

**SELL** (From: HOLD)

Transfer of Coverage

**TP: Bt 8.40**

(From: Bt 8.80)

**Downside : 13.0%****4 FEBRUARY 2022**

# Star Petroleum Refining (SPRC TB)

## Fully exposed to GRM downside

We downgrade SPRC to SELL seeing it fully exposed to the refinery market's weak outlook from new supply cycle. The company doesn't have key strategy to create future growth and there is also downside risk from oil spill repercussion.

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### Downgraded to SELL

We downgrade SPRC to SELL (from Hold). **First**, SPRC looks expensive to us at 1.4x P/BV which is at a 41% premium over peers. This is also above historical average. **Second**, SPRC is a pure refinery play exposing to weakening refinery outlook from the industry's new supply cycle in 2022-24F. **Third**, while long-term refinery product demand is being threatened by growing EV adoption, SPRC itself doesn't have a strategy to create new growth drivers. Note that we upgrade our earnings by 254/56% over 2022-23F due to an unexpected jump of GRM in 4Q21 back above pre-COVID level. This report is a part of *Energy Sector – Lifeline stretched out, dated 4<sup>th</sup> February 2022* and it marks a coverage transfer.

### GRM has fully recovered in our view

We forecast SPRC's GRM at USD5.2/5.1/4.8 per barrel in 2022-24F, vs. USD3.6 in 2021F. We believe Singapore GRM has already fully recovered in 4Q21-1Q22 and consider the current spike as a spike from the Russian factor and winter demand. Fundamentally, we expect it to fall from this year due to the industry's new round of capacity additions over the next few years. One area of GRM that demand hasn't recovered fully is jet fuel. However, SPRC has lower exposure of jet fuel, at 2% of total volume, than its peers, at 5%. Exhibit 2 shows SPRC's refined product breakdown vs. peers.

### Rising crude premium

Rising crude premium should hit SPRC more than peers as a pure refinery. Exhibit 4 shows rising crude premium throughout 2021 which is due to demand recovery. Murban crude premium which is 60% of SPRC's total crude source has increased by USD1.9 per barrel to USD3.7 YTD. This is comparing to product crack spread increase of USD3.2 per barrel. There could be risk that the premium should remain high if OPEC output fail to reach its target while demand continue to improve.

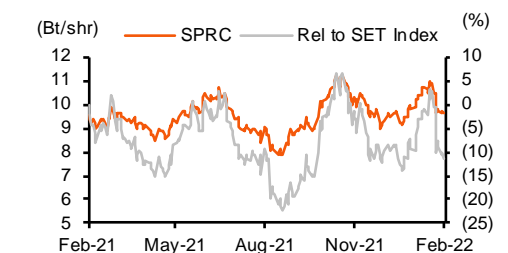
### Oil spill insurance coverage

On 25 Jan 2022, SPRC reported an oil spill in the Gulf of Thailand. The oil spill is estimated to be in the range of 22,000-60,000 liters. This is compared to PTT Global Chemical's (PTTGC TB, Bt57.00, HOLD) oil spill amount of 54,000 liters in 2013. Back then PTTGC paid a compensation of Bt1bn. Management said their compensation could be lower than PTTGC and it should be covered by its third-party insurance coverage of USD100m. We factor in oil spill damage of Bt700m in 2022F and expect insurance to be claimed next year.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	130,163	180,793	206,426	205,289
Net profit	(12,280)	4,688	2,467	3,431
Consensus NP	—	3,597	3,642	4,492
Diff frm cons (%)	—	30.3	(32.3)	(23.6)
Norm profit	(6,325)	(1,104)	3,167	2,764
Prev. Norm profit	—	(992)	896	1,772
Chg frm prev (%)	—	na	253.7	56.0
Norm EPS (Bt)	(1.5)	(0.3)	0.7	0.6
Norm EPS grw (%)	na	na	na	(12.7)
Norm PE (x)	na	na	13.2	15.1
EV/EBITDA (x)	na	16.3	7.2	6.8
P/BV (x)	1.6	1.4	1.4	1.3
Div yield (%)	0.0	5.0	2.9	4.1
ROE (%)	na	na	10.4	8.7
Net D/E (%)	32.6	26.6	22.7	9.2

