BUY (Unchanged)

Change in Numbers

TP: Bt 6.20 (From: Bt 5.20)

Upside : 61.5%

7 JUNE 2022

Small Cap Research

SUSCO Public Co Ltd (SUSCO TB)

Growth mode

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Thanachart Securities

We reaffirm BUY on SUSCO and lift our TP to Bt6.2 from Bt5.2 on the back of an improved margin outlook and rolling forward our valuation. We view SUSCO as attractive at 11x and 10x 2022-23F PE in light of 47% and 12% EPS growth in these two years. Strong quarterly results and potential share buybacks are key catalysts

Strong margin

SUSCO's blended margin has trended higher than our expectation. We believe the company has enjoyed relatively strong margins for its oil exports (39% of 2022F sales) as well as domestic jet fuel sales (16% of 2022F sales). We also think the strong growth in domestic sales (45% of 2022F sales) has helped lift blended margin given that domestic retail offers the highest gross margin among SUSCO's various sales channels. We have therefore upgraded our blended margin assumption to Bt1.31 and Bt1.26 per liter in 2022-23F from Bt1.24 and Bt1.13 per liter previously.

Facelifts up-country

SUSCO has been gradually converting some of its upcountry stations to the *Esso* brand. So far, about 57 stations (out of 230+ stations company-wide) have been converted with 24 more to go by the end of this year. This strategy has saved significant capital outlay, allowing SUSCO to concentrate on expansion in Bangkok and its vicinity where it has a strong presence. The facelift has also improved station throughput, with management commenting that volume growth is 40% or more for some of the converted stations. This shift in strategy should help lift SUSCO's domestic sales and partially offset the slower-than-expected recovery in jet fuel sales (see more below). We now estimate total volume growth of 15% and 17% in 2022-23F, respectively vs. 16% and 19% in our previous forecasts.

Jet fuel demand recovery continues

Jet fuel demand continues to be strong although admittedly the pace of recovery has been slower than our initial forecast. We have therefore lowered our growth expectation to 70% p.a. this year and next year compared to 90% annualized growth previously. Still, given limited marginal cost, the growth in this segment would contribute directly to the bottom line.

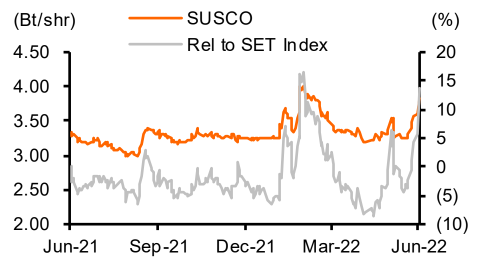
Still the cheapest in town

SUSCO remains the cheapest among domestic oil retail stocks, trading at just 11x and 10x 2022-23F PE. Dividend yield also looks attractive at 5% and 6% in 2022-23F. We believe strong earnings growth in 2Q-3Q22F will be catalysts for the stock. We also think management could opt for another share buyback program given its high cash balance, strong cash-flow generation and limited capex.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	20,033	25,902	27,729	28,936
Net profit	234	334	374	403
Consensus NP	—	*301*	*358*	*396*
Diff frm cons (%)	—	*11.1*	*4.4*	*1.9*
Norm profit	234	334	374	403
Prev. Norm profit	—	267	347	373
Chg frm prev (%)	—	*25.2*	*7.6*	*8.2*
Norm EPS (Bt)	0.2	0.3	0.4	0.4
Norm EPS grw (%)	9.9	46.5	11.9	7.9
Norm PE (x)	16.9	11.5	10.3	9.5
EV/EBITDA (x)	7.0	6.1	5.2	4.8
P/BV (x)	1.0	1.0	0.9	0.9
Div yield (%)	2.9	5.2	5.8	6.3
ROE (%)	6.2	8.7	9.4	9.7
Net D/E (%)	4.7	26.0	20.9	15.6

