SELL (From: HOLD)

Transfer of Coverage

TP: Bt 46.00 (From: Bt 57.00)

Downside : 11.1%

4 FEBRUARY 2022

Thanachart Securities

Thai Oil Public Co Ltd (TOP TB)

Still in the doldrums

We downgrade TOP to SELL expecting lower profits across all businesses in 2022F. While the Singapore GRM has recovered from the COVID crisis, the refinery sector is facing large new capacities in 2022F and a structural fall in demand. We value TOP at Bt46/share.

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Low valuation looks justified

We downgrade TOP to SELL (from Hold) with a new SOTP-based TP of Bt46 (from Bt57). ***First***, we are bearish on the refinery industry outlook expecting a weak GRM trend in 2022-24F from sizeable new capacity additions. ***Second***, there is dilution risk from TOP's potential capital increase, which we believe is to fund its Clean Fuel Project (CFP). ***Third***, we are not positive about its 15% stake acquisition in Chandra Asri Petrochemical (CAP), which was funded by the sale of its 10.8% stake in GPSC (GPSC TB, Bt78.25, BUY). ***Lastly***, we believe TOP's low P/BV valuation of 0.9x looks justified due to the factors above while its 16.9x PE looks expensive in our view.

GRM normalization is over

The Singapore complex GRM has already recovered to above pre-COVID level of USD6/bbl and we see limited upside from here given substantial supply additions ahead. Beyond 2022F, we expect GRM to stay below its historical average. We estimate TOP's GRM at USD4/barrel in 2022-23F, below its 10-year pre-COVID historical average of USD5.4/barrel. Its CFP project is scheduled to come on stream in 2023 with its key benefit of improving TOP's crude slate to be able to use more cheap heavy crude. However, we see the economic return of the project declining substantially due to the narrowing spread of the heavy-light crude differential. The Maya-Murban spread was at -USD11/bbl back when TOP announced its CFP investment in 2018, but now the spread has narrowed to USD6/bbl.

Lube base margin peaks out

Lube base accounted for around 38% of TOP's gross integrated margin (GIM) in 9M21 vs. the 13% pre-COVID level. We consider the surge in the lube base margin, caused by a feedstock shortage from low refinery run rates during the COVID crisis, as a windfall that supported TOP's GIM last year. The lube base-HSFO spread has already fallen 46% to USD569/tonne from 2021's peak. The trend reversal from last year is due to rising refinery utilization providing enough feedstock for lube production.

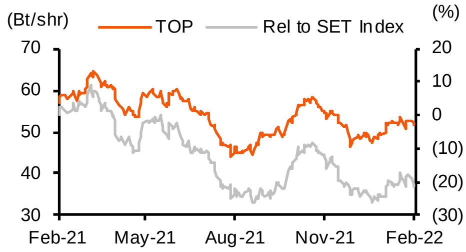
Chandra Asri unlikely to improve profit

TOP completed its 15% acquisition of CAP in September last year and it plans to book CAP's contribution under its equity income. TOP plans to sell a 10.8% stake in GPSC to fund the acquisition in 2H22 and its stake in GPSC would therefore fall to 10% from 20.8% currently. TOP then would change from the equity income booking of GPSC to the dividend income method. Net-net, combined contributions from these two companies look unlikely to increase materially.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	247,913	347,890	374,352	351,198
Net profit	(3,301)	11,177	6,363	6,621
Consensus NP	—	11,011	10,269	10,200
Diff frm cons (%)	—	*1.5*	*(38.0)*	*(35.1)*
Norm profit	(10,421)	3,850	6,363	6,621
Prev. Norm profit	—	5,360	4,735	5,212
Chg frm prev (%)	—	*(28.2)*	*34.4*	*27.0*
Norm EPS (Bt)	(5.1)	1.9	3.1	3.2
Norm EPS grw (%)	na	na	65.3	4.1
Norm PE (x)	na	27.4	16.6	15.9
EV/EBITDA (x)	na	15.6	16.9	15.2
P/BV (x)	0.9	0.9	0.9	0.8
Div yield (%)	1.4	4.2	2.4	2.5
ROE (%)	na	3.3	5.3	5.4
Net D/E (%)	61.2	104.4	129.8	125.1