### PRICE PERFORMANCE

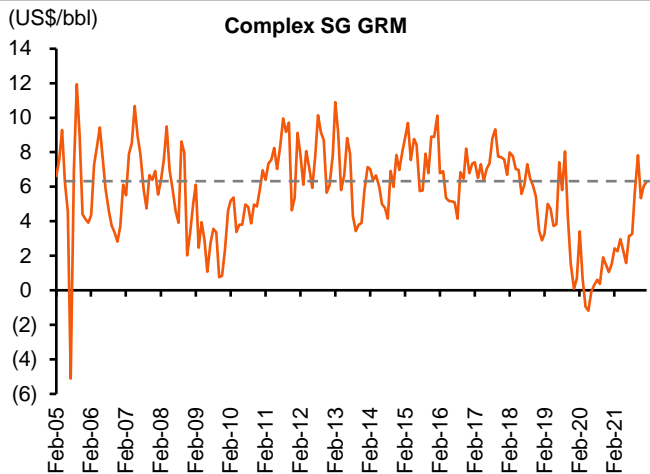


### COMPANY INFORMATION

Price as of 3-Feb-22 (Bt)	9.65
Market Cap (US\$ m)	1,261.7
Listed Shares (m shares)	4,335.9
Free Float (%)	39.4
Avg Daily Turnover (US\$ m)	8.3
12M Price H/L (Bt)	11.20/7.85
Sector	Energy
Major Shareholder	Chevron Asia Holdings 60.56%

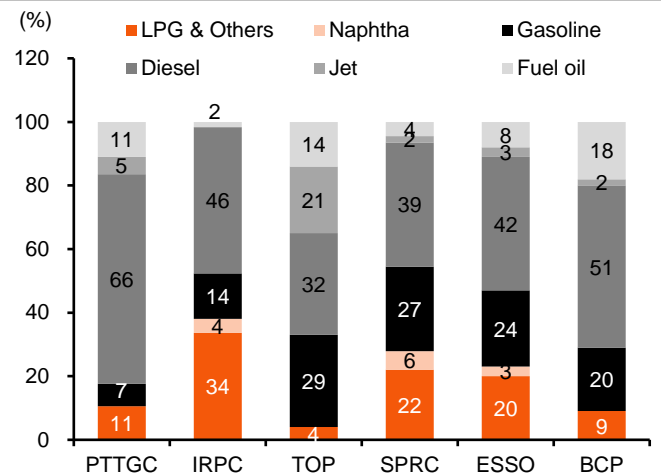
Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: GRM Fully Recovered**



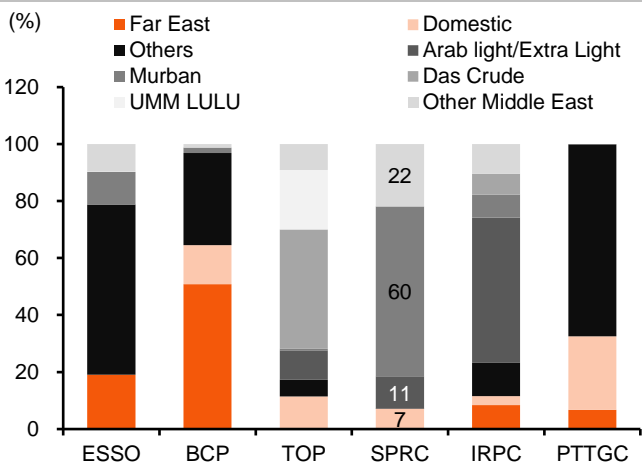
Sources: Bloomberg, TOP, Thanachart estimate

