

**BUY** (From: HOLD)**TP: Bt 140.00** (From: Bt 126.00)**16 JULY 2021**

Change in Recommendation

Upside : 25.0%

# PTT Exp & Production Pcl (PTTEP TB)

## Window of opportunities

We upgrade PTTEP to BUY from Hold and raise our TP to Bt140 from Bt126 on higher oil price and lower cost assumptions. We now view PTTEP as attractively valued and as a laggard play vs. oil prices. Strong core earnings and volume growth are potential catalysts.

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### A value proposition, a laggard play

We see PTTEP as attractively valued at 12/11x 2021/22F PE (on conservative earnings forecasts) and 1.1x 2022F P/BV. The stock offers strong normalized earnings growth of 68% this year and 16% in 2022F, driven by higher prices and volume growth. PTTEP has also been a laggard vs. oil prices with its share price virtually unchanged for the past six months against a more than 30% oil price performance over the same period.

### Higher oil price environment

We raise our Brent oil price assumption by \$5/bbl to \$65/bbl in 2021-22F. The slow US output recovery and strong production discipline exhibited by OPEC+ members make us less worried about a potential oversupply. At the same time, a demand recovery in developed markets and China will likely help offset weakness in emerging economies still grappling with the COVID outbreak. The higher oil prices will also feed into higher gas prices from 2Q21F onwards. We also think the market should ignore hedging losses given the limited volume hedged vs. the long-term positive trend from higher oil prices.

### Strong volume growth with good cost control

We expect strong volume growth of 10% in 2021F followed by another 11% in 2022F, driven by a combination of a demand recovery as well as contributions from new projects. In particular, we expect growth from Oman (acquisition), Malaysia and Algeria (start-up of new fields) to be key overseas growth drivers. In Thailand, our projections for 2022-23F assume a contribution from Erawan (which is due to start in April 2022) at a reduced volume of 600mmcf/d compared with 800mmcf/d previously. In addition to strong volume growth, we believe PTTEP will be able to maintain good cost control. Our cost assumption of \$31/BOE is still higher than management's guidance of \$29/BOE, leaving room for potential upside to our forecasts.

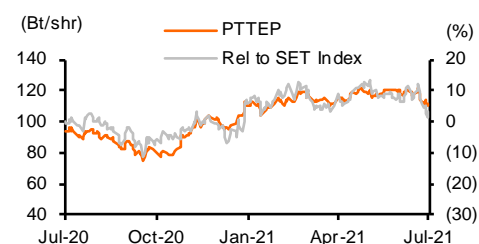
### Risks to new projects look overblown

We believe one of the key reasons PTTEP has significantly underperformed oil prices has been concerns over new projects. We think the risks are overblown. For Erawan, we do not believe the current dispute between Chevron and the government will impact PTTEP given that the new production-sharing contract (PSC) is clear and distinct from the current concession and affords PTTEP a degree of protection when it comes to production costs. As for Mozambique, we think there is still enough time for the consortium to work around the current unrest in the country since the project is not due to start for another three to four years. Even so, we note that Mozambique will only make up 2-3% of PTTEP's volume in 2024-25F, on our estimate.

### COMPANY VALUATION

| Y/E Dec (Bt m)    | 2020A   | 2021F   | 2022F   | 2023F   |
|-------------------|---------|---------|---------|---------|
| Sales             | 160,401 | 194,953 | 221,410 | 220,047 |
| Net profit        | 22,664  | 35,968  | 41,656  | 42,151  |
| Consensus NP      | —       | 38,269  | 44,919  | 43,838  |
| Diff frm cons (%) | —       | (6.0)   | (7.3)   | (3.8)   |
| Norm profit       | 21,397  | 35,968  | 41,656  | 42,151  |
| Prev. Norm profit | —       | 32,566  | 36,650  | 37,738  |
| Chg frm prev (%)  | —       | 10.4    | 13.7    | 11.7    |
| Norm EPS (Bt)     | 5.4     | 9.1     | 10.5    | 10.6    |
| Norm EPS grw (%)  | (56.2)  | 68.1    | 15.8    | 1.2     |
| Norm PE (x)       | 20.8    | 12.4    | 10.7    | 10.5    |
| EV/EBITDA (x)     | 4.0     | 3.9     | 3.5     | 3.5     |
| P/BV (x)          | 1.3     | 1.2     | 1.1     | 1.1     |
| Div yield (%)     | 3.8     | 4.9     | 5.6     | 5.7     |
| ROE (%)           | 6.0     | 9.9     | 11.0    | 10.6    |
| Net D/E (%)       | (1.9)   | 20.8    | 23.4    | 21.6    |

### PRICE PERFORMANCE



### COMPANY INFORMATION

|                             |                |
|-----------------------------|----------------|
| Price as of 16-Jul-21 (Bt)  | 112.00         |
| Market Cap (US\$ m)         | 13,576.7       |
| Listed Shares (m shares)    | 3,970.0        |
| Free Float (%)              | 34.7           |
| Avg Daily Turnover (US\$ m) | 34.9           |
| 12M Price H/L (Bt)          | 121.50/75.00   |
| Sector                      | Energy         |
| Major Shareholder           | PTT Pcl 63.79% |

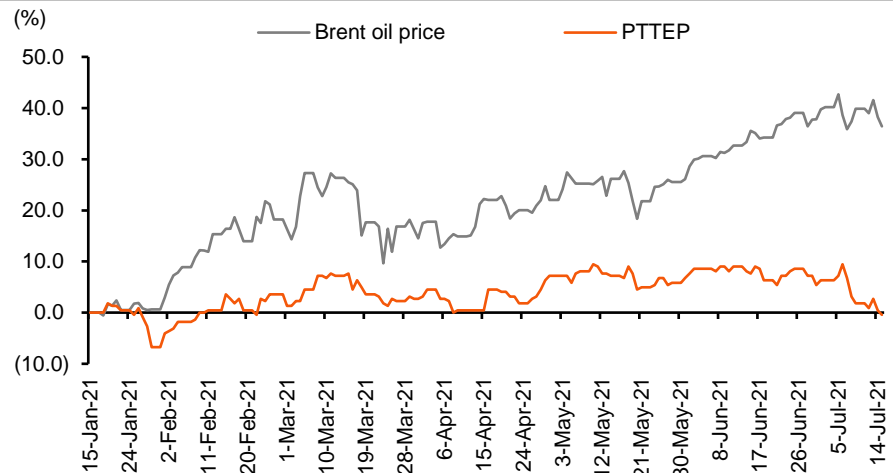
Sources: Bloomberg, Company data, Thanachart estimates

## A value proposition, a laggard play

*PTTEP's share price has significantly lagged the oil price in the past six months*

We see PTT Exploration & Production (PTTEP) as attractively valued at 12/11x 2021/22F PE and 1.1x 2022F P/BV. The stock offers strong normalized earnings growth of 68% this year and 16% in 2022F, driven by higher prices and volume growth. PTTEP has also been a laggard vs. oil prices with its share price virtually unchanged in the past six months against more than a 30% oil price performance over the same period.