PRICE PERFORMANCE

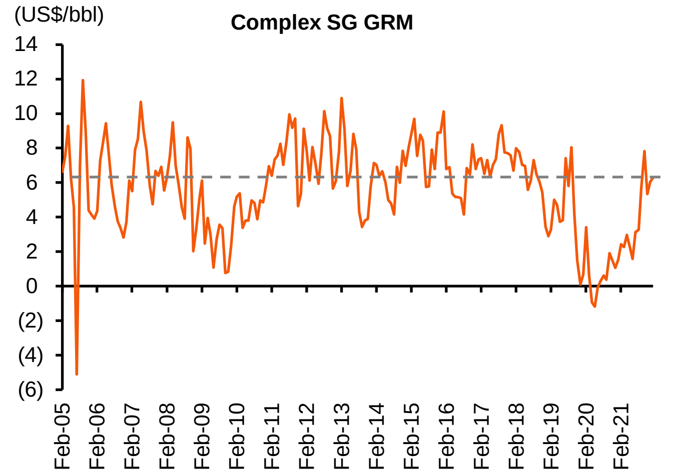


COMPANY INFORMATION

Price *as of* 3-Feb-22 (Bt)	51.75
Market Cap (US$ m)	3,183.5
Listed Shares (m shares)	2,040.0
Free Float (%)	52.0
Avg Daily Turnover (US$ m)	20.8
12M Price H/L (Bt)	64.50/44.00
Sector	Energy
Major Shareholder	PTT Pcl 45.03%

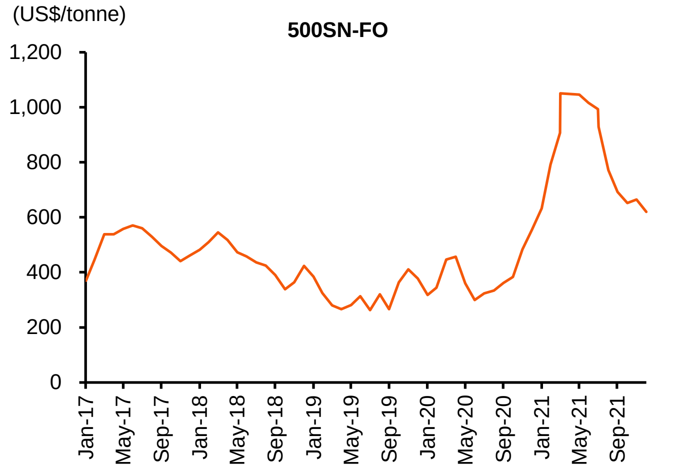
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: GRM Fully Recovers



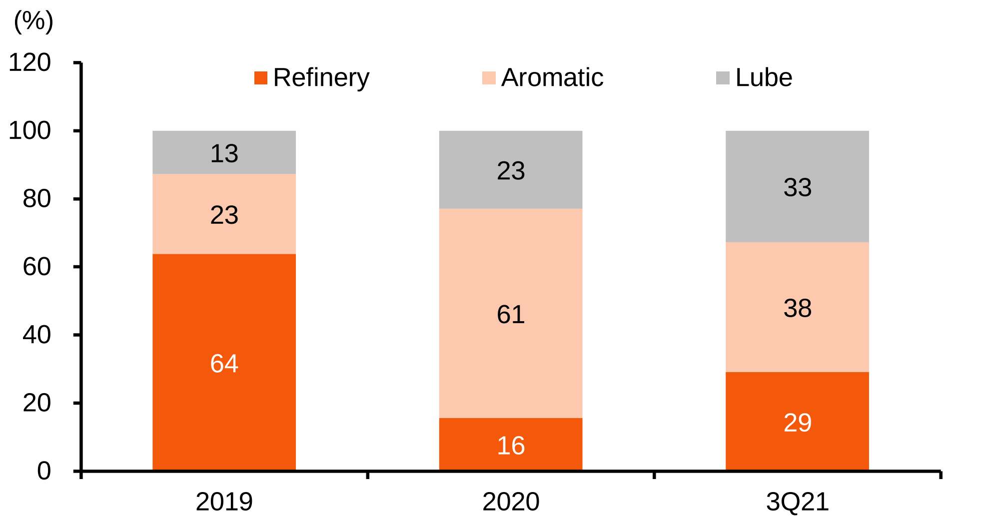
Source: Bloomberg, TOP, Thanachart estimate

