

BUY (Unchanged)

Change in Numbers

TP: Bt 52.00

Upside : 24.6%

(From: Bt 55.00)

29 JUNE 2021

B.Grimm Power Pcl (BGRIM TB)

Getting back on track

We expect BGRIM to report record-high earnings in 2Q21F, reversing from the soft patch in 1Q21, with delayed M&As materializing in 3Q21F. After its 18% YTD share price fall, we see now as a BUYing opportunity. BGRIM remains one of our top sector picks, along with EA, given its strongest growth outlook among peers.

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Likely record-high earnings in 2Q21F

We expect BGRIM to report record-high profit in 2Q21F of Bt730m, up 10% y-y and 17% q-q, a reversal from the soft patch in 1Q21 of Bt624m (-7% y-y). *First*, electricity demand from industrial clients in the auto, consumer and packaging sectors is improving given their stronger productivity. *Second*, Vietnam Electricity (EVN), Vietnam's state-owned power company, has started to request more electricity from BGRIM's solar farms as the country's power demand is recovering from the weak level seen in 1Q21, when buying volume dropped to 15% below actual generation from the projects. These two positives outweigh the impact from rising gas costs.

M&A deals likely to come in 3Q21F

We believe one of the reasons for BGRIM's weak share price YTD is the delay of its potential M&A deals by over six months. That said, the company is confident of finalizing the acquisition of an SPP gas-fired power plant in Thailand by 3Q21. BGRIM guides for 150-200MW capacity from this deal, implying 8-10% growth from its existing 1.9GW operating capacity. BGRIM also aims to secure contracts to develop wind farm projects in Korea and Vietnam this year with 300MW of total capacity. The combined 500MW capacity is factored into our TP at Bt5.5/share.

Long-term stories intact

BGRIM is one of our top picks, along with Energy Absolute Pcl (EA, Bt59.75, BUY), in the utility sector. We see BGRIM as the strongest growth stock in the sector with drivers from its aggressive M&A plans and the gas liberalization policy in Thailand that should lead to lower gas costs for BGRIM, which has secured an LNG import license, and opportunities to expand capacity as a captive power producer for corporates (B2B). See our sector report, *Grid liberalization, dated 29 January 2021*, for more details on this policy. BGRIM has also already made good progress towards developing up to 3.0GW of gas-fired power plants in Vietnam under its LNG-to-Power scheme.

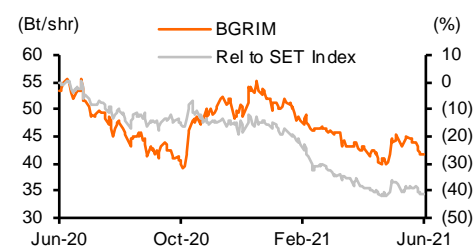
Reaffirming our BUY call with a TP of Bt52

After the 18% YTD share price fall after soft 1Q21 results and M&A deal delays, we believe it's time to get into BGRIM as we expect record-high earnings in 2Q21F and an official acquisition in 3Q21. We thus reaffirm our BUY call on BGRIM. We cut our earnings by 13-18% for 2021-23F reflecting longer-than-expected delays to its M&A deals and the rise in gas prices. Together with rolling over our base year to 2022F, we trim our DCF-derived SOTP-based 12-month TP to Bt52 (from Bt55). In our valuation, we assume BGRIM's capacity rises from 1.9GW at end-2020 to 2.8GW in 2023F. See Exhibit 2 for our capacity assumptions.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	44,087	45,521	51,910	58,060
Net profit	2,175	2,751	3,433	4,661
Consensus NP	—	3,149	3,697	4,903
Diff frm cons (%)	—	(12.6)	(7.2)	(4.9)
Norm profit	2,670	2,751	3,433	4,661
Prev. Norm profit	—	3,209	3,947	5,648
Chg frm prev (%)	—	(14.3)	(13.0)	(17.5)
Norm EPS (Bt)	1.0	1.1	1.3	1.8
Norm EPS grw (%)	29.7	3.0	24.8	35.8
Norm PE (x)	40.8	39.6	31.7	23.4
EV/EBITDA (x)	13.0	14.4	13.4	10.8
P/BV (x)	4.0	3.8	3.5	3.3
Div yield (%)	1.1	1.3	1.6	2.1
ROE (%)	9.6	9.8	11.5	14.5
Net D/E (%)	149.5	191.9	219.8	188.9

