

HOLD (From: BUY)

Transfer of Coverage

TP: Bt 56.00 (From: Bt 92.00)**Downside: 1.8%****4 FEBRUARY 2022**

PTT Global Chemical Pcl (PTTGC TB)

Losing gas competitive edge

We downgrade our call on PTTGC to HOLD. We expect lots of plant maintenance this year hitting earnings and we see the company losing its low gas cost competitive edge with a higher mix of expensive naphtha/LPG feedstock. We assign a TP of Bt56 for PTTGC.

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Losing its charm

We downgrade PTTGC to HOLD (from Buy). **First**, PTTGC is enjoying fewer benefits from high oil prices. Due to lower domestic gas supply, PTTGC is running its plants more on naphtha feedstock, implying lower product margin. Exhibit 2 shows its feedstock mix. This limits oil-gas spread benefit for PTTGC. **Secondly**, profit from the HVS (mainly BPA spread) business, which posted strong profit growth last year, is weaker. **Lastly**, PTTGC has many plant maintenance activities this year (see Exhibit 5). We cut our earnings by 34/33% in 2022-23F and DCF-based 12-month TP (2022F base year) to Bt56 (from Bt92). This report is a part of *Energy Sector – Lifeline stretched out, dated 4 February 2022* and it marks a coverage transfer.

Less of a gas-based play

We expect PTTGC to be much less of a competitive gas-based petrochemical play for two reasons. The first is rising costs from a more expensive LPG mix and the second is its increasing exposure to naphtha feedstock due to depleting domestic gas supply. PTTGC also has to bear increasing operating costs. This is because, due to lower gas supply, the company had to build a new 0.5mtpa naphtha-based cracker, the Olefins Reconfiguration Project (ORP), in 2Q21 to produce olefins to supply to its polyolefins production. The gas/naphtha and LPG feedstock mix look set to rise from 45/55% in 2021F to 35/65% in 2022F vs. the historical average of 56/44% over 2018-20. Note that both naphtha and LPG are linked closely to oil prices.

Unattractive growth outlook

We estimate unexciting normalized EPS growth for PTTGC of -21% in 2022F and flattish growth in 2023F. On the growth driver side, there is the consolidation of recently acquired 100%-owned Allnex Holdings GmbH (Allnex), which we expect to add 7% to PTTGC's normalized profit this year. On the profit drag side, we expect falling product spreads from rising gas costs and a higher naphtha feedstock proportion, lower profit from the high value-added (HVS) downstream business segment, and weak aromatics contribution due to oversupply. We expect HVS's profit contribution to fall from 31% of total profit in 2021F to 13% this year. Aromatics' contribution will likely drop from 14% to 3%.

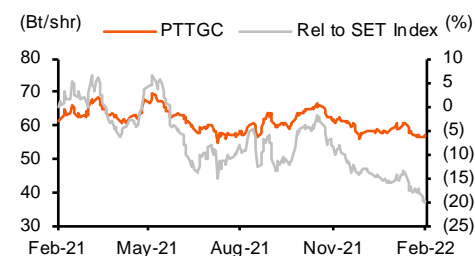
But valuation isn't expensive, in our view

PTTGC share price has underperformed peers', up by only 4% since end 2020 despite the Dubai crude oil price surging by 65%. The company is trading at 0.8x P/BV which is already at -1STD. The stock is also trading below peers' average of 1.1x P/BV.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	329,291	414,276	564,750	520,860
Net profit	200	47,020	23,442	23,380
Consensus NP	—	46,161	28,010	29,663
Diff frm cons (%)	—	1.9	(16.3)	(21.2)
Norm profit	7,634	29,480	23,442	23,380
Prev. Norm profit	—	34,795	35,409	35,045
Chg frm prev (%)	—	(15.3)	(33.8)	(33.3)
Norm EPS (Bt)	1.7	6.5	5.2	5.2
Norm EPS grw (%)	(6.5)	286.2	(20.5)	(0.3)
Norm PE (x)	33.7	8.7	11.0	11.0
EV/EBITDA (x)	13.2	8.6	8.7	8.2
P/BV (x)	0.9	0.8	0.8	0.8
Div yield (%)	1.8	7.0	4.6	4.5
ROE (%)	2.7	9.9	7.3	7.1
Net D/E (%)	30.3	65.2	61.9	51.8

