Thanachart Securities

THAILAND | Sector Note | 13 JUNE 2022

Sector Weighting | Overweight

Thailand Energy Sector

A longer period of high GRM

Sector Valuation Company	BBG Code	Rec.	Current price (Bt)	Target price (Bt)	Market Cap (US$ m)	Norm EPS grw 2022F (%)	Norm EPS grw 2023F (%)	Norm PE 2022F (x)	Norm PE 2023F (x)	P/BV 2022F (x)	P/BV 2023F (x)	Div. yield 2022F (%)	Div. yield 2023F (%)
Bangchak Corp.	BCP TB	BUY	34.25	39.00	1,357	116.4	(34.9)	4.7	7.3	0.8	0.7	5.3	3.5
Esso (Thailand)	ESSO TB	BUY	12.20	16.00	1,215	na	(9.9)	6.7	7.4	1.4	1.3	8.2	4.0
Star Petroleum	SPRC TB	BUY	13.00	15.50	1,622	na	(39.5)	5.0	8.2	1.2	1.2	9.2	3.6
Thai Oil	TOP TB	HOLD	56.75	57.00	3,330	194.9	(25.7)	7.0	9.5	0.8	0.8	5.3	3.4

Source: Thanachart estimates, Based on 10 June 2022 closing prices

We turn more positive on the refinery market given a structural supply shift over the next three years caused by the ban on Russian oil products and China's strict export controls. We lift our GRM assumptions and ESSO becomes our top refinery stock pick.

YUPAPAN POLPORNPRASERT
662-779-9110
yupapan.pol@thanachartsec.co.th

A structural shift in refinery supply

We lift our Singapore gross refining margin (GRM) assumptions to US$14.2/9.1/7.7/bbl from US$7.3/5.5/5.2 in 2022-24F to reflect a structural refinery sector supply shift after Europe's decision to ban Russian oil products by year end. Russia is the key diesel supplier to Europe making up 50% of European diesel imports and 3% of global demand. Therefore, the disruption from the Ukraine conflict amid multi-year low inventories have led refinery margins to hit record highs. Combined with China's strict export controls, we expect the refinery margin to normalize above the mid-cycle level. Near term is also supportive given the US driving season, the upcoming hurricane season and winter in 4Q.

China limits oil product exports

China, which offers the only potential spare capacity, is being very strict with its environmental policies and has limited its export quota despite domestic demand disruption due to renewed COVID outbreaks in the country and record-high refinery margins. We think this shows that the key focus for the Chinese government is self-sufficiency and environmental control, not making a profit in export markets. We thus expect exports from China to remain limited, especially given domestic demand is on an improving trend as the country eases its lockdowns.

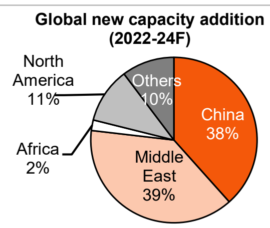
Lack of new supply outside China

There is very limited new supply outside China. A big chunk of global supply growth is driven by China, accounting for 38% of supply additions over 2022-24F. COVID outbreaks and growing environmental concerns triggered significant refinery closures during 2020-21 especially in America and Europe and prevented decisions on investing in new refineries. Meanwhile, renewed COVID outbreaks this year caused 27% of new supply in 2022F to be postponed to next year. Our estimate is that global net supply additions will likely be below demand growth over the next three years. In the shorter term, US and India are running at near maximum capacity.

ESSO is our top refinery pick

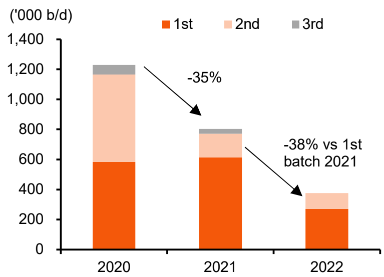
We turn more positive on the refinery sector given the structural supply change leading to a tighter market over the next three years. Despite the sector have already rallied, it still trades at 1.0x 2023F PE vs. its historical average of 1.2x while GRM will likely stay above mid-cycle level. In order of preference, we like ESSO (BUY from Hold), SPRC (BUY from Sell), BCP (maintain BUY), and TOP (HOLD from Sell).

China Controls 38% of New Supply



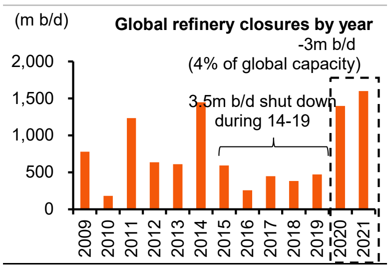
Source: Thanachart Estimates

China Export Quota Is Limited



Source: SP Platts

Lots Of Capacity Closed In 2020-21



Sources: TOP, Thanachart Estimates

A much tighter market

Russia/Ukraine war adds to already tight supply situation

The global refining market has been severely stretched following reductions in capacities in 2020/21, oil product demand having revived along with country re-openings, and the Russia/Ukraine conflict on top of all this. We are now into the US summer driving season with very low inventories starting out. As a result, refining margins have risen to extremely elevated levels of more than US$20/bbl in recent months as buyers seek to replace Russian fuel. Meanwhile, refinery margins in the past have tended to hover at double digits for two months and a maximum of three months, but it has been nearly four months this time which offers proof of the severe tightness in the market, in our view.

European Union officials on 3 June confirmed that a ban will be imposed on Russian oil products within the next eight months. Russia accounts for 40% of Europe's imports of refined products. The key export product is diesel which makes up around 55% Russia's total oil product exports, or about 700k b/d. On a global basis, Russia is also a key exporter of diesel with exports accounting for around 3% of global demand. The Ukraine conflict has already hit Russia's diesel exports despite the ban not yet having been confirmed last month. According to data from Vortexa, Russia's diesel exports to Europe dropped by 8% in May to 646,520 b/d.

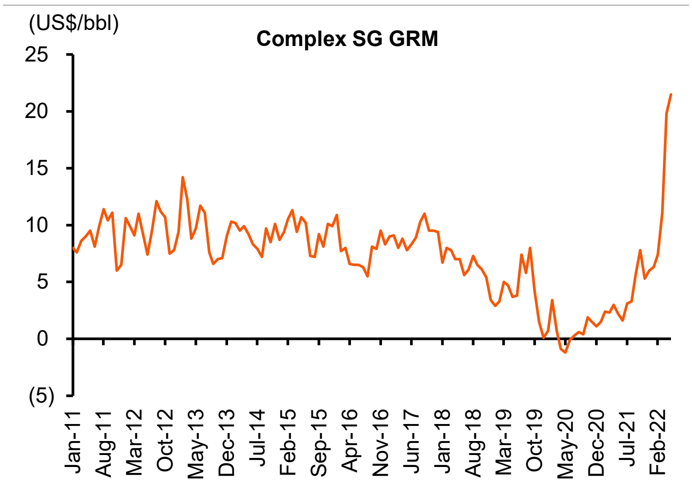
The ban on Russia oil products will likely stay in place even if the war ends which would lead to a structural supply change, in our view. Combined with China's tight control on exports, we see the refinery market turning more favorable over the next three years. Therefore, we raise our Singapore gross refining margin (GRM) assumptions to US$14.2/9.1/7.7/bbl from US$7.3/5.5/5.2 over 2022-24F.

Ex 1: Our New Singapore Complex GRM Assumptions

(US$/bbl)					New			Old			Change (%)		
	2021	1Q22	2Q22	June	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
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*
SG GRM	**3.1**	**8.0**	**18.6**	**18.6**	**14.2**	**9.1**	**7.7**	**7.3**	**5.5**	**5.2**	***94.0***	***65.0***	***49.0***

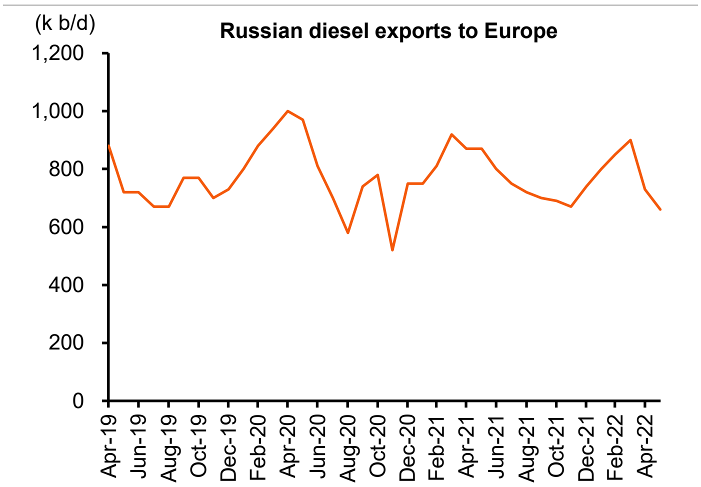
Sources: Company data, Thanachart estimates

Ex 2: Refinery Margin Has Skyrocketed



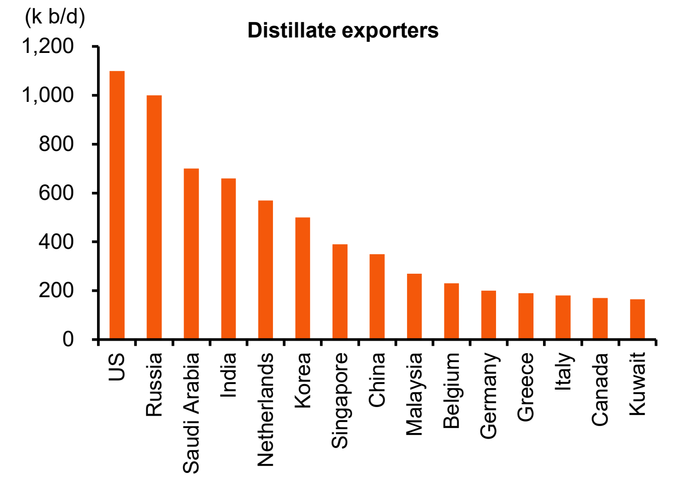
Sources: Bloomberg, Thanachart estimates

Ex 3: Russian Diesel Exports To Fall From Here



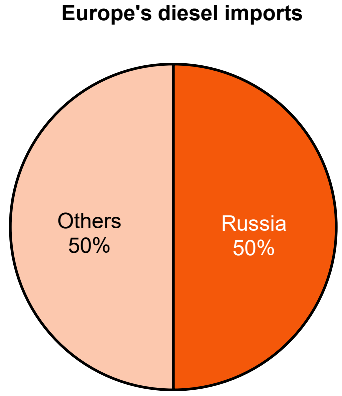
Source: Vortexa

Ex 4: Russia A Key Exporter Of Middle Distillate…



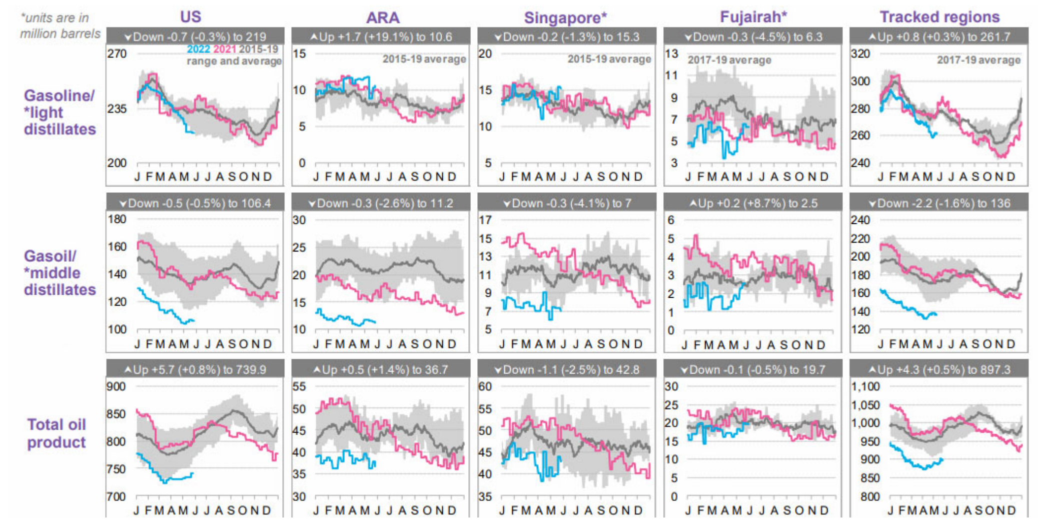
Sources: Joint Organizations Data Initiatives

Ex 5: …And A Key Exporter To Europe



Source: SP Platts

Ex 6: Global Oil Products Inventory Are Substantially Below Five-Year Historical Average

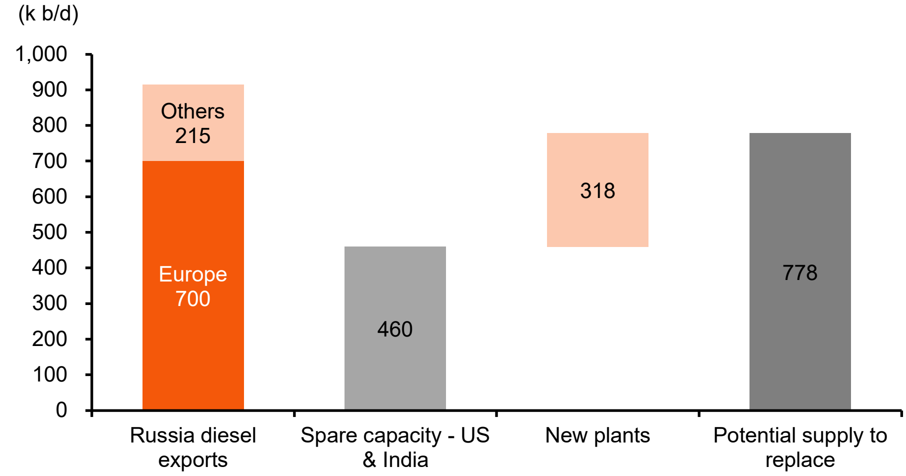


Source: Bloomberg

Filling Russia supply gap a challenge

Plugging the Russian supply gap would require a very significant ramp-up from other suppliers. Although diesel imports from Asia, the Middle East and the United States have risen in recent months, imports from Russia have still exceeded those from other regions.

Ex 7: Russian Oil Product Exports Cannot Be Entirely Replaced

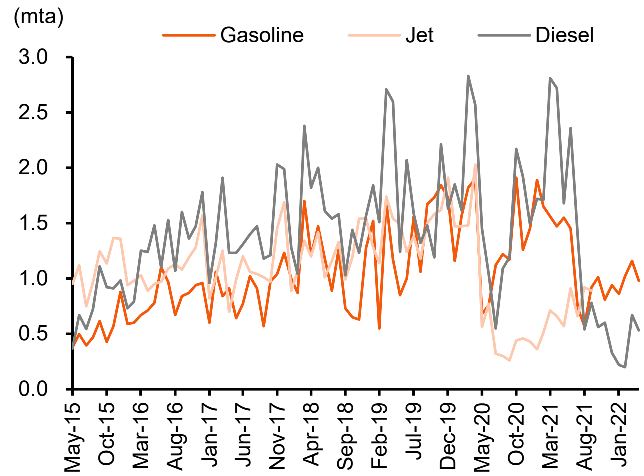


Sources: Bloomberg, Thanachart estimates

We expect China oil export growth to remain limited

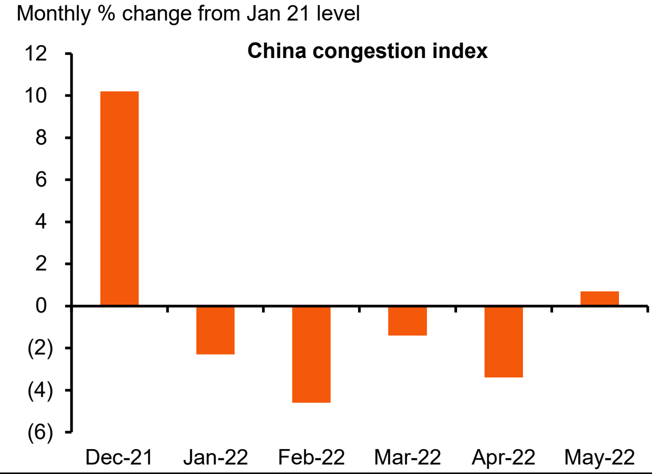
Firstly, we expect China's oil export growth to remain limited. The Chinese government has significantly scaled back oil product export quotas for its domestic refineries on the back of its policy to cut carbon emissions since 2021. According to S&P Platts, China's government issued additional batch for fuel export quota amount to only 4.5mt. Combined with first batch of 13mt, total export quota YTD in 2022 stands at 17.5mt (376k b/d) which is 40% lower compared to 1st batch in 2021. Additionally, the domestic fuel pricing mechanism in China which caps GRM for local refineries when crude oil prices reach US$105/bbl will likely disincentivize local refineries from ramping up utilization rates, in our view. Finally, rising domestic demand would further reduce the risk of the Chinese government raising export quotas further as refineries would need to supply demand in the domestic market first.

