

**BUY** (Unchanged)

**TP: Bt 39.00**

(From: Bt 34.00)

Change in Numbers

Upside : 13.9%

13 JUNE 2022

Small Cap Research

# Bangchak Corporation Pcl (BCPTB)

## Triple growth engines

We reaffirm our BUY call on BCP with a new TP of Bt39. We expect BCP to enjoy growth engines of rising domestic oil demand, a strong GRM outlook, and high oil and gas prices. BCP looks inexpensive to us, still trading below its book value.



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### All core engines in the works

This report is a part of *Energy sector – A longer period of high GRM*, dated 13 June 2022, in which we upgrade our view on the refinery market outlook. Along with that we raise our earnings for BCP by 39-57% in 2022-24F and lift our DCF-based 12-month TP, which is also rolled over to a 2023F base year, to Bt39 (from Bt34). We reaffirm our BUY call on BCP since all of its core businesses, i.e., upstream E&P, refinery and petrol stations, are in strong markets. With our expectation of BCP's average normalized earnings base in 2022-24F being 83% higher than the level in 2016-19 and average ROE being 4% higher during the same period, we see BCP as inexpensive, still trading at 0.7x P/BV, which is below its 1x average in 2016-19.

### Strong refinery outlook

Following on from our new refinery view in the main part of our sector report, we upgrade BCP's gross refining margins (GRM) to US\$13.8/6.1/5.9 (from US\$6.7/5.3/5.2) per barrel in 2022-24F. This is to reflect the improved refinery market outlook due to 1) the EU's decision to ban Russia oil products by year end; 2) limited China refined product exports due to tight environmental controls; and 3) still tight supply outside China following refinery closures during the COVID pandemic in 2020-21.

### Strong upstream E&P business

BCP is exposed to the E&P business via its 45.7% stake in OKEA, a listed E&P operator in Norway. OKEA is benefiting from both high oil and European gas prices. The business accounted for 8% of BCP's profit in 1Q22. Our Brent oil price assumptions are US\$101/90/85 per barrel and BCP's oil price sensitivity based on our estimate is a 3% profit increase for every US\$10/bbl rise in the oil price.

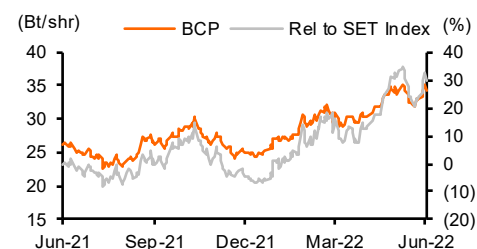
### Retail oil business bottoming out

BCP is the third-largest oil retail player with 1,292 petrol stations, or a 16% market share. EBITDA contribution was 26% in 2019 and 8% in 1Q22 and we estimate EBITDA to fall this year before recovering by 114% in 2023F and 4% in 2024F on a demand and marketing margin recovery. We expect the demand rebound in the post-COVID period to continue despite high oil prices. In 1Q22, retail consumption of diesel grew 9% y-y but that for gasoline dropped 6% y-y. In April, the figures saw growth of 20% y-y and 2% y-y, respectively. Jet oil demand was also up by 49% y-y in 1Q22. We raise our volume growth assumptions for BCP to 11/7/4% in 2022-24F (from 6/3/3%). Marketing margin has started to improve from the low of Bt1.3/liter seen in January this year to Bt1.56/liter currently. We estimate margins of Bt1.5/1.7/1.9 in 2022-24F with falling oil price pressure.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	199,417	271,726	265,427	249,570
Net profit	7,624	9,314	5,459	5,084
Consensus NP	—	6,408	5,394	5,554
Diff frm cons (%)	—	45.3	1.2	(8.5)
Norm profit	4,592	9,937	6,474	5,282
Prev. Norm profit	—	6,347	4,214	3,785
Chg frm prev (%)	—	56.6	53.6	39.5
Norm EPS (Bt)	3.3	7.2	4.7	3.8
Norm EPS grw (%)	na	116.4	(34.9)	(18.4)
Norm PE (x)	10.3	4.7	7.3	8.9
EV/EBITDA (x)	4.5	3.2	4.8	5.1
P/BV (x)	0.9	0.8	0.7	0.7
Div yield (%)	5.8	5.3	3.5	3.5
ROE (%)	9.2	17.5	10.5	8.1
Net D/E (%)	68.5	89.9	93.0	80.7

