

**HOLD** (Unchanged)**TP: Bt 40.00** (From: Bt 34.00)**2 SEPTEMBER 2021**

Change in Numbers

Downside : 3.6%

# Gulf Energy Dev. Pcl (GULF TB)

## Positives look priced in

We believe GULF's positive stories have already been factored into its share price. After lifting our TP to Bt40 to reflect the value from its recent investment in Intouch Group, we still see limited upside from the current market price. We maintain HOLD.

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### Maintaining HOLD

We lift our DCF-derived SOTP-based TP (2022F base year) for GULF to Bt40 (from Bt34) as we factor in 1) higher investment value from its increased stakes in Intouch Pcl (INTUCH, BUY, Bt84.50) to 42.2% (from 18.9%) after the completed tender offer last month, 2) potential value from 1.0GW of renewable capacity that we assume GULF to invest in after it recently set a target to grow renewables to 30% of its total capacity by 2030, and 3) a margin hiccup at its SPP power plants from a surge in gas cost. We raise our earnings by 22-50% in 2021-23F from these three major changes. Having said that, we believe the new investment values and strong earnings growth outlook have already been reflected in its share price. We therefore maintain our HOLD call.

### Sizable contribution from INTUCH

GULF acquired 24.3% of INTUCH's total shares for Bt48.6bn via the tender offer that ended on 4 August 2021. We estimate its total investment cost in INTUCH at Bt82.6bn, or an average cost of Bt61 per INTUCH share. We expect this to contribute Bt4.8bn-5.3bn of equity income to GULF in 2022-24F. We believe GULF will be a relatively passive investor, though it has strong potential to get a few seats on INTUCH's board of directors, and only intervene at the policy level rather than day-to-day operations as its key agenda is to increase dividend payments from INTUCH.

### Ramping up IPP projects

Developments of GULF's four IPP projects are progressing as planned (Exhibit 2). GSRC phase-1 (464MW equity capacity) has been in operation since 2Q21. Its phase 2 (464MW) is scheduled to start in 4Q21, and the remaining 928MW in 2022. Each of the four phases (464MW) of the GPD project is targeted to gradually begin operations every six months over 2023-24. Hin Kong is a smaller project with 686MW of equity capacity, but we assume it generates higher profitability as it has been granted an LNG import quota, targeted to COD in 2024. We assume its 189MW Burapa power plant comes online in 2027. Including other smaller projects, we project GULF's operating capacity to rise to 8.2GW in 2025F, a 2.2x increase from 3.8GW in 2021F.

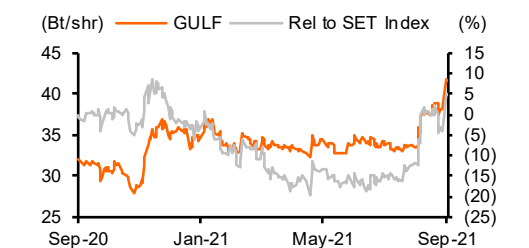
### Limited further upside

We believe GULF's 32% p.a. earnings growth in 2022-24F from capacity expansion is widely factored in by the market. Our valuation also implies that its huge 4.7GW of capacity under development is already priced in. We therefore see it is as difficult for GULF to secure more sizable projects to surprise the market further. We prefer BGRIM as our pick among large-cap conventional plays on its significant potential upside from possible greenfield projects and M&As.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	32,827	52,892	81,004	110,009
Net profit	4,282	8,788	12,078	16,123
Consensus NP	—	8,334	12,434	15,305
Diff frm cons (%)	—	5.5	(2.9)	5.3
Norm profit	4,416	8,788	12,078	16,123
Prev. Norm profit	—	6,669	8,078	13,253
Chg frm prev (%)	—	31.8	49.5	21.7
Norm EPS (Bt)	0.4	0.7	1.0	1.4
Norm EPS grw (%)	23.4	88.0	37.4	33.5
Norm PE (x)	104.2	55.4	40.3	30.2
EV/EBITDA (x)	56.6	40.8	32.2	25.2
P/BV (x)	7.6	7.2	6.7	6.2
Div yield (%)	0.9	1.1	1.5	2.0
ROE (%)	8.6	13.4	17.3	21.3
Net D/E (%)	184.5	256.2	274.9	267.6

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 1-Sep-21 (Bt)	41.50
Market Cap (US\$ m)	15,049.0
Listed Shares (m shares)	11,733.1
Free Float (%)	26.2
Avg Daily Turnover (US\$ m)	28.7
12M Price H/L (Bt)	41.75/28.00
Sector	Utilities
Major Shareholder	Ratanavadi family 57.62%