PRICE PERFORMANCE



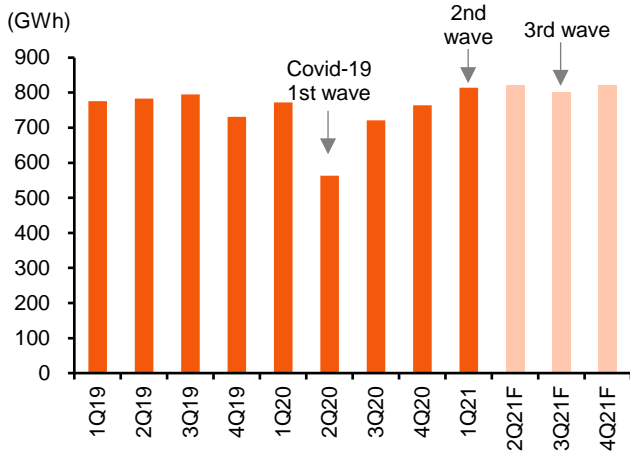
COMPANY INFORMATION

Price as of 29-Jun-21 (Bt)	41.75
Market Cap (US\$ m)	3,396.6
Listed Shares (m shares)	2,606.9
Free Float (%)	36.0
Avg Daily Turnover (US\$ m)	12.7
12M Price H/L (Bt)	56.00/39.25
Sector	Utilities
Major Shareholder	B.Grimm Group 38.43%

Sources: Bloomberg, Company data, Thanachart estimates

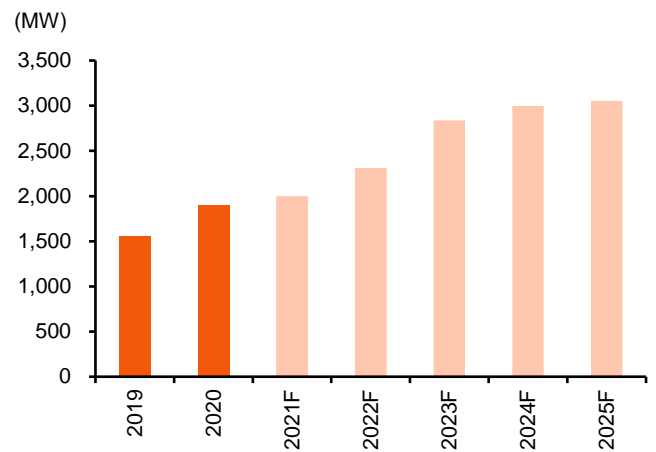


Ex 1: Improving Power Demand From Industrial Clients



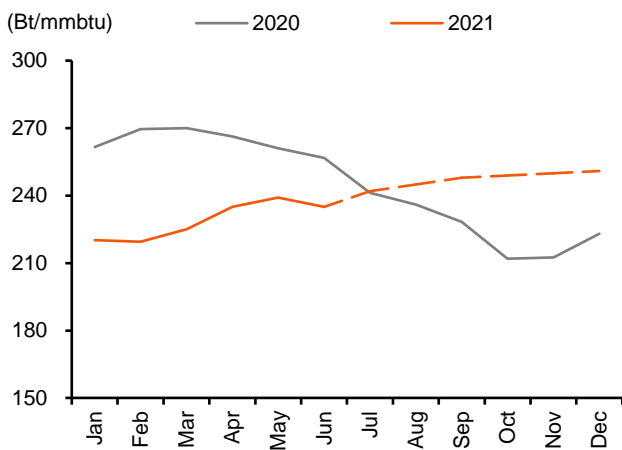
Sources: Company data, Thanachart estimates

