

BUY (Unchanged)

Transfer of Coverage

TP: Bt 46.00 (From: Bt 50.00)**Upside : 18.7%****4 FEBRUARY 2022**

PTT Public Co Ltd (PTT TB)

A big-cap value play

We reaffirm our BUY rating on PTT with a TP of Bt46. We see PTT as a big-cap value oil play in the elevated oil price environment. The stock is trading at a de-rated valuations of 1.0x P/BV, 11.0x PE and a 5% dividend yield.

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A mega-cap value stock

We reaffirm our BUY call on PTT seeing it as a big-cap value oil play. We believe PTT's stock price has been de-rated enough to reflect its holding company structure at 1.0x P/BV (vs. its pre-COVID five-year average of 1.3x in 2015-19), and 5% yield (vs. 4%). We lower our SOTP-based TP to Bt46 (from Bt50). It is another BUY choice in the currently elevated oil price environment with potential oil spike from a concern over the Russian factor. With valuations having been de-rated to reflect a holding company structure, PTT's diversification away from its fossil-based business is a positive move in our view. So far, it has ventured into the retail, consumer, pharmaceutical, EV and parts and renewable energy areas.

High dividend and strong cash flow

Despite headwinds of higher gas costs and lower profits by its subsidiaries, we still expect PTT to generate profit in the range of Bt100bn over the next three years. Its integrated business allows the company's profit to be more resilient relative to its subsidiaries. PTT has the strongest balance sheet in the sector with net D/E of only 0.3x and generating positive free cash flow over the next two years. We also estimate to company to offer decent dividend yields of 5-6.4% over 2022-24F vs. peers' average of 3.9%.

Business transformation

PTT is diversifying away from its fossil-based energy business. Its five-year capex plan is Bt238bn with a profit target of "Future Energy and Beyond" investments at 30% of total profit by 2030. Its new businesses include EV and parts, renewable energy (from 2.6GW to 12GW), and life sciences (pharmaceuticals, medical devices and nutrition). In the EV value chain, PTT is forming a JV with Foxconn to make EVs using Foxconn's MIH platform with 2023 production in the first phase targeted at 50,000 a year. Estimated capex is US\$0.7bn-1.0bn with an expected IRR of 9.5-10%. We still leave this as potential upside to our numbers.

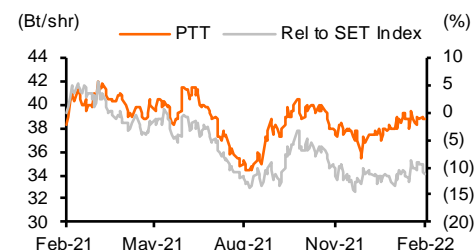
Subsidy risk looks manageable

Despite all the segmental diversification of its energy business, PTT is still a net beneficiary of the high oil price environment. Exhibit 3 shows its profit breakdown. As a national oil company, PTT is subject to risk from national service obligations via energy price subsidization. However, we foresee much lower risk than in the past. This is because the NGV and LPG markets have been partially liberalized, and their prices are on a cost-plus basis. We estimate LPG and NGV subsidization at Bt1.2bn p.a., vs. Bt30bn p.a. in 2013-15.

COMPANY VALUATION

| Y/E Dec (Bt m) | 2020A | 2021F | 2022F | 2023F |
|-------------------|-----------|-----------|-----------|-----------|
| Sales | 1,615,665 | 1,977,624 | 2,188,754 | 2,110,815 |
| Net profit | 37,766 | 105,132 | 101,252 | 94,758 |
| Consensus NP | — | 106,767 | 110,665 | 113,126 |
| Diff frm cons (%) | — | (1.5) | (8.5) | (16.2) |
| Norm profit | 38,053 | 116,669 | 101,252 | 94,758 |
| Prev. Norm profit | — | 107,325 | 112,935 | 125,265 |
| Chg frm prev (%) | — | 8.7 | (10.3) | (24.4) |
| Norm EPS (Bt) | 1.3 | 4.1 | 3.5 | 3.3 |
| Norm EPS grw (%) | (51.0) | 206.6 | (13.2) | (6.4) |
| Norm PE (x) | 29.1 | 9.5 | 10.9 | 11.7 |
| EV/EBITDA (x) | 6.9 | 4.1 | 4.2 | 4.1 |
| P/BV (x) | 1.3 | 1.1 | 1.0 | 1.0 |
| Div yield (%) | 2.6 | 5.2 | 5.2 | 6.5 |
| ROE (%) | 4.3 | 12.3 | 9.7 | 8.8 |
| Net D/E (%) | 25.3 | 34.3 | 33.4 | 29.7 |