PRICE PERFORMANCE

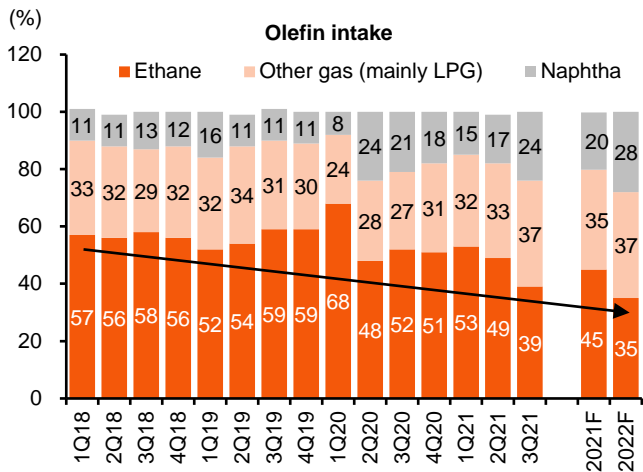


COMPANY INFORMATION

Price as of 3-Feb-22 (Bt)	57.00
Market Cap (US\$ m)	7,750.0
Listed Shares (m shares)	4,508.8
Free Float (%)	54.3
Avg Daily Turnover (US\$ m)	33.7
12M Price H/L (Bt)	69.50/54.75
Sector	PETRO
Major Shareholder	PTT Pcl 45.18%

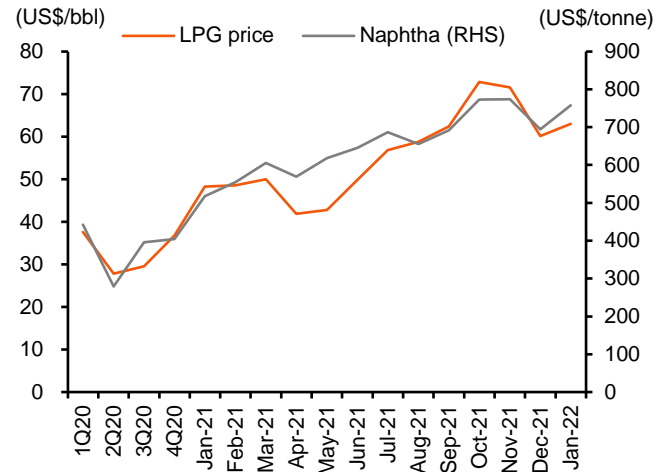
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: PTTGC Depends More On Naphtha



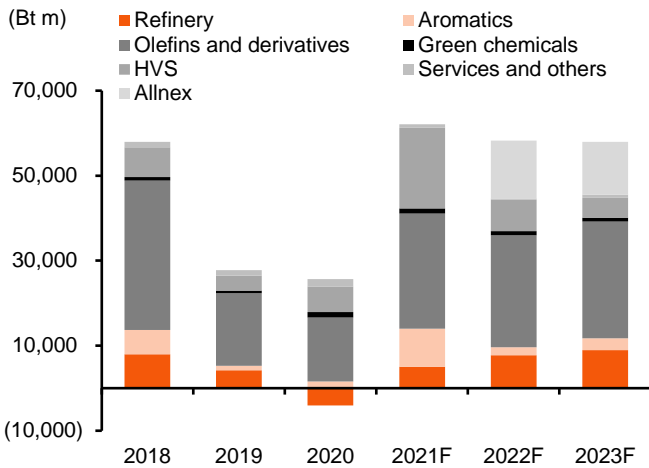
Source: Company data, Thanachart estimate

