BUY (Unchanged) | **TP: Bt 95.00** (Unchanged) | **28 OCTOBER 2021**

Change in Numbers | **Upside : 44.5%**

Energy Absolute Pcl (EA TB)

Major beneficiary of new PDP

NUTTAPOP PRASITSUKSANT
662 – 483 8296
nuttapop.pra@thanachartsec.co.th

We expect EA to be the biggest beneficiary of the upcoming Power Development Plan (PDP-2022). Li-ion battery demand should surge rapidly to improve reliability for renewables and support growing EV sales. The government promoting EV adoption is a near-term growth driver for its EV factory. We reaffirm BUY as our top sector pick.

Thanachart Securities

Three pillars of the PDP-2022

EA's business direction is strongly aligned with the new Power Development Plan's (PDP-2022) three pillars. *First,* EA has a proven track record in developing and operating solar and wind power projects, so we expect it to get sizable new capacity from the PDP's target to lift renewables to 50% of Thailand's electricity generation by 2050. *Second,* EA has major cost advantages from having its own battery plant to develop renewable-plus-BESS (battery energy storage system) under private-PPA contracts, as the government is liberalizing the country's electricity market. *Third,* both its battery and electric commercial vehicle production plants directly benefit from stronger government policies and more tax incentives to promote EV adoption in Thailand.

Commercializing 1GWh Li-ion battery plant

We believe commercialization of the first phase of its Li-ion battery plant in 4Q21 will boost confidence among investors and EA's customers in its battery production plan. As this 1GWh plant will serve only internal demand for its E-bus production (3k units p.a.), we project EA to ramp up capacity to 2GWh in 2022F to support its new product line-up (E-trucks, E-pickups) and 4GWh in 2023F to supply Li-ion batteries to carmakers setting up EV plants in Thailand. We keep our capacity assumption of 30GWh for EA in 2030, implying 4%/10%/45% of EA's profit would come from Li-ion battery sales in 2022F/23F/30F. We don't see the Bt2bn/GWh battery plant investment cost as a heavy burden for EA, given our EBITDA projections of Bt13bn-19bn in 2022-24F.

Strong E-bus demand in 2022F

We expect 2022F to be a strong year for EA's E-bus business, 55%-owned manufacturing plant for electric commercial vehicles (Absolute Assembly, non-listed, AAB), and 40%-owned E-bus distributor and services provider, Nex Point (NEX TB, BUY, Bt9.50). With its goal to have EVs comprise 30% of domestic auto production by 2030, the Thai government is pushing to convert public buses and vehicles used by government agencies and big corporates into electric fleets by giving incentives to EV buyers, with tax privileges for the sellers already in place. We lift our E-bus sales assumption to 2.0k units in 2022F (from 1.5k) to reflect the stronger government policy on EVs and higher E-bus demand for tourism as the country is now reopening for tourists.

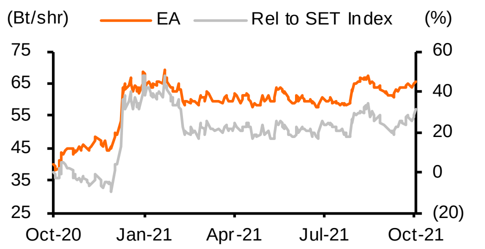
BUY as our top sector pick

We reaffirm BUY on EA as our top utility sector pick. We like its early move into the Li-ion battery and EV business (thus faster development vs. peers). After trimming earnings to reflect new timeline for its battery and EV plants and revised-down renewable output, we maintain our DCF-derived SOTP-TP (2022F) of Bt95.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	17,080	22,878	32,080	41,044
Net profit	5,205	5,813	7,375	10,672
Consensus NP	—	6,443	7,871	9,591
Diff frm cons (%)	—	*(9.8)*	*(6.3)*	*11.3*
Norm profit	5,127	5,813	7,375	10,672
Prev. Norm profit	—	5,911	7,839	10,941
Chg frm prev (%)	—	*(1.7)*	*(5.9)*	*(2.5)*
Norm EPS (Bt)	1.4	1.6	2.0	2.9
Norm EPS grw (%)	(13.4)	13.4	26.9	44.7
Norm PE (x)	47.8	42.2	33.3	23.0
EV/EBITDA (x)	30.4	26.4	21.6	16.4
P/BV (x)	8.8	7.6	6.5	5.4
Div yield (%)	0.5	0.7	0.9	1.7
ROE (%)	20.0	19.4	21.1	25.8
Net D/E (%)	135.5	116.1	87.0	55.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 28-Oct-21 (Bt)	65.75
Market Cap (US$ m)	7,368.6
Listed Shares (m shares)	3,730.0
Free Float (%)	40.4
Avg Daily Turnover (US$ m)	23.7
12M Price H/L (Bt)	69.00/38.00
Sector	Utilities
Major Shareholder	Ahunai family 23.21%

Sources: Bloomberg, Company data, Thanachart estimates

BUY as our top sector pick

Energy Absolute Pcl (EA) remains our top pick in the utility sector, based on three key reasons:

1) Major beneficiary of new PDP which promotes renewables and EVs

1) We expect EA to benefit the most from Thailand's upcoming Power Development Plan (PDP-2022), likely to be officially released in 2H22. Revenues from its locally made Li-ion battery should grow strongly with higher production of electric vehicles (EVs) and increased installation of energy storage systems (ESS) for the electricity grid. Strong support from the government in promoting EV adoption, especially for commercial fleets in their early stage, is another growth driver for its commercial EV manufacturing plant.

