

Thai Oil Pcl (TOP TB) - SELL

Chak Reungsinpinya | Email: chak.reu@thanachartsec.co.th

News Update**A major acquisition in olefin value chain**

- **TOP to acquire 15% of Chandra Asri**
- **Consideration of \$1.18bn or Bt39bn**
- **Funding from rights Bt10bn issue and sale of GPSC stake**
- **We are not positive on this move; maintain SELL**

Thaioil announced it will make a major investment in olefin chemical via a purchase of 15.38% stake in Chandra Asri Petrochemical (BB code: TPIA IJ, not rated) in Indonesia for a total consideration of \$1.18bn or Bt39bn (assuming USD/THB exchange rate of 33). We are not positive on the move; maintain SELL.

- **Chandra Asri:** Chandra Asri Petrochemical (CAP) is the only olefin chemical producer in Indonesia. It currently operates one naphtha cracker with total olefin output of 900k tpa. It also has polyethylene and polypropylene plants as well as styrene monomer (SM) and MTBE plants. Siam Cement (SCC TB, BUY, Bt410) currently holds 30% in CAP.
- **The stake:** TOP's investment in CAP will be made via purchase of rights issue in order to fund CAP's expansion ("CAP2"). TOP will be diluting stakes of Barito Group (major shareholder). The investments will be made in two steps:
 - **The first 15%** will be via subscription of new shares and, if necessary, purchase of secondary shares from Mr. Prajogo Pangestu (an existing shareholder of CAP) to top up to 15%. This 15% stake will cost a maximum of \$914m (THB 30.2bn).
 - **The remaining 0.38%** stake will be purchased after the new project (CAP2) achieves commercial operation (COD). If this is reached within 5 years after the rights offer, the consideration to be paid for this 0.38% stake is \$270m (Bt8.93bn). If COD is reached more than 5 years after the rights issue, TOP will have to pay just an extra \$3.9m or Bt129m.
- **Funding:** TOP will fund the acquisition by rights issue (not exceeding Bt10bn) as well as selling down 10.8% stake in Global Power Synergy (GPSC TB, BUY, Bt79.50, covered by Nuttapop Prasitsuksant).
- **Our view:** We are not positive on this move. Firstly, olefin is not TOP's core business. Secondly, there is no synergy to be achieved by TOP buying an olefin plant in Indonesia. Thirdly, TOP will hold just 15.38% stake which is not enough for equity accounting and instead income from this project will have to rely on dividends. Lastly, TOP is making this investment at what we think is the height of this chemical cycle.

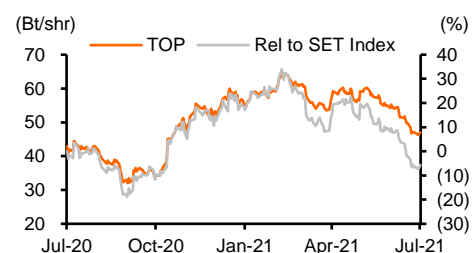
Key Valuations

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Revenue	247,913	334,234	347,136	357,943
Net profit	(3,301)	4,020	4,267	6,540
Norm net profit	(10,708)	4,020	4,267	6,540
Norm EPS (Bt)	(5.2)	2.0	2.1	3.2
Norm EPS gr (%)	na	na	6.1	53.3
Norm PE (x)	na	23.9	22.5	14.7
EV/EBITDA (x)	na	16.7	17.5	14.2
P/BV (x)	0.8	0.8	0.8	0.8
Div. yield (%)	1.5	1.9	2.0	3.1
ROE (%)	na	3.4	3.6	5.3
Net D/E (%)	61.2	96.0	122.7	122.6

Source: Thanachart estimates

Stock Data

Closing price (Bt)	47.00
Target price (Bt)	48.00
Market cap (US\$ m)	2,917
Avg daily turnover (US\$ m)	21.3
12M H/L price (Bt)	64.50/32.00

Price Performance

Source: Bloomberg

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