Ex 2: Capacity Expansion Is The Key Growth Driver



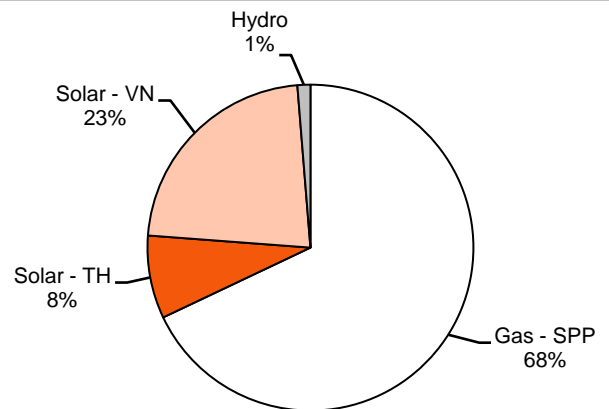
Sources: Company data, Thanachart estimates

Ex 3: Domestic Gas Price Gradually Picking Up



Sources: Company data, Thanachart estimates

Ex 4: Capacity Breakdown By Type (1Q21)



Source: Company data

Ex 5: Our DCF-derived Sum-Of-The-Parts (SOTP) 12-month TP Calculation

	Valuation method	WACC (%)	Value per BGRIM's share (Baht)
Operating gas-fired SPP plants (ABP, ABPR, BPLC, BPWHA, BIP, BPAM, ATP)	DCF	5.2 - 6.4%	17.4
SPP replacement projects (ABP1, ABP2, BPLC1, BPAM1, BPAM2)	DCF	5.9%	6.3
Developing gas-fired power plants (BGPR, U-Tapao airport, other IPS projects)	DCF	5.5 - 6.5%	3.0
Renewables			6.0
Solar - Thailand	DCF	6.0%	1.2
Solar - Vietnam	DCF	6.7%	2.5
Solar - Cambodia	DCF	7.1%	0.5
Wind - Thailand	DCF	6.0%	0.2
Hydro - Laos	DCF	6.7%	1.6
Cash and parent company			7.7
Potential projects			11.6
- Korea wind farms	DCF	10.0%	1.2
- Vietnam wind farms	DCF	10.0%	1.3
- Vietnam LNG	DCF	10.0%	4.5
- Thailand SPP (M&A)	DCF	7.2%	2.9
- Malaysia gas/solar plants (M&A)	DCF	7.0%	1.6
Grand total			52.0