2) Commercializing 1GWh Li-ion battery plant in 4Q21

2) We expect the commercialization of its 1GWh Li-ion battery plant (the first phase of its 50GWh mega-project) in 4Q21F to bolster investors' confidence in its battery production business, thus providing a strong share price catalyst. We also believe that, after seeing its products on the roads, customers and new partners will have their confidence boosted to order or co-invest with EA to expand its production capacity further.

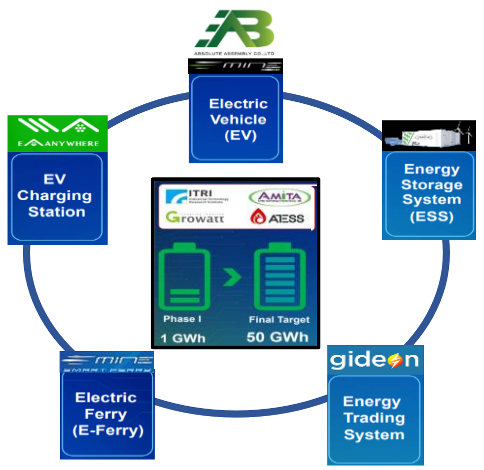
3) Expecting strong E-bus sales next year

3) We foresee strong demand for electric buses (E-buses) next year as the government is pushing to convert public buses and vehicles used by government agencies into electric fleets while it is planning to announce more incentives for corporates to adopt EVs.

BUY as our top pick with a Bt95/share TP

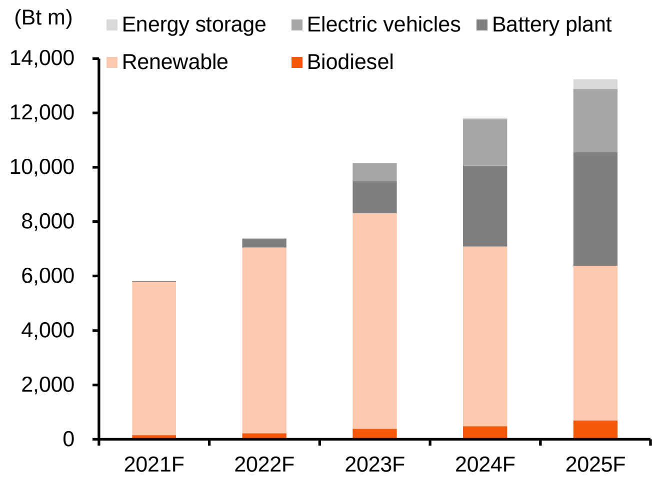
Despite trimming our earnings by 2-6% in 2021-24F to reflect a slight delay in operations of its battery and EV manufacturing plants starting up and weaker-than-expected output from its renewable plants, we maintain our DCF-derived SOTP-based 12-month TP (2022F base year) of Bt95/share since these short-term pressures should only have a limited impact on EA's long-term growth potential in the Li-ion battery and EV business.

Ex 1: Integrated Business Plan Around Battery Plant



Source: Company data

Ex 2: New S-Curve Growth Starting



Source: Thanachart estimates

Three pillars of PDP-2022

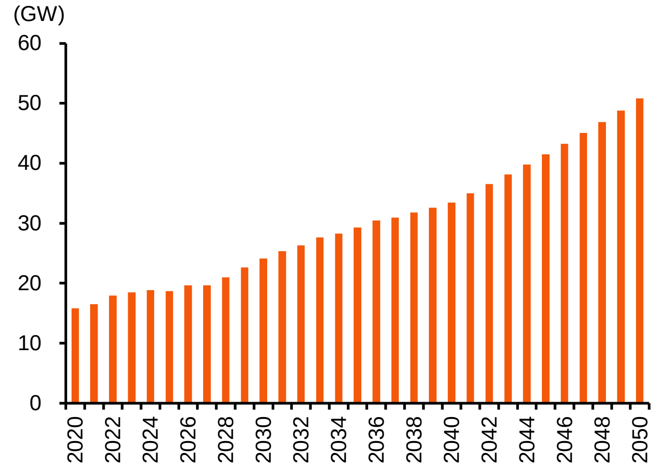
Based on the framework released for the closed-loop hearing by the Energy Policy and Planning Office (EPPO) in September, we see EA as the biggest beneficiary of the three core pillars of the new Power Development Plan for Thailand, PDP-2022.

First pillar: Raising renewables to 50% of electricity generation by 2050 (50%/2050)