Sources: Bloomberg, Company data, Thanachart estimates



**Ex 1: Summary Of Investments In INTUCH**

Lot	Announcement date	No. of shares (millions)	% stakes	*Average cost (Bt/share)	*Total cost (Bt m)
1	21 August 2020	256.5	8.0%	57.0	14,621
2	6 October 2020	64.1	2.0%	52.0	3,333
3	28 December 2020	140.8	4.4%	55.0	7,744
4	18 April 2021	145.4	4.5%	57.0	8,288
5	5 August 2021	747.9	23.3%	65.0	48,614
<b>Total</b>		<b>1,354.7</b>	<b>42.2%</b>	<b>61.0</b>	<b>82,599</b>

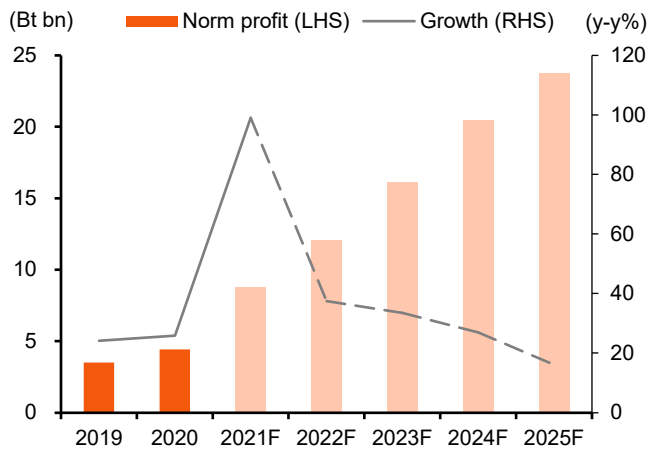
Sources: Company data, \* Thanachart estimates

**Ex 2: Scheduled COD For Its IPP Projects**

Project	Equity capacity (MW)	Scheduled COD
GSRC - Phase 1	663	April 2021
GSRC - Phase 2	663	October 2021
GSRC - Phase 3	663	April 2022
GSRC - Phase 4	663	October 2022
GPD - Phase 1	663	April 2023
GPD - Phase 2	663	October 2023
GPD - Phase 3	663	April 2024
GPD - Phase 4	663	October 2024
Hin Kong	343	January 2025
Burapa	189	June 2027