Ex 8 China Exports To Remain Muted



Source: Bloomberg

Ex 9: Recovering China Demand Will Limit Export

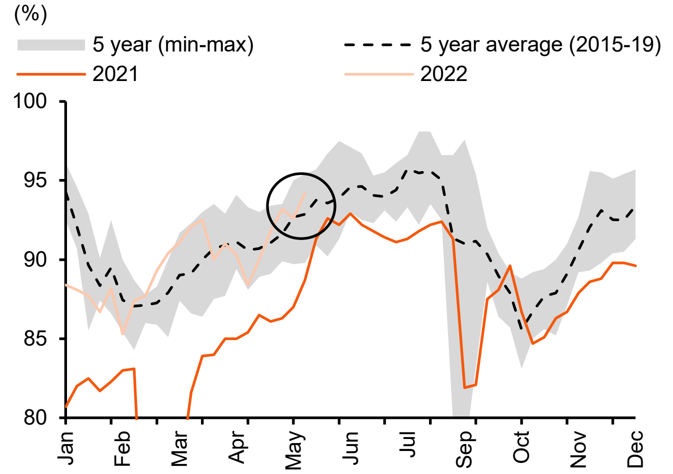


Source: Bloomberg

India and US refineries are running near maximum capacity

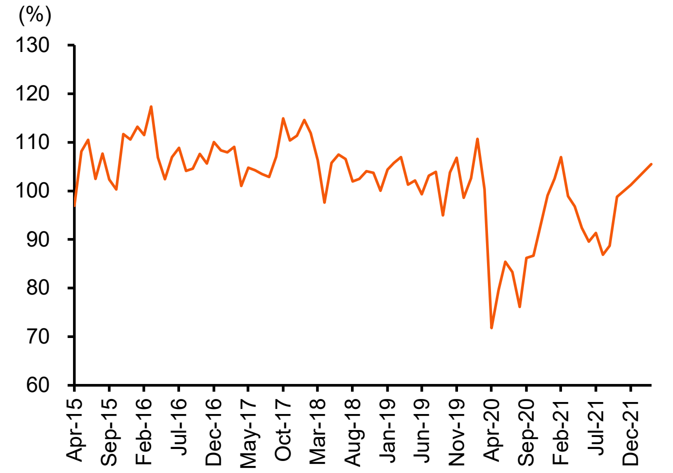
Secondly, refineries outside China are running at near capacity and have little or no excess refining capacity. For example, India has maximized its refineries' utilization rates and kept them running at near full-capacity levels. The latest data from Bloomberg reveals that they are running at 105% vs. the highest utilization rate since 2015 of 117%. Meanwhile, US refineries are also running at 94% which is only 4% below their highest utilization level over the past decade.

Ex 10: US Refinery Utilization



Source: Bloomberg

Ex 11: India Refinery Utilization



Sources: Bloomberg

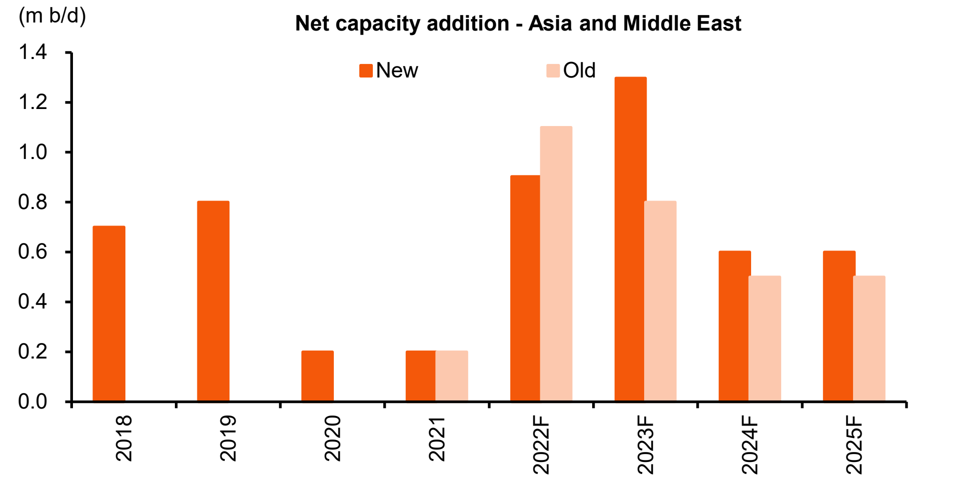
European refineries struggling to find alternative crude supplies

Thirdly, increasing the run rates for European refineries would be difficult given that supplies of Russian crude have been disrupted. And with continued refinery closures expected in Europe along with regular maintenance work curbing throughput, domestic producers' ability to cover any shortfall may be limited.

18% of new plants have been delayed until 2023

Finally, renewed lockdowns have led to delays in start-ups of new plants. We expect new capacity additions in the Asia-Pacific and the Middle East this year to come to only 0.9m b/d, which is 18% lower than the initial expectation of 1.1m b/d.

Ex 12: New Supply In 2022 Postponed To 2023



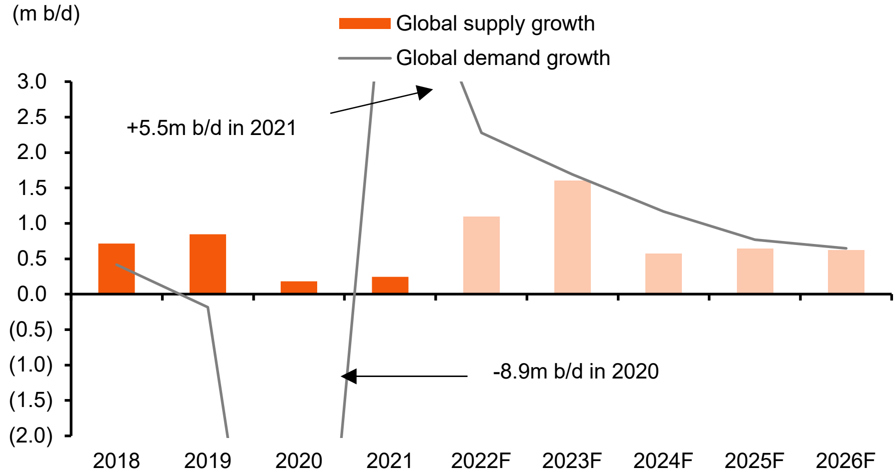
Source: TOP

China limits refined product exports

China, key to supply growth, unlikely to export to the regional market

With China continuing its policy to cut carbon emissions, new supply in China is unlikely to flood into the regional market. China is the key contributor of new supply over the next three years, accounting for 38% of global capacity additions. We are project global supply addition of 1.6m b/d in 2023F vs demand growth of 1.7m b/d. However, China accounts for around 33% of new supply in 2023F or around 525k b/d.

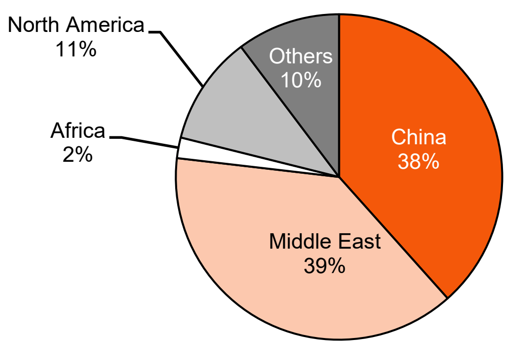
Ex 13: Favorable Global Demand/Supply Balance Over 2022-26F



Source: Thanachart estimates

Ex 14: 38% of New Capacity Come From China Over 2022-24F

Global new capacity addition (2022-24F)

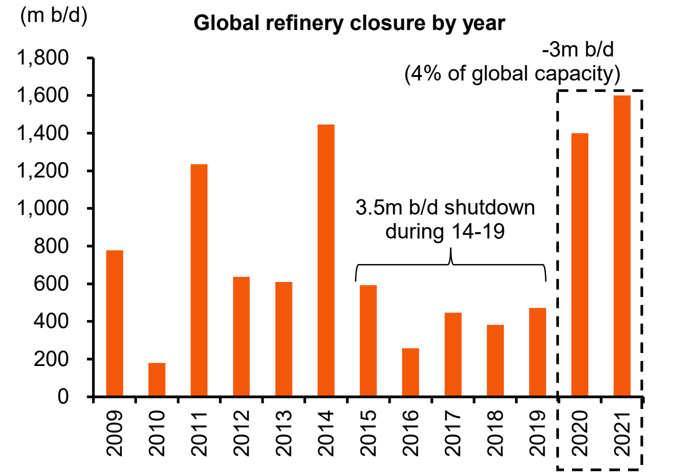


Source: Thanachart estimates

Limited supply growth outside China

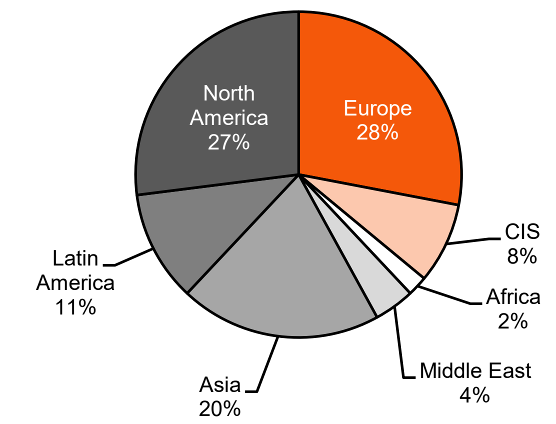
Apart from China, there are limited capacity additions on the horizon. In fact, the pandemic has accelerated global supply rationalization and triggered many plants to shut down permanently, especially in the US and Europe. Some 3m b/d of refining capacity closed down in 2020-21, representing about six years of capacity closure combined and making up around 4% of global capacity. On top of this, the growing energy transition trend has prevented companies from making any new investments in the refinery market.

Ex 15: Pandemic-led Capacity Closures



Source: SP Platts

Ex 16: Global Capacity Closure Since 2008



Source: SP Platts

ESSO is our top refinery pick

Earnings upgrades

Given our higher refinery margin assumptions, we lift our 2022-24F profits substantially (see Exhibit 17). We also factor in our new oil price assumptions and bake in potential inventory gains/(losses) in our 2022-24F estimates.

Ex 17: Earnings Revisions

(Bt m)			New			Old			*Change (%)*		
	1Q22	2021A	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
Reported profit											
BCP	4,356	7,624	9,314	5,459	5,084	6,347	4,214	3,785	*46.7*	*29.5*	*34.3*
ESSO	5,900	4,443	13,062	4,263	4,437	6,856	2,846	2,719	*90.5*	*49.8*	*63.2*
SPRC	5,284	4,746	13,807	5,073	5,583	8,041	3,493	3,518	*71.7*	*45.2*	*58.7*
TOP	7,183	12,578	26,114	9,811	8,511	27,591	6,512	6,868	*(5.4)*	*50.7*	*23.9*
Norm profit											
BCP	764	4,592	9,937	6,474	5,282	6,347	4,214	3,785	*56.6*	*53.6*	*39.6*
ESSO	1,708	(1,704)	6,291	5,671	5,097	676	2,846	2,719	*830.7*	*99.3*	*87.4*
SPRC	695	(1,542)	11,348	6,870	6,444	3,676	2,826	3,518	*208.7*	*143.1*	*83.2*
TOP	4,177	5,583	16,466	12,233	9,699	8,591	6,512	6,868	*91.7*	*87.9*	*41.2*

Sources: Company data, Thanachart estimates

P/BV remains below 10-year historical average

We turn more positive on the refinery sector given our expectation for a structural change in supply that we see leading to a tighter market over the next three years. Despite most refinery stocks having already rallied, the refinery sector is still trading on 1.0x 2023F P/BV vs. its 10-year historical average of 1.2x while GRM looks set to remain above the mid-cycle level. Meanwhile, peers in South Korea, India and the US are already trading at nearly 1STD above their historical mean. Our base-case projection also expects the refinery margin to normalize at above the mid-cycle level at US$9.1/bbl in 2023F and US$7.7/bbl in 2024F. Historically, the sector traded at 1.5x when the refinery margin was at that level vs. only 1.0x currently.

ESSO is our top refinery pick

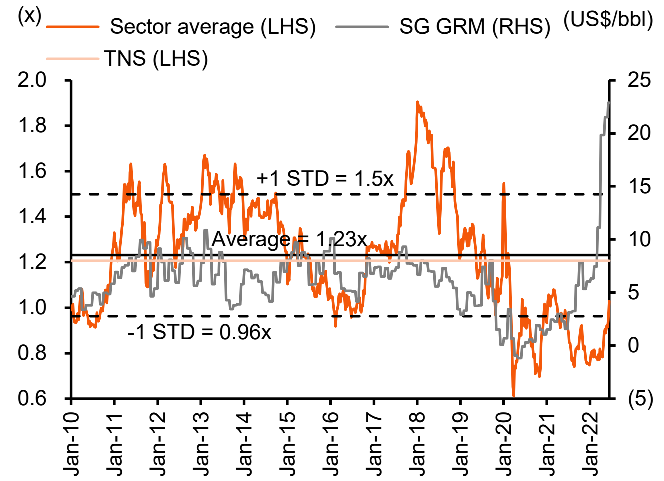
In order of preference, we like ESSO (upgrade to BUY from Hold), SPRC (BUY from Sell), BCP (BUY) and TOP (HOLD from Sell). ESSO is our preferred pick as a pure play with the highest potential volume upside. We expect strong volume growth driven by more aggressive retail expansion, rising demand, and the shutdown of its paraxylene (Px) unit, which is allowing it to produce more gasoline. SPRC is our No.2 pick due to pure refining exposure and zero hedging position. BCP is our No.3 choice because of its relatively lower valuation and exposure to prevailing high crude oil prices. TOP is our least preferred choice given the drag from its loss-making aromatics unit and high hedging position.

Ex 18: Target Price And Recommendation Changes

BBG Code	Rec. Old	New	Current price (Bt)	Target price (Bt)	*Up/down side (%)*	Market Cap (US$ m)	Norm PE 2022F (x)	Norm PE 2023F (x)	P/BV 2022F (x)	P/BV 2023F (x)	Div yield 2022F (x)	Div yield 2023F (x)	ROE 2022F (%)	ROE 2023F (%)
BCP TB	HOLD	BUY	34.25	39.00	13.9	1,357	4.7	7.3	0.8	0.7	5.3	3.5	17.5	10.5
ESSO TB	BUY	BUY	12.20	16.00	31.1	1,215	6.7	7.4	1.4	1.3	8.2	4.0	25.3	18.1
SPRC TB	SELL	BUY	13.00	15.50	19.2	1,622	5.0	8.2	1.2	1.2	9.2	3.6	28.5	15.0
TOP TB	SELL	HOLD	56.75	57.00	0.4	3,330	7.0	9.5	0.8	0.8	5.3	3.4	12.6	8.5

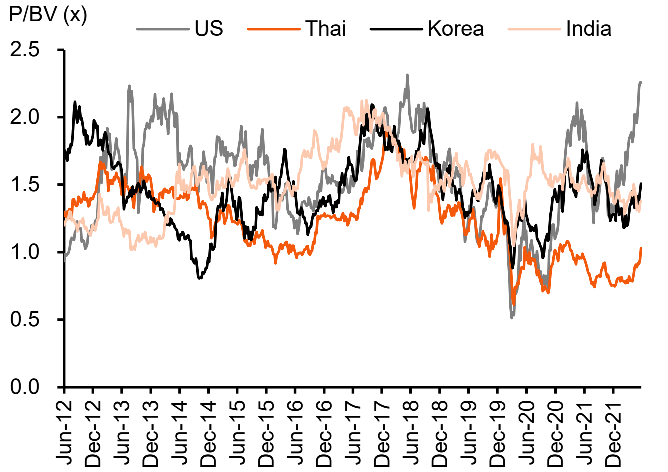
Sources: Bloomberg, Thanachart estimates

Ex 19: Sector P/BV vs. GRM



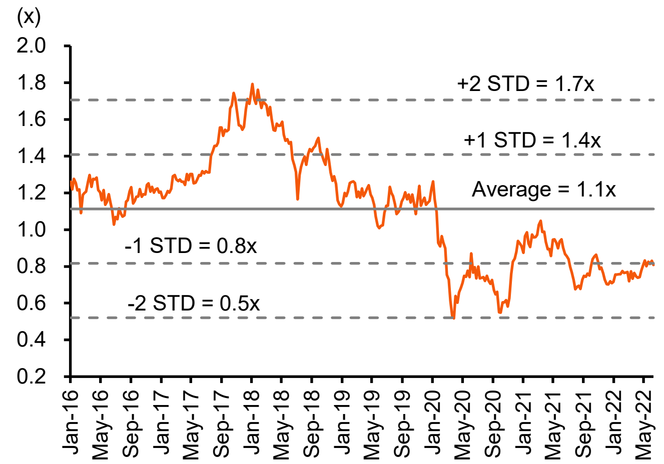
Sources: Bloomberg, Thanachart estimates