Ex 2: Both LPG And Naphtha Links Closely To Oil



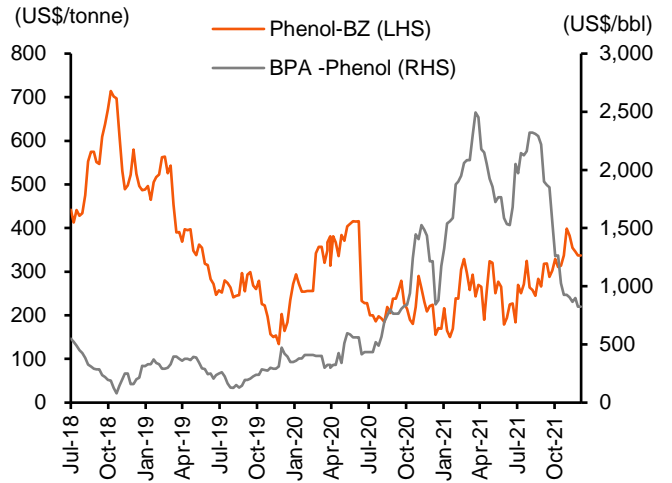
Source: Bloomberg

Ex 3: EBITDA Drop Despite Allnex Contribution



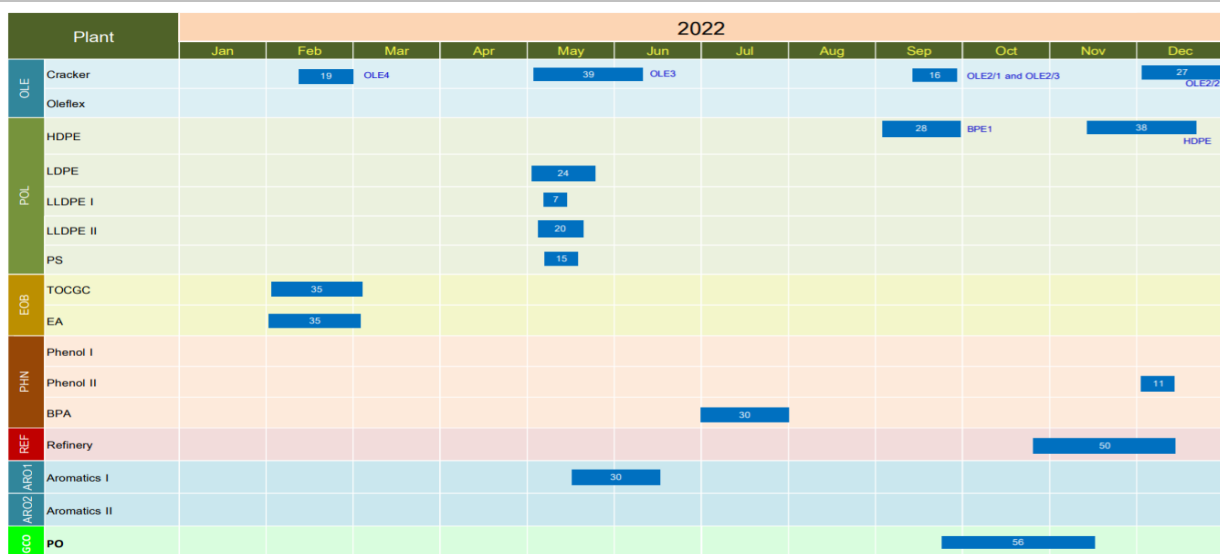
Sources: Company data, Thanachart estimates

