

SELL (Unchanged)
Termination of Coverage

TP: Bt 2.50
Downside : 17.8%

(From: Bt 3.40)
6 MAY 2022

Small Cap Research

Absolute Clean Energy (ACE TB)

Dropping our coverage

We drop our coverage of ACE given the slow momentum of implementation of the government's bio-power policy in Thailand. Also, the policy to reduce the size of PPA contracts is negative to a big player like ACE meaning lower potential returns. Our rating prior to the drop in coverage was SELL with a DCF-based TP of Bt2.5.



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Weak bio-power policy

Implementation of the government's bio-fuel power plant policy has been far slower than what we had expected. From the target to grant 1.9GW of PPA contracts over 2020-24, the regulator has only bid out a total of 150MW in contracts since the policy began in 2019. Looking forward, we don't see much improvement on the horizon. *First*, bio-fuel technology is not yet feasible and requires subsidies, while solar power as an alternative renewable power source has reached cost-parity with fossil-based power, and thus, is a more attractive approach. *Second*, there continue to be protests from locals about the pollution issue coming from bio-power plants. *Third*, we expect lower investment returns after the government split contracts into smaller sizes, which lowers scale benefits and raises logistics costs. We expect Thailand's bio-power target of 2.5GW by 2025 to soon be cut.

Unfavorable scale for big firms

PPAs in the latest bidding round of bio-fuel power plants under the "Community Power Plant" (CPP) scheme were cut to 6MW (from 8MW previously) per plant, as the government wanted to improve the chances for small players participating in the scheme. However, it also resulted in a spreading-out of plant locations; hence, more difficulties in getting legal consent from environmental regulators and locals to develop projects. We expect this to lower project returns due to less scale benefits, more logistics costs for both bio-fuel transport from plantation sites and investment costs for transmission grid and substations.

Likely no new PPAs until 2025F

The Energy Regulatory Commission (ERC) has postponed PPA signings for 150MW of biomass and biogas projects from the bidding of the CPP scheme to July 2022 and their COD deadlines to late 2025. That is due to pending court appeals on bidding rules and protests from local communities over environmental issues. We therefore expect no more PPA biddings for bio-fuel power plants until the granted PPA projects begin operations in 2025F. Also, given an over-40% power-reserve ratio, we believe subsidy-requiring power plants are unlikely to be promoted.

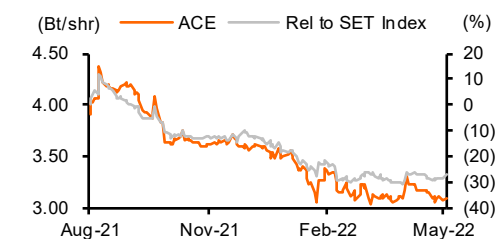
A drop of coverage on ACE

We decide to drop our coverage of ACE, the biggest bio-power plant operator in Thailand. As ACE's key attractiveness had been strong capacity growth potential from the government's bio-power policy, the changing policy trend is negative for the stock's valuation, in our view. ACE also has a tough job in line to develop 34 committed projects (250MW) within next three years.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	5,727	6,583	7,484	10,024
Net profit	1,506	1,480	1,832	3,037
Consensus NP	—	2,049	2,989	2,935
Diff frm cons (%)	—	(27.8)	(38.7)	3.5
Norm profit	1,346	1,480	1,832	3,037
Prev. Norm profit	—	1,843	2,405	2,815
Chg frm prev (%)	—	(19.7)	(23.8)	7.9
Norm EPS (Bt)	0.1	0.1	0.2	0.3
Norm EPS grw (%)	1.5	9.9	23.8	65.8
Norm PE (x)	23.0	20.9	16.9	10.2
EV/EBITDA (x)	15.4	15.9	14.5	10.1
P/BV (x)	2.3	2.2	2.0	1.8
Div yield (%)	2.0	1.9	2.4	3.9
ROE (%)	10.6	10.8	12.4	18.5
Net D/E (%)	28.1	38.3	74.8	96.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 06-May-22 (Bt)	3.04
Market Cap (US\$ m)	900.8
Listed Shares (m shares)	10,176.0
Free Float (%)	22.6
Avg Daily Turnover (US\$ m)	2.6
12M Price H/L (Bt)	4.38/3.04
Sector	Utilities
Major Shareholder	Songmetta Family 77.38%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our 12-month DCF-derived Valuation Using A 2022F Base Year