Ex 2: Lube Base Margin Starts To Fall Back Down



Source: Bloomberg

Ex 3: TOP's Gross Integrated Margin (GIM) Breakdown



Sources: Company data

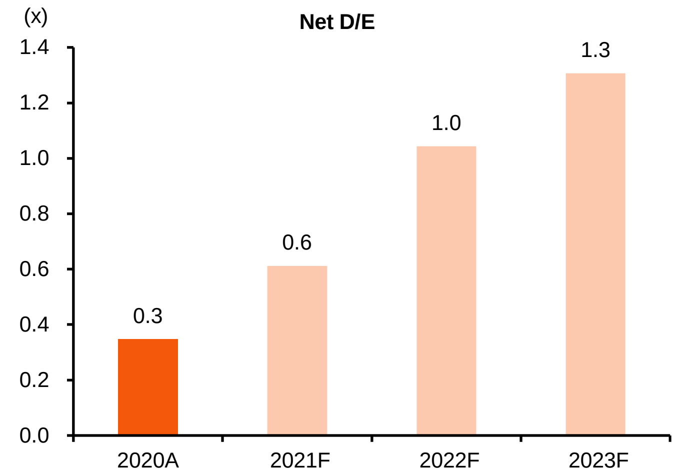
Ex 4: Expected Small Contribution From Chandra Asri

Btm	2020	2021F	2022F	2023F	2024F
Chandra Asri's profit	1,606	7,319	7,419	9,215	9,215
% stake			15%	15%	15%
To TOP			**1,113**	**1,382**	**1,382**
GPSC's profit	7,508	8,314	8,344	10,514	11,096
% stake	21%	21%	12%	10%	10%
To TOP	**1,783**	**1,729**	**993**	**315***	**333**
Net income to TOP	**2,566**	**2,029**	**2,406**	**1,998**	**2,015**

Sources: Company data, Thanachart estimates

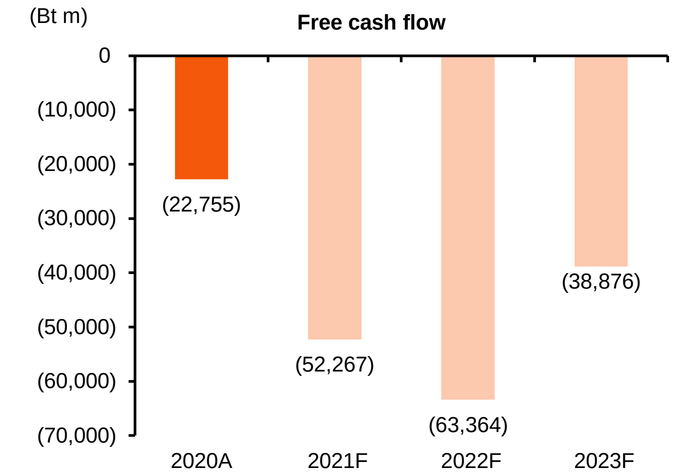
Note: *Change to dividend income post GPSC divestment in 2H22

Ex 5: Net D/E Is On A Rising Trend



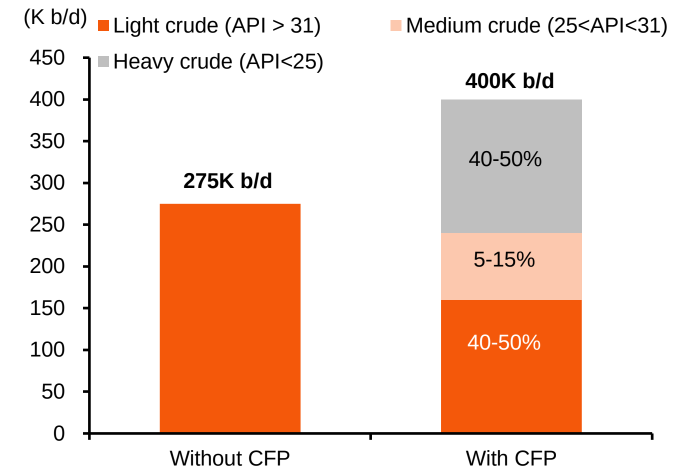
Sources: Company data, Thanachart estimates

