BUY (Unchanged)

Change in Numbers

TP: Bt 24.00 (From: Bt 22.50)

Upside : 27.7%

29 MARCH 2022

Small Cap Research

Nex Point (NEX TB)

Jewel in the crown

NEX is a pure play on the battery and EV theme in EA's ecosystem. Most revenue is from commercial EV-related businesses which are in their inception with high growth potential. We lift our TP to Bt24 against the trend of rising raw material costs of EV production. BUY.

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Thanachart Securities

Reaffirming BUY

We reaffirm our BUY rating on NEX and raise our DCF-derived SOTP-based 12-month (2022F base year) to Bt24/share (from Bt22.5). *First,* we expect a new investment by its parent company, Energy Absolute Pcl (EA TB, Bt97.00, BUY), to operate an E-bus fleet of up to 1,250 vehicles for public transportation service to lead to more captive demand for NEX's E-bus sales and after-sales services. *Second,* given the increasing EV trend and their more competitive pricing vs. ICE vehicles, we expect accumulated pent-up bus demand from the past two COVID years to turn to E-bus sales. *Third,* on ramping up its earnings base to Bt3.0bn in its full year of operation in 2024F, we see NEX's PE falling from 21x in 2022F to 11x in 2024F as attractive.

A key part of the group's ecosystem

NEX is a key part of EA's Li-ion battery and EV ecosystem. It is the front office for EV sales and after-sales services for the group and owns a 45% stake in an EV production plant, Absolute Assembly (AAB), with the other 55% owned by EA. We maintain our assumption of 2.0/2.5/3.0k units of E-bus and 0.5/2.0/3.0k E-truck sales for NEX in 2022-24F. For 2022F, NEX has 600 E-bus orders to be delivered in 1H22F and we expect EA's new public bus service business to add 800 units of E-bus demand to NEX this year. We expect external pent-up demand to come after new bus registrations in Thailand in 2020-21 were 60% below the 2015-19's average. Government EV policy is driving electrification in public buses, while private bus operators are renovating their fleets as a tourism recovery looks to be on the horizon.

Small hit from higher metal prices

Lithium and nickel prices have surged due to rising EV production globally and recently with the Russia-Ukraine war. That directly increases the cost of EV battery production, which is carried out by EA. Along the supply chain, we believe some cost impact may be passed onto AAB, meaning a lower profit contribution to NEX. We expect only a small direct impact to NEX in the form of lower sales commissions or distribution margins. We cut NEX's earnings by 24/13% in 2022-23F on higher rare-metal prices.

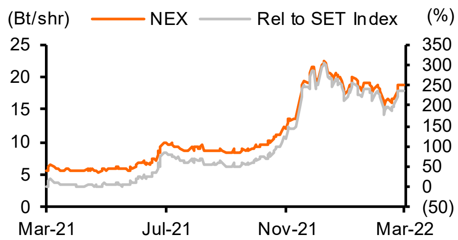
Commercial EV kicks off first

EA is focusing on the commercial EV (CEV) market, expecting it to grow faster than passenger EV (PEV). We don't see advantages from long-standing, highly recognized global brands in the CEV market (unlike PEV), but rather via the cost angle. Therefore, since the CEV already offers lower total costs (vehicle prices, fuel costs, and maintenance expenses) than the current diesel and gas vehicles, we believe EA's group will be successful in penetrating this segment.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	666	13,988	16,860	19,748
Net profit	(107)	1,682	2,490	3,142
Consensus NP	—	1,643	2,304	1,715
Diff frm cons (%)	—	*2.4*	*8.1*	*83.2*
Norm profit	(97)	1,682	2,490	3,142
Prev. Norm profit	—	2,220	2,852	3,042
Chg frm prev (%)	—	*(24.2)*	*(12.7)*	*3.3*
Norm EPS (Bt)	(0.1)	0.9	1.3	1.7
Norm EPS grw (%)	na	na	48.0	26.2
Norm PE (x)	na	21.2	14.3	11.4
EV/EBITDA (x)	na	32.8	22.8	17.3
P/BV (x)	12.5	8.2	6.2	4.8
Div yield (%)	0.0	2.4	3.5	5.3
ROE (%)	na	46.7	49.1	47.8
Net D/E (%)	(31.4)	9.6	1.2	(5.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 29-Mar-22 (Bt)	18.80
Market Cap (US$ m)	935.7
Listed Shares (m shares)	1,674.5
Free Float (%)	34.6
Avg Daily Turnover (US$ m)	7.6
12M Price H/L (Bt)	22.40/5.35
Sector	Electronic
Major Shareholder	EA Mobility Holding 40%

