SELL

Initiation

TP: Bt 21.00

Downside : 18.4%

22 JULY 2022

PTT Oil And Retail Pcl (OR TB)

Unjustified valuation

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

We initiate coverage on OR with a SELL rating and a DCF-based TP of Bt21. The market has assigned a substantial premium to OR's businesses, which we see as unjustified given that we expect both oil and non-oil divisions to grow at slower rates over the next five years.

Initiating with a SELL call

We initiate coverage of OR with a SELL rating and DCF-based (2023F base year) 12-month TP of Bt21/share. *First*, we see OR as expensive on 22x 2023F PE. The PE is at a similar level to the retail sector despite 76% of its EBITDA coming from the low-growth and competitive petrol station business. Oil retail companies are trading in a range of 6-13x 2023F PE. *Second*, we estimate OR's norm earnings growth to decelerate to levels of 19/7/5% in 2022-24F due to the slow growth outlook of its oil retail business as the post-COVID demand recovery looks nearly over. We do not foresee its non-oil businesses growing fast enough to make its entire earnings base grow strongly. *Third,* we see lower capex reflecting weaker business expansion prospects.

Slow-growth oil retail market

We regard OR's oil retail business as unattractive. *First,* the industry in Thailand is well penetrated and OR is already the biggest player with limited room for further market share gains. *Second*, the post-COVID recovery is nearly over with 5M22 domestic oil demand at 7% below the pre-COVID level. We expect 3% p.a. organic demand growth from 2024F. *Finally*, we foresee oil marketing margin over the long term in this saturated market to move in a tight range and we expect an average margin of Bt1/liter. Margin tends to move toward the lower end of the range during high oil price periods and vice versa.

Non-oil business outlook not exciting

Non-oil businesses made up 21% of OR's EBITDA in 2021. This was broken down into 14% F&B, mainly Café Amazon at 7%, and its retail business, largely 7-Eleven and Jiffy convenience stores, located at its petrol stations. Growth of 10% would only add only 2% growth to OR's overall EBITDA. Limited petrol station expansions also constrain 7-Eleven store expansions. Café Amazon has a better growth outlook with planned expansion to 5,068 stores by 2025 from 3,638 at present.

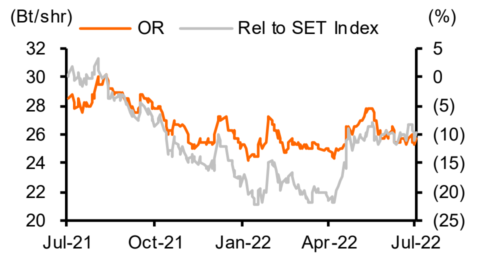
Capex trend implies slow expansion

We estimate OR's capex to peak this year at Bt12.5bn and fall to Bt10bn in 2025F. Although falling capex would improve cash flow, we see this in a negative light indicating a slower future expansion and growth outlook. OR doesn't have cash flow issues and we would prefer it to reinvest for growth. While Café Amazon is already a known driver, OR's other non-oil investments are not sizeable. The companies completed 14 deals over the past 18 months with a combined Bt5bn investment. Assuming a 10% earnings yield, this would add Bt500m p.a. or 3% to OR's earnings. However, we expect a lower return in the first five years since OR normally invests in start-up businesses.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	511,799	871,374	869,248	812,812
Net profit	11,474	12,980	14,037	14,689
Consensus NP	—	11,924	13,183	14,298
Diff frm cons (%)	—	*8.9*	*6.5*	*2.7*
Norm profit	11,009	13,113	14,037	14,689
Prev. Norm profit	—	—	—	—
Chg frm prev (%)	—	—	—	—
Norm EPS (Bt)	0.9	1.1	1.2	1.2
Norm EPS grw (%)	19.4	19.1	7.0	4.6
Norm PE (x)	28.1	23.6	22.0	21.0
EV/EBITDA (x)	14.6	12.7	11.7	10.8
P/BV (x)	3.1	2.8	2.6	2.4
Div yield (%)	1.0	1.2	1.3	1.3
ROE (%)	16.0	12.5	12.3	11.8
Net D/E (%)	(31.9)	(43.4)	(44.2)	(45.9)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 22-Jul-22 (Bt)	25.75
Market Cap (US$ m)	8,418.5
Listed Shares (m shares)	12,000.0
Free Float (%)	23.7
Avg Daily Turnover (US$ m)	17.5
12M Price H/L (Bt)	30.25/24.20
Sector	ENERG
Major Shareholder	PTT Pcl 75.00%