**Ex 1: PTTEP Has Badly Lagged Behind Oil Prices For The Past Six Months**



Sources: Bloomberg, Thanachart

## Boosting EPS, TP on higher oil prices

*We see a strong earnings outlook, driven by higher oil prices, volume growth*

In this report, we have made a few changes to our key assumptions for PTTEP. First, we raise our Brent oil price assumptions by \$5/bbl across the board. Secondly, rising oil prices are also feeding into higher gas prices; this will likely become more evident in 2022F and thereafter. Lastly, we have cut our sales volume assumptions mainly to account for likely lower-than-expected output from the Erawan gas field, which PTTEP is due to take over operatorship from April 2022 onwards. Note that we have kept our cost assumption largely unchanged at \$31/BOE. This is still significantly higher than management's guidance of \$29/BOE. As such, there could be potential upside to our earnings forecasts if cost cutting does come through.

**Ex 2: Key Assumption Changes**

| Assumption      | Unit         | 2021F   | 2022F   | 2023F   | 2024F   |
|-----------------|--------------|---------|---------|---------|---------|
| <b>New</b>      |              |         |         |         |         |
| Brent oil price | (US\$/bbl)   | 65.00   | 65.00   | 66.30   | 67.63   |
| Gas ASP         | (US\$/mmbtu) | 5.58    | 5.94    | 5.15    | 5.18    |
| Volume          | (KBOED)      | 388.03  | 429.54  | 453.25  | 455.66  |
| <b>Old</b>      |              |         |         |         |         |
| Brent oil price | (US\$/bbl)   | 60.00   | 60.00   | 61.20   | 62.42   |
| Gas ASP         | (US\$/mmbtu) | 5.53    | 5.68    | 4.98    | 5.01    |
| Volume          | (KBOED)      | 403.03  | 460.24  | 483.95  | 486.36  |
| <b>Change</b>   |              |         |         |         |         |
| Brent oil price | (US\$/bbl)   | 5.00    | 5.00    | 5.10    | 5.20    |
| Gas ASP         | (US\$/mmbtu) | 0.05    | 0.26    | 0.17    | 0.17    |
| Volume          | (KBOED)      | (15.00) | (30.70) | (30.70) | (30.70) |

Sources: Company data, Thanachart estimates

**EPS, TP hikes driven by higher oil price assumption and partially offset by lower volume**

Consequently, we have raised our normalized EPS estimates by 10-14% in 2021-24F. Note that the impact of rising oil prices exceeds that of our lower volume assumptions. Our DCF-based 12-month TP, using a 2022F base year, has also been raised to Bt140/share from Bt126 previously.

**Ex 3: Earnings And TP Revisions**

| (Bt/shr)   | Norm EPS |       |       |       | TP     |
|------------|----------|-------|-------|-------|--------|
|            | 2021F    | 2022F | 2023F | 2024F |        |
| New        | 9.06     | 10.49 | 10.62 | 11.72 | 140.00 |
| Old        | 8.20     | 9.23  | 9.51  | 10.50 | 126.00 |
| Change (%) | 10.4     | 13.7  | 11.7  | 11.6  | 11.1   |

Sources: Company data, Thanachart estimates

**Hedging and FX losses a passing event**

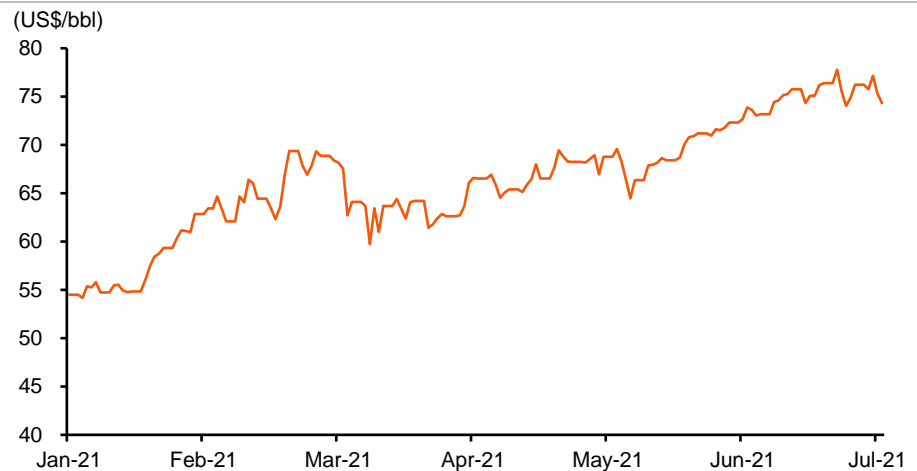
Note that our normalized EPS forecasts exclude gains/losses from non-operating items such as FX or hedging. We understand the market may be concerned over PTTEP's potential losses on hedging. To recap, PTTEP has hedged 12m bbls of oil equivalent for the remainder of this year. The hedges were put in place from 3Q20, using a collar to protect downside risk below \$40/bbl but capping the upside gain at \$60/bbl. The hedged volume equates to roughly 60% of the company's 2H21F liquid production. Given the high oil price environment, the company will lose roughly \$100m-150m at the top line and \$70m-100m at the bottom line, though much of this will be marked to market at end 2Q21F. We also expect significant potential FX (accounting) losses in 2Q21F and potentially 3Q21F if the baht continues to weaken against the US dollar. While these losses are negative events, we do not think investors should place much emphasis on them given that a) some losses are purely due to accounting issues, and b) the higher oil price environment will likely support strong core earnings going forward.

## Higher oil price environment

*We lift our Brent oil price forecasts by \$5/bbl to \$65/bbl in 2021-22F*

We raise our Brent oil price assumptions by \$5/bbl to \$65/bbl in 2021-22F. The slow US output recovery and strong production discipline exhibited by OPEC+ members make us less worried about a potential oversupply. At the same time, a demand recovery in the developed markets and resilient demand in emerging economies (despite the raging COVID pandemic) have combined to drive global demand higher.

### Ex 4: Brent Oil Price Has Had A Strong Run Year-To-Date



Sources: Bloomberg, Thanachart

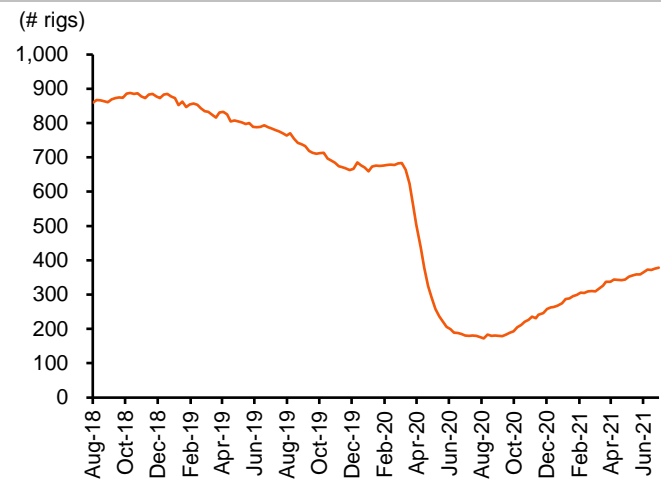
## Slow US output recovery plus OPEC+ discipline to limit supply

*US oil production recovery will likely be slow*

We have been surprised by the discipline exhibited by US shale oil producers. As of mid-July, the total rig count of 378 remains well below the pre-pandemic high of nearly 900 rigs. This was despite the sharply higher oil price. At \$70/bbl, the WTI price is now well above breakeven price for new wells, estimated at about \$60/bbl. We believe one of the key reasons for this limited rig count increase is the changing mix of shale oil producers. Instead of smaller, independent firms, US shale patches are now dominated by oil majors. These larger companies have shareholders' returns to contend with, and long-term plans for net-zero emissions may limit their investments in new production.