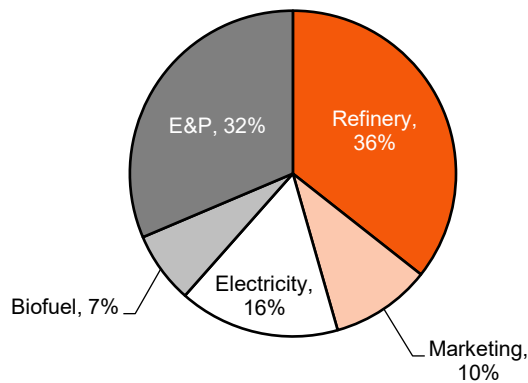
### PRICE PERFORMANCE



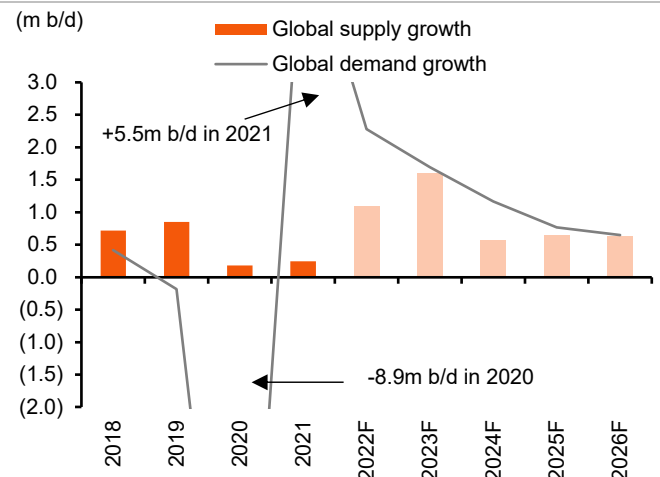
### COMPANY INFORMATION

Price as of 10-Jun-22 (Bt)	34.25
Market Cap (US\$ m)	1,356.6
Listed Shares (m shares)	1,376.9
Free Float (%)	64.3
Avg Daily Turnover (US\$ m)	7.0
12M Price H/L (Bt)	35.25/22.70
Sector	Energy
Major Shareholder	Social Security Office 14.40%

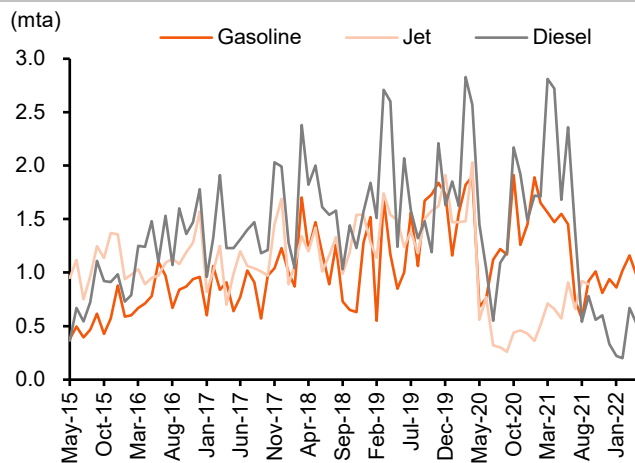
Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: BCP's EBITDA Breakdown In 1Q22**