Sources: Bloomberg, Company data, Thanachart estimates

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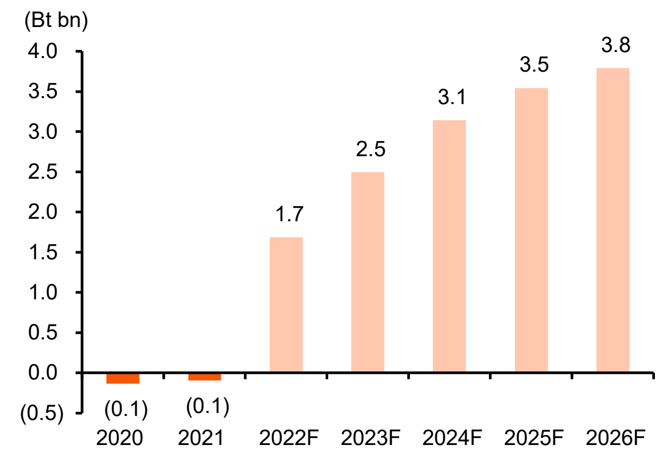
Reaffirming BUY

Reaffirm BUY with a higher TP of Bt24

We reaffirm our BUY rating on shares of Nex Point Pcl (NEX) and raise our DCF-derived SOTP-based 12-month TP (2022F base year) to Bt24/share (from Bt22.5) on the back of three major factors.

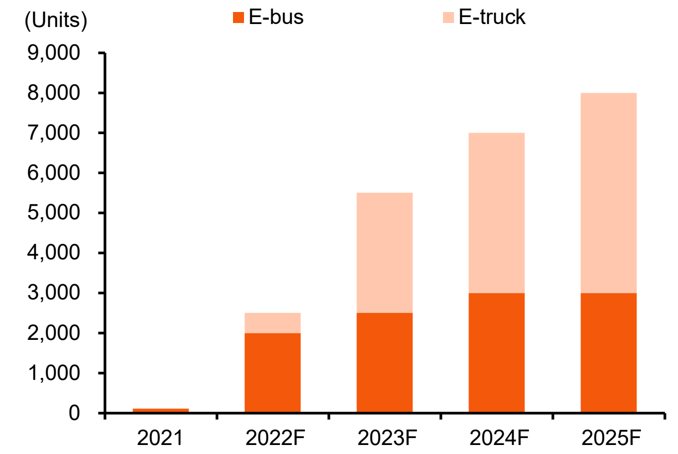
- **First,** NEX is benefiting from a new investment by its parent company, Energy Absolute Pcl (EA TB, Bt97.00, BUY), to operate a public bus service as we expect this to secure 800 E-bus orders bundled with after-sales (repair and maintenances) services for NEX in 2022F, plus the potential to expand to a 1,250-unit fleet within the next few years.
- **Second,** we expect strong E-bus demand from external clients driven by pent-up bus demand after the past two COVID years (2020-21) and the rising EV adoption trend, especially for commercial applications where it is already economically feasible.
- **Third,** we see NEX's valuation as attractive trading at a 21x PE multiple this year, before falling to 11x in 2024F, which we project to be a year of a new normalized earnings base from its emerging commercial electric vehicle (CEV)-related business.