Ex 6: FCF Remains Negative Despite New Acquisition



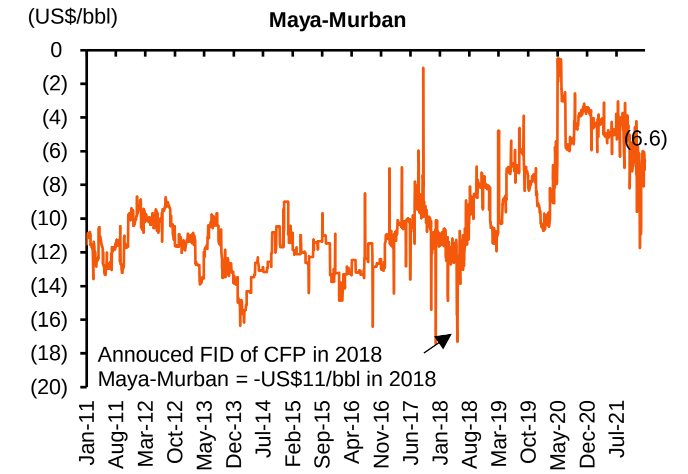
Sources: Company data, Thanachart estimates

Ex 7: Crude Flexibility Post CFP



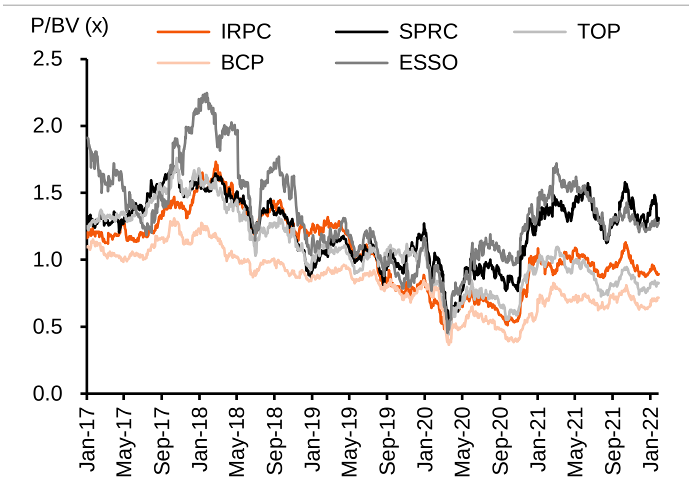
Sources: Company data

Ex 8: But Heavy-Light Differential Appears Lower



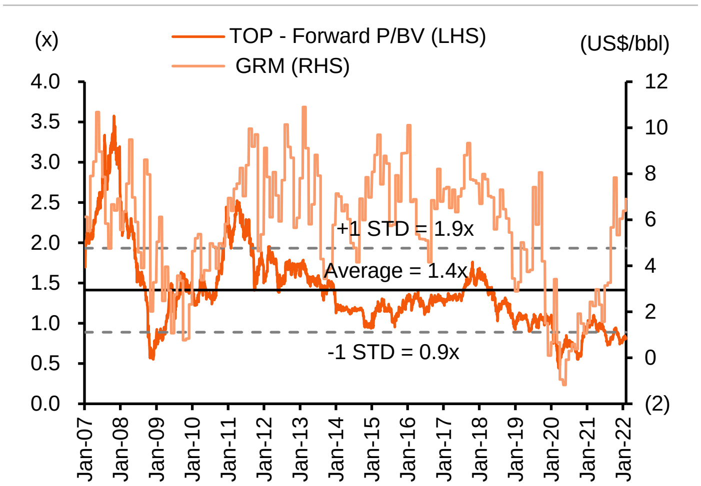
Sources: Bloomberg

Ex 9: P/BV Vs. Peers'



