

HOLD (From: SELL)**TP: Bt 57.00** (From: Bt 45.00)**13 JUNE 2022**

Change in Recommendation

Upside : 0.4%

Thai Oil Public Co Ltd (TOP TB)

Diluted GRM benefits

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.

**YUPAPAN POLPORNPRASERT**

662-779-9110

yupapan.pol@thanachartsec.co.th

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.

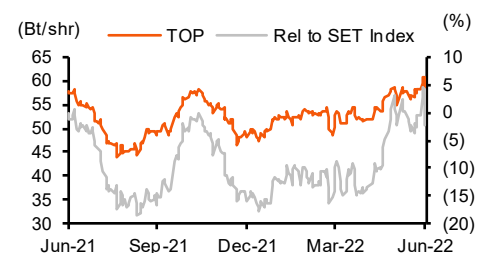
Capital increase looks near

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



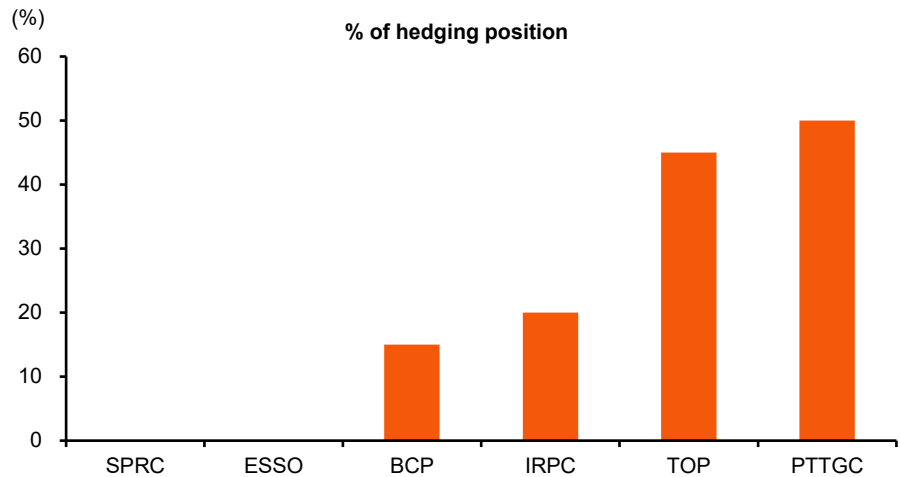
COMPANY INFORMATION

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

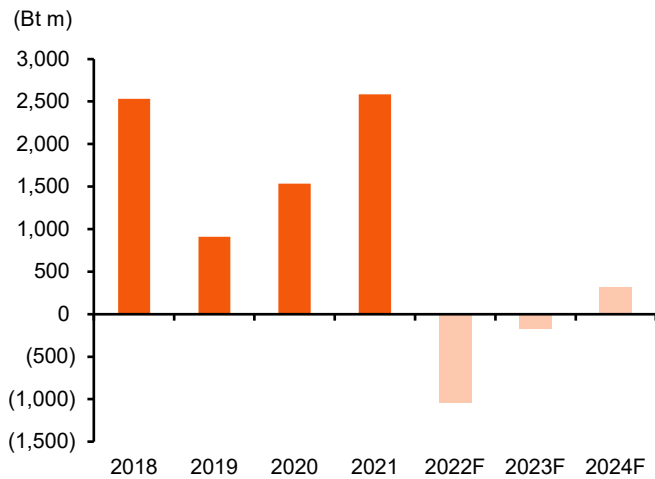


Ex 1: Companies' Outstanding Hedging Positions



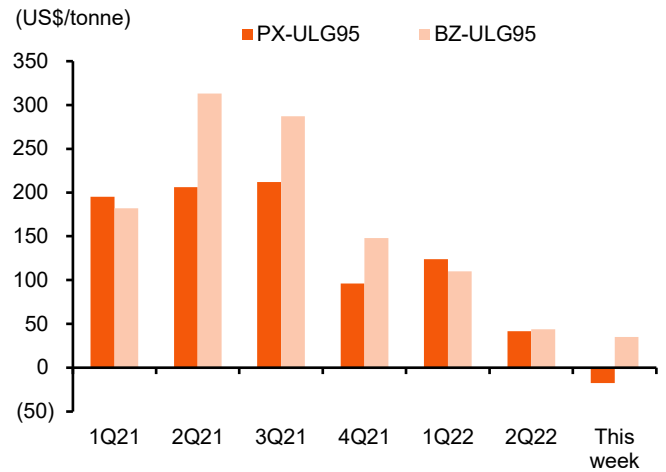
Source: Company data

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 (Bt/shr)
	2022F	2023F	2024F	
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

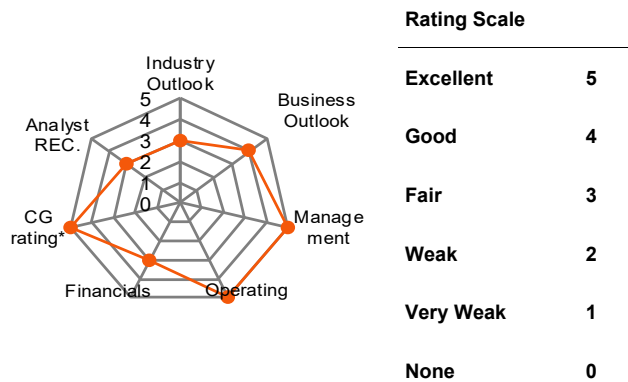
Note: Net debt position is for all businesses except GPSC, which is not consolidated

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



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.

O — Opportunity

- Potential further chemical expansion following investment in Chandra Asri.
- Ability to upgrade derivatives into value-added plastic products.

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).

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

INCOME STATEMENT

We expect earnings to normalize at a higher base.

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

Balance sheet is stronger given more favorable earnings outlook

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

CASH FLOW STATEMENT

CAPEX on a declining trend over the next three years

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 working 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

VALUATION

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

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

FINANCIAL RATIOS

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

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

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

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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

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom

Auto, Industrial Estate, Media, Prop. Fund

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Chak Reungsinpinya

Strategy, Insurance, Paper

Tel: 662-779-9104

chak.reu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthanarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert

Energy, Petrochemical

Tel: 662-779-9110

yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th