Sources: Bloomberg, Company data, Thanachart estimates

OR at a glance

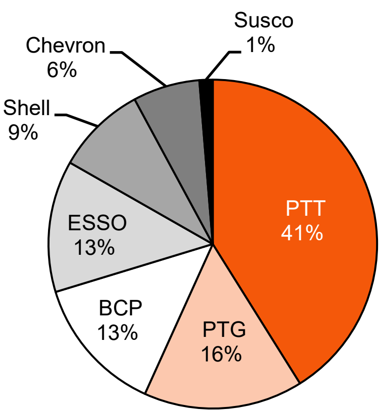
The biggest oil retailer in search of new growth engines

PTT Oil and Retail Pcl (OR) is 75% owned by PTT Public Company (PTT TB, Bt34.50, BUY). It is PTT's retail arm. OR was spun off from PTT via its listing in 2016. In 2021, its oil retail and wholesale business accounted for 76% of total EBITDA, non-oil businesses 21% and its overseas business 3%. OR in 2021 had the largest number of petrol stations in Thailand at 2,083, or a 41% volume market share. It operates both dealer-owned, dealer-operated (DO-DO) and company-owned, company-operated (CO-CO) models. Due to the well-penetrated market in Thailand with a saturated demand outlook, PTT has been moving into non-oil businesses for many years and the businesses that were spun off into OR are F&B and retail businesses. OR's biggest non-oil EBITDA contributors are Café Amazon and 7-Eleven convenience stores located at OR's petrol stations. OR also has a market presence in Cambodia, Laos, the Philippines, Singapore and Myanmar.

Ex 1: OR's Business Overview

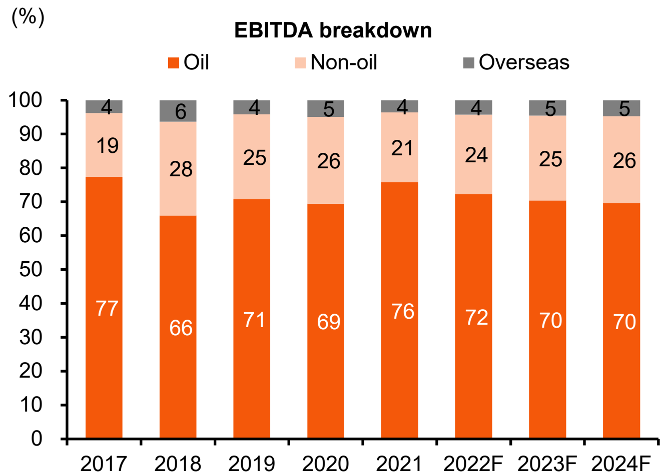
Source: Company data

Ex 2: OR Has The Largest Share In The Retail Oil Market



Source: Department of Energy Business (DOEB), (as of 2021)

Ex 3: Oil EBITDA Still Dominates



Sources: Company data, Thanachart estimates

An unjustified premium, in our view

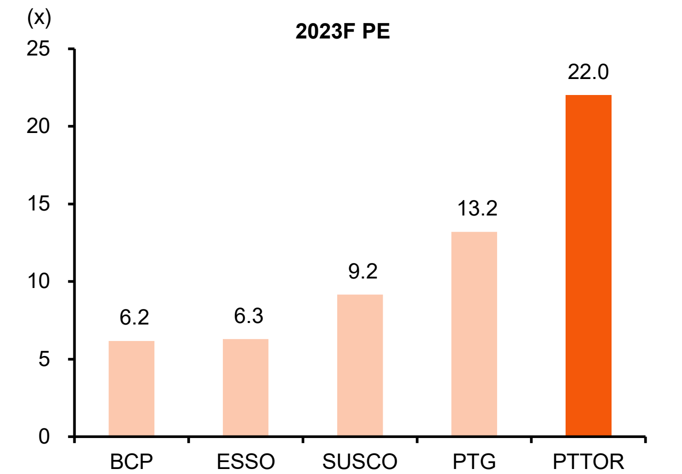
SELL with a TP of Bt21

We initiate coverage on PTT Oil and Retail Pcl (OR) with a SELL rating and a DCF-based 12-month TP, using a 2023F base year, of Bt21 per share.