Sources: Bloomberg, Thanachart estimates

Ex 10: P/BV Vs. GRM



Sources: TOP, Bloomberg, Thanachart estimates

Ex 11: 12-month DCF-based TP Calculation For Downstream Business, Using A Base Year Of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		15,990	17,709	23,211	26,937	26,229	26,229	26,229	26,229	24,579	26,229	26,229	
Free cash flow		(32,777)	5,873	19,540	21,847	21,042	21,148	21,217	21,280	19,852	21,466	21,452	287,150
PV of free cash flow		(30,160)	4,971	15,214	15,386	13,576	12,499	11,485	10,553	9,019	8,566	7,807	104,497
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.3												
WACC (%)	8.7												
Terminal growth (%)	2.0												
Enterprise value - add investments	183,412												
Net cash/(debt) (2021F)	128,717												
Minority interest	4,478												
Equity value	50,216												
# of shares (m)	2,040												
Equity value/share (Bt)	**25**												

Sum-of-the-parts valuation	Value (Bt m)	Per share (Bt/shr)	% of total	Methodology
Downstream	50,216	25	55%	DCF
Power (GPSC)	13,782	7	15%	DCF
Chandra Asri	28,291	14	30%	BBG consensus
Total value per share	**92,289**	**46**		

Sources: Thanachart estimates

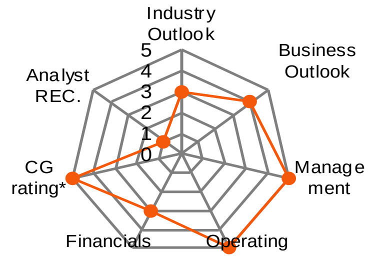
Note: Net debt position is for all businesses except GPSC, which is not consolidated

COMPANY DESCRIPTION

Thai Oil Pcl (TOP) is the flagship refinery under the PTT group which owns a 49% stake in the company. Its capacity of 275kbd makes up 25% of Thailand's total. With a Nelson complexity of 9.8, TOP produces 0.8m tpa of aromatics and 0.3m tpa of lube base oil and bitumen. The company also recently purchased a 15% stake in listed company Chandra Asri, one of the leading petrochemical complexes in Indonesia, which is also owned by SCC with a 30.5% stake. Its other businesses include power, marine transport and ethanol production.

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

- Some of the lowest operating costs in the region.
- Being part of the PTT group gives TOP secured off-take agreements.

W — Weakness

- Volatile earnings due to commodity exposure especially in the refining business where demand outlook is weak.
- Weak balance sheet with substantial capex over the next two years due to the USD4bn investment in clean fuel project (CFP).

O — Opportunity

- Potential further chemical expansion following investment in Chandra Asri.
- Ability to upgrade derivatives into value-added plastic products.

T — Threat

- High oil prices could slow local demand and force it to sell in the lower-margin export market.
- Overpaying for acquisitions and higher-than-expected expansion costs.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	60.90	46.00	-24%
Net profit 21F (Bt m)	11,011	11,177	2%
Net profit 22F (Bt m)	10,269	6,363	-38%
Consensus REC	**BUY: 16**	**HOLD: 8**	**SELL: 3**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are well below consensus as we likely assume slower GRM improvements and factor in lower equity income.
- Consequently, our DCF-based target price is also lower than the street.

Sources: Bloomberg consensus, Thanachart forecasts

RISKS TO OUR INVESTMENT CASE

- The key upside risk to our call is a higher-than-expected GRM or aromatics spread (chiefly PX) and a lower-than-expected light sweet crude premium would be secondary upside risks to our call.
- The secondary upside risk to our call would be lower oil prices, which would serve to decrease cash costs and raise profits.