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA excl. depre from right of use	2,282	2,921	4,735	5,712	6,695	6,705	6,552	6,184	5,426	5,057	4,899	4,569	
Free cash flow	(393)	(4,318)	(1,647)	(1,297)	5,898	6,207	6,093	5,793	5,187	4,734	4,520	4,242	29,116
PV of free cash flow	(392)	(3,779)	(1,348)	(993)	4,224	4,047	3,698	3,274	2,730	2,320	2,062	1,707	11,715
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	6.9												
Terminal growth (%)	2.0												
Enterprise value - add investments	29,265												
Net debt	3,753												
Minority interest	53												
Equity value	25,459												
# of shares (m)	10,176												
Target price/share (Bt)	2.50												

Source: Thanachart estimates

Valuation Comparison

Ex 2: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		—EV/EBITDA—		— Div yield —	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Huadian Power	1071 HK	China	na	55.3	10.6	6.8	0.5	0.5	12.0	10.3	5.1	7.5
Huaneng Power	600011 CH	China	na	30.7	14.8	11.3	1.0	0.9	9.9	8.8	0.7	3.0
Cheung Kong Infrastructure	1038 HK	Hong Kong	8.4	(5.1)	14.3	15.0	1.1	1.1	52.8	52.4	4.8	4.8
China Power Int'l	2380 HK	Hong Kong	na	40.2	13.9	9.9	1.0	1.0	9.5	7.5	1.1	3.7
China Resources Power	836 HK	Hong Kong	86.3	18.2	6.0	5.0	0.7	0.6	5.5	4.7	3.8	6.6
CLP Holdings	2 HK	Hong Kong	(1.5)	4.8	17.5	16.7	1.6	1.6	10.6	10.1	4.1	4.1
Hongkong Electric Holdings	6 HK	Hong Kong	7.3	(1.9)	16.8	17.1	1.3	1.3	84.6	86.2	5.2	5.2
Huaneng Power	902 HK	Hong Kong	na	95.4	14.1	7.2	0.5	0.5	9.9	8.7	1.7	4.8
Tata Power	TPWR IN	India	28.2	36.3	39.7	29.1	3.5	3.2	17.0	14.5	0.6	0.7
Tenaga Nasional	TNB MK	Malaysia	(2.7)	6.9	10.7	10.0	0.8	0.8	6.6	6.6	6.2	5.3
YTL Corp	YTL MK	Malaysia	183.3	(11.8)	34.7	39.3	0.5	0.5	14.3	14.3	4.4	3.4
YTL Power	YTLP MK	Malaysia	(50.0)	71.4	27.0	15.7	0.4	0.4	11.7	10.6	5.0	4.6
Manila Electric	MER PM	Philippines	11.2	4.1	14.9	14.3	3.9	3.7	9.6	8.9	4.1	4.5
Absolute Clean Energy Pcl *	ACE TB	Thailand	9.9	23.8	20.9	16.9	2.2	2.0	15.9	14.5	1.9	2.4
BCPG Pcl *	BCPG TB	Thailand	16.6	(19.7)	13.4	16.7	1.3	1.2	10.6	13.4	2.7	2.7
B.Grimm Power Pcl *	BGRIM TB	Thailand	(33.7)	82.7	50.2	27.5	2.7	2.5	16.1	13.4	1.0	1.8
Banpu Power Pcl *	BPP TB	Thailand	69.7	6.5	11.9	11.2	1.1	1.1	146.6	105.0	5.0	5.4
CK Power Pcl *	CKP TB	Thailand	13.7	(4.5)	18.8	19.7	1.6	1.6	20.3	15.1	2.1	2.5
EA Pcl*	EA TB	Thailand	44.9	20.6	36.4	30.2	8.1	6.8	25.9	22.1	0.8	1.0
Electricity Generating *	EGCO TB	Thailand	3.9	1.7	8.1	8.0	0.7	0.7	18.6	17.7	4.0	4.3
Global Power Synergy *	GPSC TB	Thailand	(4.1)	18.6	27.4	23.1	1.6	1.5	16.4	15.7	2.0	2.4
Gulf Energy Dev. Pcl *	GULF TB	Thailand	22.2	37.4	51.2	37.3	4.4	3.5	38.0	30.0	1.2	1.6
Gunkul Engineering *	GUNKUL TB	Thailand	46.3	34.1	15.5	11.5	3.1	2.8	16.6	11.6	3.9	5.2
RATCH Group *	RATCH TB	Thailand	49.7	(19.9)	6.5	8.1	0.8	0.8	19.7	18.9	8.4	4.6
TPC Power Holding *	TPCH TB	Thailand	47.5	59.2	19.9	12.5	1.3	1.3	8.1	6.2	2.5	4.0
WHA Utilities & Power *	WHAUP TB	Thailand	101.1	5.2	10.4	9.9	1.2	1.1	25.5	23.6	5.8	6.1
Average			29.9	22.7	20.2	16.5	1.8	1.7	24.3	21.2	3.5	3.9