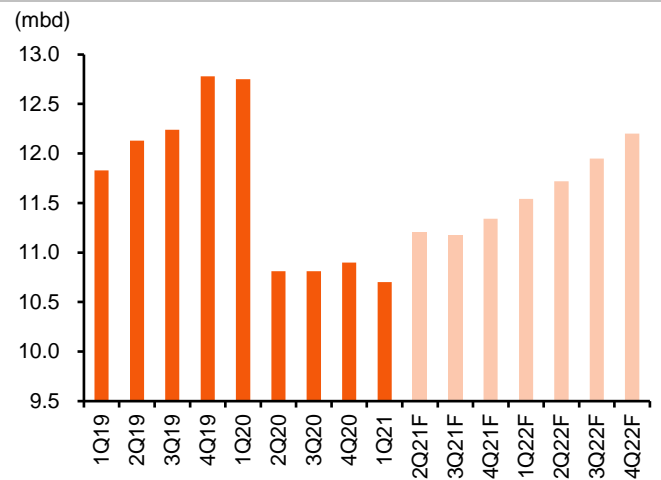
As a result of the slow rig count increase, US oil production has barely broken past 11mbd, a level which it last reached in 3Q18. The EIA forecasts US production to linger at around 11-11.5mbd for the rest of 2021F and only reach 12mbd by the end of 2022. These figures are well below pre-pandemic levels when US output peaked at 12.8mbd in 4Q19.

**Ex 5: US Rig Count Still Well Below Pre-Pandemic High**



Sources: Company data, Thanachart

**Ex 6: US Crude Output Slow To Recover**

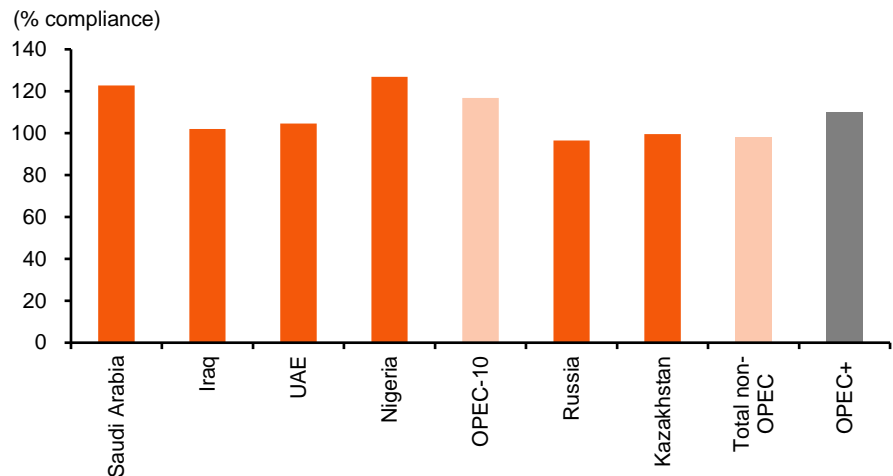


Sources: Company data, Thanachart estimates

**OPEC+ has maintained a very high compliance rate since the production cut agreement started**

Another positive surprise for us has been the high compliance rate among OPEC+ members to the production cut agreements. As a group, the member countries have consistently delivered compliance rates well above 100% every month. Even among typical laggards, such as Iraq and Nigeria, compliance rates have picked up. Russia, for its part, also continues to maintain a high compliance rate of close to 100%, setting an example for non-OPEC countries participating in the deal. With OPEC+ production looking set to grow by a cumulative 2mbd in August-December 2021, we believe all countries in the deal will be content with their increased quotas and continue to maintain high compliance rates.

**Ex 7: OPEC+ Maintains High Compliance Rates**



Sources: Company data, Thanachart estimates  
 Note: Data for June 2021 according to S&P Global Platts estimate

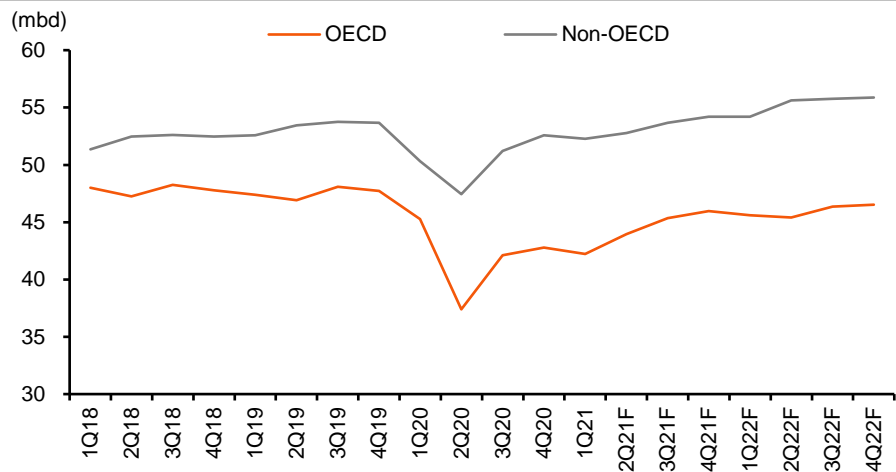
**Resilient emerging market demand despite pandemic**

**Oil demand growth is strong even in emerging economies still grappling with the pandemic**

Lastly, we have been surprised by how well emerging market demand for oil has held up despite the raging pandemic in many of these countries. Per the EIA’s forecast, emerging market (i.e., non-OECD) countries will see aggregate oil demand reach a pre-pandemic high by 2H21F. We believe the key driving force behind this remarkable recovery is China, whose oil demand has already exceeded the pre-pandemic level. We also think that oil

consumption in India, another major growth driver, will accelerate in the coming months as the case load there has been brought under control.