Ex 1: Earnings Jump From Emerging CEV Business



Sources: Company data, Thanachart estimates

Ex 2: Our CEV Sales Assumptions From AAB



Sources: Company data, Thanachart estimates

A key part of the group's ecosystem

NEX is a distributor and after-sales service provider for EA's CEV business

We see NEX as a major part of the electric vehicle (EV) ecosystem for the EA group. The key role for NEX is a sales distributor and an after-sales service (repair and maintenance) provider for commercial EVs produced by the group. NEX also holds a 45% stake (the other 55% is owned by EA) in an EV manufacturing plant, Absolute Assembly (AAB), with up to 6,000 units of annual production capacity. Therefore, we believe NEX will directly benefit from growing EV-based business from EA:

1) Secured recurring E-bus demand from EA's expansion downstream

1) Recurring demand for E-buses including after-sales services from EA's investment in an 800-unit E-bus fleet for public transport in Bangkok this year, with the potential to expand the fleet to 1,250 units when travel demand fully recovers from COVID.

2) We expect pent-up bus demand to be converted into E-bus sale

2) The beginning of E-bus sales to external customers this year, backed by pent-up bus demand after two muted bus registration years (2020-21), due to the COVID pandemic. We expect this to turn into E-bus demand since they now already offer lower costs compared to traditional diesel and natural gas-fueled (NGV) buses while there is also strong support from the government to promote EV adoption in Thailand.

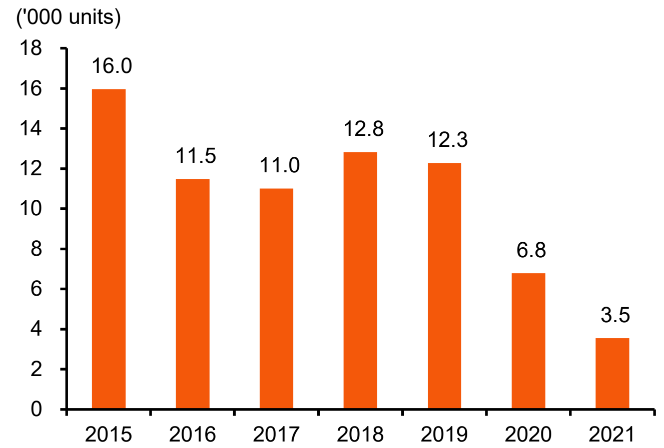
3) E-trucks due to be launched in 2H22

3) EA targets to launch E-trucks as a new product in its CEV portfolio in 2H22 to capture demand from logistics service operators.

We don't see our sales assumptions as too aggressive

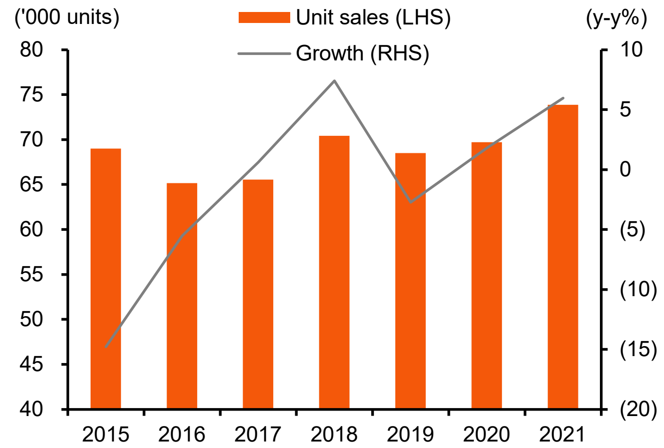
We assume 2.0/2.5/3.0k E-bus sales and 0.5/2.0/3.0k E-truck sales for NEX in 2022-24F. Bus demand should be seen earlier from the electrification of public buses and the restarting of investment by private bus operators to prepare for the resumption of tourism post COVID. Our assumptions imply EA's group captures a 20% bus market share, which we see as conservative given the government's target of 30% EV adoption for Thailand in 2025 while EA is now the only local E-bus manufacturer in the country. For trucks, our numbers are far more conservative at below 5% of Thailand's annual truck demand.

