrels per day.

Gasoline spread over Dubai fell to US\$3.77/bbl. Gasoline market in this quarter returned to lowest since 2011 as high supplies were seen across regions of Asia, U.S. and Europe. However, refinery turnaround in March and weaker crude oil prices helped lift gasoline cracker higher. Singapore light distillates stocks were 15.6 million barrels on average which was quite the same as last year.

Naphtha spread over Dubai in Q1/19 was minus US\$5.81/bbl. Naphtha margins were dragged down by the depressed gasoline market with global inventories continuing to trend higher and Asian market remained relatively weak. However, the heavy planned maintenance of Middle Eastern and Indian refineries has tightened the regional market and led to a fall in inventories.

Jet and Diesel crack spread over Dubai was relatively strong compare to gasoline, averaging US\$12.96/bbl and US\$12.78/bbl, respectively. Middle distillate cracks were heavily supported by a decline in Indian production and exports owing to several refinery turnarounds. A robust aviation sector in the region and Chinese New Year holidays also helped support overall steady jet fuel consumption. However, the region's jet fuel market has been battered by a warmer winter, curbing demand for heating kerosene. Singapore stocks increased to 11.4 MMB, rise 16% Q-o-Q.

Fuel oil spread over Dubai in Q1/19 was US\$0.55/bbl, lower than Q4/18. Despite refining margin for fuel oil hit a three-year high, buoyed by weaker crude prices and tight supply of heavy sour crude, cracks fell due to higher arbitrage flows into Singapore from Europe, India and the Middle East resulting in rise in Singapore inventory. Even with this rise in inventory, Singapore onshore fuel oil inventories in this quarter decreased by 10% Q-o-Q to 19.4 MMB.

Due to higher crude price and weak in gasoline market, SPRC's average market refining margin in Q1/19 was US\$3.07/bbl as compared to US\$4.40/bbl in Q4/18 and US\$7.17/bbl in Q1/18. In Q1/19, SPRC maximized margin by maximizing crude throughput and process optimization, maximized synergy transfer with GC and maximized domestic placement for all products.

Sources: Reuters, IHS, Platts

### 3) Financial Results

	US\$ Million			US\$ Million	
	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Total Revenue	1,492	1,658	(166)	1,560	(68)
Cost of sales	(1,429)	(1,800)	372	(1,477)	48
<b>Gross profit</b>	<b>63</b>	<b>(143)</b>	<b>206</b>	<b>83</b>	<b>(20)</b>
Other income	0	0	0	1	(0)
Gain on exchange rate	10	1	9	22	(12)
Administrative expenses	(9)	(8)	(1)	(8)	(0)
Income tax	(12)	32	(43)	(15)	3
<b>Net income (Loss)</b>	<b>53</b>	<b>(118)</b>	<b>171</b>	<b>81</b>	<b>(28)</b>

	Baht Million			Baht Million	
	Q1/19	Q4/18	+ / (-)	Q1/18	+ / (-)
Total Revenue	47,397	54,668	(7,270)	49,458	(2,060)
Cost of sales	(45,390)	(59,369)	13,979	(46,831)	1,441
<b>Gross profit</b>	<b>2,007</b>	<b>(4,701)</b>	<b>6,709</b>	<b>2,626</b>	<b>(619)</b>
Other income	13	12	1	27	(14)
Gain on exchange rate	328	36	292	713	(386)
Administrative expenses	(276)	(252)	(24)	(264)	(11)
Income tax	(373)	1,040	(1,413)	(475)	102
<b>Net income (Loss)</b>	<b>1,690</b>	<b>(3,881)</b>	<b>5,571</b>	<b>2,573</b>	<b>(883)</b>

#### Production Volumes

Petroleum products	Thousands barrels		
	Q1/19	Q4/18	Q1/18
Polymer Grade Propylene	360	352	375
Liquefied Petroleum Gas	697	753	664
Light Naphtha	680	709	664
Gasoline	3,748	3,918	4,001
Jet Fuel	1,335	1,380	1,444
Diesel	5,782	6,156	5,959
Fuel Oil	1,394	1,757	1,706
Asphalt	243	215	173
Mix C4	391	337	443
Other <sup>(1)</sup>	1,620	1,549	1,035
<b>Total production</b>	<b>16,251</b>	<b>17,126</b>	<b>16,466</b>

<sup>(1)</sup> Includes sulfur and reformat and products sold pursuant to our cracker feed exchange with PTT Global Chemical (GC).