**Ex 8: Resilient Emerging Market (i.e., Non-OECD) Demand For Oil**



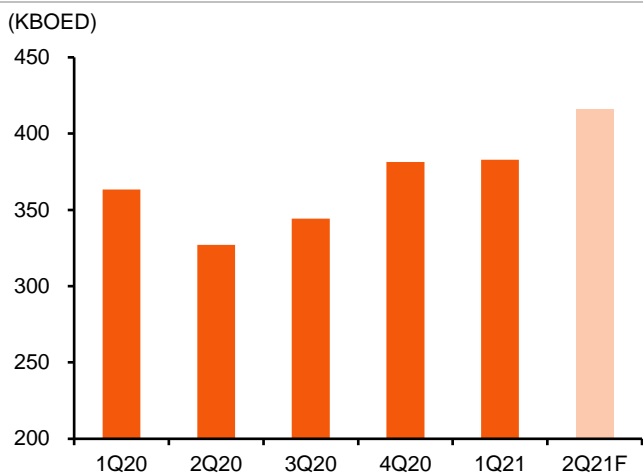
Sources: Company data, Thanachart estimates

**Strong volume growth with good cost control**

*We project 10% and 11% sales volume growth in 2021-22F for PTTEP*

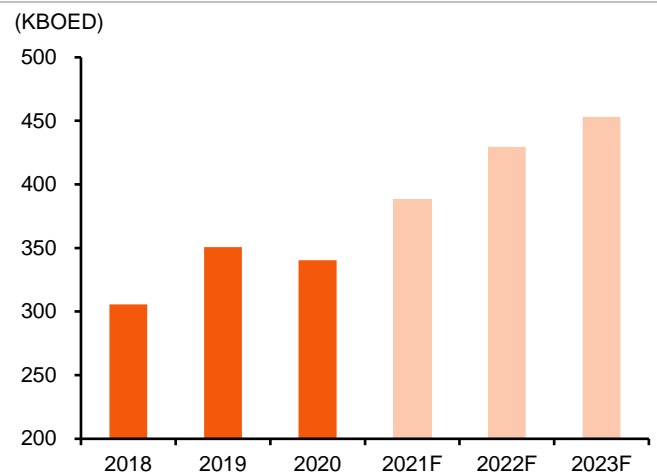
We expect strong volume growth of 10% in 2021F followed by another 11% in 2022F. This is driven by a combination of a demand recovery as well as contributions from new projects. In particular, we expect growth from Oman (acquisition), Malaysia and Algeria (start-up of new fields) to be key overseas growth drivers. In Thailand, our estimates for 2022-23F assume contributions from Erawan (which is due to start up in April 2022) at a reduced volume of 600mmcf/d compared with 800mmcf/d previously.

**Ex 9: Quarterly Sales Volume**



Sources: Company data, Thanachart estimates

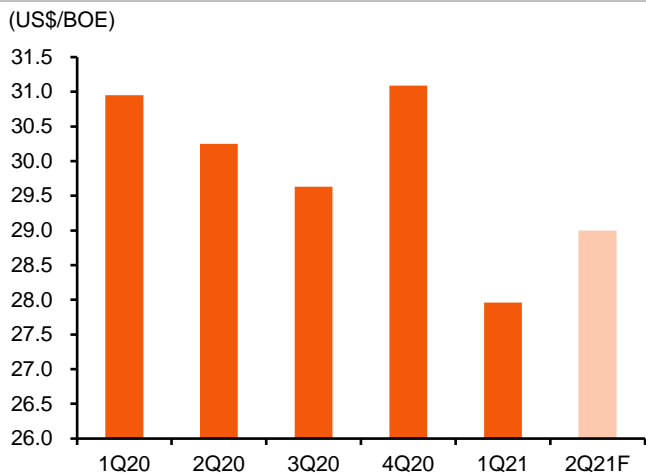
**Ex 10: Sales Volume Forecasts**



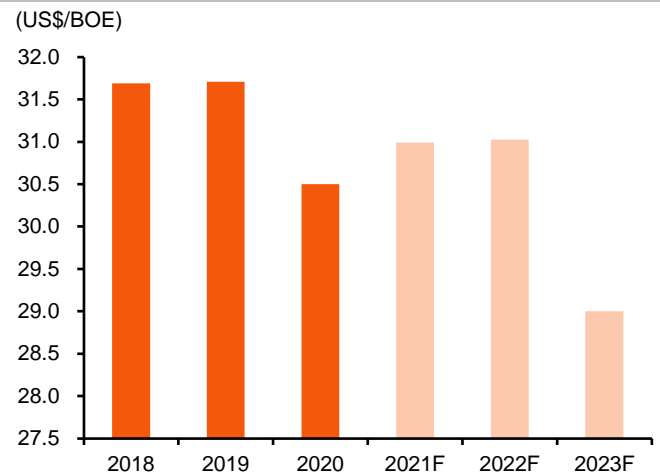
Sources: Company data, Thanachart estimates

*Our unit cost assumption of \$31/BOE is still above management's guidance*

In addition to strong volume growth, we believe PTTEP will be able to maintain good cost control. Our cost assumption of \$31/BOE is still higher than management's guidance of \$29/BOE, leaving room for potential upside to our forecasts.

**Ex 11: Quarterly Unit Costs**

Sources: Company data, Thanachart estimates

**Ex 12: Unit Cost Forecasts**

Sources: Company data, Thanachart estimates

**Risks to new projects look overblown**

We believe one of the key reasons PTTEP's share price has significantly underperformed the oil price has been concerns over new projects. We believe the risks are overblown.

**Limited risk from government's dispute with Chevron**

We foresee limited risk to PTTEP in the current dispute between Chevron Thailand and the Department of Mineral Fuels (DMF) on decommissioning costs for the existing Erawan concession.

First, under the new PSC (production-sharing contract), PTTEP is entitled to lease equipment from the government. This was the condition under which PTTEP was able to bid aggressively and eventually win the contract. As such, even if the government were to lose the dispute with Chevron, PTTEP would be protected from any potential incremental costs the government may have to bear.

Secondly, PTTEP has the right to take over operatorship come April 2022. This is again regardless of whether the dispute between Chevron and the government is resolved by then. Production volume at Erawan under the new PSC is also expected to be only 500-600mmcf, well short of the current 1,000-1,300mmcf. As such, any delay to PTTEP's ramping up of production would not materially impact total volume for the full year.

**Too soon to price in delay/write off Mozambique LNG**

As for Mozambique, we think there is still enough time for the consortium to work around the current unrest in the country given that the project is not due to start up for another three to four years. Even so, we note that Mozambique will only account for 1.6-3.1% of PTTEP's volume in 2024-25F, on our estimate.

*Risks to Erawan and Mozambique LNG projects look overblown and are likely priced in*

**Ex 13: 12-month DCF-based TP Calculation, Using A Base Year Of 2022F**

| (Bt m)                             | 2022F         | 2023F   | 2024F   | 2025F   | 2026F   | 2027F   | 2028F   | 2029F   | 2030F   | 2031F   | 2032F   | Terminal Value |
|------------------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|
| EBITDA                             | 152,614       | 152,882 | 160,365 | 173,919 | 193,840 | 194,827 | 195,931 | 191,839 | 193,617 | 190,817 | 186,278 |                |
| Free cash flow                     | (5,253)       | 22,796  | 28,288  | 64,385  | 93,653  | 94,328  | 95,076  | 89,849  | 87,271  | 88,567  | 85,750  | 609,834        |
| PV of free cash flow               | (5,018)       | 19,885  | 22,527  | 46,819  | 61,112  | 55,990  | 51,321  | 44,116  | 38,978  | 35,982  | 30,422  | 299,988        |
| Risk-free rate (%)                 | 2.5%          |         |         |         |         |         |         |         |         |         |         |                |
| Market risk premium (%)            | 8.0%          |         |         |         |         |         |         |         |         |         |         |                |
| Beta                               | 1.00          |         |         |         |         |         |         |         |         |         |         |                |
| WACC (%)                           | 9.5%          |         |         |         |         |         |         |         |         |         |         |                |
| Terminal growth (%)                | 2.0%          |         |         |         |         |         |         |         |         |         |         |                |
| Enterprise value - add investments | 671,700       |         |         |         |         |         |         |         |         |         |         |                |
| Net debt (end-2021F)               | 77,249        |         |         |         |         |         |         |         |         |         |         |                |
| Minority interest                  | 40,320        |         |         |         |         |         |         |         |         |         |         |                |
| Equity value                       | 554,131       |         |         |         |         |         |         |         |         |         |         |                |
| # of shares (m)                    | 3,970         |         |         |         |         |         |         |         |         |         |         |                |
| Value of existing operation        | 140.00        |         |         |         |         |         |         |         |         |         |         |                |
| <b>Equity value per share (Bt)</b> | <b>140.00</b> |         |         |         |         |         |         |         |         |         |         |                |