Ex 3: Expecting Strong Pent-Up Bus Demand



Source: New Bus Registrations Per Year By Department of Land Transport

Ex 4: Sizable Truck Market In Thailand



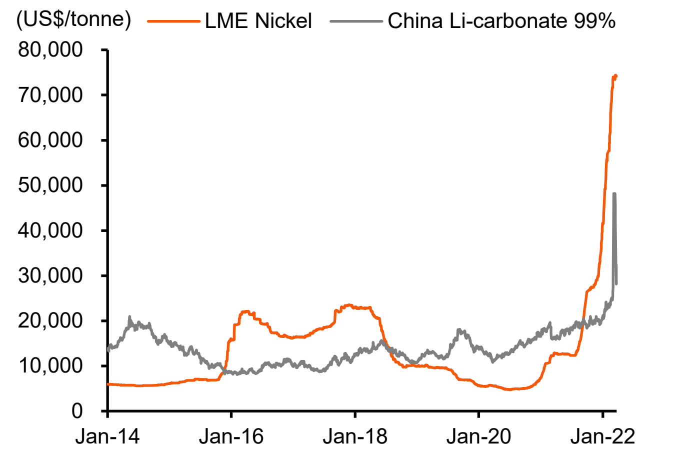
Source: Department of Land Transport

Small hit from higher metal prices

Some earnings cuts to reflect higher Lithium and Nickel prices

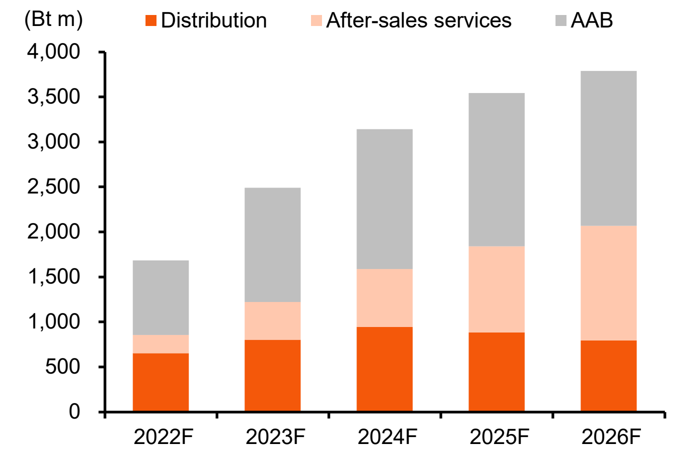
We cut our earnings for NEX by 24% in 2022F and 13% in 2023F as we assume lower margins from its E-bus sales and distribution business. The prices of Lithium and Nickel, which are two major components in Li-ion batteries for EVs, have been rising strongly over the past 12 months on the back of increasing global EV demand and recently the Russia-Ukraine war. The rises in rare metal prices have raised Li-ion battery production costs, and thus will there likely hit battery plant margin. Fortunately, NEX has no direct battery factory exposure, so we expect only a spill-over impact given that we believe the higher battery costs will be distributed along the EV supply chain. NEX is likely to be hit only by weaker distribution margin, and lower profit contribution from its 45% stake in AAB.

Ex 5: Rising Price Of Two Key Metals In Li-ion Batteries



Source: Bloomberg

Ex 6: NEX's Profit Breakdown



Source: Thanachart estimates

Ex 7: DCF-derived SOTP-based 12-month TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA excl. depre from right of use	1,100	1,570	2,033	2,357	2,649	2,988	3,323	3,543	3,592	3,583	3,569	3,552	—
Free cash flow	(3,101)	(113)	281	1,681	2,008	2,147	2,434	2,674	2,793	2,811	2,800	2,785	44,257
PV of free cash flow	(3,092)	(98)	227	1,262	1,403	1,359	1,427	1,452	1,406	1,311	1,209	1,055	16,773

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	7.4
Terminal growth (%)	2.0
Enterprise value	**25,693**
Net debt (end-2021)	(964)
Minority interest	211
Equity value	26,445
# of shares (m) *	1,897
Equity value/share (Bt)	**13.94**

Plus associates	Value per share
Associates and affiliates	
Absolute Assembly	**10.0**
- E-bus	6.6
- E-truck	3.5
Total	**24.0**

Sources: Company data, Thanachart estimates

Note: * We use fully diluted shares which assume all of its warrants (NEX-W2) are exercised.