Sources: Bloomberg, * Thanachart estimates

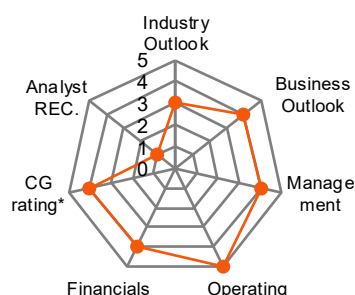
Based on 6 May 2022 closing prices

COMPANY DESCRIPTION

Established in 2015, Absolute Clean Energy Pcl (ACE) is an operator of various power plants under its subsidiaries to deliver electricity for the Provincial Electricity Authority of Thailand (PEA) under long-term power purchase agreement (PPA) contracts. The key focus for the company is on clean energy from biomass, leveraging on the lengthy experience of the founder family with plantations of softwood trees to procure woodchips, which is its key feedstock. ACE has its own R&D team to improve its plant design and mixture of agricultural feedstock to achieve the highest operating efficiency.

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 experience in operating and designing biomass power plants.
- Strong procurement network and good inventory system to secure sufficient feedstock to feed its power plants throughout the year.

O — Opportunity

- Scale benefits and strong expertise among peers create opportunities to expand or acquire more bioenergy power plants.
- Bioenergy power plants are a renewable source for electricity generation, which is a global megatrend.

W — Weakness

- Highly dependent on the government's policy to grow capacity.
- The selling price of electricity in Thailand is also completely regulated by the government.

T — Threat

- Relies heavily on domestic agricultural yield which is highly exposed to environmental risk and unfavourable natural conditions.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	4.12	2.50	-39%
Net profit 22F (Bt m)	2,049	1,480	-28%
Net profit 23F (Bt m)	2,989	1,832	-39%
Consensus REC	BUY: 3	HOLD: 1	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings forecasts are significantly lower than the Bloomberg consensus numbers, which we attribute to us having a much more bearish view on ACE's ability to grow the capacity and improve the profitability of its plants.
- Our TP is 39% lower, likely since we also expect less bio-fuel power plant PPAs to be granted over the next few years.