Source: Thanachart estimates

Valuation Comparison

Ex 6: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Datang International Power	991 HK	China	(4.0)	8.3	11.1	10.2	na	na	na	na	na	na
Huadian Power	1071 HK	China	(7.1)	32.8	7.2	5.4	0.4	0.4	8.2	7.7	7.8	9.0
Huaneng Power	600011 CH	China	(11.2)	15.2	10.0	8.6	0.7	0.7	8.3	7.5	3.9	4.5
Cheung Kong Infrastructure	1038 HK	Hong Kong	9.7	2.2	12.8	12.6	1.0	1.0	39.9	39.0	5.4	5.5
China Power Int'l	2380 HK	Hong Kong	12.6	11.2	7.5	6.7	0.5	0.5	9.0	8.1	7.5	8.0
China Resources Power	836 HK	Hong Kong	16.7	11.7	5.1	4.6	0.5	0.5	5.6	5.1	7.7	8.7
CLP Holdings	2 HK	Hong Kong	6.8	4.6	16.1	15.4	1.6	1.6	10.5	10.1	4.1	4.2
Hongkong Electric Holdings	6 HK	Hong Kong	5.1	2.3	15.6	15.2	1.2	1.2	77.0	77.1	5.9	5.9
Huaneng Power	902 HK	Hong Kong	(4.0)	13.5	7.1	6.2	0.5	0.5	8.1	7.4	6.5	7.4
Tata Power	TPWR IN	India	17.6	20.9	25.5	21.1	1.8	1.8	10.5	10.2	1.2	1.2
Tenaga Nasional	TNB MK	Malaysia	11.1	2.6	11.6	11.3	1.0	1.0	6.7	6.6	5.3	5.4
YTL Corp	YTL MK	Malaysia	(68.4)	na	110.0	31.4	0.6	0.6	12.6	11.5	5.2	4.4
YTL Power	YTLP MK	Malaysia	44.7	3.6	12.7	12.3	0.5	0.5	10.3	10.2	5.0	6.0
Manila Electric	MER PM	Philippines	14.8	(10.0)	13.0	14.4	3.5	3.2	8.4	9.1	5.1	5.1
Absolute Clean Energy *	ACE TB	Thailand	18.8	84.4	23.6	12.8	3.4	2.9	18.9	10.7	1.7	3.9
BCPG Pcl *	BCPG TB	Thailand	(14.3)	3.4	19.5	18.9	1.4	1.3	16.0	17.0	2.4	2.4
B.Grimm Power Pcl *	BGRIM TB	Thailand	3.0	24.8	39.6	31.7	3.8	3.5	14.4	13.4	1.3	1.6
Banpu Power Pcl *	BPP TB	Thailand	10.2	12.4	15.1	13.4	1.3	1.2	216.2	162.6	4.0	4.5
CK Power Pcl *	CKP TB	Thailand	401.7	5.8	23.4	22.2	1.8	1.8	15.6	16.1	1.7	2.3
EA Pcl*	EA TB	Thailand	15.3	32.6	37.7	28.4	6.9	5.9	22.5	17.3	0.8	1.1
Electricity Generating *	EGCO TB	Thailand	22.6	9.6	8.1	7.4	0.8	0.7	15.8	13.8	3.9	4.1
Global Power Synergy *	GPSC TB	Thailand	18.1	7.9	23.0	21.4	1.9	1.8	14.0	13.3	2.6	2.8
Gulf Energy Dev. Pcl *	GULF TB	Thailand	42.7	21.1	60.3	49.7	5.4	5.1	49.2	41.6	1.0	1.2
Gunkul Engineering *	GUNKUL TB	Thailand	34.5	22.0	22.5	18.4	3.3	3.0	19.9	17.8	2.2	2.7
RATCH Group *	RATCH TB	Thailand	26.6	5.7	9.6	9.1	1.0	1.0	15.4	14.6	6.2	6.6
SPCG Pcl*	SPCG TB	Thailand	(8.1)	(19.9)	7.5	9.3	1.1	1.0	4.7	4.8	6.0	4.8
TPC Power Holding *	TPCH TB	Thailand	52.4	23.3	12.7	10.3	1.5	1.3	9.3	7.9	2.4	2.9
WHA Utilities & Power *	WHAUP TB	Thailand	47.9	24.5	14.1	11.3	1.3	1.3	31.3	26.8	4.3	5.3
Average			25.6	13.9	20.8	15.7	1.8	1.7	25.1	21.8	4.1	4.5

Sources: Bloomberg, * Thanachart estimates

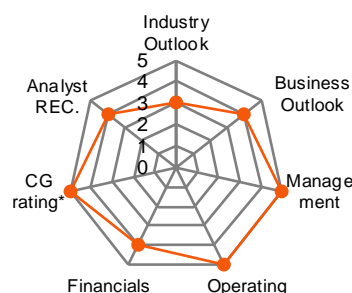
Based on 29 June 2021 closing prices

COMPANY DESCRIPTION

Established in 1993, BGRIM, a power arm of B.Grimm Group which has been operating businesses in Thailand for over 140 years, is one of the largest power producers in Thailand under the Small Power Producer (SPP) scheme. BGRIM provides electricity and steam for the national power grid as well as nearly 200 large manufacturers in many industrial estates and has also expanded its power business into Vietnam and Laos. The company has secured a combined 1,944MW (net equity owned) operating capacity as 2020 with a target to expand into 5,000MW by 2025.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Good engineering team with strong expertise in developing and operating gas-fired power plants for over 20 years.
- Benefits from relationships with B.Grimm Group and other key strategic partners.

O — Opportunity

- Expansion of power business in neighbouring countries and the rest of Asia.
- Increasing power industry liberalization opens room for new business areas i.e. smart grid and peer-to-peer trading.

W — Weakness

- Financial gearing looks a bit high compared with peers', but is still well below its threshold.

T — Threat

- Regulatory risks from business overseas.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	54.64	52.00	-5%
Net profit 21F (Bt m)	3,149	2,751	-13%
Net profit 22F (Bt m)	3,697	3,433	-7%
Consensus REC	BUY: 14	HOLD: 5	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are 13% and 7% lower than the Bloomberg consensus numbers, likely because we are earlier in factoring in the negative impact from the curtailment issue and rising gas costs.
- Our TP is therefore 5% lower than the Street's.