We expect solar to lead in driving renewables to 50% of electricity generation

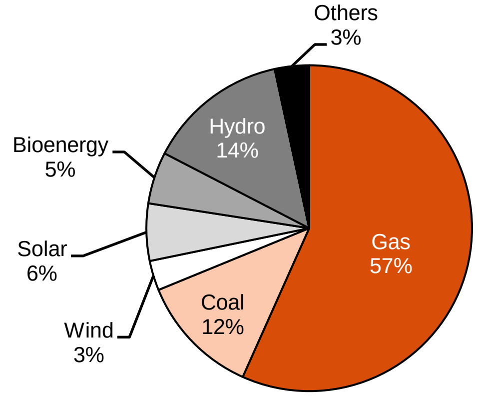
To align Thailand with its pledge to reduce carbon emissions, as signed in the Paris Agreement of 2019, the new PDP targets to increase the portion of renewables in the country's electricity generation to 50% (currently around 20% from 14GW of renewable capacity) by 2050. On our estimates, Thailand has to develop at least another 30GW of renewable capacity over the next 30 years to achieve this ambitious goal. We expect solar sources (grounded or floating solar farms, and solar rooftops) to make up the majority of the target given strong solar radiation in Thailand throughout the year, thus ensuring high productivity of solar power plants amid declining investment costs given the falling price of solar panels. We also see the potential for wind power projects, especially in the North and Northeast regions where there are many plateaus and mountains. However, we believe subsidies would still be required for wind projects to be economically feasible, so we see them less attractive than solar plants as they would push up the country's electricity tariff. Hydropower projects remain an interesting choice, in our view, on decent size and their low production costs per unit electricity, but they would be dependent on neighboring countries' policies on exporting electricity produced from hydro sources while there is a limited potential area to develop more hydropower projects in Thailand. Impact on the environment is also a controversial issue that continues to suppress development of hydropower plants.

Ex 3: Renewable Capacity Required For 50%/2050 Target



Sources: Energy Policy and Planning Office (EPPO), Thanachart estimates

Ex 4: Current Mix Of Thai Electricity Generating Capacity



Sources: Electricity Generating Authority Of Thailand (EGAT)

Opportunity for EA to grow renewable capacity and battery sales for ESS

We foresee EA benefiting from this policy in two areas. 1) EA can leverage on its expertise in developing and operating renewable power plants (398MW of solar farms and 386MW of wind farms under operation) to bid for either power purchase agreements (PPAs) announced by the government or private-PPAs (B2B contracts) with private firms to grow its renewable capacity. 2) Given that renewables are considered an unreliable power source because of the uncontrollable amount of electricity generated as a result of continual changes in related natural conditions, battery energy storage system (B-ESS) is necessary to maintain stability for the grid, especially when the contribution from renewable plants is high at 50%. We expect rising adoption of BESS for the national electricity grid, both to be installed in new renewable projects or in the transmission system to stabilize the grid, to be a strong growth driver for EA's battery sales.

Second pillar: Liberalization of gas and electricity markets for lower electricity prices

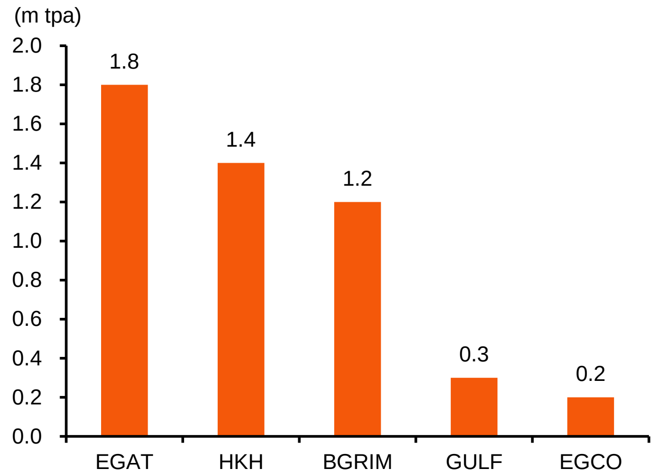
Deregulating for private firms to participate in local gas and electricity markets

The new PDP plans to tackle the issue of rising gas costs for the country, since Thailand will have to import more natural gas (or liquified natural gas, LNG) to compensate for its depleting domestic reserves (see our Energy sector report by Chak Reungsinpinya – *Assessing Thailand's energy security,* dated 1 October 2021 for more details), by allowing more players to participate in the local natural gas market. The Energy Regulatory Commission (ERC) has approved seven LNG shipping licenses for private firms to source and import LNG for distribution in the country through shared infrastructure, owned and operated by the current sole gas distributor in Thailand, the PTT Group. The regulator expects this to spur competition and help lower gas costs for the country.

We expect renewables to be sizable in this off-the-grid electricity generation

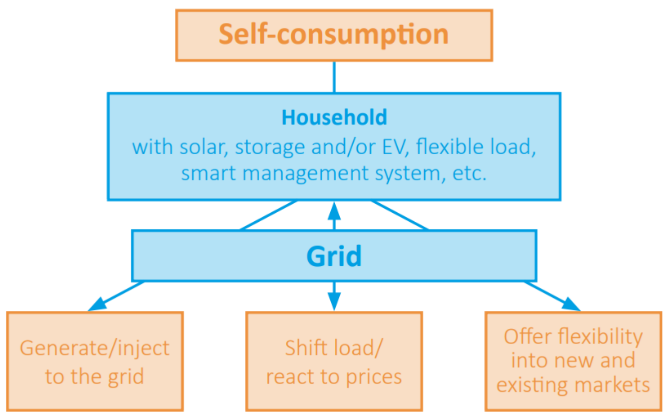
The same idea will be applied to the electricity market, which is now a monopoly with the Electricity Generating Authority of Thailand (EGAT) as the sole electricity seller. The new PDP would deregulate the market by allowing corporates and individuals to freely trade their excess self-produced electricity, under the "prosumer" concept, through private-PPA contracts (B2B) or peer-to-peer (P2P) electricity trading platforms. Utility operators are studying the development of captive gas-fired power plants under B2B contracts, so-called Independent Power Supply (IPS), leveraging on their experience in running conventional power plants. However, we believe a sizable portion of this new off-the-grid capacity will be from renewables, especially solar sources, given that 1) they have no exposure to the rising trend of global and domestic gas prices, 2) the strong solar radiation in the country throughout the year, 3) the flexible size of solar projects to match available areas, and 4) BESS technology improving to stabilize fluctuating electricity generation from solar sources.