PRICE PERFORMANCE

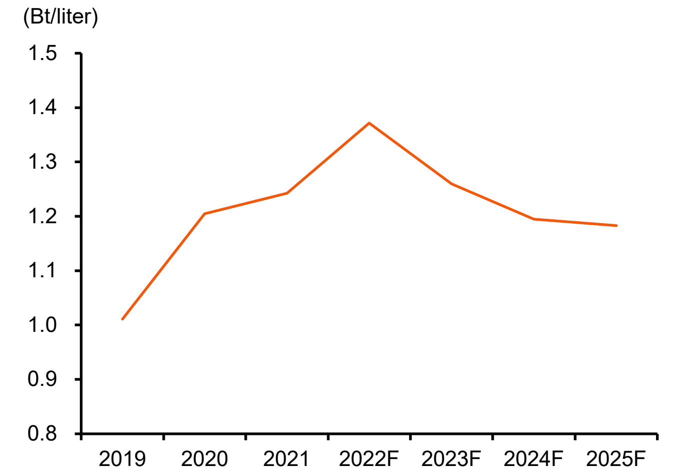


COMPANY INFORMATION

Price: (Bt) *as of* 7-Jun-22	3.84
Market Cap (US$ m)	122.5
Listed Shares (m shares)	1,100.0
Free Float (%)	53.9
Avg. Daily Turnover (US$ m)	0.5
12M Price H/L (Bt)	4.02/2.98
Sector	Energy
Major Shareholder	Simaroj Family 23.99%

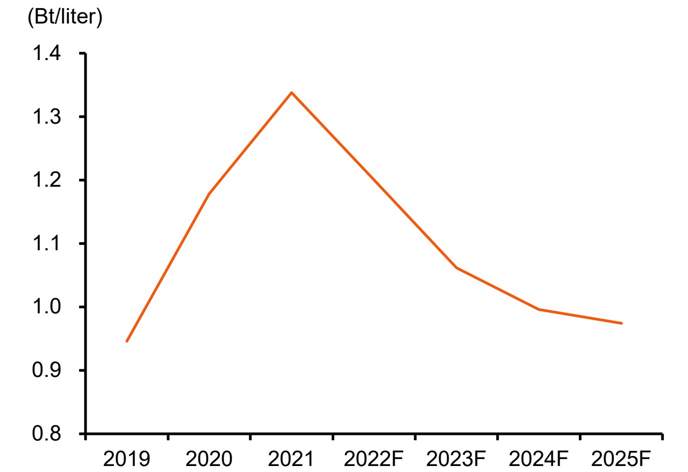
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Blended Gross Profit Margin Per Liter



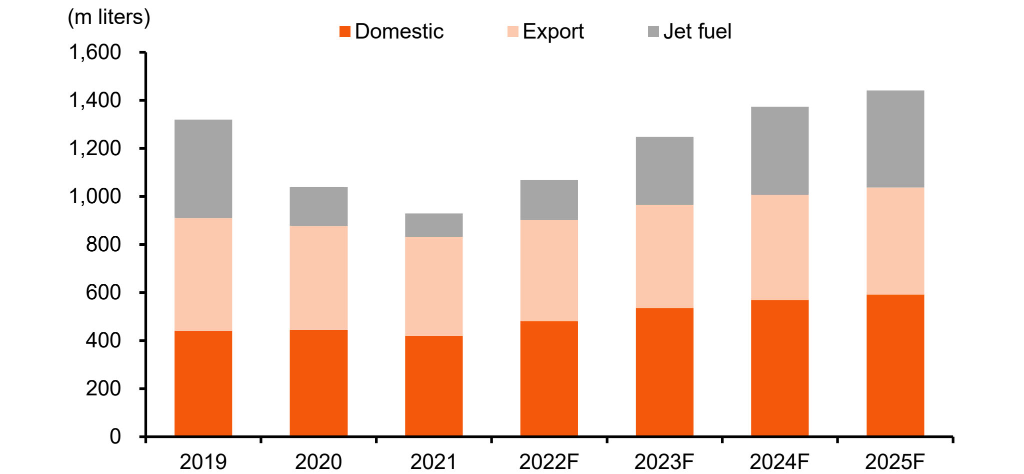
Sources: Company data; Thanachart estimates