RISKS TO OUR INVESTMENT CASE

- A slower-than-expected recovery of manufacturing activity, and thus demand for electricity and steam from industrial users (IU), represents the key downside risk to our earnings and valuation.
- Adverse fluctuations of gas prices from our assumptions or lower-than-expected benefit from self-imported LNG are also downside risks to our earnings forecasts and target price.
- Any negative deviation of the national tariff price from our assumptions represents a downside risk to our projections.
- Slower-than-expected growth in contracted capacity with IUs than we currently expect would represent another downside risk to our projections.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	44,132	44,087	45,521	51,910	58,060
Cost of sales	35,953	34,848	35,744	39,992	43,734
Gross profit	8,179	9,239	9,776	11,918	14,326
% gross margin	18.5%	21.0%	21.5%	23.0%	24.7%
Selling & administration expenses	1,740	2,008	1,960	2,261	2,463
Operating profit	6,439	7,231	7,816	9,657	11,863
% operating margin	14.6%	16.4%	17.2%	18.6%	20.4%
Depreciation & amortization	4,701	5,616	5,365	6,034	7,174
EBITDA	11,140	12,847	13,181	15,691	19,037
% EBITDA margin	25.2%	29.1%	29.0%	30.2%	32.8%
Non-operating income	289	251	259	295	330
Non-operating expenses	0	0	0	0	0
Interest expense	(3,001)	(3,056)	(3,347)	(3,966)	(4,447)
Pre-tax profit	3,728	4,426	4,728	5,986	7,746
Income tax	235	233	473	599	775
After-tax profit	3,493	4,193	4,255	5,387	6,972
% net margin	7.9%	9.5%	9.3%	10.4%	12.0%
Shares in affiliates' Earnings	101	58	42	27	27
Minority interests	(1,535)	(1,581)	(1,546)	(1,982)	(2,338)
Extraordinary items	271	(495)	0	0	0
NET PROFIT	2,331	2,175	2,751	3,433	4,661
Normalized profit	2,059	2,670	2,751	3,433	4,661
EPS (Bt)	0.9	0.8	1.1	1.3	1.8
Normalized EPS (Bt)	0.8	1.0	1.1	1.3	1.8

Strong earnings growth from capacity expansion and recovering demand

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	33,493	29,879	21,432	22,747	24,003
Cash & cash equivalent	23,663	20,389	11,305	11,331	11,357
Account receivables	7,156	6,818	7,483	8,533	9,544
Inventories	969	1,033	979	1,096	1,198
Others	1,706	1,638	1,666	1,787	1,904
Investments & loans	1,667	1,086	935	783	632
Net fixed assets	72,132	80,300	105,532	129,751	129,776
Other assets	14,401	19,431	19,860	20,277	20,633
Total assets	121,693	130,696	147,759	173,558	175,045
LIABILITIES:					
Current liabilities:	25,832	26,993	16,770	19,795	19,918
Account payables	18,254	5,641	5,876	6,574	7,189
Bank overdraft & ST loans	3,036	15,080	4,626	5,643	5,401
Current LT debt	4,139	5,705	5,713	6,970	6,670
Others current liabilities	403	567	555	608	658
Total LT debt	55,596	58,361	82,177	100,254	95,942
Others LT liabilities	1,588	6,038	6,485	7,315	8,015
Total liabilities	83,016	91,392	105,432	127,363	123,875
Minority interest	10,533	11,834	13,380	15,361	17,699
Preferred shares	0	0	0	0	0
Paid-up capital	5,214	5,214	5,214	5,214	5,214
Share premium	9,644	9,644	9,644	9,644	9,644
Warrants	0	0	0	0	0
Surplus	6,959	5,544	5,544	5,544	5,544
Retained earnings	6,328	7,068	8,546	10,432	13,070
Shareholders' equity	28,144	27,470	28,947	30,834	33,471
Liabilities & equity	121,693	130,696	147,759	173,558	175,045