Ex 4: BPA Spread, 2021F Driver, Slumps

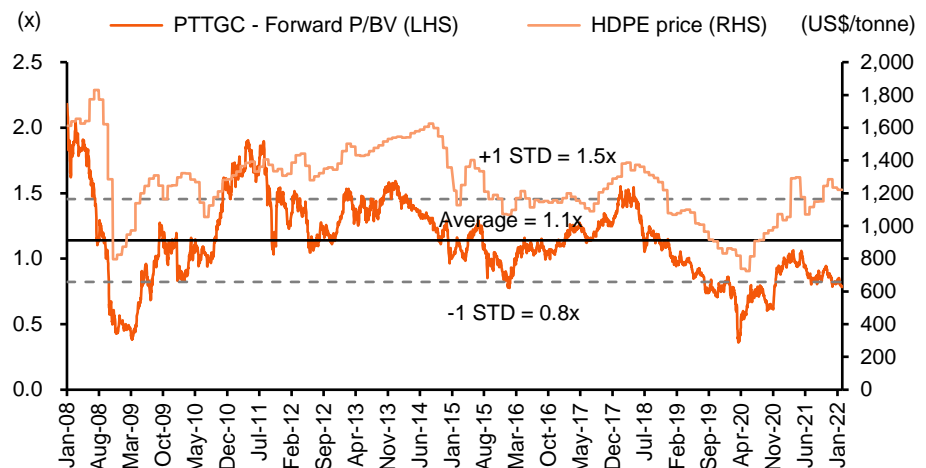


Source: Bloomberg

Ex 5: PTTGC's Maintenance Schedule



Source: Company data

Ex 6: P/BV Vs. HDPE Price

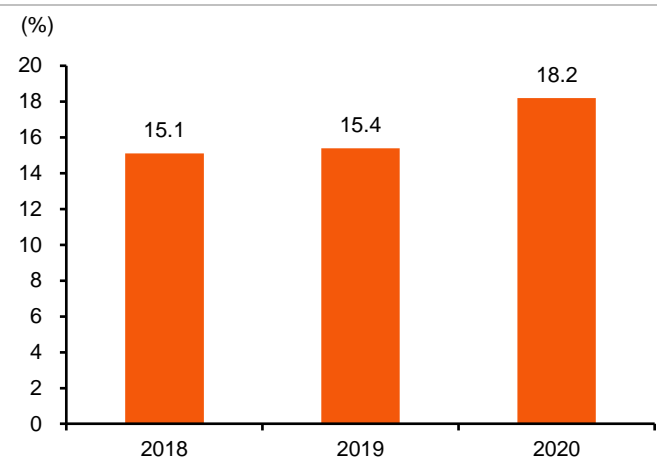
Sources: Bloomberg, Thanachart estimates

Ex 7: Sensitivity Of Allnex EBITDA Margin To PTTGC's Profit

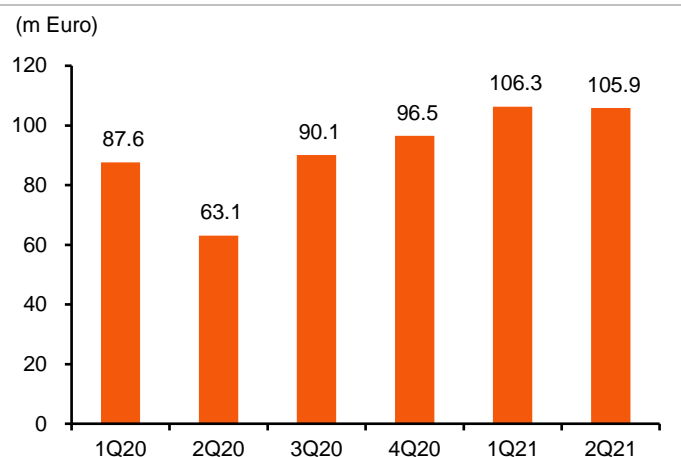
EBITDA margin (%)	14%	15%	16%	17%	18%	19%	20%
Allnex EBITDA (m Euro)	311	333	356	378	400	422	444
PTTGC expense	(156)	(167)	(178)	(189)	(200)	(211)	(222)
Allnex's profit at 40-50% EBITDA	156	167	178	189	200	211	222
Depreciation and interest expense	(135)	(135)	(135)	(135)	(135)	(135)	(135)
Net profit to PTTGC (m Euro)	21	32	43	54	65	76	87
Net profit to PTTGC (Btm)	781	1,203	1,626	2,048	2,470	2,892	3,314

Source: Thanachart estimates

Note: Allnex's historical upcycle of EBITDA margin was 18%.