Ex 2: SG&A Per Liter



Sources: Company data; Thanachart estimates

Ex 3: Sales Volume By Channel



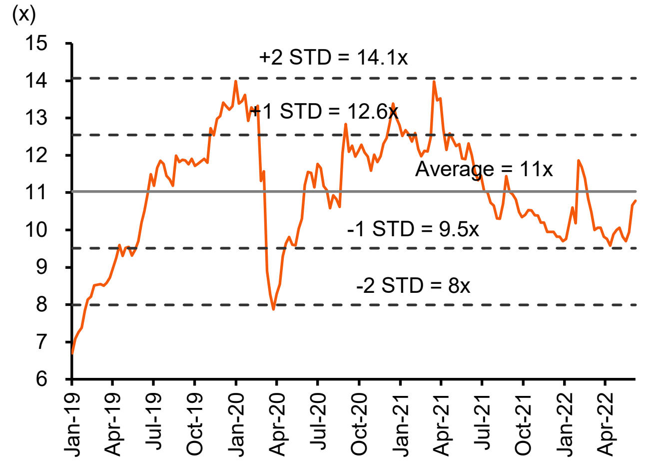
Sources: Company data, Thanachart estimates

Ex 4: Earnings And TP Revisions

(Bt/shr)	EPS						TP
	2020	2021	2022F	2023F	2024F	2025F	
New/Actual	0.21	0.23	0.33	0.37	0.40	0.43	6.20
Old			0.27	0.35	0.37	0.39	5.20
Change (%)			*25.2*	*7.6*	*8.2*	*10.6*	*19.2*

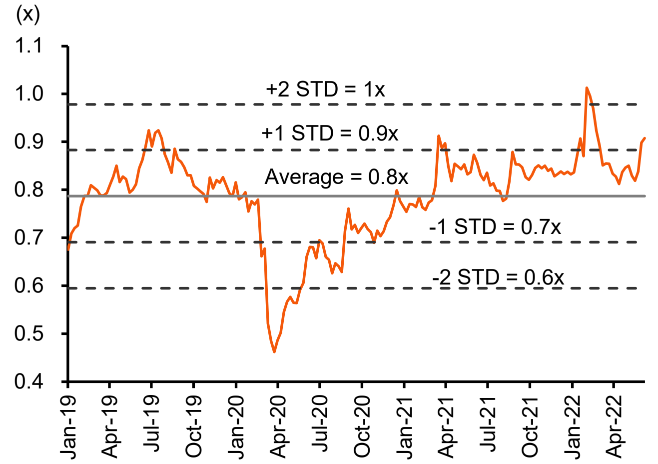
Sources: Company data, Thanachart estimates

Ex 5: Forward PE



Sources: Bloomberg; Thanachart estimates

Ex 6: Forward P/BV



Sources: Bloomberg; Thanachart estimates

Ex 7: 12-month DCF-based Valuation, Using a Base Year Of 2023F

(Bt m)		2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA		934	976	1,006	1,045	1,083	1,120	1,155	1,189	1,221	1,252	
Free cash flow		439	478	482	507	531	553	573	592	609	624	7,297
PV of free cash flow		399	395	359	342	325	306	288	262	243	225	3,575
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	9.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	6,720											
Net debt	786											
Minority interest	(290)											
Equity value	6,225											
# of shares (m)	1,000											
Equity value/share (Bt)	**6.2**											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Comparison With Regional Peers