PRICE PERFORMANCE

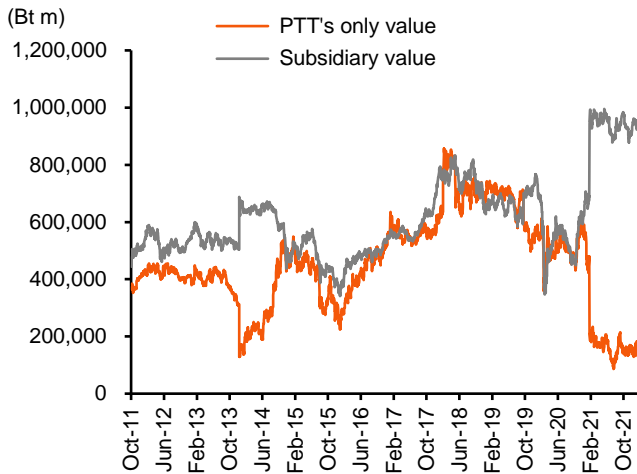


COMPANY INFORMATION

| | |
|-----------------------------|----------------------------|
| Price as of 3-Feb-22 (Bt) | 38.75 |
| Market Cap (US\$ m) | 33,376.0 |
| Listed Shares (m shares) | 28,563.0 |
| Free Float (%) | 48.9 |
| Avg Daily Turnover (US\$ m) | 64.3 |
| 12M Price H/L (Bt) | 42.00/34.50 |
| Sector | Energy |
| Major Shareholder | Ministry of Finance 51.11% |

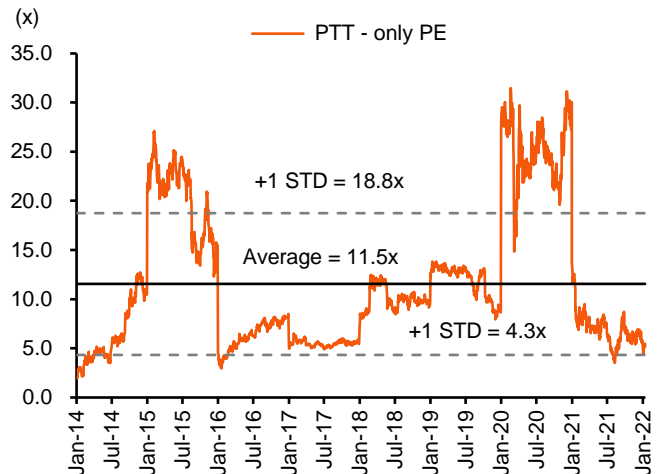
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: PTT-only's Value Has De-rated...



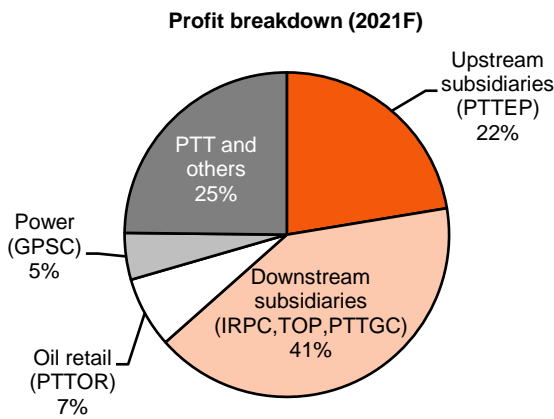
Sources: Bloomberg, Thanachart estimates

Ex 2: ...Due To Concern Over Lower Gas Returns



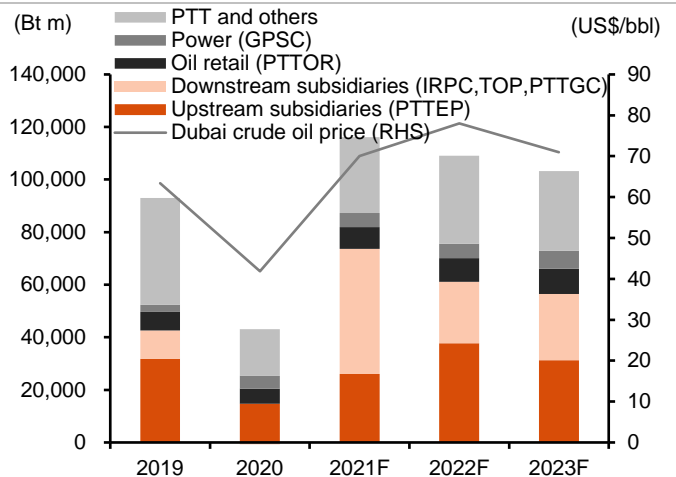
Sources: Bloomberg, Thanachart estimates