Ex 20: Thai Refineries' P/BV Vs. Peers'



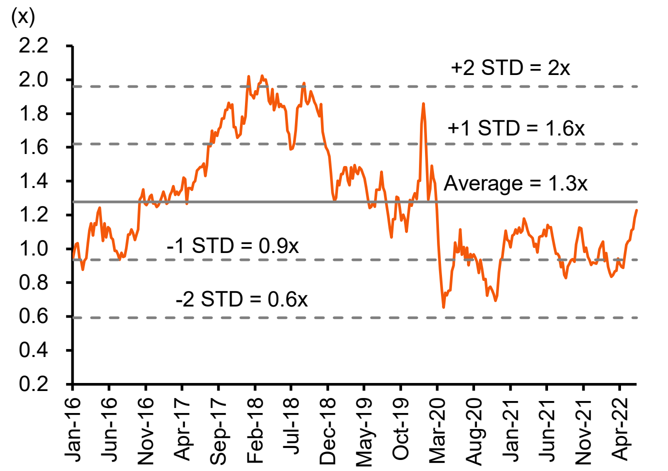
Sources: Bloomberg, Thanachart estimates

Ex 21: TOP's P/BV



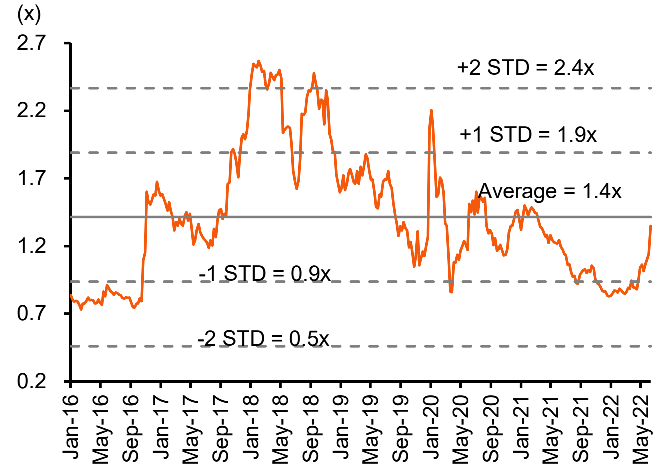
Sources: Bloomberg, Thanachart estimates

Ex 22: SPRC's P/BV



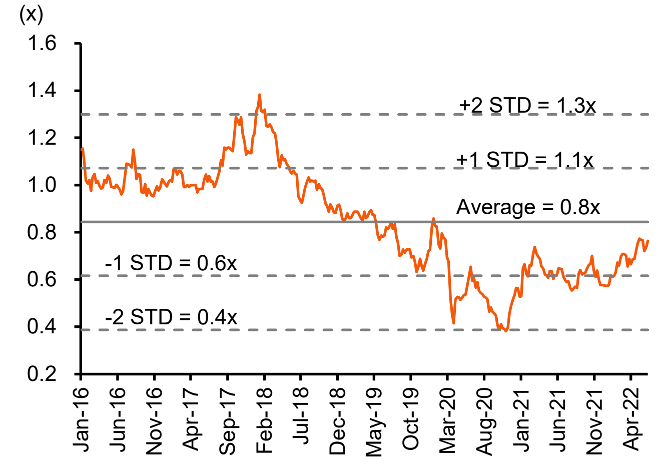
Sources: Bloomberg, Thanachart estimates

Ex 23: ESSO's P/BV



Sources: Bloomberg, Thanachart estimates

Ex 24: BCP's P/BV



Sources: Bloomberg, Thanachart estimates

Ex 25: Sector Valuation Comparison

		BCP	ESSO	SPRC	TOP	Industry
Rating		**BUY**	**BUY**	**BUY**	**HOLD**	
Target price (Bt)	**Thanachart**	**39.00**	**16.00**	**15.50**	**57.00**	
	Consensus	36.55	11.50	13.10	67.00	
Consensus rec.	BUY	10	3	14	17	
	HOLD	4	3	3	8	
	SELL	0	1	1	1	
Sales (Bt m)	2021	199,417	172,878	172,484	345,496	890,276
	2022F	271,726	169,762	267,381	460,867	1,169,736
	2023F	265,427	169,343	262,786	423,639	1,121,195
	2024F	249,570	165,990	252,457	406,717	1,074,734
Norm profits	2021	4,592	(1,704)	(1,542)	5,583	6,929
(Bt m)	2022F	9,937	6,291	11,348	16,466	44,041
	2023F	6,474	5,671	6,870	12,233	31,248
	2024F	5,282	5,097	6,444	9,699	26,522
Sales	2021	46.1	36.5	32.5	39.4	38.6
growth (%)	2022F	36.3	(1.8)	55.0	33.4	30.7
	2023F	(2.3)	(0.2)	(1.7)	(8.1)	(3.1)
	2024F	(6.0)	(2.0)	(3.9)	(4.0)	(4.0)
Norm EPS	2021	na	na	na	na	na
growth (%)	2022F	116.4	na	na	194.9	155.7
	2023F	(34.9)	(9.9)	(39.5)	(25.7)	(27.5)
	2024F	(18.4)	(10.1)	(6.2)	(20.7)	(13.9)
Operating	2021	6.6	(0.3)	0.1	2.6	2.2
margin (%)	2022F	10.8	5.5	5.5	5.0	6.7
	2023F	7.1	3.8	3.1	4.1	4.5
	2024F	6.4	3.5	3.1	3.9	4.2
ROE (%)	2021	9.2	(10.2)	(5.1)	4.7	(0.3)
	2022F	17.5	25.3	28.5	12.6	21.0
	2023F	10.5	18.1	15.0	8.5	13.0
	2024F	8.1	15.2	13.3	6.5	10.8
Dividend yield	2021	5.8	0.0	1.4	4.6	2.9
(%)	2022F	5.3	8.2	9.2	5.3	7.0
	2023F	3.5	4.0	3.6	3.4	3.6
	2024F	3.5	4.2	4.0	2.9	3.7
P/BV (x)	2021	0.9	2.2	1.6	1.0	1.4
	2022F	0.8	1.4	1.2	0.8	1.1
	2023F	0.7	1.3	1.2	0.8	1.0
	2024F	0.7	1.2	1.1	0.8	1.0
Norm PE (x)	2021	10.3	na	na	20.7	15.5
	2022F	4.7	6.7	5.0	7.0	5.9
	2023F	7.3	7.4	8.2	9.5	8.1
	2024F	8.9	8.3	8.7	11.9	9.5
EV/EBITDA (x)	2021	4.5	31.9	21.6	15.7	18.4
	2022F	3.2	4.6	3.0	9.2	5.0
	2023F	4.8	5.6	4.5	12.6	6.9
	2024F	5.1	5.4	4.0	11.5	6.5
Net D/E (x)	2021	0.7	1.5	0.1	1.1	0.9
	2022F	0.9	0.4	(0.1)	1.2	0.6
	2023F	0.9	0.3	(0.2)	1.3	0.6
	2024F	0.8	0.2	(0.3)	1.3	0.5

Sources: Company data; Thanachart estimates

Valuation Comparison

Ex 26: Comparison With Regional Peers

Company	Code	Country	EPS Growth		PE		P/BV		EV/EBITDA		Div. Yield		ROE	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)	22F (%)	23F (%)
PetroChina	857 HK	China	23.0	(9.0)	7.0	7.6	0.6	0.6	3.3	3.6	5.7	6.5	7.3	8.8
Sinopec	386 HK	China	(1.3)	(0.9)	6.3	6.4	0.6	0.5	3.6	3.8	9.7	10.3	9.6	9.1
Average			**10.8**	**(4.9)**	**6.6**	**7.0**	**0.6**	**0.6**	**3.5**	**3.7**	**7.7**	**8.4**	**8.4**	**8.9**
SK Innovation	096770	S. Korea	na	(23.4)	9.5	12.5	1.1	1.0	6.2	7.1	0.8	1.5	4.4	12.5
S-Oil	010950	S. Korea	51.9	(30.0)	6.2	8.8	1.6	1.4	4.9	6.7	3.2	4.5	23.5	28.1
Average			**51.9**	**(26.7)**	**7.9**	**10.6**	**1.3**	**1.2**	**5.5**	**6.9**	**2.0**	**3.0**	**14.0**	**20.3**
Reliance Industries	RIL IB	India	31.2	27.6	29.8	23.4	2.3	2.1	18.7	14.4	0.3	0.3	8.6	8.0
Indian Oil	IOCL IB	India	65.7	(13.3)	4.4	5.0	0.9	0.8	5.3	6.0	7.0	9.8	14.6	19.3
Bharat Petroleum	BPCL IB	India	(0.3)	(7.3)	7.1	7.7	1.3	1.2	7.8	8.0	6.3	7.7	24.7	18.8
Hindustan Petroleum	HPCL IB	India	(12.6)	6.7	5.1	4.8	0.8	0.7	7.0	6.1	7.8	7.3	24.1	17.2
Average			**21.0**	**3.4**	**11.6**	**10.2**	**1.3**	**1.2**	**9.7**	**8.6**	**5.3**	**6.3**	**18.0**	**15.8**
Marathon Petroleum	MPC US	USA	na	(32.6)	9.0	13.3	2.5	2.5	5.7	7.3	2.1	2.2	3.9	23.9
Valero	VLO US	USA	na	(27.0)	9.4	12.9	2.6	2.4	6.3	7.8	2.8	2.8	4.1	29.5
Phillips 66	PSX US	USA	154.1	(17.6)	9.4	11.4	2.0	1.8	6.8	7.9	3.4	3.5	9.9	24.2
PBF Energy'	PBF US	USA	na	(44.4)	5.6	10.1	1.9	1.6	4.0	6.1	0.0	0.0	(17.4)	26.8
Delek	DK US	USA	na	(49.1)	7.7	15.2	2.1	1.8	4.4	5.7	0.0	0.6	(25.4)	36.0
Average			**154.1**	**(34.1)**	**8.2**	**12.6**	**2.2**	**2.0**	**5.5**	**7.0**	**1.7**	**1.8**	**(5.0)**	**28.1**
Bangchak Corp*	BCP TB *	Thailand	116.4	(34.9)	4.7	7.3	0.8	0.7	3.2	4.8	5.3	3.5	17.5	10.5
ESSO (Thailand) *	ESSO TB *	Thailand	na	(9.9)	6.7	7.4	1.4	1.3	4.6	5.6	8.2	4.0	25.3	18.1
Star Petroleum Refining	SPRC TB *	Thailand	na	(39.5)	5.0	8.2	1.2	1.2	3.0	4.5	9.2	3.6	28.5	15.0
Thai Oil *	TOP TB *	Thailand	194.9	(25.7)	7.0	9.5	0.8	0.8	9.2	12.6	5.3	3.4	12.6	8.5
Average			**155.7**	**(27.5)**	**5.9**	**8.1**	**1.1**	**1.0**	**5.0**	**6.9**	**7.0**	**3.6**	**21.0**	**13.0**
Total Average			**78.7**	**(18.0)**	**8.0**	**9.7**	**1.3**	**1.2**	**5.8**	**6.6**	**4.7**	**4.6**	**11.3**	**17.2**

Sources: Bloomberg, * Thanachart estimates
Based on 10 June 2022 closing prices

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET INDEX	**3.0**	**(1.5)**	**(0.2)**	**(1.5)**	—	—	—	—
Energy	**12.8**	**13.9**	**13.1**	**20.5**	**9.8**	**15.5**	**13.4**	**22.0**
BCP TB	1.5	10.5	29.2	35.6	(1.6)	12.0	29.5	37.2
ESSO TB	37.1	53.5	44.4	66.0	34.0	55.0	44.6	67.5
IRPC TB	13.6	(5.4)	(12.5)	(8.9)	10.6	(3.9)	(12.3)	(7.3)
IVL TB	15.8	15.2	20.6	18.5	12.8	16.7	20.8	20.0
PTT TB	2.7	(5.1)	(9.6)	(1.3)	(0.3)	(3.5)	(9.4)	0.2
PTTEP TB	15.7	15.7	43.0	46.6	12.7	17.3	43.2	48.1
PTTGC TB	5.6	(7.4)	(22.9)	(19.6)	2.5	(5.8)	(22.6)	(18.1)
SPRC TB	20.4	42.9	27.5	32.7	17.3	44.4	27.7	34.2
TOP TB	3.2	5.6	(1.3)	14.6	0.1	7.1	(1.1)	16.2

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Synergies within the PTT group could help lower costs and increase competitiveness via integration.
- Strong balance sheets should enable Thai energy companies to take advantage of low oil prices in M&As.

W — Weakness

- High-cost E&P operation in Thailand.
- Earnings and cash flows are highly volatile, following fluctuations in global oil prices.

O — Opportunity

- Thai refineries, i.e., TOP, IRPC and PTTGC have room for further downstream expansion into higher value-added plastic pellets.
- Overseas acquisitions that could drive growth and value.

T — Threat

- Cheap imported LNG is a major threat to local gas producers, including PTTEP.
- Regulatory risk, i.e., price caps.

REGIONAL COMPARISON

Name	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div. Yield 22F (%)	Div. Yield 23F (%)
China	10.8	(4.9)	6.6	7.0	0.6	0.6	3.5	3.7	7.7	8.4
S.Korea	51.9	(26.7)	7.9	10.6	1.3	1.2	5.5	6.9	2.0	3.0
India	21.0	3.4	11.6	10.2	1.3	1.2	9.7	8.6	5.3	6.3
USA	154.1	(34.1)	8.2	12.6	2.2	2.0	5.5	7.0	1.7	1.8
Thailand	155.7	(27.5)	5.9	8.1	1.1	1.0	5.0	6.9	7.0	3.6
Average	**78.7**	**(18.0)**	**8.0**	**9.7**	**1.3**	**1.2**	**5.8**	**6.6**	**4.7**	**4.6**

Sources: Bloomberg Consensus
Note: * Thanachart estimate – using normalized EPS

BUY (Unchanged)

Change in Numbers

TP: Bt 39.00 (From: Bt 34.00)

Upside : 13.9%

13 JUNE 2022

Small Cap Research

Bangchak Corporation Pcl (BCP TB)

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.

YUPAPAN POLPORNPRASERT
662-779-9110
yupapan.pol@thanachartsec.co.th

Thanachart Securities

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.

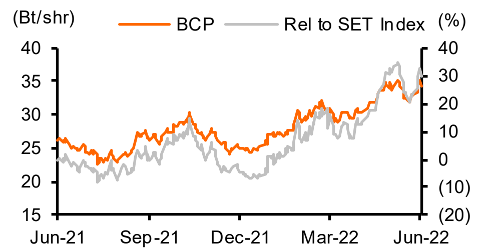
Retail oil business bottoming out

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

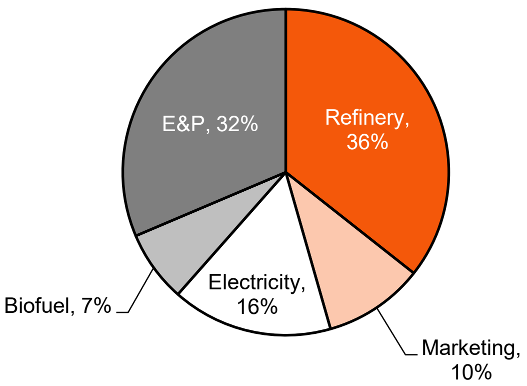


COMPANY INFORMATION

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%

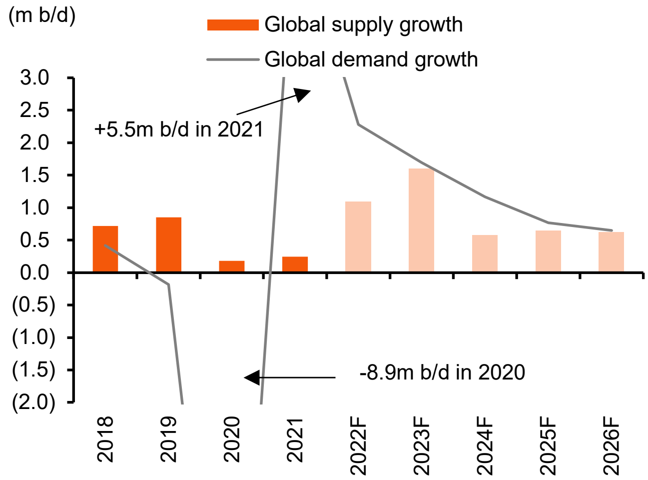
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: BCP's EBITDA Breakdown In 1Q22