Company	Code	Country	EPS Growth		— PE —		— P/BV —		EV/EBITDA		Div. Yield		— ROE —	
			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
Refining & Marketing														
Caltex Australia	CTX AU	Australia	53.3	4.1	na	na	na	na	na	na	na	na	12.0	19.4
BPCL	BPCL IN	India	(0.3)	(7.3)	6.9	7.4	1.3	1.2	7.6	7.9	6.5	8.0	24.7	18.8
HPCL	HPCL IN	India	(12.6)	6.7	5.0	4.7	0.8	0.7	6.9	6.0	8.0	7.5	24.1	17.2
IOCL	IOCL IN	India	65.7	(13.3)	4.4	5.1	0.9	0.8	5.3	6.1	6.9	9.7	14.6	19.3
Reliance Industries	RIL IN	India	31.2	27.6	30.5	23.9	2.4	2.2	19.1	14.6	0.3	0.3	8.6	8.0
SK Energy	096770 KS	S.Korea	na	(22.8)	9.6	12.4	1.1	1.0	6.1	7.0	0.8	1.5	4.4	12.3
S-OIL	010950 KS	S.Korea	50.6	(29.6)	6.2	8.8	1.6	1.4	4.9	6.6	3.2	4.4	23.5	27.8
Petron	PCOR PM	Philippines	na	na	na	na	na	na	na	na	na	na	4.1	na
Formosa Petrochemical	6505 TT	Taiwan	(6.1)	(7.9)	18.7	20.3	2.5	2.4	11.6	12.4	4.3	3.6	15.3	13.4
Bangchak *	BCP TB	Thailand	38.2	(33.6)	7.4	11.2	0.8	0.8	4.6	7.2	5.3	3.5	11.5	7.2
ESSO (Thailand) *	ESSO TB	Thailand	na	320.8	57.3	13.6	1.5	1.3	11.1	8.3	0.0	0.0	3.0	10.4
IRPC Pcl *	IRPC TB	Thailand	(70.7)	489.1	63.1	10.7	0.8	0.8	13.0	7.5	4.3	4.7	1.3	7.3
PTG Pcl *	PTG TB	Thailand	50.7	19.3	15.9	13.3	2.7	2.4	7.2	6.2	3.2	3.8	17.7	19.0
PTT Global Chemicals *	PTTGC TB	Thailand	(19.4)	5.4	9.5	9.1	0.7	0.6	7.5	7.0	5.2	5.0	7.0	7.1
Star Petroleum Refining *	SPRC TB	Thailand	na	(23.1)	15.3	19.9	1.4	1.3	6.2	7.4	3.8	2.5	9.8	6.8
SUSCO Pcl	SUSCO TB	Thailand	46.5	11.9	11.5	10.3	1.0	0.9	6.1	5.2	5.2	5.8	8.7	9.4
Thai Oil *	TOP TB	Thailand	53.9	(24.2)	14.1	18.6	0.9	0.8	13.4	18.1	5.0	2.1	6.5	4.5
Average			**21.6**	**45.2**	**18.4**	**12.6**	**1.3**	**1.2**	**8.7**	**8.5**	**4.1**	**4.2**	**11.6**	**13.0**
Integrated oils														
PetroChina	857 HK	China	21.4	(8.8)	6.9	7.6	0.6	0.6	3.2	3.4	5.8	6.3	7.3	8.6
Sinopec	386 HK	China	(0.5)	0.5	6.4	6.3	0.6	0.5	3.7	3.9	9.5	10.3	9.6	9.1
Total	FP	France	99.3	(17.9)	na	na	na	na	na	na	na	na	15.3	24.0
Eni	ENI IM	Italy	139.0	(22.1)	5.0	6.4	1.0	0.9	2.6	2.9	6.0	6.1	10.7	20.1
RD/Shell A	RDSA NA	Netherlands	104.2	(11.6)	na	na	na	na	3.4	3.6	na	na	11.2	19.8
Repsol	REP SM	Spain	116.9	(19.8)	4.8	6.0	0.9	0.8	3.3	3.7	3.9	4.1	11.1	18.1
Chevron Texaco	CVX US	USA	90.5	(10.6)	10.8	12.1	2.2	2.1	5.8	6.4	3.0	3.2	11.7	20.3
Exxon Mobil	XOM US	USA	91.0	(15.0)	9.9	11.6	2.3	2.1	5.3	6.3	3.5	3.6	13.5	23.4
Conoco Philips	COP US	USA	144.2	(15.5)	8.0	9.4	2.9	2.4	4.5	5.1	1.5	1.6	20.8	35.0
PTT Pcl *	PTT TB	Thailand	(5.0)	4.4	12.9	12.3	1.0	1.0	4.7	4.5	5.3	5.3	8.2	8.3
Average			**80.1**	**(11.6)**	**8.1**	**9.0**	**1.4**	**1.3**	**4.0**	**4.4**	**4.8**	**5.1**	**11.9**	**18.7**
Exploration and Production														
Santos	STO AU	Australia	115.0	(17.3)	9.7	11.7	1.8	1.7	4.3	5.0	1.3	2.8	10.8	19.0
Woodside	WDS AU	Australia	97.4	(16.0)	10.5	12.4	1.8	1.7	5.5	5.3	3.4	6.7	11.4	23.9
Suncor Energy	SU US	Canada	194.7	(12.1)	5.4	6.1	1.4	1.3	4.4	4.7	2.5	4.4	10.9	24.4
ONGC	ONGC IN	India	na	39.8	4.6	3.3	0.8	0.7	4.1	3.1	1.9	7.8	6.1	18.6
RIL	RIL IN	India	31.2	27.6	30.5	23.9	2.4	2.2	19.1	14.6	0.3	0.3	8.6	8.0
Apache	APA US	USA	143.5	(4.7)	4.9	5.1	13.5	6.1	3.2	3.5	0.3	1.1	(104.6	353.7
Devon Energy	DVN US	USA	152.0	0.2	9.0	9.0	4.4	3.4	5.6	5.6	1.3	0.8	38.1	54.1
PTTEP *	PTTEP TB	Thailand	79.9	(9.8)	8.5	9.4	1.4	1.3	3.1	3.2	3.6	4.1	17.8	14.3
Average			**116.2**	**1.0**	**10.4**	**10.1**	**3.4**	**2.3**	**6.2**	**5.6**	**1.8**	**3.5**	**(0.1)**	**64.5**