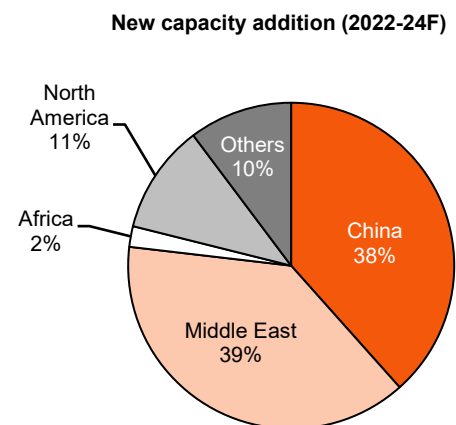
Source: Company data

**Ex 2: Global Refinery Demand/Supply Outlook**

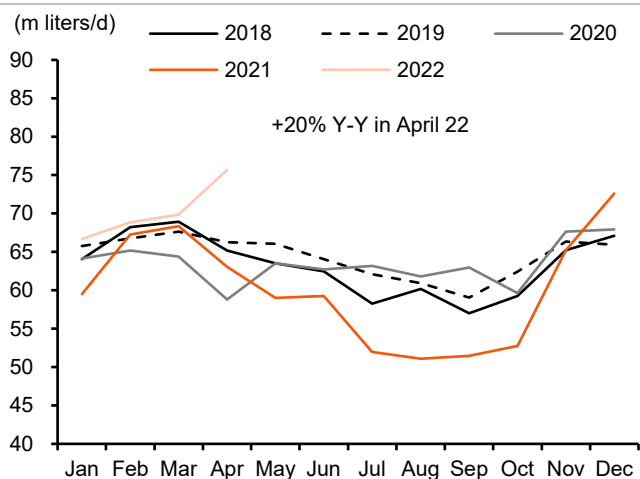
Source: Thanachart estimates

**Ex 3: China Exports Expected To Be Muted**

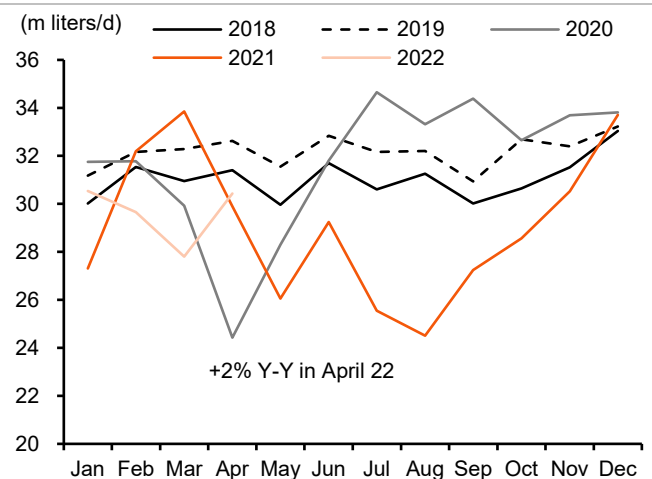
Sources: Bloomberg

**Ex 4: Majority Of Supply Growth Is From China**

Source: Thanachart estimates

**Ex 5: Domestic Diesel Demand Recovery**

Sources: DOEB

**Ex 6: Softer Growth In Gasoline Demand**

Sources: DOEB

**Ex 7: New Singapore Complex GRM and Brent Oil Price Assumptions**

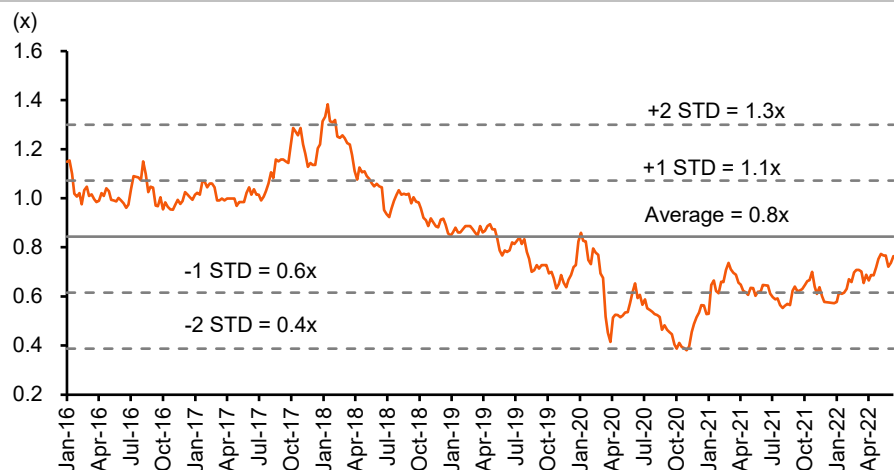
(US\$/bbl)					New			Old			Change (%)		
	2021	1Q22	2Q22	June	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Brent	71	98	110	106	101	90	85	88	73	71	14.4	23.3	19.7
Gasoline-Dubai	11.0	17.8	31.3	40.0	27.1	20.3	18.3	16.5	13.0	12.0	64.0	56.0	52.0
Diesel-Dubai	6.7	19.6	33.1	32.0	27.0	17.1	15.1	19.1	14.0	14.0	42.0	22.0	7.0
Jet-Dubai	5.8	16.2	36.8	33.4	25.3	20.8	18.8	17.6	13.0	13.0	44.0	60.0	44.0
HSFO-Dubai	(4.9)	(8.3)	2.8	(6.1)	(5.4)	(8.0)	(8.0)	(7.7)	(8.0)	(8.0)	30.0	0.0	0.0
<b>SG GRM</b>	<b>3.1</b>	<b>8.0</b>	<b>18.6</b>	<b>18.6</b>	<b>14.2</b>	<b>9.1</b>	<b>7.7</b>	<b>7.3</b>	<b>5.5</b>	<b>5.2</b>	<b>94.0</b>	<b>65.0</b>	<b>49.0</b>