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 14: Comparison With Regional Peers

| Company                           | Code      | Country     | EPS Growth   |             | PE          |             | P/BV       |            | EV/EBITDA   |             | Div. Yield |            | ROE         |             |
|-----------------------------------|-----------|-------------|--------------|-------------|-------------|-------------|------------|------------|-------------|-------------|------------|------------|-------------|-------------|
|                                   |           |             | 21F<br>(%)   | 22F<br>(%)  | 21F<br>(x)  | 22F<br>(x)  | 21F<br>(x) | 22F<br>(x) | 21F<br>(x)  | 22F<br>(x)  | 21F<br>(%) | 22F<br>(%) | 21F<br>(%)  | 22F<br>(%)  |
| <b>Refining &amp; Marketing</b>   |           |             |              |             |             |             |            |            |             |             |            |            |             |             |
| Caltex Australia                  | CTX AU    | Australia   | 82.3         | 17.8        | na          | na          | na         | na         | na          | na          | na         | na         | 12.0        | 14.4        |
| BPCL                              | BPCL IN   | India       | 121.2        | (11.1)      | 9.6         | 10.8        | 2.1        | 1.8        | 7.7         | 8.4         | 4.7        | 4.5        | 24.7        | 17.3        |
| HPCL                              | HPCL IN   | India       | 160.5        | (15.7)      | 5.0         | 6.0         | 1.1        | 1.0        | 5.4         | 6.7         | 6.9        | 6.4        | 24.1        | 17.1        |
| IOCL                              | IOCL IN   | India       | 129.5        | 3.7         | 6.5         | 6.3         | 0.9        | 0.8        | 6.2         | 5.9         | 7.7        | 7.4        | 14.6        | 13.4        |
| Reliance Industries               | RIL IN    | India       | (0.6)        | 28.1        | 30.4        | 23.8        | 2.3        | 1.9        | 19.3        | 14.1        | 0.4        | 0.4        | 8.5         | 7.8         |
| SK Energy                         | 096770 KS | S.Korea     | na           | 79.7        | 37.2        | 20.7        | 1.5        | 1.4        | 10.6        | 9.5         | 0.6        | 1.1        | 4.8         | 7.1         |
| S-OIL                             | 010950 KS | S.Korea     | na           | (7.1)       | 10.0        | 10.8        | 1.7        | 1.5        | 6.7         | 7.1         | 2.9        | 2.8        | 18.5        | 15.6        |
| Petron                            | PCOR PM   | Philippines | na           | 134.5       | 23.4        | 10.0        | 0.8        | 0.5        | 8.2         | 7.4         | 2.9        | na         | 2.4         | 6.1         |
| Formosa Petrochemical             | 6505 TT   | Taiwan      | na           | (7.6)       | 20.4        | 22.1        | 2.8        | 2.7        | 12.1        | 13.5        | 3.4        | 3.1        | 14.1        | 12.3        |
| Bangchak *                        | BCP TB    | Thailand    | na           | na          | na          | 22.6        | 0.7        | 0.7        | 8.5         | 6.6         | 0.0        | 2.4        | na          | na          |
| ESSO (Thailand) *                 | ESSO TB   | Thailand    | na           | na          | na          | 143.9       | 2.0        | 2.0        | 37.0        | 21.0        | 0.0        | 0.3        | na          | na          |
| IRPC Pcl *                        | IRPC TB   | Thailand    | na           | 9.6         | 13.2        | 12.1        | 1.0        | 0.9        | 8.6         | 7.9         | 4.5        | 5.0        | na          | na          |
| PTG Pcl *                         | PTG TB    | Thailand    | (3.6)        | 11.8        | 16.6        | 14.9        | 3.4        | 3.0        | 7.5         | 7.1         | 3.0        | 3.4        | 21.5        | 21.4        |
| PTT Global Chemicals *            | PTTGC TB  | Thailand    | 219.4        | (1.2)       | 10.7        | 10.9        | 0.9        | 0.9        | 6.6         | 6.4         | 5.6        | 5.5        | 8.5         | 8.0         |
| Star Petroleum Refining *         | SPRC TB   | Thailand    | na           | na          | na          | 117.5       | 1.3        | 1.3        | 21.3        | 15.7        | 0.0        | 0.3        | na          | na          |
| SUSCO Pcl                         | SUSCO TB  | Thailand    | 3.0          | 23.4        | 14.7        | 11.9        | 0.9        | 0.8        | 6.2         | 5.1         | 3.5        | 4.2        | 5.9         | 7.1         |
| Thai Oil *                        | TOP TB    | Thailand    | na           | 6.1         | 25.2        | 23.8        | 0.9        | 0.8        | 17.1        | 17.9        | 1.8        | 1.9        | 3.4         | 3.6         |
| <b>Average</b>                    |           |             | <b>89.0</b>  | <b>19.4</b> | <b>17.2</b> | <b>29.2</b> | <b>1.5</b> | <b>1.4</b> | <b>11.8</b> | <b>10.0</b> | <b>3.0</b> | <b>3.2</b> | <b>12.5</b> | <b>11.6</b> |
| <b>Integrated oils</b>            |           |             |              |             |             |             |            |            |             |             |            |            |             |             |
| PetroChina                        | 857 HK    | China       | na           | (13.5)      | 8.0         | 9.3         | 0.5        | 0.5        | 3.6         | 3.7         | 6.5        | 6.1        | 5.9         | 5.1         |
| Sinopec                           | 386 HK    | China       | 82.2         | (1.3)       | 7.0         | 7.1         | 0.6        | 0.5        | 3.7         | 3.5         | 8.7        | 8.4        | 8.2         | 7.9         |
| Total                             | FP        | France      | na           | 8.9         | na          | na          | na         | na         | na          | na          | na         | na         | 10.6        | 11.3        |
| Eni                               | ENI IM    | Italy       | na           | 37.9        | 13.2        | 9.5         | 0.9        | 0.9        | 3.8         | 3.4         | 7.5        | 7.8        | 7.2         | 9.0         |
| RD/Shell A                        | RDSA NA   | Netherlands | na           | 16.9        | 7.4         | 6.3         | 0.8        | 0.7        | 4.3         | 4.1         | 4.2        | 4.5        | 10.4        | 10.7        |
| Repsol                            | REP SM    | Spain       | na           | 18.4        | 8.1         | 6.8         | 0.7        | 0.7        | 4.5         | 4.2         | 6.4        | 6.5        | 8.3         | 9.2         |
| Chevron Texaco                    | CVX US    | USA         | na           | 15.3        | 16.3        | 14.1        | 1.4        | 1.4        | 6.5         | 6.1         | 5.2        | 5.4        | 8.3         | 9.2         |
| Exxon Mobil                       | XOM US    | USA         | na           | 17.9        | 15.0        | 12.8        | 1.5        | 1.5        | 7.0         | 6.5         | 5.9        | 6.0        | 9.6         | 11.2        |
| Conoco Philips                    | COP US    | USA         | na           | 10.6        | 14.1        | 12.7        | 1.7        | 1.7        | 5.3         | 5.1         | 3.0        | 3.2        | 13.6        | 12.0        |
| PTT Pcl *                         | PTT TB    | Thailand    | 177.8        | 3.4         | 10.1        | 9.8         | 1.1        | 1.1        | 4.7         | 4.3         | 4.9        | 5.1        | 11.6        | 11.2        |
| <b>Average</b>                    |           |             | <b>130.0</b> | <b>11.4</b> | <b>11.0</b> | <b>9.8</b>  | <b>1.0</b> | <b>1.0</b> | <b>4.8</b>  | <b>4.5</b>  | <b>5.8</b> | <b>5.9</b> | <b>9.4</b>  | <b>9.7</b>  |
| <b>Exploration and Production</b> |           |             |              |             |             |             |            |            |             |             |            |            |             |             |
| Santos                            | STO AU    | Australia   | na           | 13.6        | 16.4        | 14.5        | 1.8        | 1.7        | 5.6         | 5.1         | 1.5        | 1.9        | 12.0        | 11.4        |
| Woodside                          | WPL AU    | Australia   | 162.9        | 2.5         | 16.6        | 16.1        | 1.7        | 1.6        | 5.3         | 5.1         | 4.1        | 4.2        | 9.7         | 10.1        |
| Suncor Energy                     | SU US     | Canada      | na           | 16.7        | 7.7         | 6.6         | 0.9        | 0.8        | 4.9         | 4.5         | 3.9        | 4.3        | 9.8         | 8.8         |
| CNOOC                             | 883 HK    | Hong Kong   | 149.8        | 6.6         | 5.9         | 5.5         | 0.8        | 0.7        | 2.2         | 2.1         | 7.2        | 7.8        | 13.0        | 13.0        |
| ONGC                              | ONGC IN   | India       | (46.2)       | 107.1       | 11.9        | 5.7         | 0.7        | 0.6        | 5.3         | 4.0         | 2.7        | 5.7        | 6.1         | 11.2        |
| RIL                               | RIL IN    | India       | (0.6)        | 28.1        | 30.4        | 23.8        | 2.3        | 1.9        | 19.3        | 14.1        | 0.4        | 0.4        | 8.5         | 7.8         |
| Cairn India                       | CAIR IN   | India       | na           | na          | na          | na          | na         | na         | na          | na          | na         | na         | na          | na          |
| Apache                            | APA US    | USA         | na           | (11.9)      | 6.7         | 7.6         | na         | 17.3       | 4.2         | 4.4         | 0.5        | 0.6        | (83.7)      | (34.1)      |
| Devon Energy                      | DVN US    | USA         | na           | 39.2        | 10.8        | 7.8         | 2.2        | 1.3        | 5.2         | 4.3         | 4.4        | 5.7        | 28.6        | 28.7        |
| PTTEP *                           | PTTEP TB  | Thailand    | 68.1         | 15.8        | 12.4        | 10.7        | 1.2        | 1.1        | 3.9         | 3.5         | 4.9        | 5.6        | 9.9         | 11.0        |
| <b>Average</b>                    |           |             | <b>66.8</b>  | <b>24.2</b> | <b>13.2</b> | <b>10.9</b> | <b>1.4</b> | <b>3.0</b> | <b>6.2</b>  | <b>5.2</b>  | <b>3.3</b> | <b>4.0</b> | <b>1.5</b>  | <b>7.5</b>  |