Ex 8: Allnex's Adjusted EBITDA Margin

Sources: Company data

Ex 9: Allnex's EBITDA

Sources: Company data

Ex 10: 12-month DCF-based TP Calculation, Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2018F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA & equity income	53,357	53,036	58,840	58,419	58,730	58,793	58,104	58,295	58,433	58,474	58,619	
Free cash flow	8,088	42,787	47,142	44,631	45,455	44,972	44,493	44,616	44,783	44,745	44,921	582,945
PV of free cash flow	7,426	36,061	36,462	31,158	29,006	26,232	23,717	21,739	19,946	17,468	15,958	207,094
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.4											
WACC (%)	8.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	472,269											
Net debt (end-2021F)	212,227											
Minority interest	8,548											
Equity value	251,494											
# of shares (m)	4,509											
Equity value/share (Bt)	56											

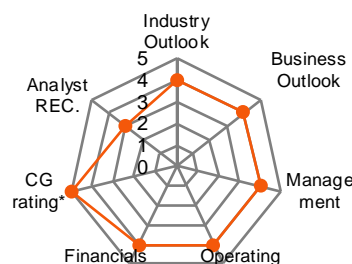
Source: Thanachart estimates

COMPANY DESCRIPTION

PTT Global Chemical (PTTGC) became a fully integrated petrochemical and refining company after the amalgamation of PTTCH (PTT Chemicals) and PTTAR (PTT Aromatics & Refining) in late 2011. The company produces olefins and derivatives, and its key products are ethylene, propylene, HDPE, LDPE, LLDPE and MEG. Together, the olefin value chain made up about half of 2022 EBITDA. PTTGC is one of the few gas-based crackers in Asia and it has a competitive cost structure compared with other naphtha-based crackers. The company also has fully integrated refinery and aromatics plants which produce mainly paraxylene and benzene. The company also recently moved into the specialty coating business with its investment in Allnex Holdings GmbH (Allnex).

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Rating

Rating Scale

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

THANACHART'S SWOT ANALYSIS

S — Strength

- It is a low-cost producer that is leveraging on its gas-based and flexible cracker.
- Large economies of scale due to synergies from its fully integrated facilities.
- Being a PTT group company helps ensure feedstock and raises its franchise value.

O — Opportunity

- Significant growth potential in terms of chemical demand in the region.
- Value enhancement from synergies, debottlenecking of its units, and further downstream integration.
- M&A activity that could lead to higher return to investors.

W — Weakness

- Cyclical business with volatile earnings and cash flow.
- Potential impact of stock losses (due mainly to oil price movements) on earnings.
- Reliance on bulk chemicals and limited exposure to specialty chemicals.

T — Threat

- Depleting low-cost domestic gas supply would reduce its competitive edge of being a low-cost producer.
- Low oil prices erode its competitive advantage.
- Increasing competition from lower-cost producers in the Middle East and US-based crackers.
- Overpaying for acquisitions and limited synergies.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	71.71	56.00	-22%
Net profit 21F (Bt m)	46,161	47,020	2%
Net profit 22F (Bt m)	28,010	23,442	-16%
Consensus REC	BUY: 16	HOLD: 10	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profit is lower than consensus likely given our lower GRM assumption.
- Therefore, our target price is also lower than Bloomberg consensus.