Too large a premium in our view at 22x 2023F PE

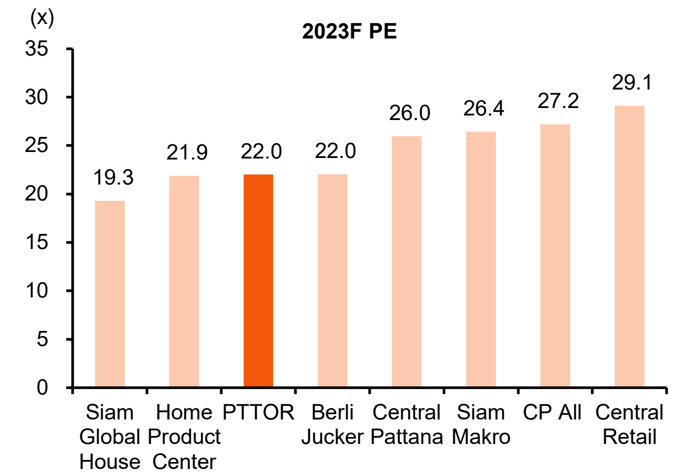
First, we see OR's valuation as expensive trading on a 2023F PE multiple of 22x against a 9% three-year EPS CAGR. Despite having expanded into the non-oil F&B and retail businesses, nearly 80% of the company's EBITDA is still contributed by the oil retail business. Other Thai oil retail stocks are trading in a 2023F PE range of 6-13x. Though we believe OR deserves a premium valuation as the biggest player, the premium is too large in our view. Exhibits 5-7 show that OR is trading at similar levels to counters in the retail sector despite a weaker earnings growth outlook and lower ROE.

Ex 4: A Hefty PE Premium To Other Oil Retail Plays



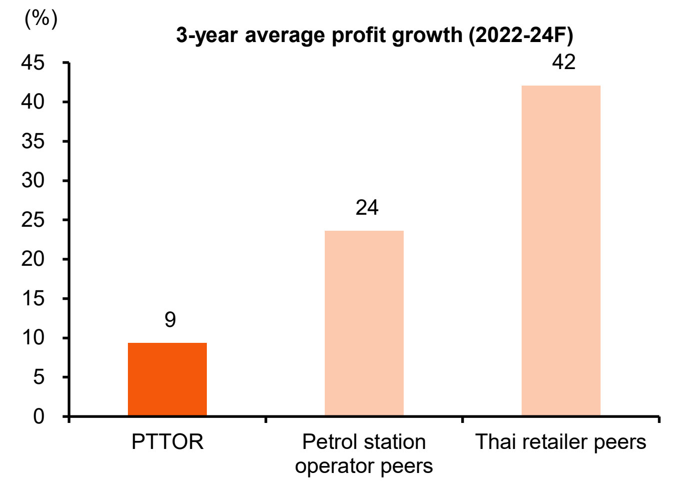
Sources: Bloomberg, Thanachart estimates

Ex 5: Trading Near Retail Stocks' PE Levels



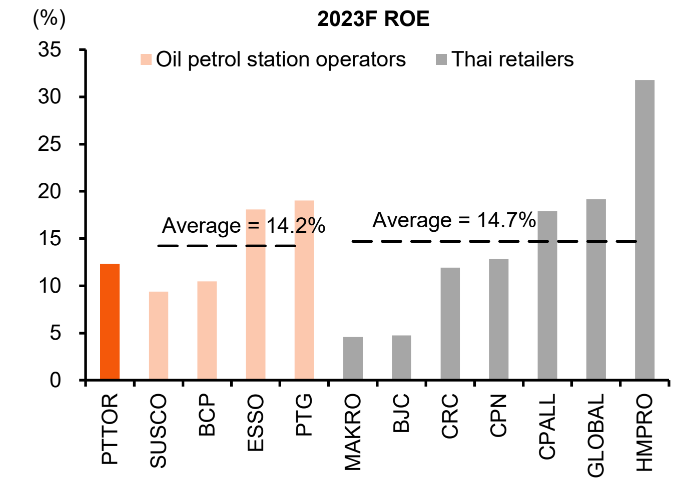
Sources: Bloomberg, Thanachart estimates