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (%)	EV/EBITDA 23F (%)	Div. yield 22F (%)	Div. yield 23F (%)
BYD Co Ltd	1211 HK	China	83.9	48.6	79.9	53.8	7.1	6.2	22.7	18.4	0.1	0.2
DongFeng Automobile	600006 CH	China	51.7	11.9	12.9	11.5	1.2	1.1	21.5	18.9	na	na
Yutong Bus Co Ltd	600066 CH	China	171.4	33.3	11.5	8.6	1.2	1.2	7.5	6.1	7.1	9.5
Proterra Inc	PTRA US	USA	(69.0)	(33.8)	(10.9)	(16.4)	2.9	3.7	na	na	0.0	0.0
Construcciones y Auxiliar	CAF SM	Spain	22.7	10.8	9.9	8.9	1.3	1.2	5.0	4.7	3.8	4.1
Hino Motors Ltd	7205 JP	Japan	(347.5)	151.1	22.3	8.9	0.7	0.7	5.6	5.4	2.3	3.1
AAPICO Hitech	AH TB	Thailand	8.1	14.2	7.9	7.0	1.0	0.9	7.6	7.7	4.6	5.8
PCS Machine Group	PCSGH TB	Thailand	39.0	19.6	11.1	9.3	1.5	1.4	5.5	5.0	5.9	7.6
NEX Point *	NEX TB	Thailand	na	48.0	21.2	14.3	8.2	6.2	32.8	22.8	2.4	3.5
Somboon Advance Tech *	SAT TB	Thailand	6.0	28.8	8.4	6.5	1.1	1.0	3.4	2.4	7.2	9.2
Thai Stanley Electric *	STANLY TB	Thailand	43.0	33.1	9.1	6.9	0.7	0.6	2.5	2.0	3.5	4.7
Average			**0.9**	**33.2**	**16.7**	**10.8**	**2.4**	**2.2**	**11.4**	**9.4**	**3.7**	**4.8**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

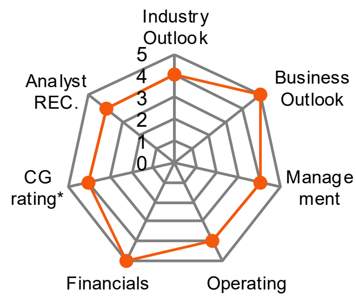
Based on 29-Mar-2022 closing prices

COMPANY DESCRIPTION

Nex Point Pcl (NEX) operates various bus-related service businesses around its core operation of bus assembly plant, Absolute Assembly (AAB), in which it has co-invested at a 45% stake with its major partner. NEX's major role is as a key distributor of electric buses and other electric commercial vehicles produced by AAB. It also provides long-term repair and maintenance services for those products. NEX is expanding downstream to become a public transport service operator using electric vehicles.

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

- Strong knowledge and experience in the Thai bus market as it has been in the business for over 10 years.
- Strong relationships with customers, especially with operators of tourism and public transport buses.

W — Weakness

- Relies on technology from its partner in developing electric bus models.
- All services provided are linked to the ability of its joint venture bus assembly plant to produce and deliver E-buses to customers.

O — Opportunity

- Plenty of available demand for E-bus and other electric commercial vehicles in Thailand as there are no major players in the industry.
- Exporting E-buses and other electric commercial vehicles to neighbouring countries, leveraging on the free-trade agreement (FTA) between ASEAN countries.

T — Threat

- Imports of low-cost electric buses from China.
- New local players may emerge when electric vehicle technology become mainstream.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	24.25	24.00	-1%
Net profit 22F (Bt m)	1,643	1,682	2%
Net profit 23F (Bt m)	2,304	2,490	8%
Consensus REC	**BUY: 2**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates are slightly ahead of the Bloomberg consensus numbers in 2022-23F, which we attribute to us factoring in higher E-bus and E-truck sales.
- However, our TP is in line with the Street's.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected demand for E-buses in Thailand is the key downside risk to our earnings forecasts and valuation.
- Less aggressive support from the government's EV policy is another key downside risk to our numbers.
- A lifting of the import tax on electric buses from China, or other countries, could result in downside risk to our forecasts.
- A delay of plant construction or any factors that result in a delay to its bus deliveries is another secondary downside risk to our numbers.