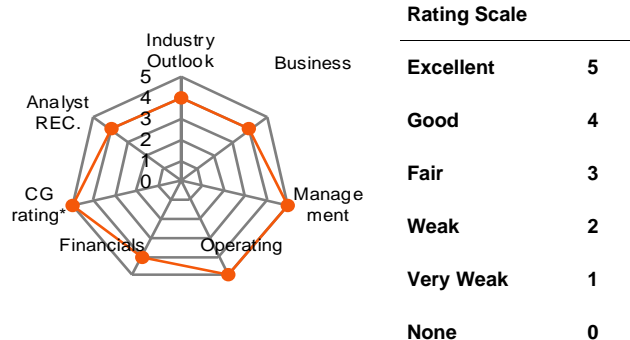
Sources: Bloomberg, \* Thanachart estimates  
Based on 16 July 2021 closing prices

## COMPANY DESCRIPTION

PTT Exploration and Production (PTTEP) is a pure upstream exploration and production (E&P) company with production of c.300,000 barrels of oil equivalent (boe) per day. Some 70% of its production is natural gas and almost all of its production comes from fields in Thailand and other Southeast Asian countries. It has proven reserves of more than 700m boe and up to 5bn boe of resources. PTTEP is the upstream arm of PTT Pcl, which owns 65% of PTTEP.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- The parent company PTT is the country's sole gas buyer and PTTEP's biggest client.
- Secured off-take agreements limit downside risks to production volume.

### O — Opportunity

- Significant resources on its balance sheet are still undeveloped.
- Potential acquisitions including in the Gulf of Thailand and abroad in Myanmar.

### W — Weakness

- Reserves in the Gulf of Thailand are being depleted with a reserve life index of less than five years.
- Limited experience and a lack of technical skills in running operations abroad compared to major international peers.

### T — Threat

- Threat of low-cost LNG imports.
- Competition from international peers for projects abroad.
- Political and regulatory risks concerning its concessions, especially those about to expire.

## CONSENSUS COMPARISON

|                       | Consensus | Thanachart | Diff    |
|-----------------------|-----------|------------|---------|
| Target price (Bt)     | 137.82    | 140.00     | 2%      |
| Net profit 21F (Bt m) | 38,269    | 35,968     | -6%     |
| Net profit 22F (Bt m) | 44,919    | 41,656     | -7%     |
| Consensus REC         | BUY: 22   | HOLD: 7    | SELL: 1 |

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F EPS estimates are marginally lower than the Bloomberg consensus numbers, likely due to lower oil price assumptions.
- However, our DCF-based TP is in line with the consensus due to our long-term positive view on oil prices and volume.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would come from lower oil and/or gas prices.
- An upside risk would be lower-than-expected operating costs.