Source: Thanachart

We expect earnings to decline in 2022F on weaker chemical margins

Balance sheet looks stretched with a major capex and an acquisition

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	363,916	247,913	347,890	374,352	351,198
Cost of sales	355,113	255,300	337,001	361,871	337,802
Gross profit	**8,802**	**(7,387)**	**10,890**	**12,481**	**13,396**
% gross margin	2.4%	-3.0%	3.1%	3.3%	3.8%
Selling & administration expenses	2,546	2,650	3,719	4,002	3,755
Operating profit	**6,256**	**(10,037)**	**7,170**	**8,479**	**9,642**
% operating margin	1.7%	-4.0%	2.1%	2.3%	2.7%
Depreciation & amortization	7,085	7,554	7,894	7,511	8,067
EBITDA	**13,341**	**(2,483)**	**15,065**	**15,990**	**17,709**
% EBITDA margin	3.7%	-1.0%	4.3%	4.3%	5.0%
Non-operating income	1,728	1,115	1,564	1,683	1,579
Non-operating expenses	0	0	0	0	0
Interest expense	(3,224)	(4,292)	(4,249)	(4,323)	(4,839)
Pre-tax profit	**4,760**	**(13,215)**	**4,485**	**5,839**	**6,381**
Income tax	1,240	(647)	2,076	1,332	1,374
After-tax profit	**3,519**	**(12,568)**	**2,409**	**4,506**	**5,007**
% net margin	1.0%	-5.1%	0.7%	1.2%	1.4%
Shares in affiliates' Earnings	1,276	2,566	2,029	2,489	2,208
Minority interests	(240)	(419)	(588)	(633)	(594)
Extraordinary items	1,721	7,120	7,327	0	0
NET PROFIT	**6,277**	**(3,301)**	**11,177**	**6,363**	**6,621**
Normalized profit	**4,556**	**(10,421)**	**3,850**	**6,363**	**6,621**
EPS (Bt)	3.1	(1.6)	5.5	3.1	3.2
Normalized EPS (Bt)	2.2	(5.1)	1.9	3.1	3.2

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	134,676	114,229	71,981	81,627	77,355
Cash & cash equivalent	76,611	71,354	10,000	15,000	15,000
Account receivables	22,466	12,702	21,022	22,621	21,222
Inventories	30,292	22,461	30,148	32,373	30,220
Others	5,307	7,712	10,810	11,632	10,913
Investments & loans	33,645	24,521	24,521	24,521	24,521
Net fixed assets	106,559	145,225	200,031	227,885	234,975
Other assets	8,564	22,213	24,731	25,765	25,798
Total assets	**283,445**	**306,188**	**321,263**	**359,798**	**362,649**
LIABILITIES:					
Current liabilities:	38,667	28,620	37,906	45,181	44,102
Account payables	25,015	9,517	19,239	9,914	10,180
Bank overdraft & ST loans	1,576	713	683	885	883
Current LT debt	2,754	7,952	6,902	21,457	21,423
Others current liabilities	9,322	10,438	11,082	12,925	11,614
Total LT debt	**115,287**	**136,237**	**131,133**	**157,354**	**157,105**
Others LT liabilities	5,568	21,212	28,873	30,424	29,986
Total liabilities	**159,521**	**186,069**	**197,912**	**232,960**	**231,192**
Minority interest	3,951	3,889	4,478	5,111	5,705
Preferreds shares	0	0	0	0	0
Paid-up capital	20,400	20,400	20,400	20,400	20,400
Share premium	2,456	2,456	2,456	2,456	2,456
Warrants	0	0	0	0	0
Surplus	(3,165)	(2,557)	(8,141)	(8,141)	(8,141)
Retained earnings	**100,281**	**95,930**	**104,157**	**107,012**	**111,036**
Shareholders' equity	119,973	116,229	118,873	121,728	125,752
Liabilities & equity	**283,445**	**306,188**	**321,263**	**359,798**	**362,649**

Sources: Company data, Thanachart estimates

FCF to remain negative for many years due to a heavy capex schedule

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	4,760	(13,215)	4,485	5,839	6,381
Tax paid	(4,897)	871	(2,104)	(1,191)	(1,460)
Depreciation & amortization	7,085	7,554	7,894	7,511	8,067
Chg In w orking capital	3,510	2,096	(6,285)	(13,149)	3,818
Chg In other CA & CL / minorities	503	(3,353)	(4,654)	(1,916)	(4,212)
Cash flow from operations	**10,960**	**(6,047)**	**(664)**	**(2,906)**	**12,595**
Capex	(33,715)	(46,220)	(62,700)	(35,366)	(15,157)
Right of use	0	(14,729)	(500)	(500)	(500)
ST loans & investments	45	(8)	8	0	0
LT loans & investments	(17,564)	9,124	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3,304	25,995	22,337	6,301	5,944
Cash flow from investments	**(47,930)**	**(25,838)**	**(40,855)**	**(29,565)**	**(9,713)**
Debt financing	14,335	27,070	(11,303)	40,979	(285)
Capital increase	0	0	0	0	0
Dividends paid	(4,626)	(1,020)	(2,949)	(3,508)	(2,597)
Warrants & other surplus	(3,336)	578	(5,583)	0	0
Cash flow from financing	**6,373**	**26,628**	**(19,835)**	**37,471**	**(2,882)**
Free cash flow	**(22,755)**	**(52,267)**	**(63,364)**	**(38,272)**	**(2,562)**