Source: Thanachart

Emerging commercial EV business in 2022F…

…setting a new earnings base for NEX

Asset-light business as a bus distributor

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	1,404	666	13,988	16,860	19,748
Cost of sales	1,231	519	12,096	14,404	16,714
Gross profit	**173**	**147**	**1,892**	**2,456**	**3,034**
% gross margin	12.3%	22.1%	13.5%	14.6%	15.4%
Selling & administration expenses	282	271	905	1,048	1,192
Operating profit	**(110)**	**(123)**	**987**	**1,408**	**1,841**
% operating margin	-7.8%	-18.5%	7.1%	8.4%	9.3%
Depreciation & amortization	63	85	113	162	192
EBITDA	**(47)**	**(38)**	**1,100**	**1,570**	**2,033**
% EBITDA margin	-3.3%	-5.7%	7.9%	9.3%	10.3%
Non-operating income	17	22	22	23	24
Non-operating expenses	0	0	0	0	0
Interest expense	(16)	(8)	(60)	(104)	(105)
Pre-tax profit	**(109)**	**(110)**	**950**	**1,327**	**1,760**
Income tax	8	(29)	142	199	264
After-tax profit	**(117)**	**(81)**	**807**	**1,128**	**1,496**
% net margin	-8.3%	-12.1%	5.8%	6.7%	7.6%
Shares in affiliates' Earnings	(6)	(5)	885	1,374	1,659
Minority interests	(13)	(12)	(10)	(12)	(14)
Extraordinary items	(77)	(10)	0	0	0
NET PROFIT	**(214)**	**(107)**	**1,682**	**2,490**	**3,142**
Normalized profit	**(136)**	**(97)**	**1,682**	**2,490**	**3,142**
EPS (Bt)	(0.1)	(0.1)	0.9	1.3	1.7
Normalized EPS (Bt)	(0.1)	(0.1)	0.9	1.3	1.7

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,871	1,744	8,370	10,334	12,312
Cash & cash equivalent	1,410	971	1,000	1,500	2,000
Account receivables	129	199	3,832	4,619	5,410
Inventories	124	139	3,314	3,946	4,579
Others	207	435	224	269	322
Investments & loans	476	837	1,337	1,837	2,337
Net fixed assets	536	539	1,005	1,178	1,322
Other assets	735	793	795	805	816
Total assets	**3,617**	**3,913**	**11,507**	**14,155**	**16,786**
LIABILITIES:					
Current liabilities:	277	735	5,661	6,646	7,519
Account payables	149	164	3,977	4,735	5,495
Bank overdraft & ST loans	0	7	720	786	779
Current LT debt	0	0	360	393	390
Others current liabilities	128	564	605	732	856
Total LT debt	**0**	**0**	**360**	**393**	**390**
Others LT liabilities	175	108	921	1,092	1,264
Total liabilities	**452**	**843**	**6,943**	**8,131**	**9,172**
Minority interest	204	211	221	233	247
Preferreds shares	0	0	0	0	0
Paid-up capital	1,674	1,674	1,897	1,897	1,897
Share premium	1,543	1,543	1,543	1,543	1,543
Warrants	0	0	0	0	0
Surplus	(5)	(5)	(5)	(5)	(5)
Retained earnings	**(251)**	**(354)**	**908**	**2,355**	**3,932**
Shareholders' equity	2,961	2,859	4,343	5,791	7,367
Liabilities & equity	**3,617**	**3,913**	**11,507**	**14,155**	**16,786**