Source: Thanachart

## INCOME STATEMENT

| FY ending Dec (Bt m)              | 2019A          | 2020A          | 2021F          | 2022F          | 2023F          |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Sales                             | 191,053        | 160,401        | 194,953        | 221,410        | 220,047        |
| Cost of sales                     | 106,881        | 106,143        | 123,320        | 134,836        | 132,439        |
| <b>Gross profit</b>               | <b>84,172</b>  | <b>54,258</b>  | <b>71,633</b>  | <b>86,574</b>  | <b>87,608</b>  |
| % gross margin                    | 44.1%          | 33.8%          | 36.7%          | 39.1%          | 39.8%          |
| Selling & administration expenses | 11,870         | 9,754          | 11,527         | 13,766         | 14,661         |
| <b>Operating profit</b>           | <b>72,301</b>  | <b>44,503</b>  | <b>60,106</b>  | <b>72,808</b>  | <b>72,948</b>  |
| % operating margin                | 37.8%          | 27.7%          | 30.8%          | 32.9%          | 33.2%          |
| Depreciation & amortization       | 62,811         | 65,250         | 73,419         | 79,806         | 79,935         |
| <b>EBITDA</b>                     | <b>135,112</b> | <b>109,753</b> | <b>133,525</b> | <b>152,614</b> | <b>152,882</b> |
| % EBITDA margin                   | 70.7%          | 68.4%          | 68.5%          | 68.9%          | 69.5%          |
| Non-operating income              | 4,405          | 2,306          | 3,152          | 3,295          | 3,289          |
| Non-operating expenses            | 0              | 0              | 0              | 0              | 0              |
| Interest expense                  | (7,291)        | (7,956)        | (10,686)       | (12,356)       | (11,728)       |
| <b>Pre-tax profit</b>             | <b>69,415</b>  | <b>38,854</b>  | <b>52,571</b>  | <b>63,747</b>  | <b>64,509</b>  |
| Income tax                        | 20,952         | 18,764         | 16,823         | 22,311         | 22,578         |
| <b>After-tax profit</b>           | <b>48,464</b>  | <b>20,090</b>  | <b>35,748</b>  | <b>41,436</b>  | <b>41,931</b>  |
| % net margin                      | 25.4%          | 12.5%          | 18.3%          | 18.7%          | 19.1%          |
| Shares in affiliates' Earnings    | 380            | 1,307          | 220            | 220            | 220            |
| Minority interests                | 0              | 0              | 0              | 0              | 0              |
| Extraordinary items               | (42)           | 1,267          | 0              | 0              | 0              |
| <b>NET PROFIT</b>                 | <b>48,803</b>  | <b>22,664</b>  | <b>35,968</b>  | <b>41,656</b>  | <b>42,151</b>  |
| <b>Normalized profit</b>          | <b>48,844</b>  | <b>21,397</b>  | <b>35,968</b>  | <b>41,656</b>  | <b>42,151</b>  |
| EPS (Bt)                          | 12.3           | 5.7            | 9.1            | 10.5           | 10.6           |
| Normalized EPS (Bt)               | 12.3           | 5.4            | 9.1            | 10.5           | 10.6           |

*We foresee a strong earnings turnaround in 2021-22F*

## BALANCE SHEET

| FY ending Dec (Bt m)            | 2019A          | 2020A          | 2021F          | 2022F          | 2023F          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>ASSETS:</b>                  |                |                |                |                |                |
| Current assets:                 | 142,125        | 152,716        | 139,708        | 146,996        | 146,498        |
| Cash & cash equivalent          | 91,152         | 114,261        | 91,544         | 93,004         | 93,004         |
| Account receivables             | 27,599         | 23,752         | 33,649         | 38,216         | 37,981         |
| Inventories                     | 9,961          | 10,156         | 13,515         | 14,777         | 14,514         |
| Others                          | 13,412         | 4,547          | 1,000          | 1,000          | 1,000          |
| Investments & loans             | 16,255         | 15,774         | 15,774         | 15,774         | 15,774         |
| Net fixed assets                | 321,501        | 295,491        | 381,100        | 417,558        | 431,799        |
| Other assets                    | 192,110        | 211,656        | 234,010        | 250,971        | 249,438        |
| <b>Total assets</b>             | <b>671,990</b> | <b>675,637</b> | <b>770,591</b> | <b>831,299</b> | <b>843,509</b> |
| <b>LIABILITIES:</b>             |                |                |                |                |                |
| Current liabilities:            | 61,841         | 56,257         | 65,648         | 71,213         | 71,086         |
| Account payables                | 26,805         | 26,844         | 5,068          | 5,541          | 5,443          |
| Bank overdraft & ST loans       | 3,965          | 4,512          | 16,879         | 18,420         | 18,077         |
| Current LT debt                 | 0              | 0              | 15,191         | 16,578         | 16,270         |
| Others current liabilities      | 31,071         | 24,901         | 28,509         | 30,675         | 31,297         |
| <b>Total LT debt</b>            | <b>99,448</b>  | <b>102,878</b> | <b>136,722</b> | <b>149,201</b> | <b>146,426</b> |
| Others LT liabilities           | 153,642        | 162,091        | 197,069        | 221,364        | 219,466        |
| <b>Total liabilities</b>        | <b>314,932</b> | <b>321,226</b> | <b>399,439</b> | <b>441,778</b> | <b>436,979</b> |
| Minority interest               | 0              | 0              | 0              | 0              | 0              |
| Preferred shares                | 0              | 0              | 0              | 0              | 0              |
| Paid-up capital                 | 3,970          | 3,970          | 3,970          | 3,970          | 3,970          |
| Share premium                   | 105,418        | 105,418        | 105,418        | 105,418        | 105,418        |
| Warrants                        | 0              | 0              | 0              | 0              | 0              |
| Surplus                         | (16,776)       | (21,049)       | (21,049)       | (21,049)       | (21,049)       |
| <b>Retained earnings</b>        | <b>264,447</b> | <b>266,073</b> | <b>282,814</b> | <b>301,183</b> | <b>318,192</b> |
| Shareholders' equity            | 357,059        | 354,411        | 371,153        | 389,521        | 406,530        |
| <b>Liabilities &amp; equity</b> | <b>671,990</b> | <b>675,637</b> | <b>770,591</b> | <b>831,299</b> | <b>843,509</b> |