**Ex 2: Thai Refineries' Yield**



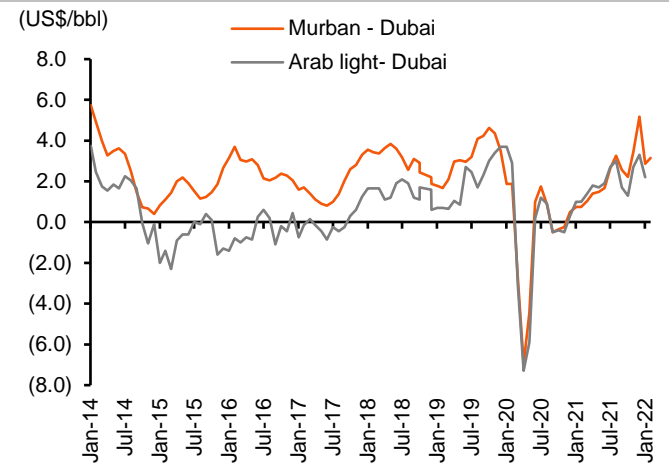
Sources: Company data

**Ex 3: SPRC's And Peer's Crude Source**



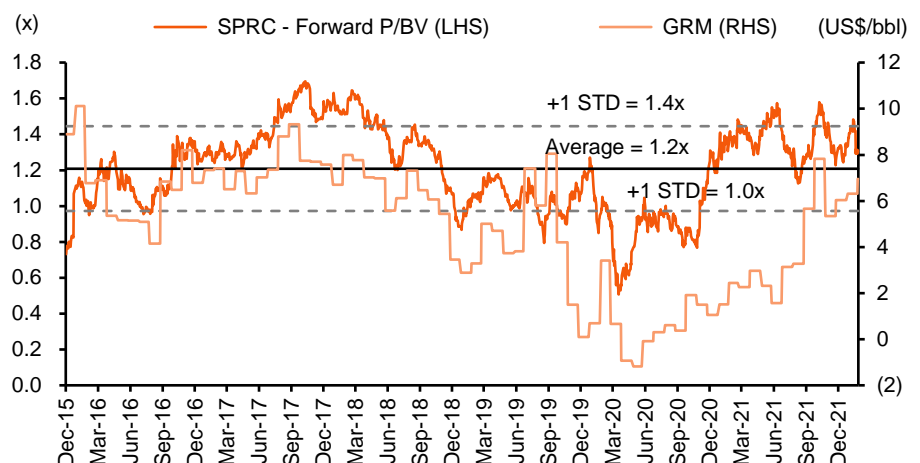
Sources: Department of Energy Business, (DOEB)

**Ex 4: Murban And Arab Light Crude Premium**



Sources: Bloomberg

**Ex 5: P/BV Vs. GRM**



Sources: Bloomberg, TOP, Thanachart estimates

**Ex 6: 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 + dividend	6,821	6,631	7,279	5,503	7,462	7,486	7,502	7,507	7,534	5,537	7,689	
Free cash flow	3,436	5,255	5,145	3,513	2,413	5,806	5,825	5,835	5,863	4,448	2,661	36,806
PV of free cash flow	3,169	4,469	4,034	2,497	1,575	3,479	3,204	2,947	2,719	1,815	993	13,728
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	8.4											
Terminal growth (%)	2.0											
Enterprise value - add	44,629											
Investments												
Net debt (2021F)	8,006											
Minority interest	0											
Equity value	36,623											
# of shares (m)	4,336											
<b>Equity value/sh (Bt)</b>	<b>8.4</b>											

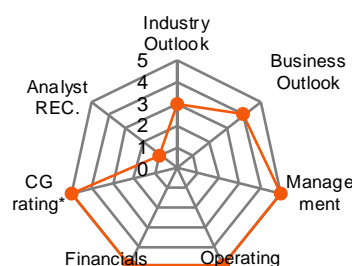
Sources: Thanachart estimates

## COMPANY DESCRIPTION

Star Petroleum Refining Plc's (SPRC) refinery produces petroleum products, which include LPG, premium and regular grades of unleaded gasoline, high-speed diesel, jet fuel and fuel oil, as well as petrochemical feedstocks used in the petrochemical industry, which include PGP, LPG, chemical-grade naphtha, mixed C4 and reformate. The company has refining capacity of 175K b/d.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Strong operator with a very high utilization rate and high plant reliability.
- Procurement, distribution, and technical support from parent Chevron.

### O — Opportunity

- Opportunities to upgrade and/or expand its refinery to meet higher local demand.
- Expansion into new businesses or securing its own retail channel.

### W — Weakness

- Volatile earnings due to its pure refinery exposure.
- Lack of company-owned retail channel limits upside from domestic product placement and higher marketing margin.
- Limited growth potential to expand its refinery business given that Thailand is a net export country for refined oil products.

### T — Threat

- High oil prices could slow local demand and force it to sell in the lower-margin export market.
- Threat of substitutes such as electric vehicles may lower demand for oil products.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	11.42	8.40	-26%
<b>Net profit 21F (Bt m)</b>	3,597	4,688	30%
<b>Net profit 22F (Bt m)</b>	3,642	2,467	-32%
<b>Consensus REC</b>	<b>BUY: 15</b>	<b>HOLD: 3</b>	<b>SELL: 1</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- We are significantly below the Bloomberg consensus with our 2022F earnings, likely as we assume lower GRM.
- Our DCF-based TP is consequently lower than the consensus number.