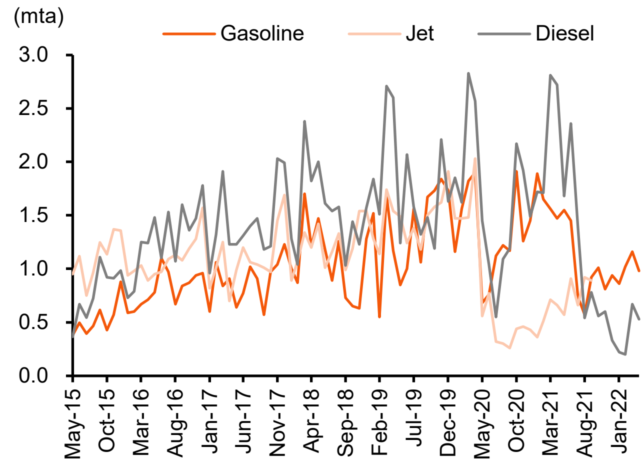
Source: Company data

Ex 2: Global Refinery Demand/Supply Outlook



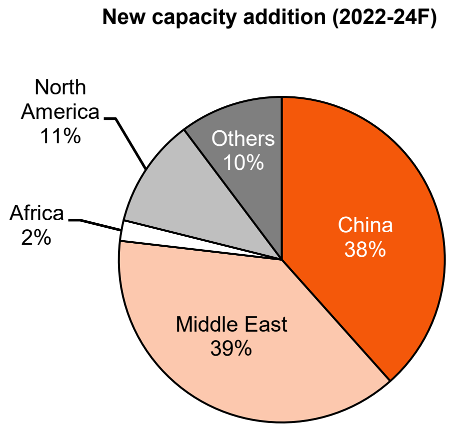
Source: Thanachart estimates

Ex 3: China Exports Expected To Be Muted



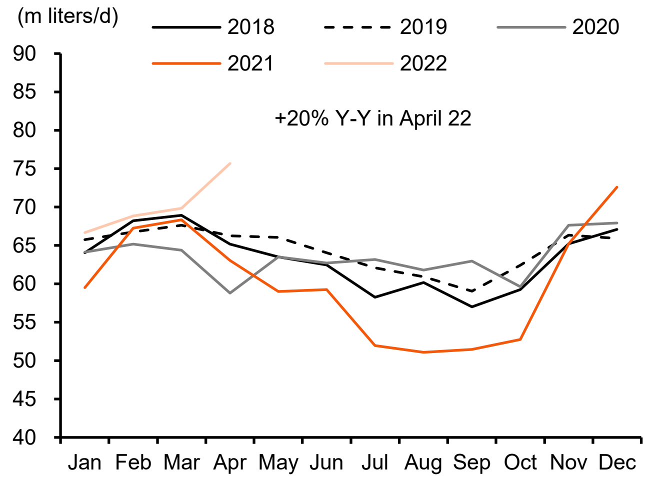
Sources: Bloomberg

Ex 4: Majority Of Supply Growth Is From China



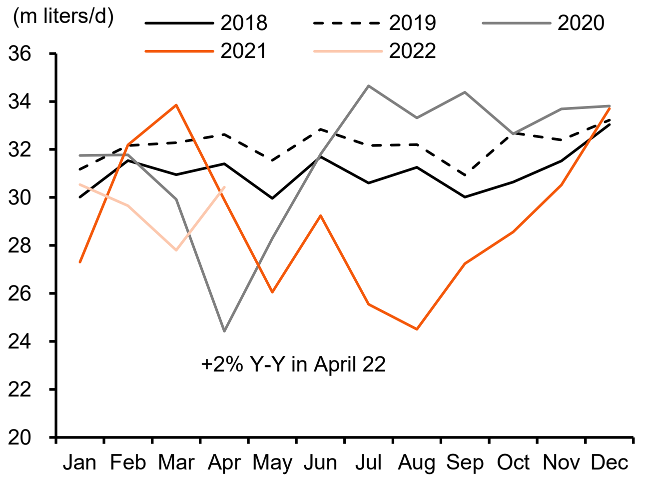
Source: Thanachart estimates

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*
SG GRM	**3.1**	**8.0**	**18.6**	**18.6**	**14.2**	**9.1**	**7.7**	**7.3**	**5.5**	**5.2**	***94.0***	***65.0***	***49.0***

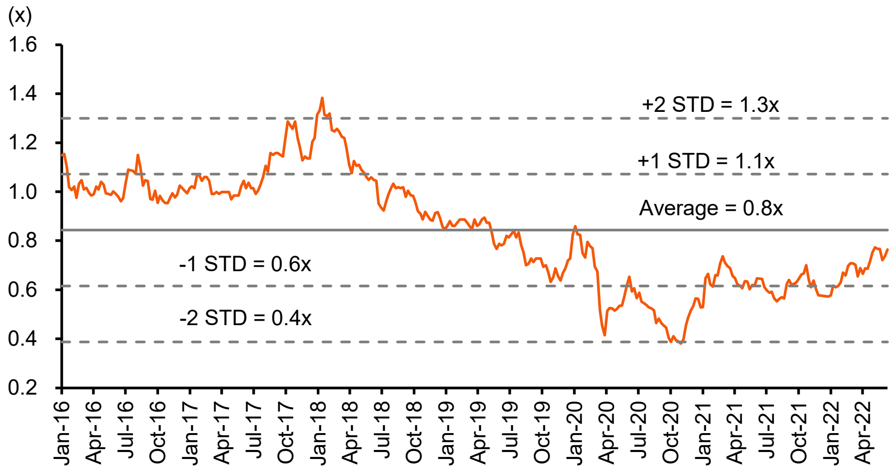
Sources: Bloomberg, Thanachart estimates

Ex 8: Profit Revisions

(Bt m)	Normalized profit			TP
	2022F	2023F	2024F	(Bt/shr)
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												
Equity value/share (Bt)	**39**												

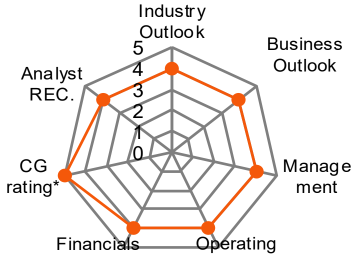
Sources: Company data, Thanachart estimates
Note: *Excluding solar farm cash flows; our TP is rounded up

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



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

- 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

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

O — Opportunity

- Diversifying into green energy.

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

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.

Sources: Bloomberg consensus, Thanachart estimates

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.

Source: Thanachart

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

BCP's investment is mainly in its subsidiary, BCPG

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
Gross profit	**4,328**	**20,238**	**39,015**	**28,450**	**25,020**
% 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
Operating profit	**(2,813)**	**13,085**	**29,268**	**18,929**	**16,068**
% operating margin	-2.1%	6.6%	10.8%	7.1%	6.4%
Depreciation & amortization	6,821	8,075	7,920	7,261	7,281
EBITDA	**4,008**	**21,159**	**37,188**	**26,190**	**23,350**
% 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)
Pre-tax profit	**(4,250)**	**10,034**	**27,963**	**17,810**	**14,936**
Income tax	(1,589)	4,263	15,523	10,485	8,964
After-tax profit	**(2,661)**	**5,771**	**12,440**	**7,325**	**5,972**
% 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)
NET PROFIT	**(6,967)**	**7,624**	**9,314**	**5,459**	**5,084**
Normalized profit	**(4,450)**	**4,592**	**9,937**	**6,474**	**5,282**
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

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
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
Total assets	**148,323**	**201,785**	**240,489**	**253,943**	**249,244**
LIABILITIES:					
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
Total LT debt	**54,095**	**69,787**	**78,414**	**84,752**	**79,379**
Others LT liabilities	10,409	28,334	40,626	39,968	38,313
Total liabilities	**90,006**	**132,226**	**160,687**	**168,855**	**158,991**
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
Retained earnings	**23,100**	**28,863**	**35,561**	**38,954**	**42,386**
Shareholders' equity	46,366	53,467	60,165	63,558	66,990
Liabilities & equity	**148,323**	**201,785**	**240,489**	**253,943**	**249,244**

Sources: Company data, Thanachart estimates

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

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
Cash flow from operations	**12,032**	**14,394**	**14,297**	**17,169**	**15,090**
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
Cash flow from investments	**(15,773)**	**(20,231)**	**(35,715)**	**(22,517)**	**(7,153)**
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
Cash flow from financing	**17,854**	**16,991**	**8,588**	**5,349**	**(7,937)**
Free cash flow	**3,227**	**(8,347)**	**(8,203)**	**(4,431)**	**7,890**

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

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
(Bt)					
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

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

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
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
Operating performance					
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
DuPont					
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

BUY (From: HOLD)

Change in Recommendation

TP: Bt 16.00 (From: Bt 8.20)

Upside : 31.1%

13 JUNE 2022

Small Cap Research

Esso (Thailand) Pcl (ESSO TB)

Our top refinery pick

YUPAPAN POLPORNPRASERT

662-779-9110

yupapan.pol@thanachartsec.co.th

We upgrade ESSO to BUY from Hold and it is our top refinery pick based on three key factors. It is highly exposed to strong GRM, it offers a volume growth story, and it trades on a valuation that is yet to reflect new sector fundamentals in our view.

Upgrading to BUY

This report is a part of *Energy sector – A longer period of high GRM,* dated 13 June 2022. We upgrade ESSO to BUY (from Hold) and it is our top pick among refinery peers. *First*, ESSO's exposure to strong gross refining margin (GRM) has increased after closing its loss-making paraxylene (PX) unit last year. It also doesn't have hedging positions that would dilute high GRM benefits. *Second*, ESSO offers a volume growth story or a higher utilization rate from petrol station expansion. *Lastly*, given our much higher GRM assumptions over the next three years vs. historical levels, we believe ESSO deserves to trade above its current P/BV of 1.3x, which is below its five-year historical average. In this report we lift our GRM assumptions and earnings estimates by 87-831% in 2022-24F and DCF-based 12-month TP, using a 2023F base year, to Bt16.0 (from Bt8.2 previously).

A better product mix

PX is a downstream, petrochemical product that uses output (reformate) from refinery plants as a key feedstock. PX, having been in a structural down cycle for many years, made losses for ESSO and the unit was shut down in April 2021. This has resulted in higher refined product output and ESSO is enjoying the current strong GRM market fully. ESSO also has the second-highest yield among peers with middle distillate and gasoline products at 82% vs. peers' 70-83%. See our GRM assumptions for ESSO in Exhibit 11. As for the benchmark Singapore GRM assumptions, see Exhibit 1 in the main part of the sector report.

Volume growth story

We expect ESSO's utilization rate to rise to 81/85% in 2022-23F vs. 71% in 2021. This is because of its petrol station expansion plan as well as domestic demand recovery. ESSO had 731 stations in 2021 and we expect the number to rise to 800 this year. ESSO also has a deal with Susco Pcl (SUSCO TB, BUY, Bt3.80) to manage more than 80 of SUSCO's stations this year and rebrand them to ESSO stations.

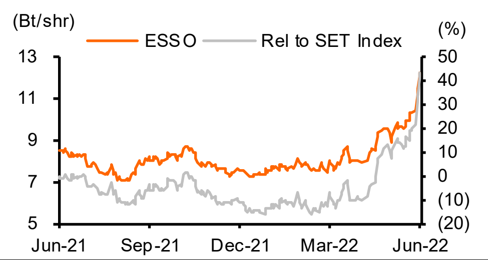
To pay first dividend in three years

As a result of much larger cash flows from the sharp rise in GRM that turned its retained loss to a profit from 1Q22, we expect ESSO to resume dividend payments after not doing so for the past three years. We estimate a Bt1.0 DPS (27% payout), or an 8% yield in 2022F. With our FCF yield projections of 18-22%, ESSO in our view can afford such high dividend payments.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	172,878	169,762	169,343	165,990
Net profit	4,443	13,062	4,263	4,437
Consensus NP	—	7,213	4,942	5,241
Diff frm cons (%)	—	*81.1*	*(13.7)*	*(15.3)*
Norm profit	(1,704)	6,291	5,671	5,097
Prev. Norm profit	—	676	2,846	2,719
Chg frm prev (%)	—	*830.2*	*99.3*	*87.4*
Norm EPS (Bt)	(0.5)	1.8	1.6	1.5
Norm EPS grw (%)	na	na	(9.9)	(10.1)
Norm PE (x)	na	6.7	7.4	8.3
EV/EBITDA (x)	31.9	4.6	5.6	5.4
P/BV (x)	2.2	1.4	1.3	1.2
Div yield (%)	0.0	8.2	4.0	4.2
ROE (%)	na	25.3	18.1	15.2
Net D/E (%)	146.7	44.2	31.5	15.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 10-Jun-22 (Bt)	12.20
Market Cap (US$ m)	1,214.6
Listed Shares (m shares)	3,460.9
Free Float (%)	34.0
Avg Daily Turnover (US$ m)	5.1
12M Price H/L (Bt)	12.00/7.05
Sector	Energy
Major Shareholder	ExxonMobil Int'l 65.99%

Sources: Bloomberg, Company data, Thanachart estimates

Thanachart Securities

ESSO is our top refinery pick

We upgrade Esso (Thailand) Pcl (ESSO) to BUY (from Hold) and it also becomes our top refinery stock pick. We like it from the growth angles of both high gross refining margin (GRM) and volume growth stories while we see its valuation as inexpensive. ESSO also doesn't have product price hedging positions that would dilute the benefits of high GRM.

GRM stories

GRM stories are on rising margin and improved product mix

We see two growth angles from rising GRM via the strong market outlook and ESSO's improved product mix. Exhibit 11 shows our new GRM assumptions for ESSO, in tandem with our more bullish outlook for the refinery market which we discuss in our main sector note, *Energy Sector – A longer period of high GRM,* dated 13 June 2022.

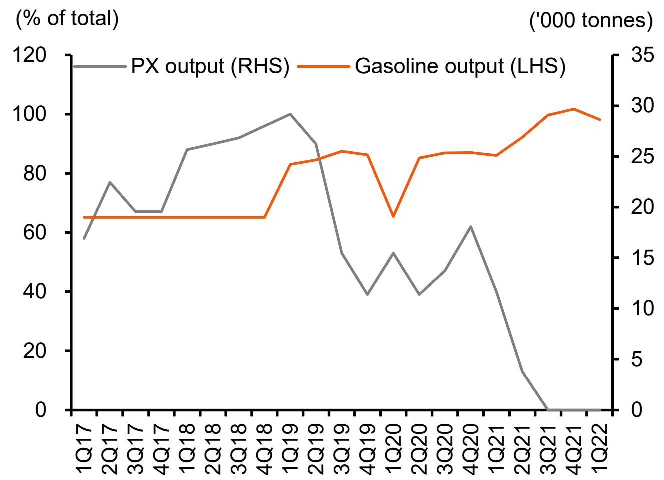
ESSO is also enjoying a higher margin from an improved product mix after the shutdown of its loss-making PX unit in April 2021 that has resulted in higher production output of high-margin gasoline (see Exhibit 2). Gasoline output has increased to 29% of total output currently from 24% before the PX unit's shutdown.