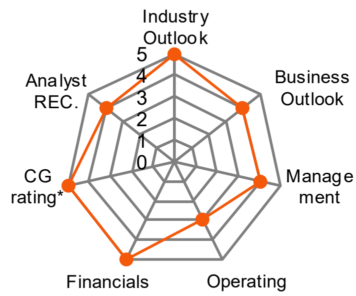
Sources: Bloomberg, * Thanachart estimates
Based on 7 June 2022 closing prices

COMPANY DESCRIPTION

SUSCO Pcl (SUSCO) distributes petroleum products including unleaded and regular gasoline and diesel oil through its petrol stations under the brand "SUSCO". The company also sells directly to large end-users in the aviation, construction and industrial sectors, including oil traders in Cambodia, Laos, China and Myanmar. SUSCO is currently the seventh-largest petrol-station operator in Thailand both by sales volume and number of stations.

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

- Large concentration of service stations in the Bangkok metropolitan area.
- Diversified sales mix (retail, wholesale, exports, jet oil, etc.).
- High percentage of recurring non-oil income.

W — Weakness

- Low gas station coverage.
- The SUSCO brand is not as well-known as those of other oil majors.

O — Opportunity

- Improving throughput per station.
- High demand in export markets (i.e., CLMV).
- More retail rental spaces and new partnerships with retail brands.

T — Threat

- A sudden rise in global oil prices.
- Government intervention to lower the oil retail margin.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.65	6.20	70%
Net profit 22F (Bt m)	301	334	11%
Net profit 23F (Bt m)	358	374	4%
Consensus REC	**BUY: 3**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We are 11% and 4% higher than consensus on earnings likely due to our volume growth assumption.
- However, our TP is much higher, which we attribute to us having a more positive long-term view on SUSCO's growth potential long term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A sharp rise in global oil prices would significantly decrease fuel demand, presenting the key downside risk to our earnings forecasts.
- A lower domestic marketing margin than we currently expect represents a secondary downside risk to our call.
- Lower-than-expected volume growth in export markets (Cambodia, Myanmar, Laos and China) and changes of related regulations in those countries would also present a secondary downside risk to our earnings forecasts.