## RISKS TO OUR INVESTMENT CASE

- A sharply higher Singapore GRM may affect SPRC's operating results and represents the key upside risk to our call.
- Prolonged low oil prices would decrease SPRC's cash costs and positively affect its profits, posing a secondary upside risk to our call.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	168,840	130,163	180,793	206,426	205,289
Cost of sales	172,051	137,169	179,611	201,502	200,583
<b>Gross profit</b>	<b>(3,211)</b>	<b>(7,006)</b>	<b>1,182</b>	<b>4,923</b>	<b>4,706</b>
% gross margin	-1.9%	-5.4%	0.7%	2.4%	2.3%
Selling & administration expenses	1,690	911	881	881	881
<b>Operating profit</b>	<b>(4,901)</b>	<b>(7,916)</b>	<b>301</b>	<b>4,043</b>	<b>3,825</b>
% operating margin	-2.9%	-6.1%	0.2%	2.0%	1.9%
Depreciation & amortization	2,565	2,832	2,751	2,778	2,806
<b>EBITDA</b>	<b>(2,336)</b>	<b>(5,084)</b>	<b>3,052</b>	<b>6,821</b>	<b>6,631</b>
% EBITDA margin	-1.4%	-3.9%	1.7%	3.3%	3.2%
Non-operating income	36	71	18	22	32
Non-operating expenses	(46)	143	0	0	0
Interest expense	(7)	(177)	(301)	(289)	(244)
<b>Pre-tax profit</b>	<b>(4,919)</b>	<b>(7,880)</b>	<b>19</b>	<b>3,776</b>	<b>3,613</b>
Income tax	(885)	(1,555)	1,123	609	849
<b>After-tax profit</b>	<b>(4,034)</b>	<b>(6,325)</b>	<b>(1,104)</b>	<b>3,167</b>	<b>2,764</b>
% net margin	-2.4%	-4.9%	-0.6%	1.5%	1.3%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	2,340	(5,955)	5,792	(700)	667
<b>NET PROFIT</b>	<b>(1,694)</b>	<b>(12,280)</b>	<b>4,688</b>	<b>2,467</b>	<b>3,431</b>
<b>Normalized profit</b>	<b>(4,034)</b>	<b>(6,325)</b>	<b>(1,104)</b>	<b>3,167</b>	<b>2,764</b>
EPS (Bt)	(0.4)	(2.8)	1.1	0.6	0.8
Normalized EPS (Bt)	(0.9)	(1.5)	(0.3)	0.7	0.6

*We expect a core earnings recovery from 2022F.*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	25,524	19,323	27,418	31,161	32,550
Cash & cash equivalent	20	1,635	2,000	2,426	3,958
Account receivables	7,192	8,515	10,839	12,376	12,308
Inventories	17,856	9,052	14,410	16,166	16,092
Others	456	121	169	193	192
Investments & loans	0	0	0	0	0
Net fixed assets	26,686	24,156	22,105	20,027	17,921
Other assets	2,084	3,062	4,217	4,802	4,776
<b>Total assets</b>	<b>54,294</b>	<b>46,541</b>	<b>53,740</b>	<b>55,990</b>	<b>55,247</b>
<b>LIABILITIES:</b>					
Current liabilities:	21,334	10,740	14,557	16,350	15,770
Account payables	13,567	7,821	11,553	12,961	12,902
Bank overdraft & ST loans	6,819	0	0	0	0
Current LT debt	0	1,380	1,501	1,415	1,047
Others current liabilities	949	1,539	1,503	1,974	1,822
<b>Total LT debt</b>	<b>0</b>	<b>8,857</b>	<b>8,505</b>	<b>8,021</b>	<b>5,934</b>
Others LT liabilities	484	517	618	763	730
<b>Total liabilities</b>	<b>21,818</b>	<b>20,114</b>	<b>23,680</b>	<b>25,134</b>	<b>22,434</b>
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	30,004	30,004	30,004	30,004	30,004
Share premium	978	978	978	978	978
Warrants	0	0	0	0	0
Surplus	(7,674)	(7,447)	(7,447)	(7,447)	(7,447)
<b>Retained earnings</b>	<b>9,168</b>	<b>2,892</b>	<b>6,525</b>	<b>7,321</b>	<b>9,277</b>
Shareholders' equity	32,476	26,427	30,061	30,856	32,813
<b>Liabilities &amp; equity</b>	<b>54,294</b>	<b>46,541</b>	<b>53,740</b>	<b>55,990</b>	<b>55,247</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	(4,919)	(7,880)	19	3,776	3,613
Tax paid	753	1,555	(1,123)	(609)	(849)
Depreciation & amortization	2,565	2,832	2,751	2,778	2,806
Chg In working capital	1,754	1,736	(3,951)	(1,885)	83
Chg In other CA & CL / minorities	(2,962)	847	(87)	444	(154)
<b>Cash flow from operations</b>	<b>(2,809)</b>	<b>(910)</b>	<b>(2,391)</b>	<b>4,505</b>	<b>5,499</b>
Capex	(506)	(253)	(700)	(700)	(700)
Right of use	0	0	0	0	0
ST loans & investments	0	0	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	(425)	(7,191)	4,742	(1,137)	663
<b>Cash flow from investments</b>	<b>(931)</b>	<b>(7,444)</b>	<b>4,042</b>	<b>(1,837)</b>	<b>(37)</b>
Debt financing	8,044	3,738	(231)	(569)	(2,456)
Capital increase	0	0	0	0	0
Dividends paid	(521)	(271)	(1,055)	(1,672)	(1,475)
Warrants & other surplus	(3,837)	6,502	0	0	0
<b>Cash flow from financing</b>	<b>3,686</b>	<b>9,969</b>	<b>(1,286)</b>	<b>(2,241)</b>	<b>(3,930)</b>
<b>Free cash flow</b>	<b>(3,315)</b>	<b>(1,163)</b>	<b>(3,091)</b>	<b>3,805</b>	<b>4,799</b>