Ex 1: New Singapore Complex GRM Assumptions

(US$/bbl)	Actual			New			Old			*Change (US$)*		
	2021	1Q22	June	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
Spread over Dubai												
Gasoline	11.0	17.8	40.0	27.1	20.3	18.3	16.5	13.0	12.0	*10.6*	*7.3*	*6.3*
Diesel	6.7	19.6	32.0	27.0	17.1	15.1	19.1	14.0	14.0	*7.9*	*3.1*	*1.1*
Jet	5.8	16.2	33.4	25.3	20.8	18.8	17.6	13.0	13.0	*7.7*	*7.8*	*5.8*
HSFP	(4.9)	(8.3)	(6.1)	(5.4)	(8.0)	(8.0)	(7.7)	(8.0)	(8.0)	*2.3*	*0.0*	*0.0*
SG GRM	**3.1**	**8.0**	**18.6**	**14.2**	**9.1**	**7.7**	**7.3**	**5.5**	**5.2**	***6.9***	***3.6***	***2.5***

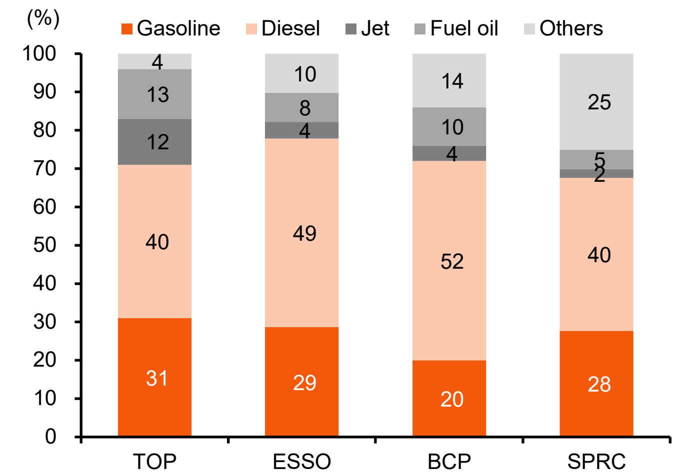
Sources: Bloomberg, Thanachart estimates

Ex 2: Gasoline Output Rises After PX Plant Closure



Source: Company data

Ex 3: High Exposure To High Margin Diesel And Gasoline



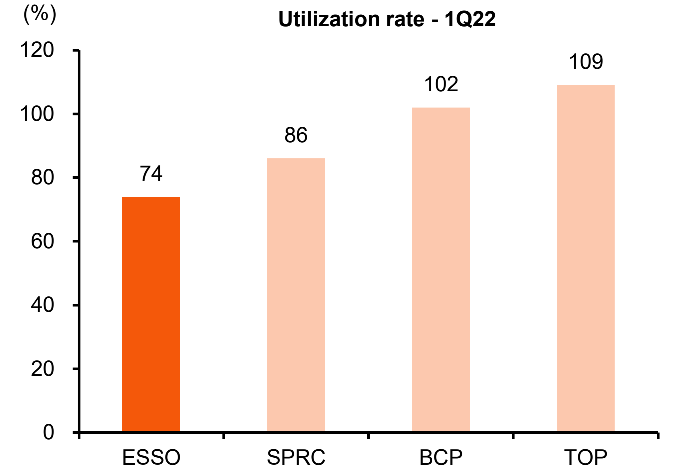
Source: Company data

Volume growth stories

Rising utilization

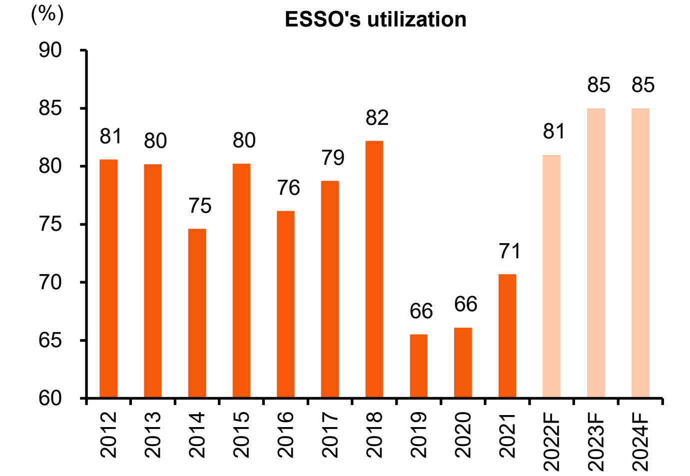
There are two key factors driving ESSO's refinery utilization rate. The first is an oil retail consumption recovery post-COVID and the second is the expansion of petrol stations. We estimate ESSO's utilization to rise to 81/85/85% in 2022-24F from 71% in 2021.

Ex 4: ESSO Has Room To Increase Utilization



Source: Company data

Ex 5: Rising Utilization



Sources: Company data; Thanachart estimates

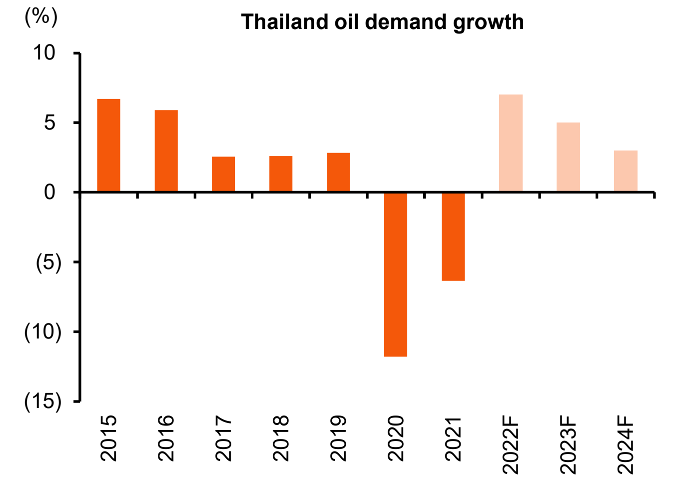
Domestic oil demand recovery

Exhibit 6 shows domestic oil consumption in Thailand which we estimate to grow by 7/5/3% in 2022-24F following the post-COVID economic recovery and country reopening. In 4M21, oil consumption grew by 12% y-y.

ESSO's two-way petrol station expansions

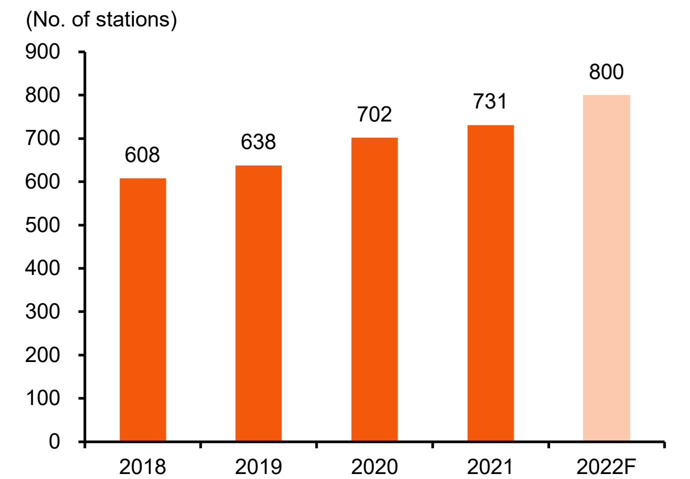
As for petrol station expansions, we expect ESSO's petrol stations to increase from 739 currently to 800 in 2024F. ESSO targets to add 69 new stations this year. On top of that, it has a partnership contract with Susco Pcl (SUSCO, BUY, Bt3.80) to rebrand 81 of SUSCO's petrol stations to become ESSO stations. As for the business model, SUSCO continues to be the owner of these stations. ESSO pays for renovation expenses and in return it sells its refined oil products to the stations and also gets a share of the marketing margin. Some 57 stations have been converted to ESSO stations since 2021. Due to stronger brand recognition after the conversion, sales volumes at those stations have improved by as much as 40%, according to SUSCO's management.

Ex 6: Domestic Oil Demand



Sources: DOEB; Thanachart estimates

Ex 7: ESSO's Petrol Station Expansions



Sources: Company data; Thanachart estimates

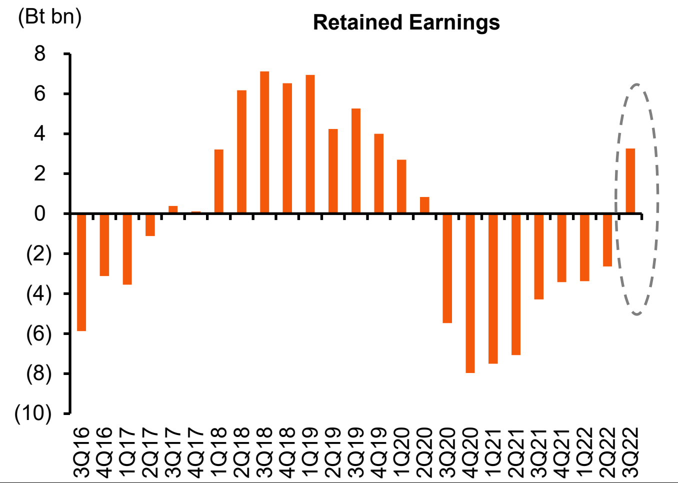
Dividend story

Can now afford to pay a dividend and we estimate an 8% yield in 2022F

We expect ESSO to start paying a dividend this year after three years of no payment. ESSO's retained earnings turned to a loss in 3Q20 due to the COVID impact on its operation. That said, its retained earnings already turned positive in 1Q22 (see Exhibit 8) giving leeway for the company to be able to pay dividends.

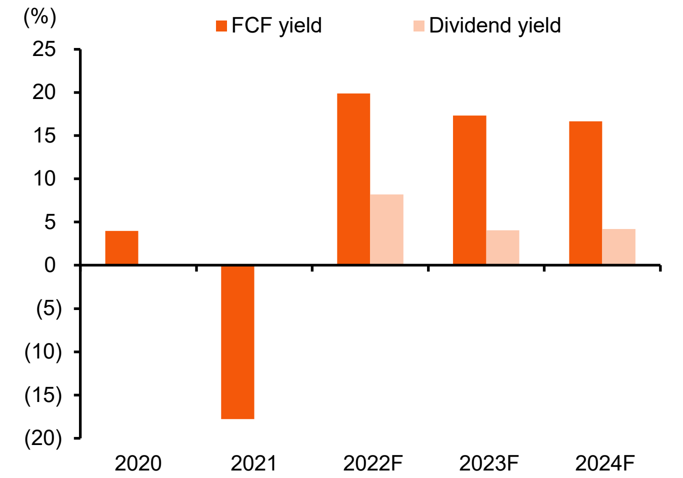
And with our more bullish refinery market outlook and our new GRM assumptions, we expect ESSO to continue to pay dividends for the next three years. We estimate its dividend yields at 8/4.0/4.2% in 2022-24F, supported by high FCF yields of 19.9/17.3/16.7%.

Ex 8: Retained Earnings Have Turned Positive



Source: Company data

Ex 9: FCF Vs. Dividend Yield



Source: Thanachart estimates

Earnings revisions

Note that in this report we revise up our normalized earnings estimates by 87-831% in 2022-24F mainly on the back of our higher GRM assumptions (see Exhibit 1 in our main sector report). We therefore lift our DCF-based 12-month TP, which is rolled over to a 2023F base year, to Bt16.0 (from Bt8.2 previously).

Ex 10: Earnings Revisions

(Bt m)	Normalized profit			TP
	2022F	2023F	2024F	(Bt/shr)
New	6,291	5,671	5,097	16.00
Old	676	2,846	2,719	8.20
Change (%)	*830.7*	*99.3*	*87.4*	*95.10*

Sources: Thanachart estimates

Ex 11: Key Assumption Changes

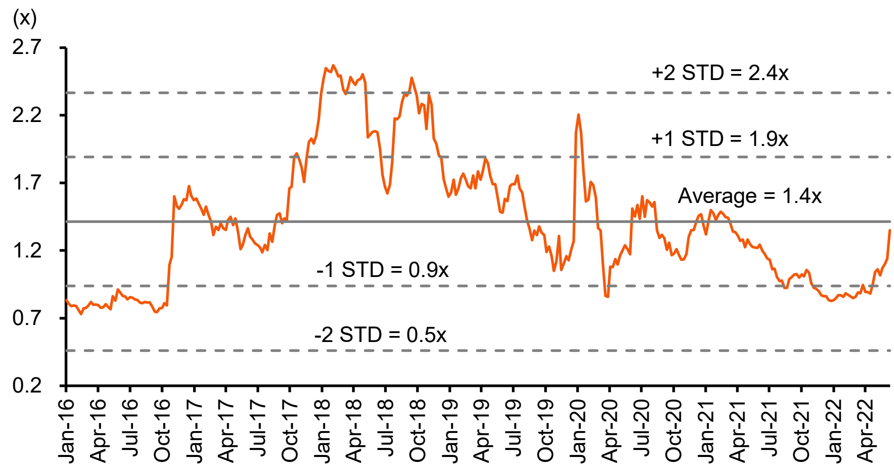
	New			Old			*Change (%)*		
	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
Accounting GRM (US$/bbl)	13.44	6.35	6.22	8.74	5.14	5.02	*53.8*	*23.5*	*23.9*
Utilization (%)	81.0	85.0	85.0	75.0	80.0	80.0	*8.0*	*6.3*	*6.3*
Marketing margin (Bt/litre)	1.50	1.70	1.90	1.70	1.70	1.90	*(12)*	*0.0*	*0.0*
Retail volume growth	7.0	5.0	3.0	5.0	4.0	3.0	*40.0*	*25.0*	*0.0*

Sources: Thanachart estimates

Inexpensive valuation in our view

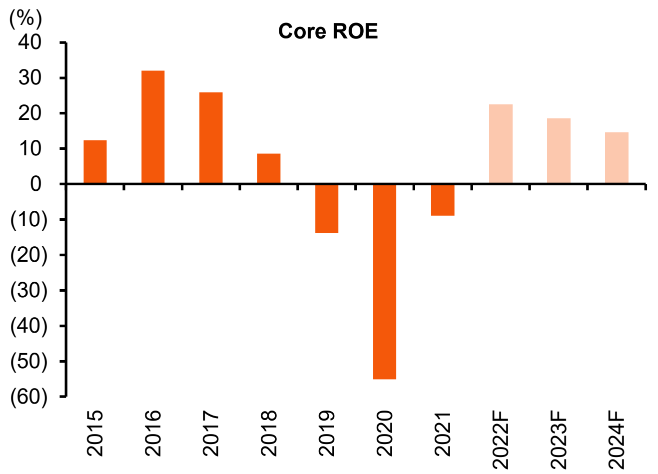
Valuation wise, we see ESSO as inexpensive. On a P/BV basis, it is still trading below its historical mean (see Exhibit 12) despite ROE being at a higher base compared to the past (Exhibit 13). The stock doesn't look expensive to us on a PE multiple basis either, trading at 7.4x 2023F PE (see Exhibit 14).

Ex 12: P/BV Band



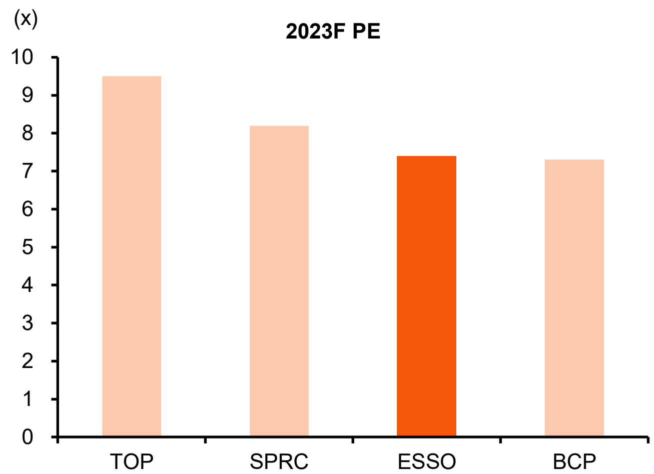
Sources: Bloomberg, Thanachart estimates

Ex 13: ROE At A Higher Base



Sources: Company data; Thanachart estimates

Ex 14: 2023F PE Of ESSO And Refinery Peers



Sources: Bloomberg; Thanachart estimates

Ex 15: 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 + dividend	9,349	8,830	7,024	7,834	8,440	8,091	7,434	8,040	8,646	8,297	8,372	
Free cash flow	6,847	6,851	5,022	5,628	6,107	5,761	5,222	5,820	6,316	5,970	4,878	71,854
PV of free cash flow	6,340	5,872	3,935	4,066	4,067	3,537	2,955	3,036	2,925	2,538	1,904	28,044
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	8.0											
Terminal growth (%)	2.0											
Enterprise value - add investments	69,221											
Net debt (2022F)	13,498											
Minority interest	8											
Equity value	55,715											
# of shares (m)	3,461											
Equity value/share (Bt)	**16.0**											

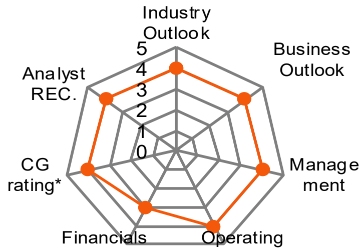
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Esso (Thailand) Pcl (ESSO) is one of the leading refining companies in Thailand. It operates a 177,000bpd complex refinery with a Nelson Complexity of 6.6. It controls 13% of Thailand's refining production capacity and commands around a 15% oil retail market share. ESSO also has a PX capacity of 0.5m tonnes. The company is a 65%-owned subsidiary of ExxonMobil while the Ministry of Finance owns 7%. ESSO has one of the highest sales volumes in the domestic market at over 90%, as its parent, ExxonMobil, has strategically positioned ESSO as a key refinery supplier for Thailand, while ExxonMobil's larger refinery and petrochemical complex in Singapore is used for export markets.

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

- Technology transfer and benefits of crude sourcing from Exxon – its parent company.

W — Weakness

- Inactive parent company policy limits growth potential.
- Government intervention in retail refined oil price easier than at the wholesale level via control of marketing margins.
- Being a less complex refinery would cause the company to have a higher cost structure and is thus less competitive.

O — Opportunity

- Only moves along with industry; limited growth opportunities in our view.

T — Threat

- Rivals under PTT group are active in capacity expansion and new areas of growth potential.
- Threat of substitutes such as electric vehicles may lower demand for oil products.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	11.12	16.00	44%
Net profit 22F (Bt m)	7,213	13,062	81%
Net profit 23F (Bt m)	4,942	4,263	-14%
Consensus REC	**BUY: 3**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F EPS estimate is higher than consensus mainly due to our higher GRM assumptions.
- Consequently, our target price is higher than consensus.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected refining margins would be the key downside risks to our call.
- Lower-than-expected domestic demand growth would negatively impact ESSO's oil retail business and is another downside risk to our call.