RISKS TO OUR INVESTMENT CASE

- Higher-than-expected oil prices and/or chemical spreads would be the key upside risk to our call.
- Hiccups in the gas supply from its parent company PTT or any unplanned outages at the complex would be the key downside risk.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	412,810	329,291	414,276	564,750	520,860
Cost of sales	390,619	308,527	366,364	516,029	474,288
Gross profit	22,191	20,764	47,912	48,721	46,572
% gross margin	5.4%	6.3%	11.6%	8.6%	8.9%
Selling & administration expenses	16,469	14,881	16,647	22,694	20,931
Operating profit	5,722	5,883	31,265	26,027	25,641
% operating margin	1.4%	1.8%	7.5%	4.6%	4.9%
Depreciation & amortization	19,198	20,292	23,163	27,330	27,395
EBITDA	24,920	26,174	54,428	53,357	53,036
% EBITDA margin	6.0%	7.9%	13.1%	9.4%	10.2%
Non-operating income	2,319	2,283	4,942	4,942	4,942
Non-operating expenses	0	0	0	0	0
Interest expense	(3,119)	(3,511)	(4,882)	(6,111)	(5,888)
Pre-tax profit	4,922	4,654	31,324	24,858	24,696
Income tax	649	(109)	8,796	6,215	6,174
After-tax profit	4,272	4,763	22,529	18,644	18,522
% net margin	1.0%	1.4%	5.4%	3.3%	3.6%
Shares in affiliates' Earnings	4,559	3,323	7,520	5,574	5,574
Minority interests	(667)	(452)	(569)	(776)	(715)
Extraordinary items	3,518	(7,434)	17,540	0	0
NET PROFIT	11,682	200	47,020	23,442	23,380
Normalized profit	8,164	7,634	29,480	23,442	23,380
EPS (Bt)	2.6	0.0	10.4	5.2	5.2
Normalized EPS (Bt)	1.8	1.7	6.5	5.2	5.2

Earnings likely to remain flattish in the next two years

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	104,494	129,911	114,088	146,429	152,203
Cash & cash equivalent	25,560	60,658	30,000	30,000	45,000
Account receivables	34,157	29,277	36,833	50,211	46,309
Inventories	36,252	33,445	39,715	55,939	51,414
Others	8,525	6,531	7,540	10,279	9,480
Investments & loans	65,901	65,675	65,675	65,675	65,675
Net fixed assets	264,564	269,177	430,538	427,067	414,159
Other assets	17,556	24,620	24,620	24,620	24,620
Total assets	452,514	489,383	634,921	663,790	656,657
LIABILITIES:					
Current liabilities:	53,033	59,041	78,401	95,453	88,389
Account payables	25,479	20,114	23,885	33,642	30,921
Bank overdraft & ST loans	2,021	19	0	0	0
Current LT debt	8,149	22,017	36,334	35,555	33,711
Others current liabilities	17,384	16,892	18,182	26,256	23,757
Total LT debt	96,918	126,261	205,893	201,478	191,029
Others LT liabilities	8,968	15,086	25,315	32,209	30,198
Total liabilities	158,919	200,389	309,610	329,140	309,616
Minority interest	7,765	7,979	8,548	9,324	10,039
Preferreds shares	0	0	0	0	0
Paid-up capital	45,088	45,088	45,088	45,088	45,088
Share premium	36,937	36,937	36,937	36,937	36,937
Warrants	0	0	0	0	0
Surplus	(3,005)	(3,618)	(3,618)	(3,618)	(3,618)
Retained earnings	206,810	202,608	238,355	246,919	258,594
Shareholders' equity	285,830	281,015	316,763	325,327	337,001
Liabilities & equity	452,514	489,383	634,921	663,790	656,657

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	4,922	4,654	31,324	24,858	24,696
Tax paid	(1,190)	203	(8,814)	(6,091)	(6,223)
Depreciation & amortization	19,198	20,292	23,163	27,330	27,395
Chg In working capital	1,910	2,322	(10,055)	(19,845)	5,706
Chg In other CA & CL / minorities	(1,318)	4,056	7,282	10,785	3,922
Cash flow from operations	23,521	31,527	42,901	37,038	55,496
Capex	(38,740)	(24,905)	(184,524)	(23,859)	(14,487)
Right of use	0	(7,039)	0	0	0
ST loans & investments	(2,681)	2,144	537	0	0
LT loans & investments	(8,995)	226	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(8,979)	(3,192)	31,634	6,894	(2,011)
Cash flow from investments	(59,395)	(32,766)	(152,353)	(16,965)	(16,498)
Debt financing	14,806	41,352	90,066	(5,194)	(12,293)
Capital increase	(1,387)	0	0	0	0
Dividends paid	(16,336)	(5,024)	(11,272)	(14,878)	(11,706)
Warrants & other surplus	(4,175)	9	0	0	0
Cash flow from financing	(7,092)	36,338	78,794	(20,073)	(23,998)
Free cash flow	(15,219)	6,622	(141,623)	13,179	41,009