Sources: Bloomberg, Thanachart estimates

**Ex 8: Profit Revisions**

(Bt m)	Normalized profit			TP (Bt/shr)
	2022F	2023F	2024F	
New	9,937	6,474	5,282	39.00
Old	6,347	4,214	3,785	34.00
Change (%)	56.6	53.6	39.5	14.7

Sources: Thanachart estimates

**Ex 9: P/BV Band**

Sources: Bloomberg, Thanachart estimates

**Ex 10: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F**

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA	26,190	23,350	22,814	22,964	22,346	23,113	23,209	22,618	23,412	23,520	23,632	
Free cash flow *	(4,861)	9,194	9,375	10,408	11,699	8,939	10,744	12,064	9,323	11,194	11,359	194,721
PV of free cash flow *	(4,542)	8,023	7,547	7,794	8,149	5,791	6,475	6,763	4,682	5,207	4,894	83,904
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	7.1											
Terminal growth (%)	2.0											
Enterprise value - add investments	144,685											
Net debt (2022F)	71,712											
Minority interest	19,637											
Equity value	53,337											
# of shares (m)	1,377											
<b>Equity value/share (Bt)</b>	<b>39</b>											

Sources: Company data, Thanachart estimates

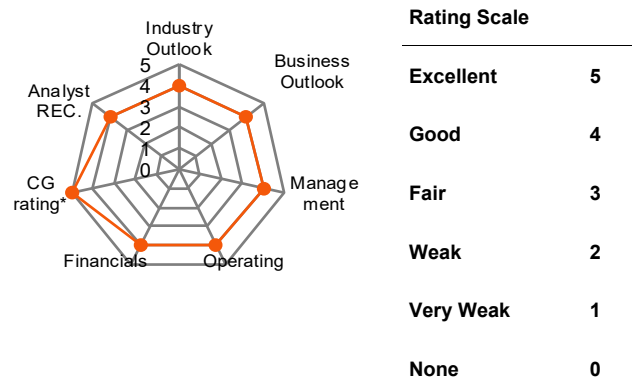
Note: \*Excluding solar farm cash flows; our TP is rounded up