Ex 6: Slower Growth Than The Retail Sector



Sources: Thanachart estimates

Ex 7: And A Lower ROE Than The Retail Sector



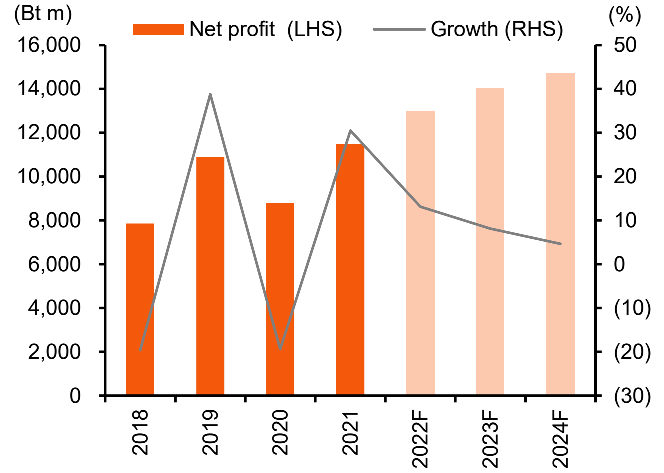
Source: Thanachart estimates

Mediocre growth outlook

Second, we see OR as having a mediocre earnings growth outlook of 19/7/5% in 2022-24F with 2022F still being a post-COVID recovery year. As domestic oil retail demand in 5M22 had already recovered to just 7% below the pre-COVID year in 2019, we expect only single-digit demand growth over the next two years driven by a tourism turnaround. And when tourism fully recovers, likely after 2024F, we expect oil retail demand to only grow organically at 3% p.a. We estimate net growth of OR petrol stations at 3% p.a. over the next few years with falling average sales volume per station as the expansion plan mostly involves smaller stations in more remote areas.

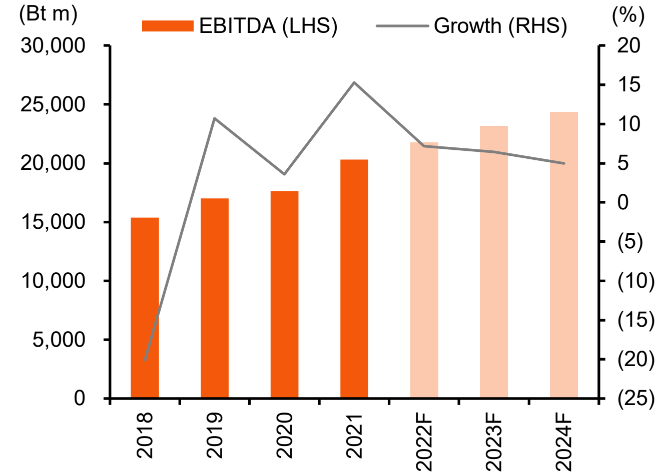
Note that our earnings growth forecasts already factor in a stronger growth outlook from OR's non-oil businesses. However, as its oil retail business remains the largest EBITDA contributor at 76% in 2021, its slow growth outlook outweighs the growth from the non-oil businesses.

Ex 8: OR's Earnings Growth Outlook



Sources: Company data, Thanachart estimates

Ex 9: OR's EBITDA Growth Outlook



Sources: Company data, Thanachart estimates

Ex 10: Our Key Assumptions

	2019	2020	2021	2022F	2023F	2024F
Oil business (Thailand)						
Sale volume (m liter)	12,078	12,547	11,777	13,632	14,248	14,655
Growth (y-y%)	*4.1*	*3.9*	*(6.1)*	*15.8*	*4.5*	*2.9*
Marketing margin (Bt/liter)	1.1	1.0	1.2	1.0	1.0	1.0
EBITDA (Bt m)	12,016	12,145	15,382	15,708	16,289	16,711
Non-oil business						
No. Café Amazon stores	2,449	2,930	3,168	3,628	4,008	4,388
No. of stores add	481	238	460	389	380	380
No. Convenience stores	1,714	1,807	2,075	2,204	2,304	2,394
No. of stores add	140	93	268	129	100	90
EBITDA (Bt m)	4,255	4,495	4,190	5,132	5,825	6,424
International businesses						
No. of petrol stations	0	335	356	429	489	549
No. of stores add	(151)	335	21	73	60	60
Coffee sold (m cups)	0	20	17	18	19	20
Growth (y-y%)	*0.0*	*20.0*	*(17.5)*	*10.0*	*5.0*	*5.0*
EBITDA (Bt m)	707	861	742	932	1,062	1,193