Ex 5: LNG Import Quota Granted To Private Firms



Source: Energy Regulatory Commissioner (ERC)

Ex 6: Introducing The 'Prosumer' Concept



Source: smartEn

Higher BESS demand for private renewable projects and more complex grid

We expect this "prosumer" policy to allow EA to revive its business plan in developing solar-plus-BESS projects for islands or other remote locations, where the cost of connecting them to the main grid is high due to the lengthy distances from main transmission systems and/or the necessity for expensive submarine electricity cables. Having its own battery plant, we believe EA has strong cost advantages in bidding for those projects. This second pillar of the upcoming PDP thus also improves demand for EA's Li-ion battery and provides opportunities for EA to expand its renewable capacity without having to wait for PPAs from the regulator. Smaller-sized household solar rooftop projects are another potential market via partnerships with housing estates or commercial estate developers.

EA has developed P2P electricity trading software

EA is ready to participate in P2P electricity trading market as it has developed electricity trading software under the name "Gideon" which is now used in a sandbox project at community shops area around Chulalongkorn University in Bangkok and a pilot trading project around its solar farm in Nakorn Sawan province.

Third pillar: Supports EVs to reach 30% of auto production by 2030

Strong government policy to promote EV adoption in Thailand

Following one of the core development goals in the "National Strategy", the Thai government is strongly pushing to accelerate EV adoption in Thailand to protect the country's automotive industry which contributes more than 10% of its GDP as the eleventh-largest hub for global car production and the largest in ASEAN. It has set a target to have EVs comprise over 30% of domestic auto production by 2030, which implies approximately 750k units of EVs to be produced locally or 35GWh of Li-ion batteries required in that year. A few tax incentives are now available to attract foreign carmakers to make Thailand their EV production base, e.g. no import tax on machinery and raw materials, corporate tax waivers of eight to 11 years, and a lower excise tax on EVs produced locally, thus lowering selling prices and making it easier for them to hit the market. As EV adoption remains slow, the government plans to soon announce more incentives but this time on the buyer side, i.e. individual tax cuts or corporate tax savings based on the value of EVs bought, discounts on highway tolls and parking fees, and subsidies for EV or battery costs. A key early target is for private firms to convert their internal-use or service fleets into EVs.

More dynamic electricity demand from EV is a new challenge for national grid

The new PDP has to support the national EV roadmap by facilitating investment plans to 1) expand coverage and capacity of the main transmission system to be ready for higher electricity demand at night and higher intensity of demand in urban areas for EV charging, 2) ensure sufficient and stable electricity in the main grid to handle surges in electricity demand for EVs, and 3) apply new technology to the grid to dynamically adjust generating output to cope with sudden surges in electricity demand from EV charging stations.

Ex 7: Thailand's EV Production Targets

	2025		2030	
	% total production	# units	% total production	# units
2 - wheelers	20%	360,000	30%	675,000
4 - wheelers	10%	225,000	30%	725,000
Buses / Trucks	33%	18,000	50%	34,000

Source: National EV Policy Commission

Ex 8: Estimated Battery Consumption Per Unit EVs

	Battery used per unit (kWh)	Units per 1GWh plant	Range (km)	Estimated price (Bt m)
Passenger car	30-50	20,000 - 30,000	200-300	0.9 - 1.1
Bus / Micro-bus	250-350	3,000 - 4,000	200-250	5.0 - 8.0
Pickup	45	22,000	300	0.5 - 1.0
Truck	280	3,500	200	3.0 - 5.0
Ferry	800	1,200	80	30 - 50

Source: Company data, Thanachart estimates

We see EA benefiting from the EV trend via its EV and battery production plants

EA directly benefits from EV policies via its 55%-owned manufacturing plant for electric commercial vehicles, Absolute Assembly (AAB). AAB has several models of electric bus (E-bus) as its current products and it is now developing electric trucks (E-trucks) and electric pickups (E-pickups) with a target to introduce them to the market next year. We expect government policies and incentives to convert public buses, corporate shuttle buses, and commercial vehicles used in the logistics industry into electric fleets to become a major catalyst for AAB's sales. Looking ahead, we expect EA to become one of the major battery suppliers to support EV production in Thailand. As foreign carmakers would need to use locally made batteries to be granted tax incentives, EA should be highly competitive in our view being the earliest in setting up battery plants and having its own R&D team.

Commercializing 1GWh Li-ion battery plant

1GWh battery factory is scheduled to commence operations next month

After first investing in Li-ion battery technology in 2016 by acquiring a 77% stake in Amita Technologies Inc. (Amita), EA's first Li-ion battery production plant in Thailand is scheduled to begin commercial operation this November. This 1GWh capacity is the first phase of its plan to reach its goal of developing a 50GWh battery factory. Batteries produced from this 1GWh of capacity would be used captively at its electric commercial vehicle manufacturing plant, AAB. We expect the commencement of operation of the plant to accelerate the growth of EA's battery business further, since we believe potential customers or partners would become more confident in its battery technology after seeing real products in actual use. We also see this as a share price catalyst for EA, since it would boost investor confidence in the capability and competitiveness of EA's battery solutions as well.