Sources: Company data, Thanachart estimates

Low capex requirements ahead

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(109)	(110)	950	1,327	1,760
Tax paid	(1)	26	(72)	(180)	(250)
Depreciation & amortization	63	85	113	162	192
Chg In working capital	(60)	(71)	(2,995)	(660)	(665)
Chg In other CA & CL / minorities	153	416	845	1,439	1,715
Cash flow from operations	**46**	**347**	**(1,159)**	**2,087**	**2,752**
Capex	(411)	(88)	(580)	(335)	(335)
Right of use	(96)	7	0	0	0
ST loans & investments	0	(222)	222	0	0
LT loans & investments	(476)	(361)	(500)	(500)	(500)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(311)	(133)	811	160	161
Cash flow from investments	**(1,294)**	**(798)**	**(47)**	**(675)**	**(674)**
Debt financing	(117)	7	1,433	131	(13)
Capital increase	2,685	0	223	0	0
Dividends paid	0	0	(421)	(1,043)	(1,565)
Warrants & other surplus	4	4	0	0	0
Cash flow from financing	**2,572**	**11**	**1,235**	**(912)**	**(1,579)**
Free cash flow	**(365)**	**259**	**(1,739)**	**1,752**	**2,417**

Valuation looks attractive compared to its growth outlook in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	21.2	14.3	11.4
Normalized PE - at target price (x)	na	na	27.1	18.3	14.5
PE (x)	na	na	21.2	14.3	11.4
PE - at target price (x)	na	na	27.1	18.3	14.5
EV/EBITDA (x)	na	na	32.8	22.8	17.3
EV/EBITDA - at target price (x)	na	na	41.8	29.0	22.2
P/BV (x)	12.0	12.5	8.2	6.2	4.8
P/BV - at target price (x)	15.4	15.9	10.5	7.9	6.2
P/CFO (x)	769.1	102.7	(30.8)	17.1	13.0
Price/sales (x)	22.4	47.2	2.3	1.9	1.6
Dividend yield (%)	0.0	0.0	2.4	3.5	5.3
FCF Yield (%)	(1.0)	0.7	(4.9)	4.9	6.8
(Bt)					
Normalized EPS	(0.1)	(0.1)	0.9	1.3	1.7
EPS	(0.1)	(0.1)	0.9	1.3	1.7
DPS	0.0	0.0	0.4	0.7	1.0
BV/share	1.6	1.5	2.3	3.1	3.9
CFO/share	0.0	0.2	(0.6)	1.1	1.5
FCF/share	(0.2)	0.1	(0.9)	0.9	1.3

Sources: Company data, Thanachart estimates

High-margin, high-ROE company

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	79.2	(52.5)	1,998.8	20.5	17.1
Net profit (%)	na	na	na	48.0	26.2
EPS (%)	na	na	na	48.0	26.2
Normalized profit (%)	na	na	na	48.0	26.2
Normalized EPS (%)	na	na	na	48.0	26.2
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	60.0
Operating performance					
Gross margin (%)	12.3	22.1	13.5	14.6	15.4
Operating margin (%)	(7.8)	(18.5)	7.1	8.4	9.3
EBITDA margin (%)	(3.3)	(5.7)	7.9	9.3	10.3
Net margin (%)	(8.3)	(12.1)	5.8	6.7	7.6
D/E (incl. minor) (x)	0.0	0.0	0.3	0.3	0.2
Net D/E (incl. minor) (x)	(0.4)	(0.3)	0.1	0.0	(0.1)
Interest coverage - EBIT (x)	na	na	16.57	13.5	17.5
Interest coverage - EBITDA (x)	na	na	18.47	15.0	19.4
ROA - using norm profit (%)	na	na	21.8	19.4	20.3
ROE - using norm profit (%)	na	na	46.7	49.1	47.8
DuPont					
ROE - using after tax profit (%)	na	na	22.4	22.3	22.7
- asset turnover (x)	0.6	0.2	1.8	1.3	1.3
- operating margin (%)	na	na	7.2	8.5	9.4
- leverage (x)	1.3	1.3	2.1	2.5	2.4
- interest burden (%)	117.1	107.9	94.1	92.7	94.4
- tax burden (%)	na	na	85.0	85.0	85.0
WACC (%)	7.4	7.4	7.4	7.4	7.4
ROIC (%)	(21.2)	(8.0)	44.3	25.0	26.7
NOPAT (Bt m)	(110)	(123)	839	1,197	1,565
invested capital (Bt m)	1,551	1,895	4,784	5,862	6,925

Sources: Company data, Thanachart estimates

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