Source: Thanachart

Core profit to improve in 2022F on higher GRM, absence of loss-making PX unit

With low capex, higher profit should improve its balance sheet

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	126,672	172,878	169,762	169,343	165,990
Cost of sales	131,408	168,408	155,396	157,926	155,242
Gross profit	**(4,736)**	**4,471**	**14,367**	**11,417**	**10,748**
% gross margin	-3.7%	2.6%	8.5%	6.7%	6.5%
Selling & administration expenses	5,217	5,068	4,976	4,964	4,866
Operating profit	**(9,953)**	**(597)**	**9,390**	**6,453**	**5,882**
% operating margin	-7.9%	-0.3%	5.5%	3.8%	3.5%
Depreciation & amortization	2,568	2,808	2,845	2,896	2,948
EBITDA	**(7,385)**	**2,210**	**12,235**	**9,349**	**8,830**
% EBITDA margin	-5.8%	1.3%	7.2%	5.5%	5.3%
Non-operating income	70	29	69	69	69
Non-operating expenses	0	0	0	0	0
Interest expense	(360)	(311)	(285)	(168)	(128)
Pre-tax profit	**(10,243)**	**(879)**	**9,174**	**6,354**	**5,823**
Income tax	(2,048)	1,051	3,266	1,066	1,109
After-tax profit	**(8,195)**	**(1,930)**	**5,908**	**5,288**	**4,714**
% net margin	-6.5%	-1.1%	3.5%	3.1%	2.8%
Shares in affiliates' Earnings	285	227	384	384	384
Minority interests	(1)	(1)	(1)	(1)	(1)
Extraordinary items	0	6,147	6,771	(1,408)	(660)
NET PROFIT	**(7,911)**	**4,443**	**13,062**	**4,263**	**4,437**
Normalized profit	**(7,911)**	**(1,704)**	**6,291**	**5,671**	**5,097**
EPS (Bt)	(2.3)	1.3	3.8	1.2	1.3
Normalized EPS (Bt)	(2.3)	(0.5)	1.8	1.6	1.5

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	22,921	33,784	32,077	32,325	31,750
Cash & cash equivalent	262	802	802	802	802
Account receivables	5,083	8,171	8,024	8,004	7,846
Inventories	13,144	18,786	17,334	17,617	17,317
Others	4,432	6,025	5,917	5,902	5,785
Investments & loans	5,649	4,455	4,455	4,455	4,455
Net fixed assets	24,750	23,706	22,161	20,565	18,917
Other assets	8,058	8,109	8,041	8,031	7,958
Total assets	**61,378**	**70,055**	**66,734**	**65,376**	**63,080**
LIABILITIES:					
Current liabilities:	35,446	42,008	28,185	25,612	21,309
Account payables	4,452	5,117	4,722	4,799	4,717
Bank overdraft & ST loans	16,703	19,323	9,531	7,310	4,206
Current LT debt	5,167	5,667	2,795	2,144	1,233
Others current liabilities	9,125	11,900	11,137	11,360	11,152
Total LT debt	**6,333**	**3,999**	**1,973**	**1,513**	**870**
Others LT liabilities	5,239	4,839	6,036	6,030	5,982
Total liabilities	**47,019**	**50,846**	**36,193**	**33,155**	**28,162**
Minority interest	7	7	8	9	10
Preferreds shares	0	0	0	0	0
Paid-up capital	17,075	17,075	17,075	17,075	17,075
Share premium	4,032	4,032	4,032	4,032	4,032
Warrants	0	0	0	0	0
Surplus	325	731	731	731	731
Retained earnings	**(7,080)**	**(2,637)**	**8,695**	**10,375**	**13,071**
Shareholders' equity	14,352	19,201	30,532	32,213	34,909
Liabilities & equity	**61,378**	**70,055**	**66,734**	**65,376**	**63,080**

Sources: Company data, Thanachart estimates

Strong cash-flow generation due to limited capex and lower working capital requirements

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(10,243)	(879)	9,174	6,354	5,823
Tax paid	2,048	(1,051)	(3,266)	(1,066)	(1,109)
Depreciation & amortization	2,568	2,808	2,845	2,896	2,948
Chg In w orking capital	6,754	(8,064)	1,203	(186)	376
Chg In other CA & CL / minorities	2,269	1,436	(271)	622	293
Cash flow from operations	**3,394**	**(5,751)**	**9,685**	**8,621**	**8,330**
Capex	(1,718)	(1,763)	(1,300)	(1,300)	(1,300)
Right of use	(4,287)	(18)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(1,941)	1,193	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3,126	5,685	8,036	(1,405)	(634)
Cash flow from investments	**(4,821)**	**5,098**	**6,736**	**(2,705)**	**(1,934)**
Debt financing	1,259	787	(14,691)	(3,333)	(4,657)
Capital increase	0	0	0	0	0
Dividends paid	(1)	(1)	(1,730)	(2,583)	(1,740)
Warrants & other surplus	153	406	0	0	0
Cash flow from financing	**1,411**	**1,193**	**(16,421)**	**(5,916)**	**(6,397)**
Free cash flow	**1,676**	**(7,514)**	**8,385**	**7,321**	**7,030**

We think ESSO's valuation looks attractive trading on 1.3x P/BV

Expect ESSO to pay first dividend in three years

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	6.7	7.4	8.3
Normalized PE - at target price (x)	na	na	8.8	9.8	10.9
PE (x)	na	9.5	3.2	9.9	9.5
PE - at target price (x)	na	12.5	4.2	13.0	12.5
EV/EBITDA (x)	na	31.9	4.6	5.6	5.4
EV/EBITDA - at target price (x)	na	37.8	5.6	7.0	6.9
P/BV (x)	2.9	2.2	1.4	1.3	1.2
P/BV - at target price (x)	3.9	2.9	1.8	1.7	1.6
P/CFO (x)	12.4	(7.3)	4.4	4.9	5.1
Price/sales (x)	0.3	0.2	0.2	0.2	0.3
Dividend yield (%)	0.0	0.0	8.2	4.0	4.2
FCF Yield (%)	4.0	(17.8)	19.9	17.3	16.7
(Bt)					
Normalized EPS	(2.3)	(0.5)	1.8	1.6	1.5
EPS	(2.3)	1.3	3.8	1.2	1.3
DPS	0.0	0.0	1.0	0.5	0.5
BV/share	4.1	5.5	8.8	9.3	10.1
CFO/share	1.0	(1.7)	2.8	2.5	2.4
FCF/share	0.5	(2.2)	2.4	2.1	2.0

Sources: Company data, Thanachart estimates

We expect net gearing to improve over the next few years

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(25.2)	36.5	(1.8)	(0.2)	(2.0)
Net profit (%)	na	na	194.0	(67.4)	4.1
EPS (%)	na	na	194.0	(67.4)	4.1
Normalized profit (%)	na	na	na	(9.9)	(10.1)
Normalized EPS (%)	na	na	na	(9.9)	(10.1)
Dividend payout ratio (%)	0.0	0.0	26.5	40.0	40.0
Operating performance					
Gross margin (%)	(3.7)	2.6	8.5	6.7	6.5
Operating margin (%)	(7.9)	(0.3)	5.5	3.8	3.5
EBITDA margin (%)	(5.8)	1.3	7.2	5.5	5.3
Net margin (%)	(6.5)	(1.1)	3.5	3.1	2.8
D/E (incl. minor) (x)	2.0	1.5	0.5	0.3	0.2
Net D/E (incl. minor) (x)	1.9	1.5	0.4	0.3	0.2
Interest coverage - EBIT (x)	na	na	33.0	38.5	45.9
Interest coverage - EBITDA (x)	na	7.1	43.0	55.8	69.0
ROA - using norm profit (%)	na	na	9.2	8.6	7.9
ROE - using norm profit (%)	na	na	25.3	18.1	15.2
DuPont					
ROE - using after tax profit (%)	na	na	23.8	16.9	14.0
- asset turnover (x)	2.0	2.6	2.5	2.6	2.6
- operating margin (%)	na	na	5.6	3.9	3.6
- leverage (x)	3.5	3.9	2.8	2.1	1.9
- interest burden (%)	103.6	154.7	97.0	97.4	97.8
- tax burden (%)	na	na	64.4	83.2	80.9
WACC (%)	8.0	8.0	8.0	8.0	8.0
ROIC (%)	(20.4)	(1.4)	12.8	12.2	11.2
NOPAT (Bt m)	(9,953)	(597)	6,048	5,371	4,762
invested capital (Bt m)	42,293	47,389	44,030	42,377	40,417

Sources: Company data, Thanachart estimates

BUY (From: SELL)

Change in Recommendation

TP: Bt 15.50 (From: Bt 8.50)

Upside : 19.2%

13 JUNE 2022

Small Cap Research

Star Petroleum Refining (SPRC TB)

A pure refinery play

We upgrade SPRC to BUY from Sell with a new TP of Bt15.5. SPRC is a pure refinery play fully enjoying the elevated GRM cycle. The company also doesn't have hedging positions to dilute high GRM benefits. We also like SPRC for its lofty 2022F dividend yield of 9.2%.

YUPAPAN POLPORNPRASERT
662-779-9110
yupapan.pol@thanachartsec.co.th

Thanachart Securities

Upgrading to BUY

This report is a part of *Energy sector – A longer period of high GRM*, dated 13 June 2022. We upgrade SPRC to BUY (from Sell) as we turn more positive on the longer-term refinery market outlook. Exhibit 4 shows our assumption changes and we raise our DCF-based 12-month TP for SPRC to Bt15.5 (from Bt8.5) on the back of our higher gross refinery margin (GRM) assumptions and rolling over to a 2023F base year. We like SPRC as it is a pure refinery play that is fully enjoying the strong market without hedging positions diluting its high GRM benefits. It also has crude intake flexibility to reduce the impact of high crude premiums. And we estimate a strong dividend yield of 9.2% in 2022F.

Fully benefiting from strong GRM

SPRC is a pure refinery play without GRM hedging positions, thus fully benefiting from the high GRM environment. We lift our assumptions for SPRC's GRM to US$9.9/7.1/6.7 (from US$5.9/5.4/5.2) in 2022-24F. This follows the improved global supply/demand outlook from limited Chinese exports and lower supply from Russia as a result of sanctions. We also raise our utilization rate assumption from 81% to 92% in 2022F following strong domestic demand and we expect the company to reach 100% utilization in 2024F as jet fuel demand gradually resumes.

High dividend yields

We estimate SPRC's free cash flow yields at 17/16% in 2022-23F. With this we believe SPRC can afford to pay Bt1.2/0.5 DPS or 9.2/3.6% yields in 2022-23F. This is based on dividend payout ratios of 37/40%. SPRC paid a Bt0.2 DPS in 2021 on a payout ratio of 16%.

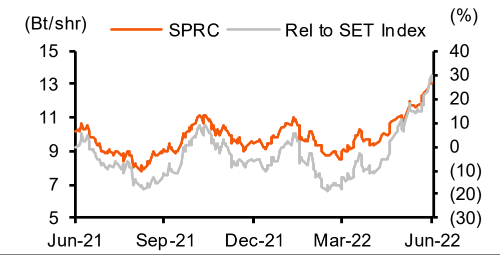
Still at a discount to regional peers

Despite already having had a good run-up, SPRC's share price is still at a discount to regional peers'. The stock is trading at 1.2x 2023F P/BV which is below its South Korean and Indian peers' that are trading at 1.3-1.4x. This is despite SPRC having a higher ROE (see Exhibit 3). Our TP implies a P/BV of 1.4x, which looks justified to us based on ROE of 28/15% in 2022-23F. SPRC's five-year historical P/BV is 1.3x vs. its five-year historical average ROE of 3%.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	172,484	267,381	262,786	252,457
Net profit	4,746	13,807	5,073	5,583
Consensus NP	—	8,898	5,884	6,508
Diff frm cons (%)	—	*55.2*	*(13.8)*	*(14.2)*
Norm profit	(1,542)	11,348	6,870	6,444
Prev. Norm profit	—	3,676	2,826	3,518
Chg frm prev (%)	—	*208.7*	*143.1*	*83.2*
Norm EPS (Bt)	(0.4)	2.6	1.6	1.5
Norm EPS grw (%)	na	na	(39.5)	(6.2)
Norm PE (x)	na	5.0	8.2	8.7
EV/EBITDA (x)	21.6	3.0	4.5	4.0
P/BV (x)	1.6	1.2	1.2	1.1
Div yield (%)	1.4	9.2	3.6	4.0
ROE (%)	na	28.5	15.0	13.3
Net D/E (%)	14.9	(7.5)	(15.6)	(27.4)

PRICE PERFORMANCE

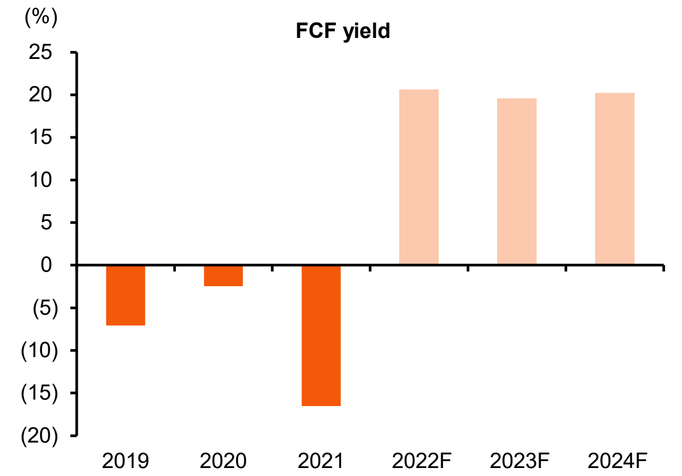


COMPANY INFORMATION

Price *as of* 10-Jun-22 (Bt)	13.00
Market Cap (US$ m)	1,621.5
Listed Shares (m shares)	4,335.9
Free Float (%)	39.4
Avg Daily Turnover (US$ m)	10.2
12M Price H/L (Bt)	13.30/7.85
Sector	Energy
Major Shareholder	Chevron Asia Holdings 60.56%

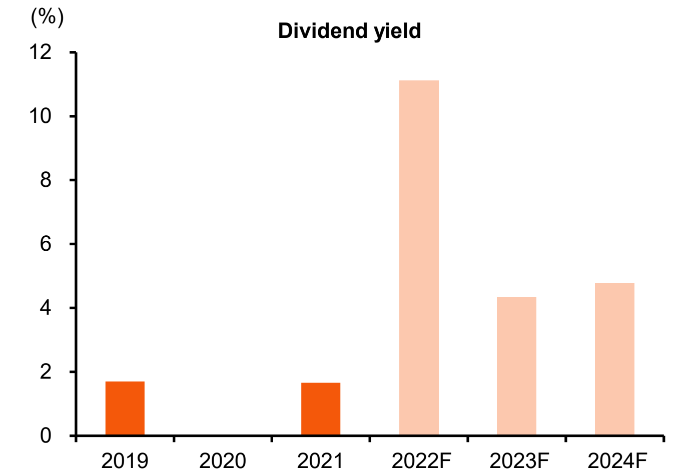
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: FCF Yield Forecasts



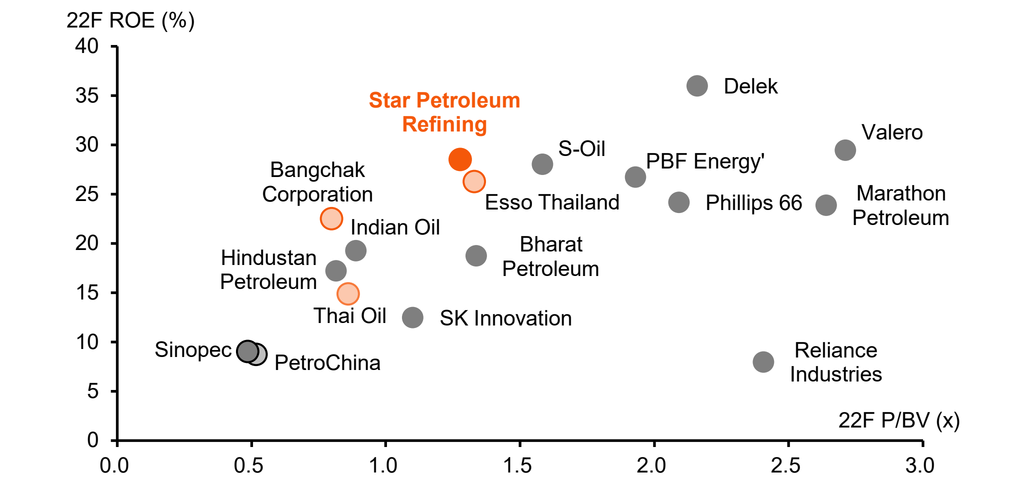
Source: Thanachart estimates

Ex 2: Dividend Yield Forecasts



Source: Thanachart estimates

Ex 3: P/BV Vs. ROE



Sources: Bloomberg, Thanachart estimates

Ex 4: New Singapore Complex GRM Assumptions

(US$/bbl)					New			Old			Change (%)	
	2021	1Q22	2Q22	June	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
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*
SG GRM	**3.1**	**8.0**	**18.6**	**18.6**	**14.2**	**9.1**	**7.7**	**7.3**	**5.5**	**5.2**	***94.0***	***65.0***	***49.0***

Sources: Company data, Thanachart estimates

Ex 5: Profit Revisions

(Bt m)	Normalized profit 2022F	2023F	2024F	TP (Bt/shr)
New	11,348	6,870	6,444	15.50
Old	3,676	2,826	3,518	8.50
Change (%)	*208.7*	*143.1*	*83.2*	*82.4*

Sources: Thanachart estimates

Ex 6: 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 + dividend		10,978	10,673	9,074	11,649	8,884	8,892	8,897	8,902	6,554	8,959	9,049	
Free cash flow		8,928	9,196	7,544	5,574	6,964	7,012	7,021	7,031	8,666	1,337	4,940	52,629
PV of free cash flow		8,154	7,667	5,668	3,807	4,324	3,957	3,602	3,279	3,533	493	1,650	17,574
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.1												
WACC (%)	9.5												
Terminal growth (%)	1.0												
Enterprise value - add Investments	63,708												
Net debt (2022F)	(3,393)												
Minority interest	0												
Equity value	67,101												
# of shares (m)	4,336												
Equity value/sh (Bt)	**15.5**												

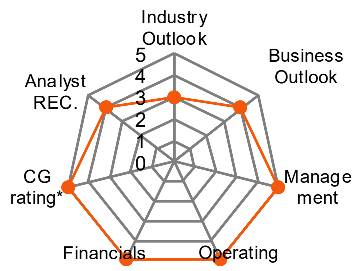
Sources: Thanachart estimates

COMPANY DESCRIPTION

Star Petroleum Refining Pcl's (SPRC) refinery produces petroleum products, which include LPG, premium and regular grades of unleaded gasoline, high-speed diesel, jet fuel and fuel oil, as well as petrochemical feedstocks used in the petrochemical industry, which include PGP, LPG, chemical-grade naphtha, mixed C4 and reformate. The company has refining capacity of 175K b/d.