Sufficient gearing room to support investments for expansion

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,728	4,426	4,728	5,986	7,746
Tax paid	(235)	(233)	(473)	(599)	(775)
Depreciation & amortization	4,701	5,616	5,365	6,034	7,174
Chg In working capital	11,649	(12,339)	(376)	(468)	(498)
Chg In other CA & CL / minorities	2,746	(78)	3	(42)	(39)
Cash flow from operations	22,588	(2,609)	9,246	10,911	13,608
Capex	(14,441)	(13,663)	(30,419)	(30,057)	(6,984)
Right of use	0	(1,256)	(200)	(200)	(150)
ST loans & investments	(700)	(16)	0	0	0
LT loans & investments	340	581	151	151	151
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(6,506)	498	41	415	278
Cash flow from investments	(21,307)	(13,856)	(30,427)	(29,690)	(6,704)
Debt financing	1,177	16,040	13,370	20,351	(4,854)
Capital increase	0	0	0	0	0
Dividends paid	(834)	(965)	(1,274)	(1,546)	(2,023)
Warrants & other surplus	7,395	(1,884)	0	0	0
Cash flow from financing	7,738	13,192	12,096	18,805	(6,877)
Free cash flow	8,147	(16,272)	(21,172)	(19,146)	6,624

We do not see the huge capex cycle as an issue for its financial health

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	52.9	40.8	39.6	31.7	23.4
Normalized PE - at target price (x)	65.8	50.8	49.3	39.5	29.1
PE (x)	46.7	50.0	39.6	31.7	23.4
PE - at target price (x)	58.2	62.3	49.3	39.5	29.1
EV/EBITDA (x)	13.3	13.0	14.4	13.4	10.8
EV/EBITDA - at target price (x)	15.7	15.1	16.4	15.1	12.2
P/BV (x)	3.9	4.0	3.8	3.5	3.3
P/BV - at target price (x)	4.8	4.9	4.7	4.4	4.0
P/CFO (x)	4.8	(41.7)	11.8	10.0	8.0
Price/sales (x)	2.5	2.5	2.4	2.1	1.9
Dividend yield (%)	0.9	1.1	1.3	1.6	2.1
FCF Yield (%)	7.5	(15.0)	(19.5)	(17.6)	6.1
(Bt)					
Normalized EPS	0.8	1.0	1.1	1.3	1.8
EPS	0.9	0.8	1.1	1.3	1.8
DPS	0.4	0.5	0.5	0.7	0.9
BV/share	10.8	10.5	11.1	11.8	12.8
CFO/share	8.7	(1.0)	3.5	4.2	5.2
FCF/share	3.1	(6.2)	(8.1)	(7.3)	2.5

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	20.6	(0.1)	3.3	14.0	11.8
Net profit (%)	22.0	(6.7)	26.5	24.8	35.8
EPS (%)	22.0	(6.7)	26.5	24.8	35.8
Normalized profit (%)	13.1	29.7	3.0	24.8	35.8
Normalized EPS (%)	13.1	29.7	3.0	24.8	35.8
Dividend payout ratio (%)	41.4	53.9	50.0	50.0	50.0
Operating performance					
Gross margin (%)	18.5	21.0	21.5	23.0	24.7
Operating margin (%)	14.6	16.4	17.2	18.6	20.4
EBITDA margin (%)	25.2	29.1	29.0	30.2	32.8
Net margin (%)	7.9	9.5	9.3	10.4	12.0
D/E (incl. minor) (x)	1.6	2.0	2.2	2.4	2.1
Net D/E (incl. minor) (x)	1.0	1.5	1.9	2.2	1.9
Interest coverage - EBIT (x)	2.1	2.4	2.3	2.4	2.7
Interest coverage - EBITDA (x)	3.7	4.2	3.9	4.0	4.3
ROA - using norm profit (%)	1.9	2.1	2.0	2.1	2.7
ROE - using norm profit (%)	8.7	9.6	9.8	11.5	14.5
DuPont					
ROE - using after tax profit (%)	14.7	15.1	15.1	18.0	21.7
- asset turnover (x)	0.4	0.3	0.3	0.3	0.3
- operating margin (%)	15.2	17.0	17.7	19.2	21.0
- leverage (x)	4.7	4.5	4.9	5.4	5.4
- interest burden (%)	55.4	59.2	58.6	60.1	63.5
- tax burden (%)	93.7	94.7	90.0	90.0	90.0
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	9.1	10.2	8.2	7.9	8.1
NOPAT (Bt m)	6,033	6,850	7,035	8,691	10,677
invested capital (Bt m)	67,253	86,226	110,158	132,369	130,127

Sources: Company data, Thanachart estimates

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