Ex 3: PTT's Profit Breakdown



Sources: Thanachart estimates

Ex 4: Higher Oil Price Lead To Higher Profit For PTT



Sources: Company, Thanachart estimates

Ex 5: 12-month DCF-derived SOTP-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 | 87,876 | 88,454 | 85,286 | 84,399 | 83,518 | 82,644 | 81,776 | 80,915 | 80,060 | 79,211 | 78,369 | |
| Free cash flow | 35,181 | 73,872 | 81,852 | 83,573 | 73,070 | 74,032 | 73,356 | 72,706 | 72,004 | 71,412 | 70,750 | 766,711 |
| PV of free cash flow | 32,131 | 61,603 | 62,308 | 57,248 | 45,536 | 41,972 | 37,826 | 34,107 | 30,729 | 26,737 | 24,005 | 260,136 |
| Risk-free rate (%) | 2.5 | | | | | | | | | | | |
| Market risk premium (%) | 8.0 | | | | | | | | | | | |
| Beta | 1.1 | | | | | | | | | | | |
| WACC (%) | 9.5 | | | | | | | | | | | |
| Terminal growth (%) | 1.0 | | | | | | | | | | | |
| Enterprise value - add investments | 714,337 | | | | | | | | | | | |
| Net debt | (18,306) | | | | | | | | | | | |
| Minority interest | 0 | | | | | | | | | | | |
| Equity value | 732,643 | | | | | | | | | | | |
| # of shares (m) | 28,563 | | | | | | | | | | | |
| Equity value/sh (Bt) | 26 | | | | | | | | | | | |

| Sum-of-the-parts valuation | Value (Bt m) | Per share (Bt/shr) | % of total | Methodology |
|-------------------------------|------------------|--------------------|-------------|--------------------|
| Gas and other core operations | 732,643 | 26 | 56% | DCF |
| Oil & retail | 212,471 | 7 | 16% | EV/EBITDA |
| Upstream | 392,235 | 14 | 30% | DCF |
| Refining & chemical | 209,927 | 7 | 16% | DCF |
| Power | 58,613 | 2 | 4% | DCF |
| Other investments | 26,424 | 1 | 2% | Earnings multiples |
| Holding discount | | 20% | | |
| Total equity value | 1,313,898 | 46 | 100% | SOTP |

Sources: Thanachart estimates

COMPANY DESCRIPTION

PTT Pcl (PTT) is a fully integrated oil and gas company and has the biggest market capitalization on the Stock Exchange of Thailand (SET). The government owns directly and indirectly 66% in PTT. Its businesses can be mainly grouped into seven segments: 1) Exploration & Production – operated by its key subsidiary, 65%-owned PTTEP; 2) petrochemicals with its flagship PTTGC; 3) refinery via SET-listed ie, TOP and IRPC; 4) oil marketing business through its 75%-owned PTTOR; 5) power flagship through its 43%-owned GPSC; 6) gas pipeline and GSP businesses operated by PTT, the parent firm, and 7) coal and international trading.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

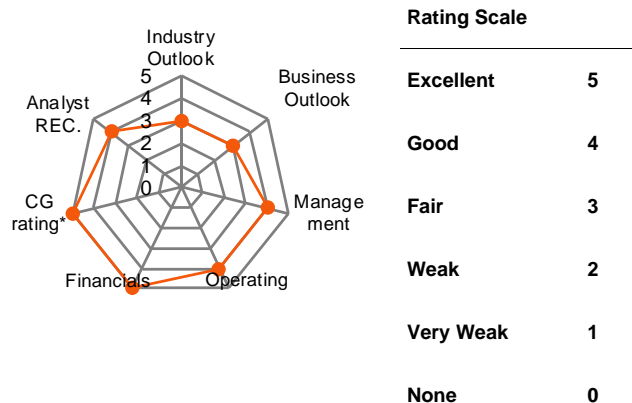
S — Strength

- Sole gas distributor in Thailand that operates Thailand's gas pipeline and gas separation plants.
- Integrated business model: upstream E&P, gas processing, chemical, refining and retailing.

O — Opportunity

- Strong free cash to expand into new products and abroad.
- M&As within the group or overseas to strengthen business structure.