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 operator with a very high utilization rate and high plant reliability.
- Procurement, distribution, and technical support from parent Chevron.

W — Weakness

- Volatile earnings due to its pure refinery exposure.
- Lack of company-owned retail channel limits upside from domestic product placement and higher marketing margin.
- Limited growth potential to expand its refinery business given that Thailand is a net export country for refined oil products.

O — Opportunity

- Opportunities to upgrade and/or expand its refinery to meet higher local demand.
- Expansion into new businesses or securing its own retail channel.

T — Threat

- High oil prices could slow local demand and force it to sell in the lower-margin export market.
- Threat of substitutes such as electric vehicles may lower demand for oil products.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	13.11	15.50	18%
Net profit 22F (Bt m)	8,898	13,807	55%
Net profit 23F (Bt m)	5,884	5,073	-14%
Consensus REC	**BUY: 14**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- We are significantly above the Bloomberg consensus due to our higher GRM forecast, but below on 2023F due to our incorporation of inventory loss
- Our DCF-based TP is consequently higher than the consensus number due to our more positive view on refinery margin.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Downside risk is sudden increase in China oil export or collapse in demand that will lead to refinery margin correction.
- Sudden government intervention at ex-refinery price to help reduce pressure on inflation

Source: Thanachart

Despite we forecast lower profit in 2023F, we see upside risk if war extended

Balance sheet remains strong despite a difficult operating environment during the pandemic

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	130,163	172,484	267,381	262,786	252,457
Cost of sales	137,169	171,528	251,749	253,845	243,847
Gross profit	**(7,006)**	**956**	**15,632**	**8,941**	**8,610**
% gross margin	-5.4%	0.6%	5.8%	3.4%	3.4%
Selling & administration expenses	911	749	881	881	881
Operating profit	**(7,916)**	**207**	**14,751**	**8,060**	**7,729**
% operating margin	-6.1%	0.1%	5.5%	3.1%	3.1%
Depreciation & amortization	2,832	2,644	2,874	2,918	2,944
EBITDA	**(5,084)**	**2,851**	**17,625**	**10,978**	**10,673**
% EBITDA margin	-3.9%	1.7%	6.6%	4.2%	4.2%
Non-operating income	71	62	40	70	103
Non-operating expenses	143	(433)	0	0	0
Interest expense	(177)	(212)	0	0	0
Pre-tax profit	**(7,880)**	**(376)**	**14,791**	**8,130**	**7,832**
Income tax	(1,555)	1,166	3,443	1,260	1,388
After-tax profit	**(6,325)**	**(1,542)**	**11,348**	**6,870**	**6,444**
% net margin	-4.9%	-0.9%	4.2%	2.6%	2.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	(5,955)	6,288	2,459	(1,797)	(861)
NET PROFIT	**(12,280)**	**4,746**	**13,807**	**5,073**	**5,583**
Normalized profit	**(6,325)**	**(1,542)**	**11,348**	**6,870**	**6,444**
EPS (Bt)	(2.8)	1.1	3.2	1.2	1.3
Normalized EPS (Bt)	(1.5)	(0.4)	2.6	1.6	1.5

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	19,323	32,731	42,124	46,012	47,056
Cash & cash equivalent	1,635	2,945	5,000	9,000	11,500
Account receivables	8,515	13,219	16,351	16,070	15,438
Inventories	9,052	16,486	20,647	20,819	19,999
Others	121	81	125	123	118
Investments & loans	0	0	0	0	0
Net fixed assets	24,156	24,219	23,045	20,827	18,583
Other assets	3,062	1,776	2,702	2,657	2,557
Total assets	**46,541**	**58,726**	**67,871**	**69,497**	**68,196**
LIABILITIES:					
Current liabilities:	10,740	20,031	20,049	20,034	18,755
Account payables	7,821	13,961	17,375	17,520	16,830
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	1,380	4,680	241	259	(336)
Others current liabilities	1,539	1,390	2,433	2,255	2,262
Total LT debt	**8,857**	**3,374**	**1,366**	**1,470**	**(1,903)**
Others LT liabilities	517	950	1,267	1,347	1,245
Total liabilities	**20,114**	**24,355**	**22,682**	**22,851**	**18,098**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	30,004	30,004	30,004	30,004	30,004
Share premium	978	978	978	978	978
Warrants	0	0	0	0	0
Surplus	(7,447)	(4,207)	(4,207)	(4,207)	(4,207)
Retained earnings	**2,892**	**7,596**	**18,414**	**19,871**	**23,323**
Shareholders' equity	26,427	34,371	45,189	46,646	50,098
Liabilities & equity	**46,541**	**58,726**	**67,871**	**69,497**	**68,196**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(7,880)	(376)	14,791	8,130	7,832
Tax paid	1,555	(1,166)	(3,443)	(1,260)	(1,388)
Depreciation & amortization	2,832	2,644	2,874	2,918	2,944
Chg In w orking capital	1,736	(5,999)	(3,879)	254	762
Chg In other CA & CL / minorities	847	(171)	996	(176)	11
Cash flow from operations	**(910)**	**(5,068)**	**11,339**	**9,866**	**10,160**
Capex	(253)	(2,665)	(1,700)	(700)	(700)
Right of use	0	0	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(7,191)	7,670	1,852	(1,672)	(862)
Cash flow from investments	**(7,444)**	**5,005**	**152**	**(2,372)**	**(1,562)**
Debt financing	3,738	(1,824)	(6,447)	123	(3,968)
Capital increase	0	0	0	0	0
Dividends paid	(271)	(774)	(2,989)	(3,616)	(2,131)
Warrants & other surplus	6,502	3,971	0	0	0
Cash flow from financing	**9,969**	**1,373**	**(9,436)**	**(3,493)**	**(6,099)**
Free cash flow	**(1,163)**	**(7,733)**	**9,639**	**9,166**	**9,460**

With limited capex, high GRM, FCF are strong over the next three years

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	5.0	8.2	8.7
Normalized PE - at target price (x)	na	na	5.9	9.8	10.4
PE (x)	na	11.9	4.1	11.1	10.1
PE - at target price (x)	na	14.2	4.9	13.2	12.0
EV/EBITDA (x)	na	21.6	3.0	4.5	4.0
EV/EBITDA - at target price (x)	na	25.4	3.6	5.5	5.0
P/BV (x)	2.1	1.6	1.2	1.2	1.1
P/BV - at target price (x)	2.5	2.0	1.5	1.4	1.3
P/CFO (x)	(61.9)	(11.1)	5.0	5.7	5.5
Price/sales (x)	0.4	0.3	0.2	0.2	0.2
Dividend yield (%)	0.0	1.4	9.2	3.6	4.0
FCF Yield (%)	(2.1)	(13.7)	17.1	16.3	16.8
(Bt)					
Normalized EPS	(1.5)	(0.4)	2.6	1.6	1.5
EPS	(2.8)	1.1	3.2	1.2	1.3
DPS	0.0	0.2	1.2	0.5	0.5
BV/share	6.1	7.9	10.4	10.8	11.6
CFO/share	(0.2)	(1.2)	2.6	2.3	2.3
FCF/share	(0.3)	(1.8)	2.2	2.1	2.2

We see valuations at 1.2x P/BV attractive vs. ROE of 15% in 2023F

Sources: Company data, Thanachart estimates

ROE to remain in double digits over the next three years.

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(22.9)	32.5	55.0	(1.7)	(3.9)
Net profit (%)	na	na	190.9	(63.3)	10.1
EPS (%)	na	na	190.9	(63.3)	10.1
Normalized profit (%)	na	na	na	(39.5)	(6.2)
Normalized EPS (%)	na	na	na	(39.5)	(6.2)
Dividend payout ratio (%)	0.0	16.3	37.7	40.0	40.0
Operating performance					
Gross margin (%)	(5.4)	0.6	5.8	3.4	3.4
Operating margin (%)	(6.1)	0.1	5.5	3.1	3.1
EBITDA margin (%)	(3.9)	1.7	6.6	4.2	4.2
Net margin (%)	(4.9)	(0.9)	4.2	2.6	2.6
D/E (incl. minor) (x)	0.4	0.2	0.0	0.0	(0.0)
Net D/E (incl. minor) (x)	0.3	0.1	(0.1)	(0.2)	(0.3)
Interest coverage - EBIT (x)	na	1.0	na	na	na
Interest coverage - EBITDA (x)	na	13.5	na	na	na
ROA - using norm profit (%)	na	na	17.9	10.0	9.4
ROE - using norm profit (%)	na	na	28.5	15.0	13.3
DuPont					
ROE - using after tax profit (%)	na	na	28.5	15.0	13.3
- asset turnover (x)	2.6	3.3	4.2	3.8	3.7
- operating margin (%)	na	na	5.5	3.1	3.1
- leverage (x)	1.7	1.7	1.6	1.5	1.4
- interest burden (%)	102.3	229.4	100.0	100.0	100.0
- tax burden (%)	na	na	76.7	84.5	82.3
WACC (%)	9.5	9.5	9.5	9.5	9.5
ROIC (%)	(20.2)	0.6	29.9	15.4	15.7
NOPAT (Bt m)	(7,916)	207	11,807	6,456	6,191
invested capital (Bt m)	35,029	39,480	41,796	39,375	36,360

Sources: Company data, Thanachart estimates

HOLD (From: SELL)

Change in Recommendation

TP: Bt 57.00 (From: Bt 45.00)

Upside : 0.4%

13 JUNE 2022

Thai Oil Public Co Ltd (TOP TB)

Diluted GRM benefits

YUPAPAN POLPORNPRASERT

662-779-9110

yupapan.pol@thanachartsec.co.th

Despite our more bullish view on the refinery market, we only upgrade TOP to HOLD as we do not expect the company to fully benefit from the high GRM environment because of hedging losses and its loss-making aromatics unit.

Thanachart Securities

Upgrading to HOLD

This report is a part of *Energy sector – A longer period of high GRM*, dated 13 June 2022. We upgrade TOP to HOLD (from Sell) following its recent share price correction and our more positive view on the refinery margin outlook. TOP is our least preferred refinery play because of hedging losses and its loss-making aromatics unit that uses captive feedstock of around 12% of its refinery capacity. Despite our 41-92% earnings upgrades in 2022-24F on the back of our higher GRM assumptions, there is limited potential upside to our higher DCF-based 12-month TP, rolled over to a 2023F base year, of Bt57 (from Bt45).

Hedging loss dilutes GRM benefits

TOP has a larger product hedging position than its Thai refinery peers. It booked the largest hedging loss amount of US$6/bbl, or Bt7bn in 1Q22. The hedging reduced net earnings that TOP could otherwise have earned fully from the jump in market GRM. The company has outstanding hedging positions for around 45% of its 1H22 volume and 20-30% of its 2H22 volume. Most of the hedging positions are for diesel, the spread for which has continued to trend higher to US$20/bbl in 2Q22 vs. US$15/bbl in 1Q22. This means the company will have to book a further hedging loss for its outstanding hedging positions.

A drag from aromatics business

TOP uses platformate (12% of total refinery output in 1Q22) as a key feedstock for its aromatics unit, whose key products are paraxylene (PX) and benzene. Platformate can also be used to produce gasoline and its price is linked to the gasoline price. With the surge in gasoline prices, the PX over ULG95 spread is now negative, implying its PX unit is making losses. Note that PX has been in a structural down market and its spread wasn't decent even before the rise in the feedstock price. Aromatics contributed 30% of TOP's earnings in 2021.

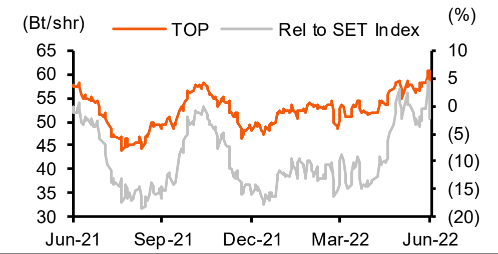
Capital increase looks near

TOP announced in July 2021 a capital-raising plan for 1H22. We expect this to be finalized by 3Q22. The plan is to raise a maximum of Bt10bn or 275m shares (from 2,040m existing shares, or 11.9% EPS dilution), implying a price of Bt36/share to existing shareholders. The money is to be used for its refinery expansion (to 275KBD from 400KBD currently) and for capex spending on its 15.4%-owned Indonesian petrochemical firm Chandra Asri (TPIA IJ, Non-rated). This should remove the overhang concern on the stock. And there is also a possibility of lower capital increase amount given larger cash flows because of the jump in GRM. We have yet to factor the capital raising into our numbers.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	345,496	460,867	423,639	406,717
Net profit	12,578	26,114	9,811	8,511
Consensus NP	—	21,938	12,180	13,724
Diff frm cons (%)	—	*19.0*	*(19.4)*	*(38.0)*
Norm profit	5,583	16,466	12,233	9,699
Prev. Norm profit	—	8,591	6,512	6,868
Chg frm prev (%)	—	*91.7*	*87.9*	*41.2*
Norm EPS (Bt)	2.7	8.1	6.0	4.8
Norm EPS grw (%)	na	194.9	(25.7)	(20.7)
Norm PE (x)	20.7	7.0	9.5	11.9
EV/EBITDA (x)	15.7	9.2	12.6	11.5
P/BV (x)	1.0	0.8	0.8	0.8
Div yield (%)	4.6	5.3	3.4	2.9
ROE (%)	4.7	12.6	8.5	6.5
Net D/E (%)	112.8	116.1	134.9	127.4

PRICE PERFORMANCE

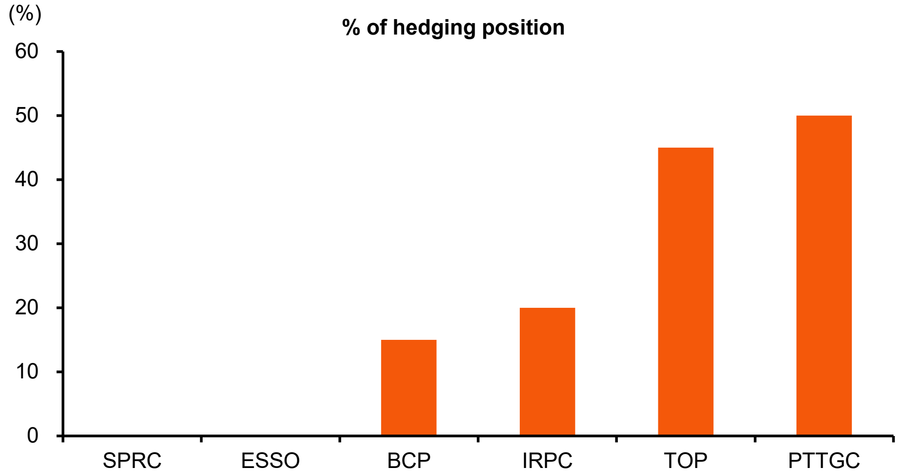


COMPANY INFORMATION

Price *as of* 10-Jun-22 (Bt)	56.75
Market Cap (US$ m)	3,330.4
Listed Shares (m shares)	2,040.0
Free Float (%)	52.0
Avg Daily Turnover (US$ m)	22.7
12M Price H/L (Bt)	60.75/44.00
Sector	Energy
Major Shareholder	PTT Pcl 45.03%