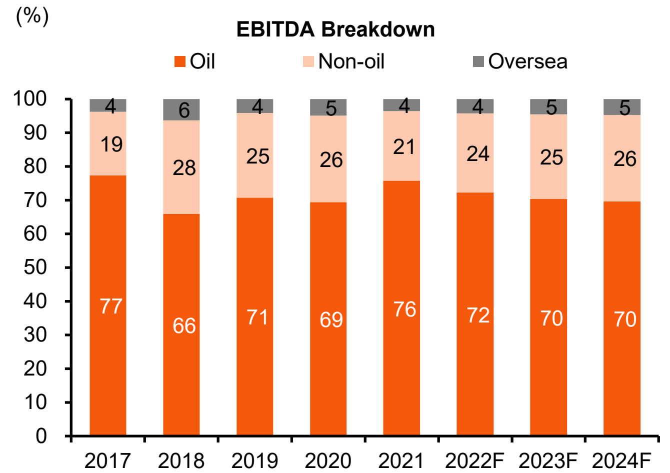
Sources: Company data, Thanachart estimates

Non-oil growth isn't enough to make overall growth exciting

Third, it is true that OR's non-oil businesses still have a much stronger growth outlook than the oil business. However, non-oil EBITDA only accounted for 21% of total EBITDA in 2021. Also, PTT only has Café Amazon as its non-oil star performer which is already the country's largest coffee shop network with 3,628 branches nationwide. Other F&B companies shown in Exhibit 1 still make very small contributions. At the same time, with limited net growth in the number of new petrol stations, the expansion outlook for its convenience store business comprising 7-Eleven and Jiffy outlets also looks limited.

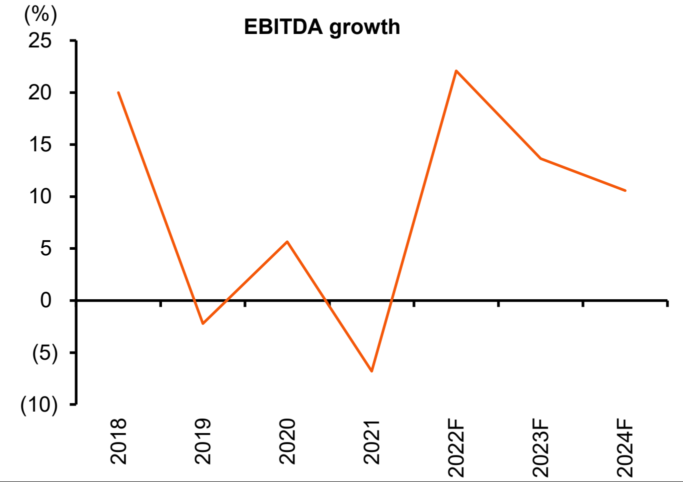
OR has also expanded into markets abroad in Cambodia, Laos and the Philippines with a combined 356 petrol stations in 2021. Along with most of its petrol stations, OR also operates Café Amazon and Jiffy stores. OR plans to expand further to have 609 stations by 2025F. We do not expect OR to become a major operator in those countries and forecast EBITDA growth of its overseas business at 16% p.a. over the next three years.