## Total Sale Revenue

	US\$ Million		
Petroleum products <sup>(1)</sup>	Q1/19	Q4/18	Q1/18
Polymer Grade Propylene	25	28	30
Liquefied Petroleum Gas	30	37	31
Light Naphtha	39	48	39
Gasoline	415	440	473
Jet Fuel	102	129	121
Diesel	631	699	659
Fuel Oil	80	123	92
Asphalt	16	16	11
Mix C4	25	22	29
Crude	10	0	-
Others <sup>(2)</sup>	118	116	74
<b>Total Revenue</b>	<b>1,492</b>	<b>1,658</b>	<b>1,560</b>

<sup>(1)</sup> Includes Government LPG and oil subsidies.

<sup>(2)</sup> Includes sulfur, reformat and products sold pursuant to our cracker feed exchange with PTT Global Chemical (GC).

Q1/19 sale revenue decreased 10% compared to Q4/18. The decrease was mainly from decrease in sales volume of petroleum products to 16.6 million barrels in Q1/19 compared to 17.9 million barrels in Q4/18 and decrease in average petroleum products price following the lower global crude price in Q1/19.

Q1/19 sale revenue also decrease 4% compared to Q1/18 mainly from decrease in sales volume of petroleum products compared to 16.8 million barrels in Q1/18 and lower petroleum products price.

In Q1/19, the company sold its petroleum products based on sale revenue to Chevron, PTT and other oil and petrochemical companies in the proportion of 52%, 33% and 15%, respectively.

### Cost of Sales

Cost of sale in Q1/19 significantly decreased 21% from Q4/18 due to decrease in sale volume and lower crude oil price. Cost of sales in Q1/19 also included the reversal of the inventory write down to net realizable value of US\$62 million at 31 Dec 2018 (impact to the decrease in cost of sale in Q1/19).

Compared Q1/19 with Q1/18, cost of sales slightly decreased 3% which was due to lower sale volume and the reversal of inventory write down at end of 2018.

### Gain on Foreign Exchange

Foreign exchange gain was US\$10 million (Baht 328 million) in Q1/19, increased from exchange gain of US\$1 million (Baht 36 million) in Q4/18 due to the higher appreciation of Baht relative to the U.S. dollar in Q1/19 comparing to Q4/18. Baht appreciation resulted in an increase in the value of Baht denominated receivables when converted to US\$ equivalent.

Comparing Q1/19 to Q1/18, foreign exchange gain decreased from US\$22 million (Baht 713 million) in Q1/18 due to the lower appreciation of the Baht relative to the U.S. dollar in Q1/19 comparing to the appreciation in same period of prior year.

### Administrative Expenses

Administrative expenses in Q1/19 slightly increased US\$1 million (Baht 24 million) from Q4/18 and US\$0.3 million (Baht 11 million) from Q1/18. The increase was primarily due to the provision of employee benefit impacted from the change in Labor Protection Act on the severance pay.

## 4) Analysis of Financial Position

	US\$ Million				Baht Million		
	31 Mar 2019	31 Dec 2018	+ / (-)	% + / (-)	31 Mar 2019	31 Dec 2018	+ / (-)
<b>Assets</b>							
Cash & cash equivalent	33	2	31	1378%	1,071	74	997
Other current assets	881	781	101	13%	28,178	25,448	2,731
Non-current assets	889	904	(15)	-2%	28,427	29,489	(1,062)
<b>Total assets</b>	<b>1,804</b>	<b>1,687</b>	<b>117</b>	<b>7%</b>	<b>57,676</b>	<b>55,011</b>	<b>2,665</b>
<b>Liabilities</b>							
Current liabilities	546	482	64	13%	17,459	15,704	1,755
Non-current liabilities	23	24	(0)	-2%	750	778	(28)
<b>Total liabilities</b>	<b>569</b>	<b>505</b>	<b>64</b>	<b>13%</b>	<b>18,209</b>	<b>16,482</b>	<b>1,727</b>
<b>Equity</b>							
Share capital & retained earnings	1,234	1,182	53	4%	45,170	43,493	1,677
Other component of shareholders' equity					(5,703)	(4,965)	(738)
<b>Total equity</b>	<b>1,234</b>	<b>1,182</b>	<b>53</b>	<b>4%</b>	<b>39,467</b>	<b>38,529</b>	<b>939</b>
<b>Total liabilities &amp; equity</b>	<b>1,804</b>	<b>1,687</b>	<b>117</b>	<b>7%</b>	<b>57,676</b>	<b>55,011</b>	<b>2,665</b>

### Assets

Total assets as of 31 Mar 2019 increased by US\$117 million (Baht 2,665 million) from 31 Dec 2018.