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

- PTT is heavily reliant on the Thailand market which has limited growth opportunities for its legacy O&G businesses.
- PTT, being a state-owned enterprise, is heavily regulated and the company may from time to time be called upon to do national service (i.e., provide energy price subsidies).

T — Threat

- Government is allowing third-party imports of LNG and could soon deregulate PTT's exclusive gas distributorship.
- Depleting domestic gas reserves which could be a threat to its gas separation plants' earnings.
- Potential investments that could lead to value destruction.

CONSENSUS COMPARISON

| | Consensus | Thanachart | Diff |
|-----------------------|----------------|----------------|----------------|
| Target price (Bt) | 48.97 | 46.00 | -6% |
| Net profit 21F (Bt m) | 106,767 | 105,132 | -2% |
| Net profit 22F (Bt m) | 110,665 | 101,252 | -9% |
| Consensus REC | BUY: 25 | HOLD: 2 | SELL: 0 |

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are 2-9% lower than consensus due to our lower profit assumptions in downstream subsidiaries.
- Our TP is marginally lower with consensus as well.

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected oil prices would be the key downside risk to our call.
- High oil price could trigger the implementation of adverse regulatory measures.
- Another secondary downside risk would come from lower-than-expected refining/chemical margins.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

| FY ending Dec (Bt m) | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Sales | 2,219,739 | 1,615,665 | 1,977,624 | 2,188,754 | 2,110,815 |
| Cost of sales | 1,967,529 | 1,437,093 | 1,595,972 | 1,824,000 | 1,761,847 |
| Gross profit | 252,210 | 178,572 | 381,652 | 364,754 | 348,968 |
| % gross margin | 11.4% | 11.1% | 19.3% | 16.7% | 16.5% |
| Selling & administration expenses | 110,458 | 109,389 | 133,896 | 148,190 | 142,913 |
| Operating profit | 141,751 | 69,183 | 247,756 | 216,563 | 206,054 |
| % operating margin | 6.4% | 4.3% | 12.5% | 9.9% | 9.8% |
| Depreciation & amortization | 133,204 | 139,880 | 149,058 | 169,286 | 182,365 |
| EBITDA | 274,955 | 209,063 | 396,814 | 385,849 | 388,419 |
| % EBITDA margin | 12.4% | 12.9% | 20.1% | 17.6% | 18.4% |
| Non-operating income | 19,980 | 20,579 | 22,415 | 24,808 | 23,925 |
| Non-operating expenses | 0 | 0 | (31,858) | 0 | 0 |
| Interest expense | (27,971) | (28,536) | (32,211) | (38,455) | (38,115) |
| Pre-tax profit | 133,760 | 61,225 | 206,103 | 202,917 | 191,864 |
| Income tax | 32,989 | 25,166 | 61,162 | 63,667 | 60,351 |
| After-tax profit | 100,771 | 36,059 | 144,941 | 139,250 | 131,513 |
| % net margin | 4.5% | 2.2% | 7.3% | 6.4% | 6.2% |
| Shares in affiliates' Earnings | 6,008 | 4,178 | 9,306 | 9,306 | 9,306 |
| Minority interests | (29,141) | (2,184) | (37,578) | (47,304) | (46,061) |
| Extraordinary items | 15,313 | (287) | (11,537) | 0 | 0 |
| NET PROFIT | 92,951 | 37,766 | 105,132 | 101,252 | 94,758 |
| Normalized profit | 77,638 | 38,053 | 116,669 | 101,252 | 94,758 |
| EPS (Bt) | 3.3 | 1.3 | 3.7 | 3.5 | 3.3 |
| Normalized EPS (Bt) | 2.7 | 1.3 | 4.1 | 3.5 | 3.3 |