RISKS TO OUR INVESTMENT CASE

- Faster-than-expected commencement of operations of projects under development would be the primary upside risk to our projections.
- More aggressive government policy on bio-energy power plants (biomass and biogas) would represent a secondary upside risk to ACE's growth potential.
- Stronger-than-expected profitability of ACE's power plants, either from lower-than-expected feedstock prices or better-than-expected efficiency improvement, represents another secondary upside risk to our numbers.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	5,858	5,727	6,583	7,484	10,024
Cost of sales	4,067	3,808	4,488	4,815	5,849
Gross profit	1,791	1,919	2,094	2,669	4,175
% gross margin	30.6%	33.5%	31.8%	35.7%	41.6%
Selling & administration expenses	322	340	390	487	557
Operating profit	1,469	1,579	1,704	2,182	3,618
% operating margin	25.1%	27.6%	25.9%	29.2%	36.1%
Depreciation & amortization	541	667	579	738	1,117
EBITDA	2,010	2,247	2,282	2,921	4,735
% EBITDA margin	34.3%	39.2%	34.7%	39.0%	47.2%
Non-operating income	7	13	15	17	22
Non-operating expenses	0	0	0	0	0
Interest expense	(106)	(141)	(161)	(271)	(443)
Pre-tax profit	1,369	1,451	1,557	1,928	3,197
Income tax	43	105	78	96	160
After-tax profit	1,327	1,346	1,479	1,832	3,037
% net margin	22.6%	23.5%	22.5%	24.5%	30.3%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	181	159	0	0	0
NET PROFIT	1,508	1,506	1,480	1,832	3,037
Normalized profit	1,327	1,346	1,480	1,832	3,037
EPS (Bt)	0.1	0.1	0.1	0.2	0.3
Normalized EPS (Bt)	0.1	0.1	0.1	0.2	0.3

We cut our earnings to reflect delays in plants under development

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,841	2,672	1,540	1,675	2,064
Cash & cash equivalent	576	1,001	410	410	410
Account receivables	829	1,069	992	1,128	1,510
Inventories	402	532	307	330	401
Others	34	70	(169)	(192)	(257)
Investments & loans	145	211	211	211	211
Net fixed assets	9,095	10,261	12,593	18,888	23,628
Other assets	5,348	5,596	6,477	7,403	9,918
Total assets	16,430	18,740	20,821	28,176	35,821
LIABILITIES:					
Current liabilities:	1,213	1,327	1,913	3,314	4,708
Account payables	269	328	307	330	401
Bank overdraft & ST loans	277	215	411	597	864
Current LT debt	575	702	1,092	2,270	3,285
Others current liabilities	91	83	102	117	158
Total LT debt	3,082	3,837	4,370	9,079	13,139
Others LT liabilities	142	207	291	367	494
Total liabilities	4,437	5,372	6,574	12,760	18,341
Minority interest	0	53	53	53	53
Preferreds shares	0	0	0	0	0
Paid-up capital	5,088	5,088	5,088	5,088	5,088
Share premium	3,896	3,896	3,896	3,896	3,896
Warrants	0	0	0	0	0
Surplus	(23)	(23)	(23)	(23)	(23)
Retained earnings	3,032	4,354	5,233	6,402	8,466
Shareholders' equity	11,993	13,315	14,194	15,364	17,427
Liabilities & equity	16,430	18,740	20,821	28,176	35,821

Debt piling up to support upcoming capex cycle

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,369	1,451	1,557	1,928	3,197
Tax paid	(33)	(109)	(74)	(96)	(155)
Depreciation & amortization	541	667	579	738	1,117
Chg In working capital	(206)	(311)	281	(136)	(383)
Chg In other CA & CL / minorities	(101)	24	256	38	102
Cash flow from operations	1,571	1,722	2,598	2,472	3,877
Capex	(1,529)	(1,741)	(2,822)	(6,944)	(5,768)
Right of use	(39)	(2)	(50)	(50)	(50)
ST loans & investments	0	0	0	0	0
LT loans & investments	(21)	(66)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(475)	(280)	(836)	(889)	(2,427)
Cash flow from investments	(2,064)	(2,089)	(3,708)	(7,883)	(8,245)
Debt financing	958	975	1,120	6,073	5,341
Capital increase	0	0	0	0	0
Dividends paid	(305)	(183)	(601)	(662)	(974)
Warrants & other surplus	(3)	0	0	0	0
Cash flow from financing	651	792	519	5,411	4,367
Free cash flow	42	(19)	(223)	(4,472)	(1,891)