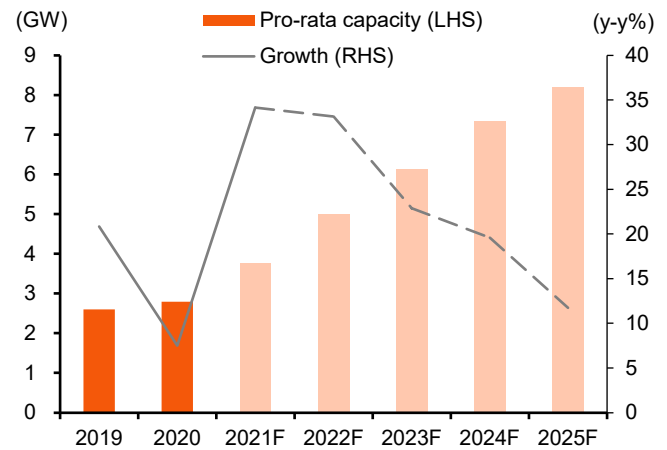
Sources: Company data

**Ex 3: On A Fast Earnings Growth Trend ...**



Sources: Company data, Thanachart estimates

**Ex 4: ... As New Capacity Comes Online**



Sources: Company data, Thanachart estimates

## Ex 5: Sum-of-the-Parts Valuation

	Equity value (Bt m)	Valuation method	WACC (Bt per GULF's share)	Value
<b>Subsidiaries</b>				
- GMP	37,354	DCF	4.9%	3.18
- GCG	235	DCF	4.4%	0.02
- GTN	1,434	DCF	5.7%	0.12
- Borkhum Riffgund	18,799	DCF	7.3%	1.60
- GSRC	51,833	DCF	4.7%	4.42
- GPD	58,436	DCF	4.9%	3.33
- Global Mind	1,380		15% IRR on investment cost	0.12
- Mab-Ta-Phut 3	10,736		15% IRR on project cost	0.92
HQ & parents				(0.85)
<b>Subtotal</b>				<b>12.86</b>
<b>Associates</b>				
- GULF JP	15,948	DCF	4.4%	1.36
- GULF WHA MT	283		15% IRR on project cost	0.02
- Marafiq	16,412	DCF	4.7%	1.40
- Hin Kong	11,874	DCF	4.9%	1.01
- Burapa	3,475	DCF	4.9%	0.30
- Mekong solar	695	DCF	5.2%	0.06
- Mekong wind	3,115	DCF	5.4%	0.27
- La Pech 1, 2	3,040	DCF	5.4%	0.26
- PTT NGD	8,910		10% IRR on investment cost	0.76
- Lam Chabang 3	3,600		10% IRR on project cost	0.31
- One Bangkok	460		15% IRR on project cost	0.04
- M6, M81 motorways	7,320		10% IRR on project cost	0.62
<b>Subtotal</b>				<b>6.41</b>
<b>Other investments</b>				
- SPCG	1,652		10% discount from market price	0.14
- INTUCH	94,830		Based on our fair value at Bt65/share	8.08
<b>Subtotal</b>				<b>8.22</b>
<b>Total - Existing projects and secured investment</b>				<b>27.49</b>
<b>Potential new projects</b>				
- LNG-to-power projects	104,259	DCF	10.0%	8.89
- Three hydropower projects	8,301	DCF	10.0%	0.71
- 1,000MW renewable plants	29,188	DCF	10.0%	2.49
- Marafiq expansion	5,580	DCF	10.0%	0.48
<b>Total - potential projects</b>				<b>12.56</b>
<b>Grand Total</b>				<b>40.0</b>

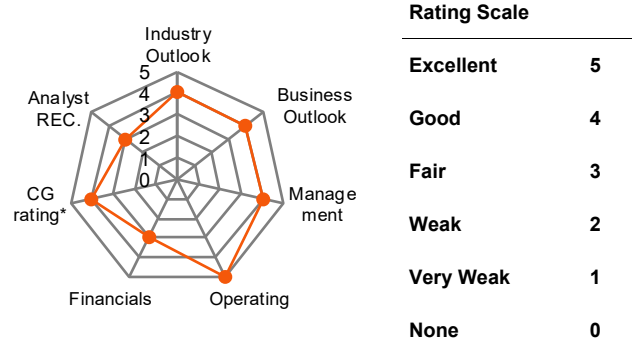
Sources: Company data, Thanachart estimates

## COMPANY DESCRIPTION

Gulf Energy Development Pcl (GULF) is a power company that focuses on gas-fired power projects. The firm has secured power purchase agreement (PPA) contracts with a combined capacity of 8.5GW. Most of the capacity is in Thailand with EGAT being the major off-taker. Of those capacity 3.8GW is already in operation, while the remainder of 4.7GW is due to fully commercialized by 2027. GULF also has investments in other infrastructure business, i.e. motorway, deep sea port, LNG terminal and distribution pipeline, and telecommunication.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Strong partnerships help give access to low financing costs and improve efficiency via up-to-date technology.
- We expect huge, secured capacity to deliver earnings growth through 2024F.

### O — Opportunity

- GULF is looking for massive new capacity potential in ASEAN and in the domestic market.

### W — Weakness

- High gearing, though IPO proceeds should help bring down the ratio while Thai banks accept high ratios of up to 3.0x in general.

### T — Threat

- There could be regulatory risk especially for overseas projects where the company has been increasing its focus.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	41.27	40.00	-3%
Net profit 21F (Bt m)	8,334	8,788	5%
Net profit 22F (Bt m)	12,434	12,078	-3%
Consensus REC	BUY: 12	HOLD: 3	SELL: 1

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings for 2021-22F are in line with the Bloomberg consensus estimates.
- Our TP is similar to the Street's as well.