Source: Thanachart

We expect a sharp turnaround in 2022F with further growth in 2023F

SUSCO has very low leverage

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	16,673	20,033	25,902	27,729	28,936
Cost of sales	15,220	18,550	24,225	25,924	27,056
Gross profit	**1,452**	**1,483**	**1,677**	**1,805**	**1,880**
% gross margin	8.7%	7.4%	6.5%	6.5%	6.5%
Selling & administration expenses	1,235	1,265	1,280	1,323	1,366
Operating profit	**218**	**219**	**397**	**483**	**514**
% operating margin	1.3%	1.1%	1.5%	1.7%	1.8%
Depreciation & amortization	352	370	392	408	420
EBITDA	**570**	**589**	**789**	**890**	**934**
% EBITDA margin	3.4%	2.9%	3.0%	3.2%	3.2%
Non-operating income	111	152	93	95	97
Non-operating expenses	0	0	0	0	0
Interest expense	(52)	(59)	(72)	(111)	(107)
Pre-tax profit	**278**	**311**	**417**	**467**	**504**
Income tax	55	65	83	93	101
After-tax profit	**222**	**246**	**334**	**374**	**403**
% net margin	1.3%	1.2%	1.3%	1.3%	1.4%
Shares in affiliates' Earnings	(5)	(13)	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
NET PROFIT	**218**	**234**	**334**	**374**	**403**
Normalized profit	**218**	**234**	**334**	**374**	**403**
EPS (Bt)	0.2	0.2	0.3	0.4	0.4
Normalized EPS (Bt)	0.2	0.2	0.3	0.4	0.4

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,365	1,796	2,051	2,215	2,346
Cash & cash equivalent	302	367	410	458	512
Account receivables	594	706	852	912	951
Inventories	416	498	498	533	556
Others	53	226	292	313	326
Investments & loans	1,150	1,168	1,168	1,168	1,168
Net fixed assets	1,675	1,867	1,858	1,843	1,823
Other assets	1,811	1,962	3,206	3,220	3,234
Total assets	**6,001**	**6,794**	**8,284**	**8,447**	**8,572**
LIABILITIES:					
Current liabilities:	1,176	1,725	2,642	2,625	2,568
Account payables	770	1,220	1,195	1,278	1,334
Bank overdraft & ST loans	100	280	1,345	1,244	1,127
Current LT debt	114	32	0	0	0
Others current liabilities	192	193	102	102	106
Total LT debt	**234**	**221**	**0**	**0**	**0**
Others LT liabilities	1,137	1,321	2,037	2,056	2,068
Total liabilities	**2,547**	**3,268**	**4,680**	**4,681**	**4,636**
Minority interest	(281)	(290)	(290)	(290)	(290)
Preferreds shares	0	0	0	0	0
Paid-up capital	1,100	1,100	1,000	1,000	1,000
Share premium	249	249	249	249	249
Warrants	27	27	27	27	27
Surplus	102	120	120	120	120
Retained earnings	**2,256**	**2,320**	**2,498**	**2,660**	**2,830**
Shareholders' equity	3,735	3,816	3,895	4,056	4,226
Liabilities & equity	**6,001**	**6,794**	**8,284**	**8,447**	**8,572**

Sources: Company data, Thanachart estimates

SUSCO consistently generates high cash flows

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	278	311	417	467	504
Tax paid	(55)	(77)	(83)	(93)	(101)
Depreciation & amortization	352	370	392	408	420
Chg In w orking capital	(134)	256	(171)	(11)	(7)
Chg In other CA & CL / minorities	309	(142)	(157)	(21)	(10)
Cash flow from operations	**750**	**718**	**398**	**749**	**806**
Capex	(412)	(552)	(369)	(377)	(385)
Right of use	(1,637)	(175)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	101	(18)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	1,434	158	(543)	(11)	(17)
Cash flow from investments	**(514)**	**(587)**	**(912)**	**(387)**	**(402)**
Debt financing	28	85	812	(101)	(117)
Capital increase	(40)	0	(100)	0	0
Dividends paid	(136)	(170)	(155)	(212)	(233)
Warrants & other surplus	(70)	17	0	0	0
Cash flow from financing	**(218)**	**(67)**	**557**	**(314)**	**(350)**
Free cash flow	**339**	**167**	**29**	**372**	**421**