Profit set to decline due to weaker gas profit in 2022F

BALANCE SHEET

| FY ending Dec (Bt m) | 2019A | 2020A | 2021F | 2022F | 2023F |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| ASSETS: | | | | | |
| Current assets: | 717,099 | 720,930 | 807,996 | 851,131 | 837,197 |
| Cash & cash equivalent | 330,806 | 416,921 | 450,990 | 450,990 | 450,990 |
| Account receivables | 167,641 | 110,528 | 135,290 | 149,733 | 144,401 |
| Inventories | 152,126 | 129,779 | 144,127 | 164,719 | 159,107 |
| Others | 66,526 | 63,703 | 77,589 | 85,689 | 82,699 |
| Investments & loans | 87,657 | 85,312 | 85,312 | 85,312 | 85,312 |
| Net fixed assets | 1,294,979 | 1,292,717 | 1,642,799 | 1,761,147 | 1,799,885 |
| Other assets | 387,230 | 445,224 | 488,066 | 504,805 | 498,626 |
| Total assets | 2,486,965 | 2,544,183 | 3,024,173 | 3,202,395 | 3,221,019 |
| LIABILITIES: | | | | | |
| Current liabilities: | 379,785 | 298,026 | 330,177 | 368,533 | 353,586 |
| Account payables | 160,669 | 108,189 | 120,150 | 137,317 | 132,637 |
| Bank overdraft & ST loans | 44,441 | 4,223 | 5,416 | 5,516 | 5,320 |
| Current LT debt | 50,440 | 73,778 | 94,624 | 96,367 | 92,938 |
| Others current liabilities | 124,236 | 111,837 | 109,987 | 129,334 | 122,691 |
| Total LT debt | 562,746 | 664,732 | 852,553 | 868,259 | 837,362 |
| Others LT liabilities | 243,394 | 295,579 | 377,404 | 410,134 | 398,052 |
| Total liabilities | 1,185,925 | 1,258,338 | 1,560,134 | 1,646,927 | 1,588,999 |
| Minority interest | 422,436 | 403,805 | 441,383 | 488,687 | 534,747 |
| Preferreds shares | 0 | 0 | 0 | 0 | 0 |
| Paid-up capital | 28,563 | 28,563 | 28,563 | 28,563 | 28,563 |
| Share premium | 29,211 | 29,211 | 29,211 | 29,211 | 29,211 |
| Warrants | 0 | 0 | 0 | 0 | 0 |
| Surplus | (52,287) | (49,116) | 29,211 | 29,211 | 29,211 |
| Retained earnings | 873,117 | 873,383 | 935,671 | 979,796 | 1,010,288 |
| Shareholders' equity | 878,604 | 882,040 | 1,022,656 | 1,066,782 | 1,097,273 |
| Liabilities & equity | 2,486,965 | 2,544,183 | 3,024,173 | 3,202,395 | 3,221,019 |

PTT has plenty of cash for future investments

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

| FY ending Dec (Bt m) | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Earnings before tax | 133,760 | 61,225 | 206,103 | 202,917 | 191,864 |
| Tax paid | (49,340) | (36,073) | (55,198) | (61,893) | (60,869) |
| Depreciation & amortization | 133,204 | 139,880 | 149,058 | 169,286 | 182,365 |
| Chg In working capital | 9,335 | 26,980 | (27,149) | (17,869) | 6,266 |
| Chg In other CA & CL / minorities | (32,924) | (20,069) | (14,090) | 18,780 | 6,171 |
| Cash flow from operations | 194,035 | 171,943 | 258,725 | 311,220 | 325,796 |
| Capex | (314,009) | (137,617) | (499,140) | (287,633) | (221,104) |
| Right of use | 0 | (70,831) | 0 | 0 | 0 |
| ST loans & investments | (886) | 951 | 0 | 0 | 0 |
| LT loans & investments | (8,109) | 2,345 | 0 | 0 | 0 |
| Adj for asset revaluation | 0 | 0 | 0 | 0 | 0 |
| Chg In other assets & liabilities | (14,705) | 59,277 | 40,750 | 15,991 | (5,903) |
| Cash flow from investments | (337,709) | (145,875) | (458,390) | (271,642) | (227,006) |
| Debt financing | 129,304 | 94,377 | 198,252 | 17,549 | (34,523) |
| Capital increase | 0 | 0 | (0) | 0 | 0 |
| Dividends paid | (81,351) | (51,624) | (42,844) | (57,126) | (64,267) |
| Warrants & other surplus | (8,079) | 17,295 | 78,328 | 0 | 0 |
| Cash flow from financing | 39,874 | 60,047 | 233,735 | (39,577) | (98,790) |
| Free cash flow | (119,973) | 34,325 | (240,416) | 23,587 | 104,693 |