## RISKS TO OUR INVESTMENT CASE

- If GULF can secure more capacity either domestic or overseas, this would be an upside to our valuations.
- On the other hand, a delay in developing projects or their lower-than-expected profitability would become a downside risk to our forecasts.
- Since a significant portion of our valuations on GULF is on its unsecured potential projects, larger (or small) granted capacity than our assumptions would be an upside (or downside) to our projections.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	30,040	32,827	52,892	81,004	110,009
Cost of sales	22,791	23,702	39,478	63,251	86,455
<b>Gross profit</b>	<b>7,249</b>	<b>9,125</b>	<b>13,414</b>	<b>17,753</b>	<b>23,555</b>
% gross margin	24.1%	27.8%	25.4%	21.9%	21.4%
Selling & administration expenses	1,713	2,080	2,419	2,863	3,437
<b>Operating profit</b>	<b>5,536</b>	<b>7,045</b>	<b>10,995</b>	<b>14,890</b>	<b>20,118</b>
% operating margin	18.4%	21.5%	20.8%	18.4%	18.3%
Depreciation & amortization	2,434	3,431	5,904	7,716	9,779
<b>EBITDA</b>	<b>7,969</b>	<b>10,476</b>	<b>16,899</b>	<b>22,606</b>	<b>29,897</b>
% EBITDA margin	26.5%	31.9%	32.0%	27.9%	27.2%
Non-operating income	304	543	2,607	237	229
Non-operating expenses	(214)	0	0	0	0
Interest expense	(2,682)	(3,665)	(5,421)	(7,114)	(8,092)
<b>Pre-tax profit</b>	<b>2,943</b>	<b>3,923</b>	<b>8,181</b>	<b>8,014</b>	<b>12,254</b>
Income tax	(14)	107	295	360	514
<b>After-tax profit</b>	<b>2,957</b>	<b>3,816</b>	<b>7,886</b>	<b>7,654</b>	<b>11,740</b>
% net margin	9.8%	11.6%	14.9%	9.4%	10.7%
Shares in affiliates' Earnings	2,365	2,462	4,155	8,492	9,615
Minority interests	(1,813)	(1,862)	(3,253)	(4,068)	(5,232)
Extraordinary items	1,377	(134)	0	0	0
<b>NET PROFIT</b>	<b>4,887</b>	<b>4,282</b>	<b>8,788</b>	<b>12,078</b>	<b>16,123</b>
<b>Normalized profit</b>	<b>3,509</b>	<b>4,416</b>	<b>8,788</b>	<b>12,078</b>	<b>16,123</b>
EPS (Bt)	0.4	0.4	0.7	1.0	1.4
Normalized EPS (Bt)	0.3	0.4	0.7	1.0	1.4

*Capacity expansion and new investment driving strong earnings growth*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	21,531	30,354	25,150	30,185	37,261
Cash & cash equivalent	14,810	21,772	13,000	13,000	14,900
Account receivables	5,199	5,660	8,695	13,316	18,084
Inventories	157	331	541	866	1,184
Others	1,365	2,591	2,915	3,002	3,093
Investments & loans	23,571	26,717	86,796	92,053	97,833
Net fixed assets	80,961	129,718	175,741	215,910	244,586
Other assets	8,215	58,790	20,299	20,586	20,664
<b>Total assets</b>	<b>134,278</b>	<b>245,581</b>	<b>307,987</b>	<b>358,734</b>	<b>400,344</b>
<b>LIABILITIES:</b>					
Current liabilities:	9,809	29,643	26,653	31,501	36,020
Account payables	1,689	1,353	2,704	4,332	5,922
Bank overdraft & ST loans	393	11,500	4,298	5,081	5,614
Current LT debt	2,889	6,787	10,531	12,449	13,755
Others current liabilities	4,838	10,002	9,120	9,639	10,728
<b>Total LT debt</b>	<b>74,356</b>	<b>136,482</b>	<b>200,094</b>	<b>236,527</b>	<b>261,351</b>
Others LT liabilities	1,073	7,376	2,421	3,017	3,632
<b>Total liabilities</b>	<b>85,238</b>	<b>173,501</b>	<b>229,169</b>	<b>271,045</b>	<b>301,002</b>
Minority interest	10,613	8,053	11,306	15,373	20,606
Preferreds shares	0	0	0	0	0
Paid-up capital	10,667	11,733	11,733	11,733	11,733
Share premium	20,889	51,822	51,822	51,822	51,822
Warrants	0	0	0	0	0
Surplus	383	(7,496)	(7,496)	(7,496)	(7,496)
<b>Retained earnings</b>	<b>6,488</b>	<b>7,968</b>	<b>11,454</b>	<b>16,256</b>	<b>22,676</b>
Shareholders' equity	38,427	64,027	67,513	72,315	78,736
<b>Liabilities &amp; equity</b>	<b>134,278</b>	<b>245,581</b>	<b>307,987</b>	<b>358,734</b>	<b>400,344</b>

