SELL (From: BUY) | **TP: Bt 8.00** (From: Bt 16.00)

Termination of Coverage | **Downside : 19.2%** | **6 MAY 2022**

Small Cap Research

TPC Power Holding Pcl (TPCH TB)

A drop in coverage

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Thanachart Securities

We drop coverage of TPCH as we turn more bearish on the growth potential of bio-power plants in Thailand. Despite its valuation looking inexpensive, we see no growth catalysts for TPCH while its legacy subsidies are expiring. We now rate TPCH a SELL with a TP of Bt8.0.

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 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 to 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 be promoted.

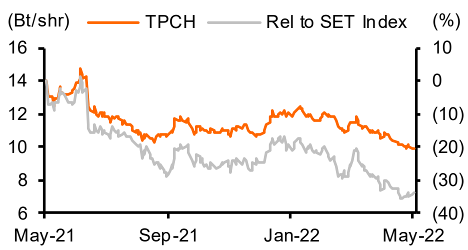
A drop of coverage on TPCH

We decide to drop our coverage of TPCH for three reasons. *First,* we expect limited growth potential due to the less favorable policy trend. *Second,* TPCH did not win anything in the CPP-scheme bidding, signaling its lack of competitiveness to us. *Third,* we believe TPCH is struggling to optimize its latest four biomass power plants as they are still generating far lower-than-expected profits despite already being in operation for nearly two years.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	2,470	2,791	2,979	3,047
Net profit	135	200	318	359
Consensus NP	—	492	605	558
Diff frm cons (%)	—	*(59.4)*	*(47.4)*	*(35.6)*
Norm profit	135	200	318	359
Prev. Norm profit	—	471	549	578
Chg frm prev (%)	—	*(57.6)*	*(42.0)*	*(37.8)*
Norm EPS (Bt)	0.3	0.5	0.8	0.9
Norm EPS grw (%)	(46.0)	47.5	59.2	13.0
Norm PE (x)	29.3	19.9	12.5	11.1
EV/EBITDA (x)	9.1	8.1	6.2	5.3
P/BV (x)	1.4	1.3	1.3	1.2
Div yield (%)	4.0	2.5	4.0	4.5
ROE (%)	4.6	6.8	10.4	11.1
Net D/E (%)	88.2	61.8	39.8	21.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 6-May-22 (Bt)	9.90
Market Cap (US$ m)	115.7
Listed Shares (m shares)	401.2
Free Float (%)	55.4
Avg Daily Turnover (US$ m)	0.2
12M Price H/L (Bt)	14.70/9.90
Sector	Utilities
Major Shareholder	Thai Polycons Pcl 41.26%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our 12-month DCF-derived SOTP Calculation, Using A Base Year Of 2023F

(Bt m)		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
EBITDA		923	942	992	1,009	843	785	635	605	598	591	
Free cash flow		816	861	898	926	827	735	606	547	537	530	2,729
PV of free cash flow		718	710	683	657	548	455	350	295	259	238	1,139
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
Wacc (%)	6.7											
Terminal growth (%)	0.0											
Enterprise value, incl investments*	6,910											
Net debt	3,305											
Minority interest	863											
Equity value	2,742											
# of shares	401											
Equity value / share	**6.8**											

SoTP TP	(Bt/shr)
Equity value per share	6.8
Plus: associates	
- MGP	0.3
- Siam Power	0.9
Grand Total	**8.0**

Sources: 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

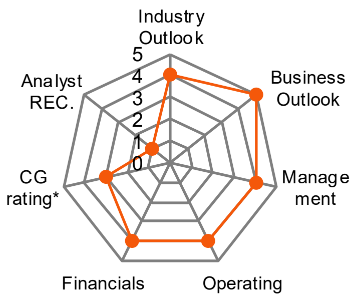
Based on 6 May 2022 closing prices

COMPANY DESCRIPTION

TPC Power Holding Pcl (TPCH) is a holding company which has secured contracts to operate biomass and waste-to-energy (WTE) power plants those selling electricity to the Provincial Authority of Thailand (PEA) and the Electricity Generating Authority of Thailand (EGAT). TPCH's strategy is to form partnerships with feedstock owners, while gaining experience in running biomass plants from hired professional operators. The company has net-equity capacity of 72MW – 65MW of operating plants and 7MW under development.

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

- Construction skills in biomass power projects via Thai Polycons Pcl (TPOLY TB, Not Rated), its parent company.
- Well known in the southern provinces leading to relationships with more sources of feedstock owners/dealers than its competitors.