## COMPANY DESCRIPTION

Bangchak Corporation (BCP) engages in a number of businesses with its core operations centring on oil refining (capacity 120,000bpd) and marketing (the No.3 player in Thailand with a 16% market share). In recent years, the company has invested heavily in the power business, chiefly renewable energy via 70%-owned subsidiary BCPG. It has also diversified into new industries such as oil & gas exploration and production.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Integrated refinery and marketing model. This provides BCP with a high-margin outlet for its refinery.
- Access to high-quality yet relatively low-priced domestic crude oil helps improve its GRM vs peers

### O — Opportunity

- Diversifying into green energy.

### W — Weakness

- Volatile earnings due to its refinery exposure
- Significant investments in new businesses have yet to pay off.
- Limited opportunity to expand its refinery given constraints over land availability

### T — Threat

- The government intervenes in the marketing margin at the gas station business, especially when oil prices increase rapidly.
- Overpaying for acquisitions and higher-than-expected expansion costs.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	36.38	39.00	7%
<b>Net profit 22F (Bt m)</b>	6,408	9,314	45%
<b>Net profit 23F (Bt m)</b>	5,394	5,459	1%
<b>Consensus REC</b>	<b>BUY: 10</b>	<b>HOLD: 4</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are 45% higher than consensus, mainly due to our high GRM assumption.
- Consequently, our TP is slightly higher than consensus as we likely assume GRM to normalize at a higher level.

## RISKS TO OUR INVESTMENT CASE

- Lower-than-expected GRM would represent the key downside risk to our EPS forecasts and TP.
- Lower-than-expected returns on new investments would represent another downside risk to our EPS forecasts and TP.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	136,450	199,417	271,726	265,427	249,570
Cost of sales	132,122	179,179	232,711	236,977	224,550
<b>Gross profit</b>	<b>4,328</b>	<b>20,238</b>	<b>39,015</b>	<b>28,450</b>	<b>25,020</b>
% gross margin	3.2%	10.1%	14.4%	10.7%	10.0%
Selling & administration expenses	7,141	7,153	9,747	9,521	8,952
<b>Operating profit</b>	<b>(2,813)</b>	<b>13,085</b>	<b>29,268</b>	<b>18,929</b>	<b>16,068</b>
% operating margin	-2.1%	6.6%	10.8%	7.1%	6.4%
Depreciation & amortization	6,821	8,075	7,920	7,261	7,281
<b>EBITDA</b>	<b>4,008</b>	<b>21,159</b>	<b>37,188</b>	<b>26,190</b>	<b>23,350</b>
% EBITDA margin	2.9%	10.6%	13.7%	9.9%	9.4%
Non-operating income	533	(512)	1,279	1,279	1,279
Non-operating expenses	0	0	0	0	0
Interest expense	(1,969)	(2,540)	(2,584)	(2,398)	(2,411)
<b>Pre-tax profit</b>	<b>(4,250)</b>	<b>10,034</b>	<b>27,963</b>	<b>17,810</b>	<b>14,936</b>
Income tax	(1,589)	4,263	15,523	10,485	8,964
<b>After-tax profit</b>	<b>(2,661)</b>	<b>5,771</b>	<b>12,440</b>	<b>7,325</b>	<b>5,972</b>
% net margin	-2.0%	2.9%	4.6%	2.8%	2.4%
Shares in affiliates' Earnings	(592)	1,042	1,042	1,042	1,042
Minority interests	(1,197)	(2,221)	(3,545)	(1,893)	(1,732)
Extraordinary items	(2,517)	3,032	(623)	(1,015)	(198)
<b>NET PROFIT</b>	<b>(6,967)</b>	<b>7,624</b>	<b>9,314</b>	<b>5,459</b>	<b>5,084</b>
<b>Normalized profit</b>	<b>(4,450)</b>	<b>4,592</b>	<b>9,937</b>	<b>6,474</b>	<b>5,282</b>
EPS (Bt)	(5.1)	5.5	6.8	4.0	3.7
Normalized EPS (Bt)	(3.2)	3.3	7.2	4.7	3.8

Despite we expect lower profit 2023F, we see upside in our forecast.

## BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	47,296	69,372	68,612	68,483	65,765
Cash & cash equivalent	21,676	32,829	20,000	20,000	20,000
Account receivables	6,402	15,234	20,757	20,276	19,065
Inventories	16,162	18,497	24,023	24,464	23,181
Others	3,055	2,812	3,832	3,743	3,519
Investments & loans	15,586	14,070	14,070	14,070	14,070
Net fixed assets	54,567	69,233	83,813	98,152	98,070
Other assets	30,874	49,110	73,994	73,239	71,339
<b>Total assets</b>	<b>148,323</b>	<b>201,785</b>	<b>240,489</b>	<b>253,943</b>	<b>249,244</b>
<b>LIABILITIES:</b>					
Current liabilities:	25,502	34,105	41,648	44,134	41,299
Account payables	12,277	15,651	20,327	20,699	19,614
Bank overdraft & ST loans	3,975	1,257	4,586	4,956	4,642
Current LT debt	5,174	9,464	8,713	9,417	8,820
Others current liabilities	4,076	7,734	8,023	9,061	8,223
<b>Total LT debt</b>	<b>54,095</b>	<b>69,787</b>	<b>78,414</b>	<b>84,752</b>	<b>79,379</b>
Others LT liabilities	10,409	28,334	40,626	39,968	38,313
<b>Total liabilities</b>	<b>90,006</b>	<b>132,226</b>	<b>160,687</b>	<b>168,855</b>	<b>158,991</b>
Minority interest	11,950	16,092	19,637	21,530	23,262
Preferreds shares	0	0	0	0	0
Paid-up capital	1,377	1,377	1,377	1,377	1,377
Share premium	11,157	11,157	11,157	11,157	11,157
Warrants	0	0	0	0	0
Surplus	10,732	12,069	12,069	12,069	12,069
<b>Retained earnings</b>	<b>23,100</b>	<b>28,863</b>	<b>35,561</b>	<b>38,954</b>	<b>42,386</b>
Shareholders' equity	46,366	53,467	60,165	63,558	66,990
<b>Liabilities &amp; equity</b>	<b>148,323</b>	<b>201,785</b>	<b>240,489</b>	<b>253,943</b>	<b>249,244</b>

Sources: Company data, Thanachart estimates

BCP's investment is mainly in its subsidiary, BCPG

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(4,250)	10,034	27,963	17,810	14,936
Tax paid	1,589	(4,263)	(15,523)	(10,485)	(8,964)
Depreciation & amortization	6,821	8,075	7,920	7,261	7,281
Chg In working capital	1,139	(7,793)	(6,374)	413	1,409
Chg In other CA & CL / minorities	6,732	8,341	311	2,170	428
<b>Cash flow from operations</b>	<b>12,032</b>	<b>14,394</b>	<b>14,297</b>	<b>17,169</b>	<b>15,090</b>
Capex	(8,804)	(22,741)	(22,500)	(21,600)	(7,200)
Right of use	(11,087)	(2,538)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	5,556	1,516	0	0	0
Adj for asset revaluation	(190)	0	0	0	0
Chg In other assets & liabilities	(1,248)	3,531	(13,215)	(917)	47
<b>Cash flow from investments</b>	<b>(15,773)</b>	<b>(20,231)</b>	<b>(35,715)</b>	<b>(22,517)</b>	<b>(7,153)</b>
Debt financing	15,935	17,513	11,204	7,414	(6,285)
Capital increase	0	0	0	0	0
Dividends paid	(743)	(2,672)	(2,616)	(2,065)	(1,652)
Warrants & other surplus	2,661	2,150	0	0	0
<b>Cash flow from financing</b>	<b>17,854</b>	<b>16,991</b>	<b>8,588</b>	<b>5,349</b>	<b>(7,937)</b>
<b>Free cash flow</b>	<b>3,227</b>	<b>(8,347)</b>	<b>(8,203)</b>	<b>(4,431)</b>	<b>7,890</b>