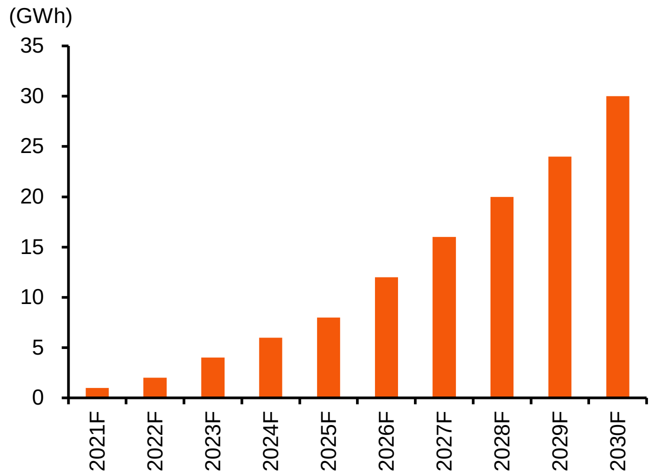
We still expect 30GWh of battery production capacity for EA in 2030F

We expect EA to expand its battery production capacity to 2GWh in 2022F to support its new E-truck and E-pickup product line-ups. Further expansion would depend on demand from EV makers setting up their factories in Thailand and using EA as their local battery supplier in order to be granted tax incentives from the government. We assume EA expands capacity to 4GWh to 2023F, backed by growing passenger-EV demand in the country. Based on our assumption of EA reaching 30GWh of capacity in 2030F, we estimate battery business to contribute 4%, 10%, and 45% of EA's earnings in 2022F, 2023F and 2030F, respectively. As for the investment cost, we project cash flow from its renewable plants to be sufficient for EA to expand battery capacity by 4GWh annually. Co-investment with its customers for dedicated production lines would be an alternative option for EA to grow its capacity with lower capex requirements.

Ex 9: The First Giga-Battery Plant In Thailand

Source: Company data

Ex 10: We Assume 30GWh Battery Plant In Our Numbers



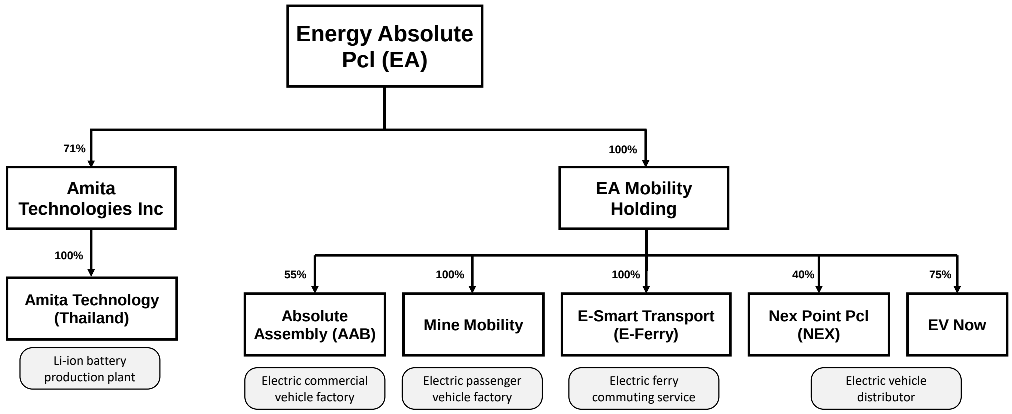
Source: Thanachart estimates

Strong E-bus demand in 2022F

We expect strong E-bus sales in 2022F, backed by the strong govt EV policy

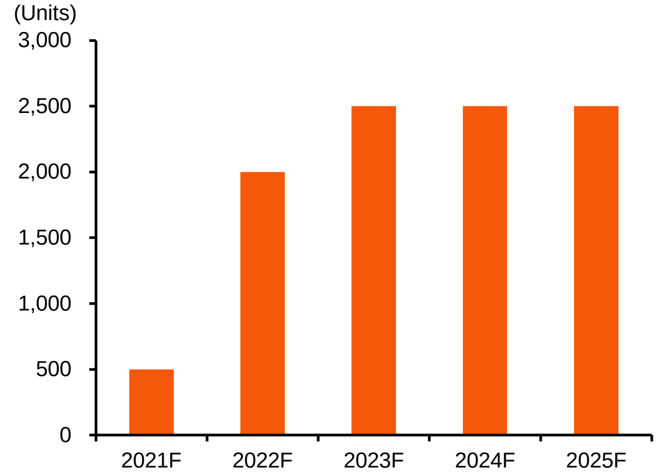
We lift our assumption for EA's E-bus sales to 2,000 units in 2022F (from 1,500 units) due to the strengthened government policy of promoting EV adoption, especially public buses which is the main market of focus for EA. We also expect tourism companies to resume investment and replace their fleets with E-buses to welcome foreign tourists again as the government has announced the reopening of the country for tourism from 1 November. We recap that average bus demand in Thailand is at 12,000 units annually, with 4,000 units are those used for public services while other 8,000 buses are used by private firms, either internally or in the tourism and logistics businesses. We maintain our conservative long-term assumption of 2,500 units of E-bus sales annually, or only 85% of AAB's maximum capacity. We also leave both the potential order from the bid for 2,511 E-buses from the Bangkok Mass Transit Authority (BMTA), likely to proceed in 2022, and revenues from new E-truck and E-pickup products as upside to our earnings estimates given the high level of uncertainty regarding the bidding criteria and the timeline for EA to launch those products.