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

| FY ending Dec (Bt m)              | 2019A            | 2020A           | 2021F            | 2022F            | 2023F           |
|-----------------------------------|------------------|-----------------|------------------|------------------|-----------------|
| Earnings before tax               | 69,415           | 38,854          | 52,571           | 63,747           | 64,509          |
| Tax paid                          | (16,936)         | (29,624)        | (9,495)          | (21,566)         | (21,575)        |
| Depreciation & amortization       | 62,811           | 65,250          | 73,419           | 79,806           | 79,935          |
| Chg In working capital            | 33,874           | 3,691           | (35,032)         | (5,355)          | 399             |
| Chg In other CA & CL / minorities | (41,074)         | 15,416          | 47               | 1,640            | (161)           |
| <b>Cash flow from operations</b>  | <b>108,091</b>   | <b>93,587</b>   | <b>81,511</b>    | <b>118,271</b>   | <b>123,107</b>  |
| Capex                             | (118,121)        | (39,239)        | (158,131)        | (115,351)        | (93,248)        |
| Right of use                      | 0                | (14,501)        | (300)            | (300)            | (300)           |
| ST loans & investments            | 0                | 0               | 0                | 0                | 0               |
| LT loans & investments            | (5,458)          | 480             | 0                | 0                | 0               |
| Adj for asset revaluation         | 0                | 0               | 0                | 0                | 0               |
| Chg In other assets & liabilities | 14,991           | 3,298           | 12,027           | 6,721            | (992)           |
| <b>Cash flow from investments</b> | <b>(108,589)</b> | <b>(49,962)</b> | <b>(146,404)</b> | <b>(108,930)</b> | <b>(94,540)</b> |
| Debt financing                    | 43,638           | 4,795           | 61,403           | 15,406           | (3,425)         |
| Capital increase                  | 0                | 0               | 0                | 0                | 0               |
| Dividends paid                    | (21,655)         | (20,986)        | (19,227)         | (23,287)         | (25,142)        |
| Warrants & other surplus          | (60,152)         | (4,326)         | 0                | 0                | 0               |
| <b>Cash flow from financing</b>   | <b>(38,169)</b>  | <b>(20,517)</b> | <b>42,176</b>    | <b>(7,882)</b>   | <b>(28,567)</b> |
| <b>Free cash flow</b>             | <b>(10,030)</b>  | <b>54,348</b>   | <b>(76,620)</b>  | <b>2,920</b>     | <b>29,859</b>   |

*PTTEP continues to generate high cash flows from operations*

## VALUATION

| FY ending Dec                       | 2019A | 2020A | 2021F  | 2022F | 2023F |
|-------------------------------------|-------|-------|--------|-------|-------|
| Normalized PE (x)                   | 9.1   | 20.8  | 12.4   | 10.7  | 10.5  |
| Normalized PE - at target price (x) | 11.4  | 26.0  | 15.5   | 13.3  | 13.2  |
| PE (x)                              | 9.1   | 19.6  | 12.4   | 10.7  | 10.5  |
| PE - at target price (x)            | 11.4  | 24.5  | 15.5   | 13.3  | 13.2  |
| EV/EBITDA (x)                       | 3.4   | 4.0   | 3.9    | 3.5   | 3.5   |
| EV/EBITDA - at target price (x)     | 4.2   | 5.0   | 4.7    | 4.2   | 4.2   |
| P/BV (x)                            | 1.2   | 1.3   | 1.2    | 1.1   | 1.1   |
| P/BV - at target price (x)          | 1.6   | 1.6   | 1.5    | 1.4   | 1.4   |
| P/CFO (x)                           | 4.1   | 4.8   | 5.5    | 3.8   | 3.6   |
| Price/sales (x)                     | 2.3   | 2.8   | 2.3    | 2.0   | 2.0   |
| Dividend yield (%)                  | 5.4   | 3.8   | 4.9    | 5.6   | 5.7   |
| FCF Yield (%)                       | (2.3) | 12.2  | (17.2) | 0.7   | 6.7   |
| <b>(Bt)</b>                         |       |       |        |       |       |
| Normalized EPS                      | 12.3  | 5.4   | 9.1    | 10.5  | 10.6  |
| EPS                                 | 12.3  | 5.7   | 9.1    | 10.5  | 10.6  |
| DPS                                 | 6.0   | 4.3   | 5.4    | 6.3   | 6.4   |
| BV/share                            | 89.9  | 89.3  | 93.5   | 98.1  | 102.4 |
| CFO/share                           | 27.2  | 23.6  | 20.5   | 29.8  | 31.0  |
| FCF/share                           | (2.5) | 13.7  | (19.3) | 0.7   | 7.5   |

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

| FY ending Dec                    | 2019A   | 2020A   | 2021F   | 2022F   | 2023F   |
|----------------------------------|---------|---------|---------|---------|---------|
| <b>Growth Rate</b>               |         |         |         |         |         |
| Sales (%)                        | 11.2    | (16.0)  | 21.5    | 13.6    | (0.6)   |
| Net profit (%)                   | 34.8    | (53.6)  | 58.7    | 15.8    | 1.2     |
| EPS (%)                          | 34.8    | (53.6)  | 58.7    | 15.8    | 1.2     |
| Normalized profit (%)            | 26.2    | (56.2)  | 68.1    | 15.8    | 1.2     |
| Normalized EPS (%)               | 26.2    | (56.2)  | 68.1    | 15.8    | 1.2     |
| Dividend payout ratio (%)        | 48.8    | 74.4    | 60.0    | 60.0    | 60.0    |
| <b>Operating performance</b>     |         |         |         |         |         |
| Gross margin (%)                 | 44.1    | 33.8    | 36.7    | 39.1    | 39.8    |
| Operating margin (%)             | 37.8    | 27.7    | 30.8    | 32.9    | 33.2    |
| EBITDA margin (%)                | 70.7    | 68.4    | 68.5    | 68.9    | 69.5    |
| Net margin (%)                   | 25.4    | 12.5    | 18.3    | 18.7    | 19.1    |
| D/E (incl. minor) (x)            | 0.3     | 0.3     | 0.5     | 0.5     | 0.4     |
| Net D/E (incl. minor) (x)        | 0.0     | (0.0)   | 0.2     | 0.2     | 0.2     |
| Interest coverage - EBIT (x)     | 9.9     | 5.6     | 5.6     | 5.9     | 6.2     |
| Interest coverage - EBITDA (x)   | 18.5    | 13.8    | 12.5    | 12.4    | 13.0    |
| ROA - using norm profit (%)      | 7.5     | 3.2     | 5.0     | 5.2     | 5.0     |
| ROE - using norm profit (%)      | 13.1    | 6.0     | 9.9     | 11.0    | 10.6    |
| <b>DuPont</b>                    |         |         |         |         |         |
| ROE - using after tax profit (%) | 13.0    | 5.6     | 9.9     | 10.9    | 10.5    |
| - asset turnover (x)             | 0.3     | 0.2     | 0.3     | 0.3     | 0.3     |
| - operating margin (%)           | 40.1    | 29.2    | 32.4    | 34.4    | 34.6    |
| - leverage (x)                   | 1.7     | 1.9     | 2.0     | 2.1     | 2.1     |
| - interest burden (%)            | 90.5    | 83.0    | 83.1    | 83.8    | 84.6    |
| - tax burden (%)                 | 69.8    | 51.7    | 68.0    | 65.0    | 65.0    |
| WACC (%)                         | 9.5     | 9.5     | 9.5     | 9.5     | 9.5     |
| ROIC (%)                         | 15.6    | 6.2     | 11.8    | 10.6    | 9.9     |
| NOPAT (Bt m)                     | 50,479  | 23,011  | 40,872  | 47,325  | 47,416  |
| invested capital (Bt m)          | 369,320 | 347,540 | 448,402 | 480,715 | 494,300 |

Sources: Company data, Thanachart estimates

*We see room for ROE improvement on higher gearing and margin expansion*

### General Disclaimers And Disclosures:

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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