GRM recovery looks priced in, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	23.2	na	27.4	16.6	15.9
Normalized PE - at target price (x)	20.6	na	24.4	14.7	14.2
PE (x)	16.8	na	9.4	16.6	15.9
PE - at target price (x)	15.0	na	8.4	14.7	14.2
EV/EBITDA (x)	11.1	na	15.6	16.9	15.2
EV/EBITDA - at target price (x)	10.3	na	14.8	16.2	14.6
P/BV (x)	0.9	0.9	0.9	0.9	0.8
P/BV - at target price (x)	0.8	0.8	0.8	0.8	0.7
P/CFO (x)	9.6	(17.5)	(159.0)	(36.3)	8.4
Price/sales (x)	0.3	0.4	0.3	0.3	0.3
Dividend yield (%)	2.9	1.4	4.2	2.4	2.5
FCF Yield (%)	(21.6)	(49.5)	(60.0)	(36.3)	(2.4)
(Bt)					
Normalized EPS	2.2	(5.1)	1.9	3.1	3.2
EPS	3.1	(1.6)	5.5	3.1	3.2
DPS	1.5	0.7	2.2	1.2	1.3
BV/share	58.8	57.0	58.3	59.7	61.6
CFO/share	5.4	(3.0)	(0.3)	(1.4)	6.2
FCF/share	(11.2)	(25.6)	(31.1)	(18.8)	(1.3)

Sources: Company data, Thanachart estimates

ROE to remain in low single-digit territory for many years

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(6.5)	(31.9)	40.3	7.6	(6.2)
Net profit (%)	(38.2)	na	na	(43.1)	4.1
EPS (%)	(38.2)	na	na	(43.1)	4.1
Normalized profit (%)	(56.0)	na	na	65.3	4.1
Normalized EPS (%)	(56.0)	na	na	65.3	4.1
Dividend payout ratio (%)	48.8	(43.3)	40.0	40.0	40.0
Operating performance					
Gross margin (%)	2.4	(3.0)	3.1	3.3	3.8
Operating margin (%)	1.7	(4.0)	2.1	2.3	2.7
EBITDA margin (%)	3.7	(1.0)	4.3	4.3	5.0
Net margin (%)	1.0	(5.1)	0.7	1.2	1.4
D/E (incl. minor) (x)	1.0	1.2	1.1	1.4	1.4
Net D/E (incl. minor) (x)	0.3	0.6	1.0	1.3	1.3
Interest coverage - EBIT (x)	1.9	na	1.7	2.0	2.0
Interest coverage - EBITDA (x)	4.1	na	3.5	3.7	3.7
ROA - using norm profit (%)	1.7	na	1.2	1.9	1.8
ROE - using norm profit (%)	3.8	na	3.3	5.3	5.4
DuPont					
ROE - using after tax profit (%)	2.9	na	2.0	3.7	4.0
- asset turnover (x)	1.3	0.8	1.1	1.1	1.0
- operating margin (%)	2.2	na	2.5	2.7	3.2
- leverage (x)	2.3	2.5	2.7	2.8	2.9
- interest burden (%)	59.6	148.1	51.4	57.5	56.9
- tax burden (%)	73.9	na	53.7	77.2	78.5
WACC (%)	8.7	8.7	8.7	8.7	8.7
ROIC (%)	3.8	(6.2)	2.0	2.6	2.6
NOPAT (Bt m)	4,626	(10,037)	3,851	6,544	7,565
invested capital (Bt m)	162,978	189,777	247,591	286,424	290,164

Sources: Company data, Thanachart estimates

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Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 21.2% of the shareholding in TMBThanachart Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), TMB Public Company Limited, MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

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Recommendation Structure:

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.

For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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