W — Weakness

- Owns no feedstock; therefore has to rely on its suppliers or partners.
- Most of its plants are concentrated in the southern part of Thailand, so any unfavorable natural conditions may cause shortages of its required agricultural feedstocks.

O — Opportunity

- Biomass power plants are being promoted by the Thai government as a new source of electricity for the country, with an expected capacity of 1.9GW over the next 10 years.

T — Threat

- The development of the wood pellet industry might cause feedstock price volatility.
- Changes to government agricultural policy may curb tree growing over the long term.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	13.15	8.00	-39%
Net profit 22F (Bt m)	492	200	-59%
Net profit 23F (Bt m)	605	318	-47%
Consensus REC	**BUY: 2**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are significantly below the Bloomberg consensus numbers, which we believe is due to us assuming much lower profitability for TPCH's power plants.
- Our TP is therefore 39% lower than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key upside risk to our call would be if projects' operations are accelerated from our current assumptions.
- If the power plants produce more power than we currently expect due to shorter-than-expected maintenance shutdowns, this would represent a secondary upside risk.
- If the company secures more new capacity either from the bids or acquisitions than what we currently factor in, then this would represent another upside risk to our valuation.

Source: Thanachart

Sharp earnings drop as it new power plants fail to perform

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	1,777	2,470	2,791	2,979	3,047
Cost of sales	1,159	1,886	2,154	2,233	2,278
Gross profit	**618**	**584**	**636**	**747**	**769**
% gross margin	34.8%	23.6%	22.8%	25.1%	25.2%
Selling & administration expenses	122	133	194	202	206
Operating profit	**496**	**451**	**443**	**544**	**563**
% operating margin	27.9%	18.3%	15.9%	18.3%	18.5%
Depreciation & amortization	222	353	356	379	379
EBITDA	**719**	**804**	**798**	**923**	**942**
% EBITDA margin	40.4%	32.5%	28.6%	31.0%	30.9%
Non-operating income	12	7	14	15	15
Non-operating expenses	0	0	0	0	0
Interest expense	(88)	(162)	(81)	(55)	(39)
Pre-tax profit	**420**	**296**	**375**	**504**	**539**
Income tax	1	11	14	18	20
After-tax profit	**420**	**286**	**362**	**486**	**520**
% net margin	23.6%	11.6%	13.0%	16.3%	17.0%
Shares in affiliates' Earnings	6	1	1	(10)	21
Minority interests	(175)	(152)	(164)	(158)	(181)
Extraordinary items	0	0	0	0	0
NET PROFIT	**251**	**135**	**200**	**318**	**359**
Normalized profit	**251**	**135**	**200**	**318**	**359**
EPS (Bt)	0.6	0.3	0.5	0.8	0.9
Normalized EPS (Bt)	0.6	0.3	0.5	0.8	0.9

Healthy balance sheet but low potential for new investments

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	823	1,592	1,397	1,621	1,898
Cash & cash equivalent	44	493	150	300	550
Account receivables	570	602	917	980	1,002
Inventories	34	77	59	61	62
Others	174	421	270	280	284
Investments & loans	469	529	529	529	529
Net fixed assets	7,216	7,154	7,196	6,872	6,547
Other assets	180	252	246	260	265
Total assets	**8,688**	**9,527**	**9,368**	**9,281**	**9,239**
LIABILITIES:					
Current liabilities:	1,592	1,314	1,557	1,485	1,415
Account payables	505	314	885	918	936
Bank overdraft & ST loans	253	191	131	101	77
Current LT debt	547	664	372	288	220
Others current liabilities	287	145	169	179	181
Total LT debt	**3,030**	**2,943**	**2,110**	**1,632**	**1,247**
Others LT liabilities	16	1,521	1,718	1,834	1,876
Total liabilities	**4,638**	**5,778**	**5,385**	**4,951**	**4,538**
Minority interest	1,083	863	1,026	1,185	1,366
Preferreds shares	0	0	0	0	0
Paid-up capital	401	401	401	401	401
Share premium	1,254	1,254	1,254	1,254	1,254
Warrants	0	0	0	0	0
Surplus	32	(3)	(3)	(3)	(3)
Retained earnings	**1,280**	**1,233**	**1,304**	**1,492**	**1,682**
Shareholders' equity	2,967	2,886	2,956	3,145	3,335
Liabilities & equity	**8,688**	**9,527**	**9,368**	**9,281**	**9,239**