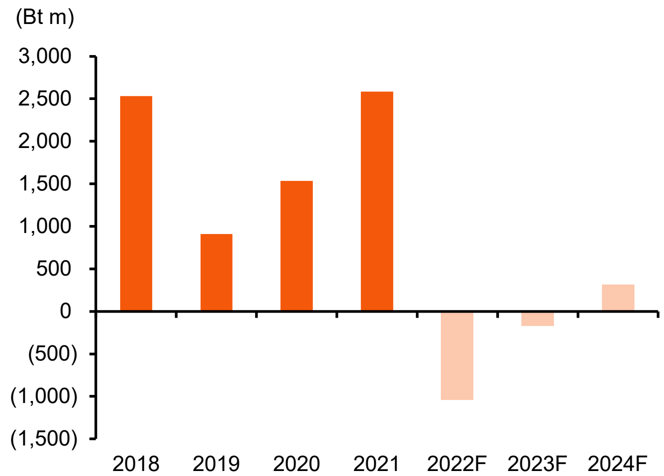
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Companies' Outstanding Hedging Positions



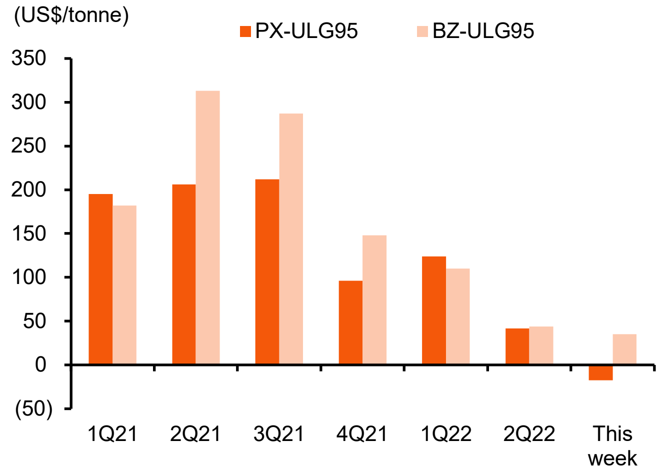
Source: Company data

Ex 2: Aromatics Now A Drag



Sources: Company data, Thanachart estimates

Ex 3: Aromatics Spread



Source: Bloomberg

Ex 4: New Singapore Complex GRM Assumptions

(US$/bbl)					New			Old			*Change (%)*		
	2021	1Q22	2Q22	June	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
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*
SG GRM	**3.1**	**8.0**	**18.6**	**18.6**	**14.2**	**9.1**	**7.7**	**7.3**	**5.5**	**5.2**	***94.0***	***65.0***	***49.0***

Sources: Company data, Thanachart estimates

Ex 5: Earnings Revisions

(Bt m)	Normalized profit			TP
	2022F	2023F	2024F	(Bt/shr)
New	16,466	12,233	9,699	57.00
Old	8,591	6,512	6,868	45.00
Change (%)	*91.7*	*87.9*	*41.2*	*26.7*

Source: Thanachart estimates

Ex 6: Key Assumption Changes

	New			Old			*Change (%)*		
	2022F	2023F	2024F	2022F	2023F	2024F	*2022F*	*2023F*	*2024F*
Market GRM (US$/bbl)	11.31	6.67	6.65	5.65	4.52	6.08	*100.4*	*47.4*	*9.3*
Utilization (%)	108.0	108.0	95.0	108.0	108.0	95.0	*0.0*	*0.0*	*0.0*
Aromatic utilization (%)	75.0	80.0	80.0	80.0	80.0	80.0	*(6.3)*	*0.0*	*0.0*
PX-ULG 95 (US$/tonne)	50.00	120.00	150.00	100.00	120.00	150.00	*(50.0)*	*0.0*	*0.0*

Source: Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation For Downstream Business, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	25,224	27,112	27,119	27,145	28,183	29,220	30,232	28,488	30,232	30,232	30,232	
Free cash flow	(21,798)	12,825	22,637	18,662	19,640	20,554	21,438	19,929	21,577	21,547	21,604	348,447
PV of free cash flow	(20,299)	11,118	18,038	13,787	13,451	13,048	12,617	10,874	10,504	9,681	8,961	144,536

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	7.4
Terminal growth (%)	2.0
Enterprise value - add investments	246,317
Net cash/(debt) (2022F)	166,823
Minority interest	2,780
Equity value	76,714
# of shares (m)	2,040
Equity value/share (Bt)	**38**

Sum-of-the-parts valuation	Value (Bt m)	Per share (Bt/shr)	% of total	Methodology
Downstream	76,714	38	66%	DCF
Power (GPSC)	10,898	5	9%	DCF
Chandra Asri	28,291	14	24%	BBG consensus
Total value per share	**115,903**	**57**		

Sources: Thanachart estimates

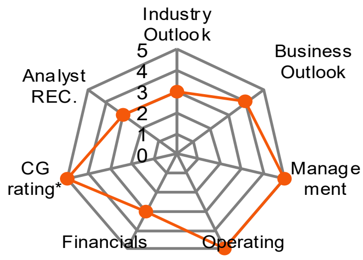
Note: Net debt position is for all businesses except GPSC, which is not consolidated

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)	65.12	57.00	-12%
Net profit 22F (Bt m)	21,938	26,114	19%
Net profit 23F (Bt m)	12,180	9,811	-19%
Consensus REC	**BUY: 17**	**HOLD: 8**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 22F net profit is above the Bloomberg consensus as we incorporate inventory gain, however, we are significantly below consensus for 2023F profit as we incorporate inventory loss.
- 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) while a lower-than-expected light sweet crude premium would be a secondary upside risk to our call.
- Another secondary upside risk to our call would be lower oil prices, which would serve to decrease cash costs and raise profits.
- Downside risk is sudden increase in China oil export or collapse in demand that will lead to refinery margin correction.

Source: Thanachart

We expect earnings to normalize at a higher base.

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	247,913	345,496	460,867	423,639	406,717
Cost of sales	255,300	333,614	432,659	401,742	386,487
Gross profit	**(7,387)**	**11,882**	**28,208**	**21,897**	**20,230**
% gross margin	-3.0%	3.4%	6.1%	5.2%	5.0%
Selling & administration expenses	2,650	3,056	5,070	4,660	4,474
Operating profit	**(10,037)**	**8,826**	**23,138**	**17,237**	**15,756**
% operating margin	-4.0%	2.6%	5.0%	4.1%	3.9%
Depreciation & amortization	7,554	7,424	7,454	7,987	11,356
EBITDA	**(2,483)**	**16,250**	**30,592**	**25,224**	**27,112**
% EBITDA margin	-1.0%	4.7%	6.6%	6.0%	6.7%
Non-operating income	1,115	1,136	1,515	1,393	1,337
Non-operating expenses	0	0	0	0	0
Interest expense	(4,292)	(3,595)	(4,180)	(4,629)	(6,375)
Pre-tax profit	**(13,215)**	**6,367**	**20,474**	**14,001**	**10,718**
Income tax	(647)	2,034	4,758	3,029	2,411
After-tax profit	**(12,568)**	**4,333**	**15,715**	**10,971**	**8,307**
% net margin	-5.1%	1.3%	3.4%	2.6%	2.0%
Shares in affiliates' Earnings	2,566	1,675	1,317	1,783	1,892
Minority interests	(419)	(425)	(567)	(521)	(500)
Extraordinary items	7,120	6,995	9,648	(2,422)	(1,188)
NET PROFIT	**(3,301)**	**12,578**	**26,114**	**9,811**	**8,511**
Normalized profit	**(10,421)**	**5,583**	**16,466**	**12,233**	**9,699**
EPS (Bt)	(1.6)	6.2	12.8	4.8	4.2
Normalized EPS (Bt)	(5.1)	2.7	8.1	6.0	4.8

Balance sheet is stronger given more favorable earnings outlook

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	114,229	101,239	89,346	88,308	85,453
Cash & cash equivalent	71,354	29,696	10,000	15,000	15,000
Account receivables	12,702	23,415	28,033	25,768	24,739
Inventories	22,461	39,576	39,905	37,054	35,647
Others	7,712	8,552	11,408	10,486	10,067
Investments & loans	24,521	55,412	55,412	55,412	55,412
Net fixed assets	145,225	178,399	233,646	261,025	264,826
Other assets	22,213	27,094	30,100	29,791	29,924
Total assets	**306,188**	**362,144**	**408,504**	**434,537**	**435,615**
LIABILITIES:					
Current liabilities:	28,620	38,476	49,636	50,351	50,510
Account payables	9,517	23,001	25,441	11,007	11,648
Bank overdraft & ST loans	713	929	975	1,191	1,167
Current LT debt	7,952	4,213	8,792	25,781	25,265
Others current liabilities	10,438	10,334	14,428	12,372	12,430
Total LT debt	**136,237**	**163,343**	**167,055**	**189,062**	**185,276**
Others LT liabilities	21,212	37,230	48,086	46,087	45,446
Total liabilities	**186,069**	**239,050**	**264,777**	**285,500**	**281,232**
Minority interest	3,889	2,213	2,780	3,302	3,802
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	(2,557)	(7,805)	(8,141)	(8,141)	(8,141)
Retained earnings	**95,930**	**105,829**	**126,230**	**131,019**	**135,866**
Shareholders' equity	116,229	120,881	140,946	145,735	150,581
Liabilities & equity	**306,188**	**362,144**	**408,504**	**434,537**	**435,615**

Sources: Company data, Thanachart estimates

CAPEX on a declining trend over the next three years

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(13,215)	6,367	20,474	14,001	10,718
Tax paid	871	(1,747)	(4,592)	(3,066)	(2,462)
Depreciation & amortization	7,554	7,424	7,454	7,987	11,356
Chg In w orking capital	2,096	(14,344)	(2,507)	(9,318)	3,077
Chg In other CA & CL / minorities	(1,806)	(7,818)	(1,790)	(4,972)	(5,372)
Cash flow from operations	**(4,500)**	**(10,117)**	**19,038**	**4,630**	**17,317**
Capex	(46,220)	(40,599)	(62,700)	(35,366)	(15,157)
Right of use	(14,729)	(2,402)	(500)	(500)	(500)
ST loans & investments	(8)	8	0	0	0
LT loans & investments	9,124	(30,891)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	24,448	31,282	22,177	2,046	6,330
Cash flow from investments	**(27,385)**	**(42,602)**	**(41,023)**	**(33,820)**	**(9,327)**
Debt financing	27,070	18,988	8,337	39,212	(4,326)
Capital increase	0	0	0	0	0
Dividends paid	(1,020)	(2,652)	(5,712)	(5,022)	(3,664)
Warrants & other surplus	578	(5,274)	(336)	0	0
Cash flow from financing	**26,628**	**11,061**	**2,289**	**34,189**	**(7,991)**
Free cash flow	**(50,720)**	**(50,716)**	**(43,662)**	**(30,736)**	**2,160**

PB at 0.8x 23F justify by ROE of 8.5%

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	20.7	7.0	9.5	11.9
Normalized PE - at target price (x)	na	20.8	7.1	9.5	12.0
PE (x)	na	9.2	4.4	11.8	13.6
PE - at target price (x)	na	9.2	4.5	11.9	13.7
EV/EBITDA (x)	na	15.7	9.2	12.6	11.5
EV/EBITDA - at target price (x)	na	15.7	9.3	12.6	11.5
P/BV (x)	1.0	1.0	0.8	0.8	0.8
P/BV - at target price (x)	1.0	1.0	0.8	0.8	0.8
P/CFO (x)	(25.7)	(11.4)	6.1	25.0	6.7
Price/sales (x)	0.5	0.3	0.3	0.3	0.3
Dividend yield (%)	1.2	4.6	5.3	3.4	2.9
FCF Yield (%)	(43.8)	(43.8)	(37.7)	(26.5)	1.9
(Bt)					
Normalized EPS	(5.1)	2.7	8.1	6.0	4.8
EPS	(1.6)	6.2	12.8	4.8	4.2
DPS	0.7	2.6	3.0	1.9	1.7
BV/share	57.0	59.3	69.1	71.4	73.8
CFO/share	(2.2)	(5.0)	9.3	2.3	8.5
FCF/share	(24.9)	(24.9)	(21.4)	(15.1)	1.1

Sources: Company data, Thanachart estimates

With higher earnings base, ROE set to normalize at a higher base

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(31.9)	39.4	33.4	(8.1)	(4.0)
Net profit (%)	na	na	107.6	(62.4)	(13.3)
EPS (%)	na	na	107.6	(62.4)	(13.3)
Normalized profit (%)	na	na	194.9	(25.7)	(20.7)
Normalized EPS (%)	na	na	194.9	(25.7)	(20.7)
Dividend payout ratio (%)	(43.3)	42.2	23.4	40.0	40.0
Operating performance					
Gross margin (%)	(3.0)	3.4	6.1	5.2	5.0
Operating margin (%)	(4.0)	2.6	5.0	4.1	3.9
EBITDA margin (%)	(1.0)	4.7	6.6	6.0	6.7
Net margin (%)	(5.1)	1.3	3.4	2.6	2.0
D/E (incl. minor) (x)	1.2	1.4	1.2	1.4	1.4
Net D/E (incl. minor) (x)	0.6	1.1	1.2	1.3	1.3
Interest coverage - EBIT (x)	na	2.5	5.5	3.7	2.5
Interest coverage - EBITDA (x)	na	4.5	7.3	5.4	4.3
ROA - using norm profit (%)	na	1.7	4.3	2.9	2.2
ROE - using norm profit (%)	na	4.7	12.6	8.5	6.5
DuPont					
ROE - using after tax profit (%)	na	3.7	12.0	7.7	5.6
- asset turnover (x)	0.8	1.0	1.2	1.0	0.9
- operating margin (%)	na	2.9	5.3	4.4	4.2
- leverage (x)	2.5	2.8	2.9	2.9	2.9
- interest burden (%)	148.1	63.9	83.0	75.2	62.7
- tax burden (%)	na	68.1	76.8	78.4	77.5
WACC (%)	7.4	7.4	7.4	7.4	7.4
ROIC (%)	(6.2)	3.2	6.8	4.4	3.5
NOPAT (Bt m)	(10,037)	6,007	17,761	13,508	12,212
invested capital (Bt m)	189,777	259,670	307,769	346,770	347,289

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

This report is prepared and issued by Thanachart Securities Public Company Limited (TNS) as a resource only for clients of TNS, Thanachart Capital Public Company Limited (TCAP) and its group companies.

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Note: Thanachart Securities Public Company Limited act as a Market Maker and Derivative Warrants Issuer. At present, TNS has issued 70 Derivative Warrants which are ADVANC16C2210A, AMAT16C2209A, AMAT16C2206A, AOT16C2209A, AOT16C2206A, AWC16C2207A, BAM16C2206A, BAM16C2207A, BANP16C2207A, BCH16C2207A, BEC16C2207A, BGRI16C2209A, BLA16C2209A, BLA16C2205A, BLA16C2208A, CBG16C2207A, CENTEL16C2209A, CHG16C2207A, COM716C2211A, COM716C2208A, COM716C2209A, DOHO16C2207A, EA16C2206A, EA16C2207A, EA16C2209A, ESSO16C2209B, ESSO16C2209A, GPSC16C2206A, GPSC16C2207A, GPSC16C2209A, GULF16C2207A, GUNK16C2206A, GUNK16C2207A, GUNK16C2209A, HANA16C2207A, HANA16C2209A, IVL16C2209A, IVL16C2206A, JMART16C2210A, JMAR16C2206A, JMT16C2207A, KBAN16C2206A, KBAN16C2208A, KBAN16C2209A, KCE16C2208A, KCE16C2209A, KTC16C2209A, MEGA16C2207A, MINT16C2207A, MTC16C2209A, PTG16C2209A, PTTE16C2209A, PTTG16C2207A, RBF16C2209A, RCL16C2208A, SET5016P2209B, S5016C2206A, S5016C2209A, S5016P2206A, S5016P2206B, S5016P2209A, SAWA16C2209A, SCB16C2208A, SPRC16C2209A, STEC16C2209A, SYNE16C2206A, TOP16C2206A, TTA16C2211A, TTA16C2207A, TTA16C2208A, WHA16C2209A (underlying securities are ADVANC, AMATA, AOT, AWC, BAM, BANPU, BCH, BEC, BGRIM, BLA, CBG, CENTEL, CHG, COM7, DOHOME, EA, ESSO, GPSC, GULF, GUNKUL, HANA, IVL, JMART, JMT, KBANK, KCE, KTC, MEGA, MINT, MTC, PTG, PTTEP, PTTGC, RBF, RCL, SET50, SAWAD, SCB, SPRC, STEC, SYNEX, TOP, TTA, WHA) before making investment decisions.

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.

Note: Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), 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.

Disclosure of Interest of Thanachart Securities

Investment Banking Relationship

Within the preceding 12 months, Thanachart Securities has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: -

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.

Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Chak Reungsinpinya
Strategy, Insurance, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th