With a lack of capacity expansion, we expect positive FCF over the next two years

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	31.5	33.7	8.7	11.0	11.0
Normalized PE - at target price (x)	30.9	33.1	8.6	10.8	10.8
PE (x)	22.0	1,287.6	5.5	11.0	11.0
PE - at target price (x)	21.6	1,265.0	5.4	10.8	10.8
EV/EBITDA (x)	13.6	13.2	8.6	8.7	8.2
EV/EBITDA - at target price (x)	13.4	13.0	8.5	8.6	8.1
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/BV - at target price (x)	0.9	0.9	0.8	0.8	0.7
P/CFO (x)	10.9	8.2	6.0	6.9	4.6
Price/sales (x)	0.6	0.8	0.6	0.5	0.5
Dividend yield (%)	3.5	1.8	7.0	4.6	4.5
FCF Yield (%)	(5.9)	2.6	(55.1)	5.1	16.0
(Bt)					
Normalized EPS	1.8	1.7	6.5	5.2	5.2
EPS	2.6	0.0	10.4	5.2	5.2
DPS	2.0	1.0	4.0	2.6	2.6
BV/share	63.4	62.3	70.3	72.2	74.7
CFO/share	5.2	7.0	9.5	8.2	12.3
FCF/share	(3.4)	1.5	(31.4)	2.9	9.1

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(20.4)	(20.2)	25.8	36.3	(7.8)
Net profit (%)	(70.8)	(98.3)	23,456.8	(50.1)	(0.3)
EPS (%)	(70.8)	(98.3)	23,456.8	(50.1)	(0.3)
Normalized profit (%)	(79.9)	(6.5)	286.2	(20.5)	(0.3)
Normalized EPS (%)	(79.9)	(6.5)	286.2	(20.5)	(0.3)
Dividend payout ratio (%)	77.2	2,258.9	38.4	50.0	50.0
Operating performance					
Gross margin (%)	5.4	6.3	11.6	8.6	8.9
Operating margin (%)	1.4	1.8	7.5	4.6	4.9
EBITDA margin (%)	6.0	7.9	13.1	9.4	10.2
Net margin (%)	1.0	1.4	5.4	3.3	3.6
D/E (incl. minor) (x)	0.4	0.5	0.7	0.7	0.6
Net D/E (incl. minor) (x)	0.3	0.3	0.7	0.6	0.5
Interest coverage - EBIT (x)	1.8	1.7	6.4	4.3	4.4
Interest coverage - EBITDA (x)	8.0	7.5	11.1	8.7	9.0
ROA - using norm profit (%)	1.8	1.6	5.2	3.6	3.5
ROE - using norm profit (%)	2.8	2.7	9.9	7.3	7.1
DuPont					
ROE - using after tax profit (%)	1.5	1.7	7.5	5.8	5.6
- asset turnover (x)	0.9	0.7	0.7	0.9	0.8
- operating margin (%)	1.9	2.5	8.7	5.5	5.9
- leverage (x)	1.6	1.7	1.9	2.0	2.0
- interest burden (%)	61.2	57.0	86.5	80.3	80.7
- tax burden (%)	86.8	102.3	71.9	75.0	75.0
WACC (%)	8.9	8.9	8.9	8.9	8.9
ROIC (%)	1.5	1.6	6.1	3.7	3.6
NOPAT (Bt m)	4,967	6,021	22,486	19,520	19,231
invested capital (Bt m)	367,357	368,653	528,990	532,360	516,742

Sources: Company data, Thanachart estimates

Net D/E to creep up due to an acquisition though it remains relatively low

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