*We project negative FCF over 2022-23F, due to power subsidiary capex*

## VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	10.3	4.7	7.3	8.9
Normalized PE - at target price (x)	na	11.7	5.4	8.3	10.2
PE (x)	na	6.2	5.1	8.6	9.3
PE - at target price (x)	na	7.0	5.8	9.8	10.6
EV/EBITDA (x)	22.1	4.5	3.2	4.8	5.1
EV/EBITDA - at target price (x)	23.8	4.8	3.4	5.1	5.4
P/BV (x)	1.0	0.9	0.8	0.7	0.7
P/BV - at target price (x)	1.2	1.0	0.9	0.8	0.8
P/CFO (x)	3.9	3.3	3.3	2.7	3.1
Price/sales (x)	0.3	0.2	0.2	0.2	0.2
Dividend yield (%)	4.1	5.8	5.3	3.5	3.5
FCF Yield (%)	6.8	(17.7)	(17.4)	(9.4)	16.7
<b>(Bt)</b>					
Normalized EPS	(3.2)	3.3	7.2	4.7	3.8
EPS	(5.1)	5.5	6.8	4.0	3.7
DPS	1.4	2.0	1.8	1.2	1.2
BV/share	33.7	38.8	43.7	46.2	48.7
CFO/share	8.7	10.5	10.4	12.5	11.0
FCF/share	2.3	(6.1)	(6.0)	(3.2)	5.7

Sources: Company data, Thanachart estimates

*BCP looks inexpensive on a P/BV basis and with a dividend yield of 5%*

## FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth Rate</b>					
Sales (%)	(28.4)	46.1	36.3	(2.3)	(6.0)
Net profit (%)	na	na	22.2	(41.4)	(6.9)
EPS (%)	na	na	22.2	(41.4)	(6.9)
Normalized profit (%)	na	na	116.4	(34.9)	(18.4)
Normalized EPS (%)	na	na	116.4	(34.9)	(18.4)
Dividend payout ratio (%)	(27.7)	36.1	26.6	30.3	32.5
<b>Operating performance</b>					
Gross margin (%)	3.2	10.1	14.4	10.7	10.0
Operating margin (%)	(2.1)	6.6	10.8	7.1	6.4
EBITDA margin (%)	2.9	10.6	13.7	9.9	9.4
Net margin (%)	(2.0)	2.9	4.6	2.8	2.4
D/E (incl. minor) (x)	1.1	1.2	1.1	1.2	1.0
Net D/E (incl. minor) (x)	0.7	0.7	0.9	0.9	0.8
Interest coverage - EBIT (x)	na	5.2	11.3	7.9	6.7
Interest coverage - EBITDA (x)	2.0	8.3	14.4	10.9	9.7
ROA - using norm profit (%)	na	2.6	4.5	2.6	2.1
ROE - using norm profit (%)	na	9.2	17.5	10.5	8.1
<b>DuPont</b>					
ROE - using after tax profit (%)	na	11.6	21.9	11.8	9.1
- asset turnover (x)	1.0	1.1	1.2	1.1	1.0
- operating margin (%)	na	6.3	11.2	7.6	7.0
- leverage (x)	2.8	3.5	3.9	4.0	3.9
- interest burden (%)	186.4	79.8	91.5	88.1	86.1
- tax burden (%)	na	57.5	44.5	41.1	40.0
WACC (%)	7.1	7.1	7.1	7.1	7.1
ROIC (%)	(3.1)	8.6	12.9	5.9	4.5
NOPAT (Bt m)	(2,813)	7,525	13,020	7,785	6,425
invested capital (Bt m)	87,934	101,145	131,876	142,684	139,831

Sources: Company data, Thanachart estimates

We expect D/E to be on a declining trend.



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