Big capex jump in 2022-23F to meet deadlines for projects' COD

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	23.3	23.0	20.9	16.9	10.2
Normalized PE - at target price (x)	19.2	18.9	17.2	13.9	8.4
PE (x)	20.5	20.5	20.9	16.9	10.2
PE - at target price (x)	16.9	16.9	17.2	13.9	8.4
EV/EBITDA (x)	17.1	15.4	15.9	14.5	10.1
EV/EBITDA - at target price (x)	14.3	13.0	13.5	12.7	8.9
P/BV (x)	2.6	2.3	2.2	2.0	1.8
P/BV - at target price (x)	2.1	1.9	1.8	1.7	1.5
P/CFO (x)	19.7	18.0	11.9	12.5	8.0
Price/sales (x)	5.3	5.4	4.7	4.1	3.1
Dividend yield (%)	1.6	2.0	1.9	2.4	3.9
FCF Yield (%)	0.1	(0.1)	(0.7)	(14.5)	(6.1)
(Bt)					
Normalized EPS	0.1	0.1	0.1	0.2	0.3
EPS	0.1	0.1	0.1	0.2	0.3
DPS	0.1	0.1	0.1	0.1	0.1
BV/share	1.2	1.3	1.4	1.5	1.7
CFO/share	0.2	0.2	0.3	0.2	0.4
FCF/share	0.0	(0.0)	(0.0)	(0.4)	(0.2)

Sources: Company data, Thanachart estimates

Muted growth outlook from bio-power policy should de-rate valuations

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	15.9	(2.2)	14.9	13.7	33.9
Net profit (%)	84.9	(0.1)	(1.7)	23.8	65.8
EPS (%)	84.9	(0.1)	(1.7)	23.8	65.8
Normalized profit (%)	44.4	1.5	9.9	23.8	65.8
Normalized EPS (%)	44.4	1.5	9.9	23.8	65.8
Dividend payout ratio (%)	33.7	40.6	40.0	40.0	40.0
Operating performance					
Gross margin (%)	30.6	33.5	31.8	35.7	41.6
Operating margin (%)	25.1	27.6	25.9	29.2	36.1
EBITDA margin (%)	34.3	39.2	34.7	39.0	47.2
Net margin (%)	22.6	23.5	22.5	24.5	30.3
D/E (incl. minor) (x)	0.3	0.4	0.4	0.8	1.0
Net D/E (incl. minor) (x)	0.3	0.3	0.4	0.7	1.0
Interest coverage - EBIT (x)	13.8	11.2	10.6	8.1	8.2
Interest coverage - EBITDA (x)	18.9	15.9	14.2	10.8	10.7
ROA - using norm profit (%)	8.7	7.7	7.5	7.5	9.5
ROE - using norm profit (%)	11.6	10.6	10.8	12.4	18.5
DuPont					
ROE - using after tax profit (%)	11.6	10.6	10.8	12.4	18.5
- asset turnover (x)	0.4	0.3	0.3	0.3	0.3
- operating margin (%)	25.2	27.8	26.1	29.4	36.3
- leverage (x)	1.3	1.4	1.4	1.7	2.0
- interest burden (%)	92.8	91.1	90.6	87.7	87.8
- tax burden (%)	96.9	92.8	95.0	95.0	95.0
WACC (%)	6.9	6.9	6.9	6.9	6.9
ROIC (%)	10.6	9.5	9.5	10.5	12.8
NOPAT (Bt m)	1,423	1,465	1,619	2,073	3,437
invested capital (Bt m)	15,351	17,068	19,657	26,900	34,305

Sources: Company data, Thanachart estimates

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