Total current assets increased US\$132 million (Baht 3,728 million) due to:

- an increase in cash & cash equivalent of US\$31 million (Baht 997 million);
- an increase in inventory of US\$124 million (Baht 3,720 million) from higher in both inventory volume, due to timing of crude shipment, and inventory price reflecting from the increasing in oil price comparing to Dec 2018; but partially offset by
- a decrease in trade and other account receivable of US\$25 million (Baht 1,046 million) from lower sales volume in Mar 2019 comparing to sales volume in Dec 2018 which partly offset by higher average selling price.

Non-current assets were lower period-over-period mainly from a decrease in property, plant and equipment of US\$16 million (Baht 1,065 million) as depreciation expenses for Q1/19 more than offset the additional capital investment in refinery reliability and efficiency projects.

## Liabilities

Total liabilities as of 31 Mar 2019 increased US\$64 million (Baht 1,727 million) from 31 Dec 2018. The increase in total liabilities are mainly from:

- a) an increase in trade and other account payables of US\$58 million (Baht 1,631 million). Trade payables increased mainly from timing of crude oil purchase and payment and higher crude price;
- b) an increase in income tax payable of US\$12 million (Baht 387 million) due to taxable profit in Q1/19;
- c) an increase in employee benefit obligation of US\$4 million (Baht 130 million) due to the provision of employee benefit impacted from the change in Thai Labor Act on severance pay; but partially offset by
- d) a decrease in excise tax payable of US\$6 million (Baht 248 million) due to lower sales volume in Mar 2019 comparing to Dec 2018; and
- e) a decrease in deferred tax liabilities of US\$5 million (Baht 158 million) resulted from exchange rate impact on temporary difference between accounting and tax book.

## Shareholders' Equity

Shareholders' equity as of 31 Mar 2019 increased US\$53 million (Baht 939 million) from 31 Dec 2018 resulted from the net profit in Q1/2019.

## 5) Statement of Cash Flow

Q1/2019	US\$ Million	Baht Million
Net cash generated from operating activities	41	1,293
Net cash used in investing activities	(9)	(274)
Net cash generated (used) in financing activities	-	-
<b>Net increase in cash and cash equivalents</b>	<b>32</b>	<b>1,019</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2</b>	<b>74</b>
Adjustments from foreign exchange translation	(1)	(22)
<b>Cash and cash equivalents at the end of the period</b>	<b>33</b>	<b>1,071</b>

SPRC cash and cash equivalents increased from US\$2 million (Baht 74 million) at 31 Dec 2018 to US\$33 million (Baht 1071 million) at 31 Mar 2019.

Details of cash flow activities in Q1/19 are as follow.

- a) Net cash generated from operating activities of US\$41 million (Baht 1,293 million) which was primarily due to:
  - a. Q1/19 net profit of US\$53 million (Baht 1,690 million) and added back non-cash items of US\$28 million (Baht 905 million);
  - b. cash generated from operating liabilities of US\$57 million (Baht 1,801 million), from an increase in trade and other payables of US\$61 million (Baht 1,951 million) due to timing of crude oil purchase and payment and higher crude price with a slight decrease in other current liabilities of US\$5 million (Baht 150 million) mainly from the lower excise tax payable resulting from lower sales volume and lower deferred tax liabilities.
  - c. partially offset by cash used in operating assets of US\$41 million (Baht 1,292 million), mainly from an increase in inventory value of US\$61 million (Baht 1,949 million) from higher in both inventory price and volume, net with a decrease in trade receivable of US\$22 million (Baht 709 million) due to lower sales volume in Mar 19 comparing to Dec 18.
- b) Net cash used in investing activities of US\$9 million (Baht 274 million), primarily on projects spending to increase refinery reliability and efficiency.

## 6) Financial Ratios

		Q1/19	Q4/18	Q1/18
Current Ratio	(Time)	1.7	1.6	1.7
Net Profit Margin	(%)	3.5	(7.1)	5.2
Debt to Equity ratio	(Time)	0.5	0.4	0.5
Net Interest-Bearing Debt to Equity ratio	(Time)	0.0	0.0	0.0

**Note:**

Current Ratio	=	Current Assets / Current Liabilities	(Time)
Net Profit Margin	=	Quarter (Net Profit(Loss) / Total Revenue)	(%)
Debt to Equity Ratio	=	Total Liabilities / Total Shareholders' Equity	(Time)
Net Interest Bearing Debt to Equity ratio	=	Interest Bearing Debt - Cash / Total Shareholders' Equity	(Time)