Ex 11: Shareholding Structure For The Battery And E-Bus Business



Source: Company data

Ex 12: Our Assumptions For EA's E-Bus Sales



Source: Thanachart estimates

Ex 13: Developing More EV Product Lines

Source: Company data

Ex 14: Sum-Of-The-Parts Valuation

	Value (Bt/Share)
Renewables & Green energy	
Biodiesel	8.1
Solar farms	6.0
Wind farms	7.3
Subtotal	**21.4**
E-Vehicle Solutions	
E-Ferry	0.2
AAB	4.0
NEX	3.2
EA Anywhere	3.6
Mine SPA	2.2
Subtotal	**13.2**
Battery and Energy Storage	
Battery plant	40.8
ESS solutions	16.2
Subtotal	**56.9**
Potential projects	
3,000MW Hydropower	1.3
Subtotal	**1.3**
+ Cash and parent company	2.2
Grand total	**95.0**

Source: Thanachart estimates

Valuation Comparison

Ex 15: Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Datang International Power	991 HK	China	(39.2)	123.7	18.3	8.2	0.6	0.6	9.5	8.1	5.0	10.8
Huadian Power	1071 HK	China	(27.3)	41.2	10.6	7.5	0.5	0.5	11.1	9.2	5.5	7.4
Huaneng Power	600011 CH	China	(45.0)	64.9	29.2	17.7	1.1	1.1	10.2	8.8	1.5	2.6
Cheung Kong Infrastructure	1038 HK	Hong Kong	2.0	11.9	13.8	12.3	1.0	1.0	42.9	41.5	5.5	5.6
China Power Int'l	2380 HK	Hong Kong	4.0	8.7	18.9	17.4	1.2	1.1	11.8	9.5	2.5	3.2
China Resources Power	836 HK	Hong Kong	(5.1)	34.5	12.5	9.3	1.1	1.0	7.9	6.6	3.2	4.4
CLP Holdings	2 HK	Hong Kong	0.6	7.1	16.8	15.7	1.6	1.6	10.7	10.2	4.2	4.3
Hongkong Electric Holdings	6 HK	Hong Kong	2.9	6.5	15.6	14.6	1.2	1.2	76.3	73.5	6.0	6.1
Huaneng Power	902 HK	Hong Kong	(53.1)	71.9	19.3	11.2	0.5	0.5	11.4	8.9	3.3	5.0
Tata Power	TPWR IN	India	17.6	22.2	45.2	37.0	3.1	3.1	14.4	14.0	0.7	0.8
Tenaga Nasional	TNB MK	Malaysia	7.6	4.6	11.7	11.2	1.0	1.0	6.5	6.5	5.6	5.8
YTL Corp	YTL MK	Malaysia	(68.4)	116.7	105.0	48.5	0.6	0.5	12.2	11.8	4.1	4.4
YTL Power	YTLP MK	Malaysia	47.4	(5.4)	12.4	13.1	0.5	0.4	10.5	10.4	5.5	6.3
Manila Electric	MER PM	Philippines	12.0	1.2	14.2	14.0	3.7	3.4	9.1	8.5	4.9	5.1
Absolute Clean Energy *	ACE TB	Thailand	9.8	26.4	25.1	19.9	2.8	2.6	18.7	16.2	1.6	2.0
BCPG Pcl *	BCPG TB	Thailand	(13.2)	3.3	19.1	18.5	1.6	1.5	16.7	17.1	2.4	2.4
B.Grimm Power Pcl *	BGRIM TB	Thailand	8.0	25.3	38.7	30.8	3.8	3.6	14.0	13.3	1.3	1.6
Banpu Power Pcl *	BPP TB	Thailand	10.2	12.4	14.5	12.9	1.3	1.2	208.9	157.3	4.1	4.6
CK Power Pcl *	CKP TB	Thailand	418.6	8.2	20.3	18.8	1.6	1.6	18.5	17.9	2.0	2.7
EA Pcl*	EA TB	Thailand	13.4	26.9	42.2	33.3	7.6	6.5	26.4	21.6	0.7	0.9
Electricity Generating *	EGCO TB	Thailand	7.2	4.7	9.4	8.9	0.9	0.8	17.9	16.2	3.9	4.2
Global Power Synergy *	GPSC TB	Thailand	20.3	16.7	24.4	20.9	2.1	2.0	15.5	14.4	2.5	2.9
Gulf Energy Dev. Pcl *	GULF TB	Thailand	88.0	37.4	58.7	42.7	7.6	7.1	42.5	33.5	1.0	1.4
Gunkul Engineering *	GUNKUL TB	Thailand	66.7	26.8	20.8	16.4	3.7	3.3	20.6	17.3	2.6	3.7
RATCH Group *	RATCH TB	Thailand	25.2	2.8	9.8	9.5	1.0	1.0	17.7	16.3	5.6	6.3
TPC Power Holding *	TPCH TB	Thailand	52.4	23.3	11.5	9.4	1.4	1.2	8.9	7.6	2.6	3.2
WHA Utilities & Power *	WHAUP TB	Thailand	47.9	24.5	13.5	10.9	1.3	1.2	30.5	26.1	4.4	5.5
Average			**22.6**	**27.7**	**24.1**	**18.2**	**2.0**	**1.9**	**26.0**	**22.3**	**3.4**	**4.2**