Free cash flows positive despite heavy capex for downstream subsidiaries

VALUATION

| FY ending Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|-------------------------------------|--------|-------|--------|-------|-------|
| Normalized PE (x) | 14.3 | 29.1 | 9.5 | 10.9 | 11.7 |
| Normalized PE - at target price (x) | 16.9 | 34.5 | 11.3 | 13.0 | 13.9 |
| PE (x) | 11.9 | 29.3 | 10.5 | 10.9 | 11.7 |
| PE - at target price (x) | 14.1 | 34.8 | 12.5 | 13.0 | 13.9 |
| EV/EBITDA (x) | 5.2 | 6.9 | 4.1 | 4.2 | 4.1 |
| EV/EBITDA - at target price (x) | 6.0 | 7.8 | 4.6 | 4.8 | 4.6 |
| P/BV (x) | 1.3 | 1.3 | 1.1 | 1.0 | 1.0 |
| P/BV - at target price (x) | 1.5 | 1.5 | 1.3 | 1.2 | 1.2 |
| P/CFO (x) | 5.7 | 6.4 | 4.3 | 3.6 | 3.4 |
| Price/sales (x) | 0.5 | 0.7 | 0.6 | 0.5 | 0.5 |
| Dividend yield (%) | 5.2 | 2.6 | 5.2 | 5.2 | 6.5 |
| FCF Yield (%) | (10.8) | 3.1 | (21.7) | 2.1 | 9.5 |
| (Bt) | | | | | |
| Normalized EPS | 2.7 | 1.3 | 4.1 | 3.5 | 3.3 |
| EPS | 3.3 | 1.3 | 3.7 | 3.5 | 3.3 |
| DPS | 2.0 | 1.0 | 2.0 | 2.0 | 2.5 |
| BV/share | 30.8 | 30.9 | 35.8 | 37.3 | 38.4 |
| CFO/share | 6.8 | 6.0 | 9.1 | 10.9 | 11.4 |
| FCF/share | (4.2) | 1.2 | (8.4) | 0.8 | 3.7 |

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

| FY ending Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Growth Rate | | | | | |
| Sales (%) | (5.0) | (27.2) | 22.4 | 10.7 | (3.6) |
| Net profit (%) | (22.3) | (59.4) | 178.4 | (3.7) | (6.4) |
| EPS (%) | (22.3) | (59.4) | 178.4 | (3.7) | (6.4) |
| Normalized profit (%) | (31.5) | (51.0) | 206.6 | (13.2) | (6.4) |
| Normalized EPS (%) | (31.5) | (51.0) | 206.6 | (13.2) | (6.4) |
| Dividend payout ratio (%) | 61.5 | 75.6 | 54.3 | 56.4 | 75.4 |
| Operating performance | | | | | |
| Gross margin (%) | 11.4 | 11.1 | 19.3 | 16.7 | 16.5 |
| Operating margin (%) | 6.4 | 4.3 | 12.5 | 9.9 | 9.8 |
| EBITDA margin (%) | 12.4 | 12.9 | 20.1 | 17.6 | 18.4 |
| Net margin (%) | 4.5 | 2.2 | 7.3 | 6.4 | 6.2 |
| D/E (incl. minor) (x) | 0.5 | 0.6 | 0.7 | 0.6 | 0.6 |
| Net D/E (incl. minor) (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Interest coverage - EBIT (x) | 5.1 | 2.4 | 7.7 | 5.6 | 5.4 |
| Interest coverage - EBITDA (x) | 9.8 | 7.3 | 12.3 | 10.0 | 10.2 |
| ROA - using norm profit (%) | 3.2 | 1.5 | 4.2 | 3.3 | 3.0 |
| ROE - using norm profit (%) | 8.9 | 4.3 | 12.3 | 9.7 | 8.8 |
| DuPont | | | | | |
| ROE - using after tax profit (%) | 11.5 | 4.1 | 15.2 | 13.3 | 12.2 |
| - asset turnover (x) | 0.9 | 0.6 | 0.7 | 0.7 | 0.7 |
| - operating margin (%) | 7.3 | 5.6 | 12.1 | 11.0 | 10.9 |
| - leverage (x) | 2.8 | 2.9 | 2.9 | 3.0 | 3.0 |
| - interest burden (%) | 82.7 | 68.2 | 86.5 | 84.1 | 83.4 |
| - tax burden (%) | 75.3 | 58.9 | 70.3 | 68.6 | 68.5 |
| WACC (%) | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 |
| ROIC (%) | 10.9 | 3.4 | 14.4 | 9.7 | 8.9 |
| NOPAT (Bt m) | 106,791 | 40,745 | 174,234 | 148,615 | 141,240 |
| invested capital (Bt m) | 1,205,425 | 1,207,853 | 1,524,259 | 1,585,934 | 1,581,902 |

ROE to drop in 2022F due to the absence of one-off gains in 2021F

Sources: Company data, Thanachart estimates

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