Sources: Company data, Thanachart estimates

Gradual ramping up of operating cash flow as new projects ramp up

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	420	296	375	504	539
Tax paid	(1)	(11)	(14)	(18)	(20)
Depreciation & amortization	222	353	356	379	379
Chg In w orking capital	161	(265)	274	(32)	(5)
Chg In other CA & CL / minorities	308	(576)	70	(10)	20
Cash flow from operations	**1,111**	**(202)**	**1,061**	**823**	**914**
Capex	(1,358)	(281)	(395)	(50)	(50)
Right of use	(62)	3	(20)	(5)	(5)
ST loans & investments	152	(111)	106	0	0
LT loans & investments	14	(59)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(98)	1,349	220	103	37
Cash flow from investments	**(1,352)**	**900**	**(89)**	**48**	**(18)**
Debt financing	219	(32)	(1,185)	(592)	(477)
Capital increase	0	0	0	0	0
Dividends paid	(85)	(182)	(129)	(129)	(169)
Warrants & other surplus	0	0	0	0	0
Cash flow from financing	**135**	**(214)**	**(1,315)**	**(721)**	**(646)**
Free cash flow	**(247)**	**(483)**	**666**	**773**	**864**

We believe TPCH should trade at a lower valuation due to its weakening growth outlook

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	15.8	29.3	19.9	12.5	11.1
Normalized PE - at target price (x)	12.8	23.7	16.1	10.1	8.9
PE (x)	15.8	29.3	19.9	12.5	11.1
PE - at target price (x)	12.8	23.7	16.1	10.1	8.9
EV/EBITDA (x)	10.8	9.1	8.1	6.2	5.3
EV/EBITDA - at target price (x)	9.7	8.1	7.1	5.3	4.5
P/BV (x)	1.3	1.4	1.3	1.3	1.2
P/BV - at target price (x)	1.1	1.1	1.1	1.0	1.0
P/CFO (x)	3.6	(19.7)	3.7	4.8	4.3
Price/sales (x)	2.2	1.6	1.4	1.3	1.3
Dividend yield (%)	2.0	4.0	2.5	4.0	4.5
FCF Yield (%)	(6.2)	(12.2)	16.8	19.5	21.8
(Bt)					
Normalized EPS	0.6	0.3	0.5	0.8	0.9
EPS	0.6	0.3	0.5	0.8	0.9
DPS	0.2	0.4	0.2	0.4	0.4
BV/share	7.4	7.2	7.4	7.8	8.3
CFO/share	2.8	(0.5)	2.6	2.1	2.3
FCF/share	(0.6)	(1.2)	1.7	1.9	2.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	8.2	39.0	13.0	6.8	2.3
Net profit (%)	(30.2)	(46.0)	47.5	59.2	13.0
EPS (%)	(30.2)	(46.0)	47.5	59.2	13.0
Normalized profit (%)	(30.2)	(46.0)	47.5	59.2	13.0
Normalized EPS (%)	(30.2)	(46.0)	47.5	59.2	13.0
Dividend payout ratio (%)	31.7	117.3	50.0	50.0	50.0
Operating performance					
Gross margin (%)	34.8	23.6	22.8	25.1	25.2
Operating margin (%)	27.9	18.3	15.9	18.3	18.5
EBITDA margin (%)	40.4	32.5	28.6	31.0	30.9
Net margin (%)	23.6	11.6	13.0	16.3	17.0
D/E (incl. minor) (x)	0.9	1.0	0.7	0.5	0.3
Net D/E (incl. minor) (x)	0.9	0.9	0.6	0.4	0.2
Interest coverage - EBIT (x)	5.7	2.8	5.5	10.0	14.5
Interest coverage - EBITDA (x)	8.2	5.0	9.9	16.9	24.3
ROA - using norm profit (%)	3.0	1.5	2.1	3.4	3.9
ROE - using norm profit (%)	8.7	4.6	6.8	10.4	11.1
DuPont					
ROE - using after tax profit (%)	14.5	9.8	12.4	15.9	16.0
- asset turnover (x)	0.2	0.3	0.3	0.3	0.3
- operating margin (%)	28.6	18.6	16.4	18.8	19.0
- leverage (x)	2.9	3.1	3.2	3.1	2.9
- interest burden (%)	82.7	64.6	82.3	90.2	93.3
- tax burden (%)	99.8	96.4	96.4	96.4	96.4
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	7.9	6.4	6.9	9.7	11.1
NOPAT (Bt m)	495	435	427	524	542
invested capital (Bt m)	6,754	6,191	5,419	4,866	4,329

Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

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 23% of the shareholding in TMBThanachart Bank Pcl.

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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.

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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