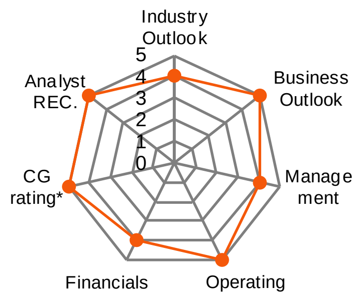
Sources: Bloomberg, * Thanachart estimates
Based on 28 October 2021 closing prices

COMPANY DESCRIPTION

Established in 2006 as a biodiesel business operator, Energy Absolute Pcl (EA) has become one among Thailand's major renewable plant operators with 784MW installed capacity of solar and wind farms fully operated since 2019. EA started investing in li-ion battery production business by acquiring stakes in Taiwan-based Amita Technologies during 2016-18 with plans to build a 50GWh li-ion battery factory in Thailand to serve the electric vehicle (EV) and energy storage system (ESS) markets.

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

- Management has a strong financial background with what we regard as well-thought-out plans for expansion.

W — Weakness

- In a heavy capex cycle due to scheduled new capacity expansion but gearing is still below its threshold.

O — Opportunity

- Electricity industry gearing towards renewable energy.
- Huge potential capacity expansion planned.
- Energy storage (ES) could be part of the requirements for the government grid and private off-grid systems.

T — Threat

- New capacity tendered by the government will likely see lower returns.
- Regulations from both domestic and overseas power markets.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	68.11	95.00	39%
Net profit 21F (Bt m)	6,443	5,813	-10%
Net profit 22F (Bt m)	7,871	7,375	-6%
Consensus REC	**BUY: 6**	**HOLD: 2**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts for 2021-22F are 10% and 6% below the Bloomberg consensus numbers, likely as we assume a lower margin from its EV business in the early years.
- However, our SOTP-based TP is 39% higher, likely because we foresee higher growth potential for its battery plant and related business.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If investment costs required for its new S-curve businesses are higher than we presently anticipate, this would represent the key downside risk to our valuation.
- If EA cannot secure enough orders, for either battery or e-vehicle sales, to match our expectations, that would present another major downside risk to our numbers.
- Unfavorable weather conditions for its wind and solar power plants would represent a secondary downside risk to our earnings projections.
- Rapid changes in li-ion battery or e-vehicle technologies are also a risk to our earnings growth projections for EA.

Source: Thanachart

New S-curve growth is backed by battery and related business

Healthy balance sheet despite a rapid business expansion plan

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	14,887	17,080	22,878	32,080	41,044
Cost of sales	6,752	9,271	13,947	20,184	24,978
Gross profit	**8,134**	**7,808**	**8,931**	**11,896**	**16,066**
% gross margin	54.6%	45.7%	39.0%	37.1%	39.1%
Selling & administration expenses	946	1,278	1,735	3,504	4,246
Operating profit	**7,189**	**6,530**	**7,197**	**8,392**	**11,821**
% operating margin	48.3%	38.2%	31.5%	26.2%	28.8%
Depreciation & amortization	2,517	2,844	3,599	4,541	4,761
EBITDA	**9,706**	**9,373**	**10,796**	**12,933**	**16,582**
% EBITDA margin	65.2%	54.9%	47.2%	40.3%	40.4%
Non-operating income	68	120	46	64	82
Non-operating expenses	0	0	0	0	0
Interest expense	(1,386)	(1,637)	(1,590)	(1,439)	(1,181)
Pre-tax profit	**5,870**	**5,013**	**5,653**	**7,017**	**10,721**
Income tax	(11)	(18)	57	70	107
After-tax profit	**5,881**	**5,031**	**5,596**	**6,947**	**10,614**
% net margin	39.5%	29.5%	24.5%	21.7%	25.9%
Shares in affiliates' Earnings	(14)	(61)	(23)	467	799
Minority interests	55	157	240	(38)	(741)
Extraordinary items	160	78	0	0	0
NET PROFIT	**6,082**	**5,205**	**5,813**	**7,375**	**10,672**
Normalized profit	**5,922**	**5,127**	**5,813**	**7,375**	**10,672**
EPS (Bt)	1.6	1.4	1.6	2.0	2.9
Normalized EPS (Bt)	1.6	1.4	1.6	2.0	2.9

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	14,033	7,389	9,428	12,075	14,513
Cash & cash equivalent	10,040	2,962	3,012	3,012	3,012
Account receivables	2,666	2,750	3,761	5,273	6,747
Inventories	758	833	1,528	2,212	2,737
Others	569	843	1,127	1,578	2,017
Investments & loans	0	0	0	0	0
Net fixed assets	51,371	55,857	59,095	57,835	56,284
Other assets	4,816	15,238	15,640	16,911	18,127
Total assets	**70,220**	**78,484**	**84,163**	**86,821**	**88,924**
LIABILITIES:					
Current liabilities:	6,070	13,564	12,286	12,009	10,847
Account payables	285	373	573	829	1,026
Bank overdraft & ST loans	660	2,674	2,112	1,857	1,453
Current LT debt	4,307	9,342	8,024	7,056	5,520
Others current liabilities	818	1,176	1,577	2,267	2,848
Total LT debt	**36,977**	**31,090**	**32,097**	**28,225**	**22,080**
Others LT liabilities	2,306	4,203	6,011	7,383	8,621
Total liabilities	**45,353**	**48,857**	**50,394**	**47,617**	**41,548**
Minority interest	1,502	1,815	1,576	1,614	2,355
Preferreds shares	0	0	0	0	0
Paid-up capital	373	373	373	373	373
Share premium	3,681	3,681	3,681	3,681	3,681
Warrants	0	0	0	0	0
Surplus	(874)	(428)	(428)	(428)	(428)
Retained earnings	**20,185**	**24,186**	**28,568**	**33,965**	**41,396**
Shareholders' equity	23,365	27,812	32,193	37,590	45,021
Liabilities & equity	**70,220**	**78,484**	**84,163**	**86,821**	**88,924**