Valuation remains at a steep discount to peers despite strong growth outlook

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	18.5	16.9	11.5	10.3	9.5
Normalized PE - at target price (x)	29.9	27.2	18.6	16.6	15.4
PE (x)	18.5	16.9	11.5	10.3	9.5
PE - at target price (x)	29.9	27.2	18.6	16.6	15.4
EV/EBITDA (x)	7.3	7.0	6.1	5.2	4.8
EV/EBITDA - at target price (x)	11.7	11.1	9.0	7.8	7.3
P/BV (x)	1.1	1.0	1.0	0.9	0.9
P/BV - at target price (x)	1.7	1.6	1.6	1.5	1.5
P/CFO (x)	5.4	5.5	9.6	5.1	4.8
Price/sales (x)	0.3	0.2	0.2	0.2	0.1
Dividend yield (%)	2.9	2.9	5.2	5.8	6.3
FCF Yield (%)	8.4	4.2	0.8	9.7	11.0
(Bt)					
Normalized EPS	0.2	0.2	0.3	0.4	0.4
EPS	0.2	0.2	0.3	0.4	0.4
DPS	0.1	0.1	0.2	0.2	0.2
BV/share	3.6	3.8	3.9	4.1	4.2
CFO/share	0.7	0.7	0.4	0.7	0.8
FCF/share	0.3	0.2	0.0	0.4	0.4

Sources: Company data, Thanachart estimates

ROE is likely to improve on earnings recovery

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(40.4)	20.2	29.3	7.1	4.4
Net profit (%)	(43.9)	7.3	43.0	11.9	7.9
EPS (%)	(42.6)	9.9	46.5	11.9	7.9
Normalized profit (%)	(43.9)	7.3	43.0	11.9	7.9
Normalized EPS (%)	(42.6)	9.9	46.5	11.9	7.9
Dividend payout ratio (%)	53.1	47.1	60.0	60.0	60.0
Operating performance					
Gross margin (%)	8.7	7.4	6.5	6.5	6.5
Operating margin (%)	1.3	1.1	1.5	1.7	1.8
EBITDA margin (%)	3.4	2.9	3.0	3.2	3.2
Net margin (%)	1.3	1.2	1.3	1.3	1.4
D/E (incl. minor) (x)	0.1	0.2	0.4	0.3	0.3
Net D/E (incl. minor) (x)	0.0	0.0	0.3	0.2	0.2
Interest coverage - EBIT (x)	4.2	3.7	5.5	4.4	4.8
Interest coverage - EBITDA (x)	11.1	9.9	10.9	8.1	8.7
ROA - using norm profit (%)	3.7	3.7	4.4	4.5	4.7
ROE - using norm profit (%)	5.8	6.2	8.7	9.4	9.7
DuPont					
ROE - using after tax profit (%)	5.9	6.5	8.7	9.4	9.7
- asset turnover (x)	2.9	3.1	3.4	3.3	3.4
- operating margin (%)	2.0	1.8	1.9	2.1	2.1
- leverage (x)	1.6	1.7	2.0	2.1	2.1
- interest burden (%)	84.3	84.0	85.2	80.9	82.5
- tax burden (%)	80.0	79.2	80.0	80.0	80.0
WACC (%)	9.9	9.9	9.9	9.9	9.9
ROIC (%)	4.5	4.5	8.0	8.0	8.5
NOPAT (Bt m)	174	173	318	386	411
invested capital (Bt m)	3,881	3,983	4,831	4,842	4,841

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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