*Debts piling up to fund its aggressive investment strategy*

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	2,943	3,923	8,181	8,014	12,254
Tax paid	23	(112)	(288)	(357)	(507)
Depreciation & amortization	2,434	3,431	5,904	7,716	9,779
Chg In working capital	(1,283)	(971)	(1,893)	(3,319)	(3,497)
Chg In other CA & CL / minorities	1,963	1,746	2,941	8,921	10,607
<b>Cash flow from operations</b>	<b>6,081</b>	<b>8,018</b>	<b>14,845</b>	<b>20,975</b>	<b>28,638</b>
Capex	(17,490)	(52,189)	(51,875)	(47,813)	(38,373)
Right of use	0	(787)	(500)	(300)	(100)
ST loans & investments	352	0	0	0	0
LT loans & investments	(318)	(3,146)	(60,079)	(5,257)	(5,779)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	1,274	(43,248)	33,984	537	555
<b>Cash flow from investments</b>	<b>(16,181)</b>	<b>(99,371)</b>	<b>(78,470)</b>	<b>(52,833)</b>	<b>(43,698)</b>
Debt financing	9,079	76,997	60,155	39,134	26,663
Capital increase	0	31,999	0	0	0
Dividends paid	(2,560)	(2,773)	(5,273)	(7,247)	(9,674)
Warrants & other surplus	(437)	(7,908)	(29)	(29)	(29)
<b>Cash flow from financing</b>	<b>6,083</b>	<b>98,315</b>	<b>54,853</b>	<b>31,858</b>	<b>16,960</b>
<b>Free cash flow</b>	<b>(11,410)</b>	<b>(44,171)</b>	<b>(37,031)</b>	<b>(26,838)</b>	<b>(9,735)</b>

*Continuous investment to develop new projects in its pipeline*

## VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	128.5	104.2	55.4	40.3	30.2
Normalized PE - at target price (x)	123.9	100.4	53.4	38.9	29.1
PE (x)	92.3	107.4	55.4	40.3	30.2
PE - at target price (x)	89.0	103.6	53.4	38.9	29.1
EV/EBITDA (x)	64.5	56.6	40.8	32.2	25.2
EV/EBITDA - at target price (x)	62.4	55.0	39.7	31.4	24.6
P/BV (x)	11.7	7.6	7.2	6.7	6.2
P/BV - at target price (x)	11.3	7.3	7.0	6.5	6.0
P/CFO (x)	74.2	57.4	32.8	23.2	17.0
Price/sales (x)	16.2	14.8	9.2	6.0	4.4
Dividend yield (%)	3.1	0.9	1.1	1.5	2.0
FCF Yield (%)	(2.5)	(9.6)	(7.6)	(5.5)	(2.0)
<b>(Bt)</b>					
Normalized EPS	0.3	0.4	0.7	1.0	1.4
EPS	0.4	0.4	0.7	1.0	1.4
DPS	1.3	0.4	0.4	0.6	0.8
BV/share	3.5	5.5	5.8	6.2	6.7
CFO/share	0.6	0.7	1.3	1.8	2.4
FCF/share	(1.0)	(4.0)	(3.2)	(2.3)	(0.8)

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	74.8	9.3	61.1	53.1	35.8
Net profit (%)	61.4	(12.4)	105.2	37.4	33.5
EPS (%)	61.4	(14.1)	93.9	37.4	33.5
Normalized profit (%)	24.2	25.8	99.0	37.4	33.5
Normalized EPS (%)	24.2	23.4	88.0	37.4	33.5
Dividend payout ratio (%)	283.8	104.1	60.0	60.0	60.0
<b>Operating performance</b>					
Gross margin (%)	24.1	27.8	25.4	21.9	21.4
Operating margin (%)	18.4	21.5	20.8	18.4	18.3
EBITDA margin (%)	26.5	31.9	32.0	27.9	27.2
Net margin (%)	9.8	11.6	14.9	9.4	10.7
D/E (incl. minor) (x)	1.6	2.1	2.7	2.9	2.8
Net D/E (incl. minor) (x)	1.3	1.8	2.6	2.7	2.7
Interest coverage - EBIT (x)	2.1	1.9	2.0	2.1	2.5
Interest coverage - EBITDA (x)	3.0	2.9	3.1	3.2	3.7
ROA - using norm profit (%)	2.7	2.3	3.2	3.6	4.2
ROE - using norm profit (%)	9.4	8.6	13.4	17.3	21.3
<b>DuPont</b>					
ROE - using after tax profit (%)	7.9	7.4	12.0	10.9	15.5
- asset turnover (x)	0.2	0.2	0.2	0.2	0.3
- operating margin (%)	18.7	23.1	25.7	18.7	18.5
- leverage (x)	3.4	3.7	4.2	4.8	5.0
- interest burden (%)	52.3	51.7	60.1	53.0	60.2
- tax burden (%)	100.5	97.3	96.4	95.5	95.8
WACC (%)	4.3	4.3	4.3	4.3	4.3
ROIC (%)	6.4	6.8	5.4	5.3	6.2
NOPAT (Bt m)	5,561	6,852	10,598	14,222	19,274
invested capital (Bt m)	101,255	197,024	269,437	313,373	344,556

Sources: Company data, Thanachart estimates

*Strong profitability from its large portion of IPP plants in Thailand*

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