Sources: Company data, Thanachart estimates

Huge cash flow streams from subsidized power plant comfortably support its capex plan

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	5,870	5,013	5,653	7,017	10,721
Tax paid	11	18	(57)	(70)	(107)
Depreciation & amortization	2,517	2,844	3,599	4,541	4,761
Chg In w orking capital	(1,308)	(73)	(1,505)	(1,940)	(1,802)
Chg In other CA & CL / minorities	(8,236)	501	95	706	941
Cash flow from operations	**(1,145)**	**8,302**	**7,785**	**10,254**	**14,514**
Capex	(6,301)	(7,216)	(6,712)	(3,097)	(2,966)
Right of use	0	(1,892)	(1,200)	(1,200)	(1,200)
ST loans & investments	(1)	(4)	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(64)	(6,683)	2,482	1,116	977
Cash flow from investments	**(6,366)**	**(15,794)**	**(5,430)**	**(3,181)**	**(3,189)**
Debt financing	12,884	1,171	(873)	(5,095)	(8,085)
Capital increase	0	0	0	0	0
Dividends paid	(932)	(1,119)	(1,431)	(1,978)	(3,241)
Warrants & other surplus	77	361	0	0	0
Cash flow from financing	**12,029**	**414**	**(2,305)**	**(7,073)**	**(11,326)**
Free cash flow	**(7,446)**	**1,086**	**1,073**	**7,157**	**11,549**

High valuation is justified by its strong growth potential in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	41.4	47.8	42.2	33.3	23.0
Normalized PE - at target price (x)	59.8	69.1	61.0	48.0	33.2
PE (x)	40.3	47.1	42.2	33.3	23.0
PE - at target price (x)	58.3	68.1	61.0	48.0	33.2
EV/EBITDA (x)	28.6	30.4	26.4	21.6	16.4
EV/EBITDA - at target price (x)	39.8	42.1	36.5	30.0	22.9
P/BV (x)	10.5	8.8	7.6	6.5	5.4
P/BV - at target price (x)	15.2	12.7	11.0	9.4	7.9
P/CFO (x)	(214.2)	29.5	31.5	23.9	16.9
Price/sales (x)	16.5	14.4	10.7	7.6	6.0
Dividend yield (%)	0.5	0.5	0.7	0.9	1.7
FCF Yield (%)	(3.0)	0.4	0.4	2.9	4.7
(Bt)					
Normalized EPS	1.6	1.4	1.6	2.0	2.9
EPS	1.6	1.4	1.6	2.0	2.9
DPS	0.3	0.3	0.5	0.6	1.1
BV/share	6.3	7.5	8.6	10.1	12.1
CFO/share	(0.3)	2.2	2.1	2.7	3.9
FCF/share	(2.0)	0.3	0.3	1.9	3.1

Sources: Company data, Thanachart estimates

Profitability trending up as new businesses achieve scale

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	28.9	14.7	33.9	40.2	27.9
Net profit (%)	18.1	(14.4)	11.7	26.9	44.7
EPS (%)	18.1	(14.4)	11.7	26.9	44.7
Normalized profit (%)	45.0	(13.4)	13.4	26.9	44.7
Normalized EPS (%)	45.0	(13.4)	13.4	26.9	44.7
Dividend payout ratio (%)	18.4	21.5	30.0	30.0	40.0
Operating performance					
Gross margin (%)	54.6	45.7	39.0	37.1	39.1
Operating margin (%)	48.3	38.2	31.5	26.2	28.8
EBITDA margin (%)	65.2	54.9	47.2	40.3	40.4
Net margin (%)	39.5	29.5	24.5	21.7	25.9
D/E (incl. minor) (x)	1.7	1.5	1.3	0.9	0.6
Net D/E (incl. minor) (x)	1.3	1.4	1.2	0.9	0.5
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	9.2	6.9	7.1	8.6	12.1
ROE - using norm profit (%)	28.5	20.0	19.4	21.1	25.8
DuPont					
ROE - using after tax profit (%)	28.3	19.7	18.7	19.9	25.7
- asset turnover (x)	0.2	0.2	0.3	0.4	0.5
- operating margin (%)	48.7	38.9	31.7	26.4	29.0
- leverage (x)	3.1	2.9	2.7	2.5	2.1
- interest burden (%)	80.9	75.4	78.0	83.0	90.1
- tax burden (%)	100.2	100.4	99.0	99.0	99.0
WACC (%)	5.0	5.0	5.0	5.0	5.0
ROIC (%)	17.2	11.9	10.5	11.6	16.3
NOPAT (Bt m)	7,202	6,553	7,125	8,308	11,702
invested capital (Bt m)	55,268	67,955	71,414	71,716	71,062

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance, Insurance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya
Energy, Petrochemical, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th