*We expect a FCF improvement next year*

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	na	na	na	13.2	15.1
Normalized PE - at target price (x)	na	na	na	11.5	13.2
PE (x)	na	na	8.9	17.0	12.2
PE - at target price (x)	na	na	7.8	14.8	10.6
EV/EBITDA (x)	na	na	16.3	7.2	6.8
EV/EBITDA - at target price (x)	na	na	14.6	6.4	5.9
P/BV (x)	1.3	1.6	1.4	1.4	1.3
P/BV - at target price (x)	1.1	1.4	1.2	1.2	1.1
P/CFO (x)	(14.9)	(46.0)	(17.5)	9.3	7.6
Price/sales (x)	0.2	0.3	0.2	0.2	0.2
Dividend yield (%)	1.9	0.0	5.0	2.9	4.1
FCF Yield (%)	(7.9)	(2.8)	(7.4)	9.1	11.5
<b>(Bt)</b>					
Normalized EPS	(0.9)	(1.5)	(0.3)	0.7	0.6
EPS	(0.4)	(2.8)	1.1	0.6	0.8
DPS	0.2	0.0	0.5	0.3	0.4
BV/share	7.5	6.1	6.9	7.1	7.6
CFO/share	(0.6)	(0.2)	(0.6)	1.0	1.3
FCF/share	(0.8)	(0.3)	(0.7)	0.9	1.1

*We believe a GRM recovery looks priced in*

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	(19.3)	(22.9)	38.9	14.2	(0.6)
Net profit (%)	na	na	na	(47.4)	39.0
EPS (%)	na	na	na	(47.4)	39.0
Normalized profit (%)	na	na	na	na	(12.7)
Normalized EPS (%)	na	na	na	na	(12.7)
Dividend payout ratio (%)	(46.8)	0.0	45.0	50.0	50.0
<b>Operating performance</b>					
Gross margin (%)	(1.9)	(5.4)	0.7	2.4	2.3
Operating margin (%)	(2.9)	(6.1)	0.2	2.0	1.9
EBITDA margin (%)	(1.4)	(3.9)	1.7	3.3	3.2
Net margin (%)	(2.4)	(4.9)	(0.6)	1.5	1.3
D/E (incl. minor) (x)	0.2	0.4	0.3	0.3	0.2
Net D/E (incl. minor) (x)	0.2	0.3	0.3	0.2	0.1
Interest coverage - EBIT (x)	na	na	1.0	14.0	15.7
Interest coverage - EBITDA (x)	na	na	10.2	23.6	27.2
ROA - using norm profit (%)	na	na	na	5.8	5.0
ROE - using norm profit (%)	na	na	na	10.4	8.7
<b>DuPont</b>					
ROE - using after tax profit (%)	na	na	na	10.4	8.7
- asset turnover (x)	3.1	2.6	3.6	3.8	3.7
- operating margin (%)	na	na	0.2	2.0	1.9
- leverage (x)	1.5	1.7	1.8	1.8	1.7
- interest burden (%)	100.1	102.3	5.9	92.9	93.7
- tax burden (%)	na	na	na	83.9	76.5
WACC (%)	8.4	8.4	8.4	8.4	8.4
ROIC (%)	(12.7)	(20.2)	0.7	8.5	8.1
NOPAT (Bt m)	(4,901)	(7,916)	243	3,243	3,066
invested capital (Bt m)	39,275	35,029	38,067	37,866	35,835

*ROE to remain in low territory despite an improving outlook*

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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