Ex 11: Non-oil At Only 26% Of Total EBITDA In 2024F



Sources: Company data, Thanachart estimates

Ex 12: Non-oil EBITDA Growth Tapering Off From 2022F

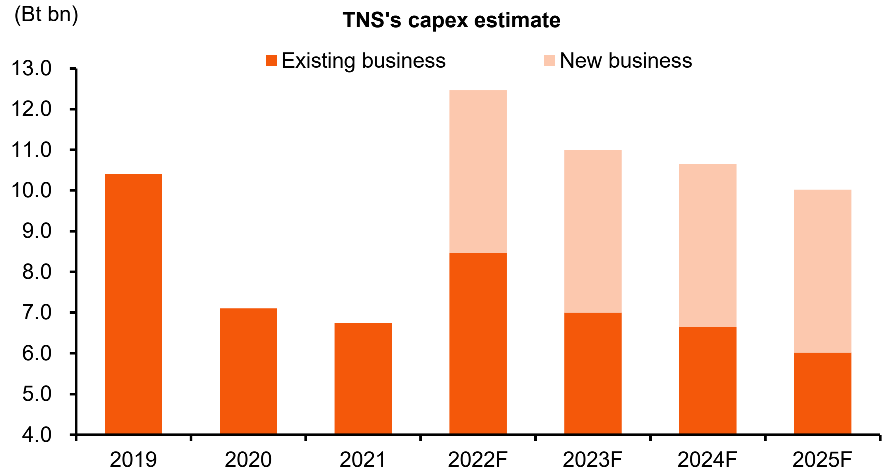


Sources: Company data, Thanachart estimates

Peaking capex not good for long-term growth, in our view

Lastly, OR's recent acquisitions have been less than exciting, in our view, and we do not expect them to be able to help much in boosting the overall growth outlook of the company. This is partly because the deals are small relative to OR's size while most are start-ups which means potentially making losses initially. We project the company's capex to peak this year at Bt12.5bn and falls to Bt10bn in 2025F. Although this would improve free cash flow, we see it in a negative light reflecting the weaker expansion and growth outlook.

Ex 13: Combined Capex And Investment Peaking



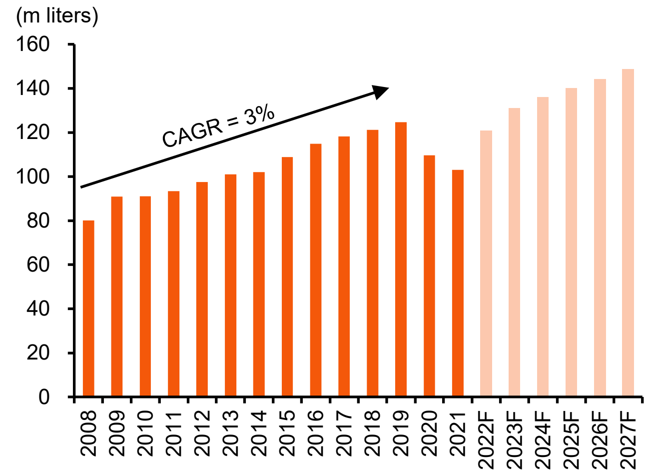
Sources: Company data, Thanachart estimates

Saturated oil retail market

Oil retail business has a low growth outlook

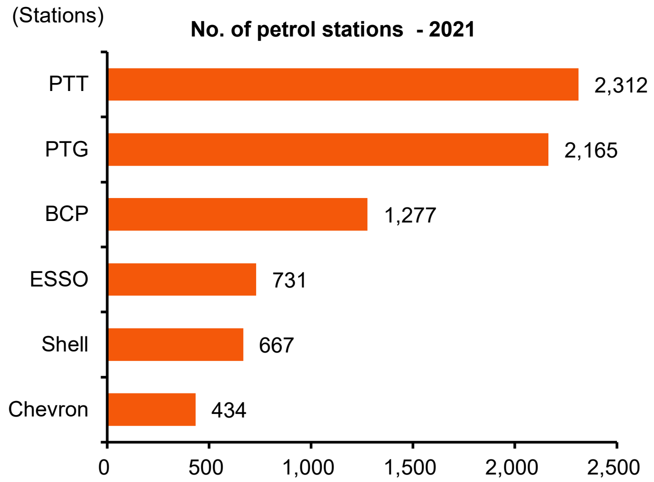
Thailand's oil retail market is saturated with a slow growth outlook. The market is well penetrated with room for expansion tending to be in remote areas. There were a total of 28,869 petrol stations in Thailand with average oil selling volume growth of only 3% p.a. over the past decade. There are six major petrol station operators with OR being the biggest player controlling a 41% volume market share. Note that Thai retail oil market is very fragmented and has a large number of smaller players. The six major operators had 7,586 petrol stations in 2021 out of the total number of petrol stations in Thailand of 28,869. However, the six major operators' sales volume represented 97.5% of oil demand in 2021.

Ex 14: Domestic Refined Oil Demand



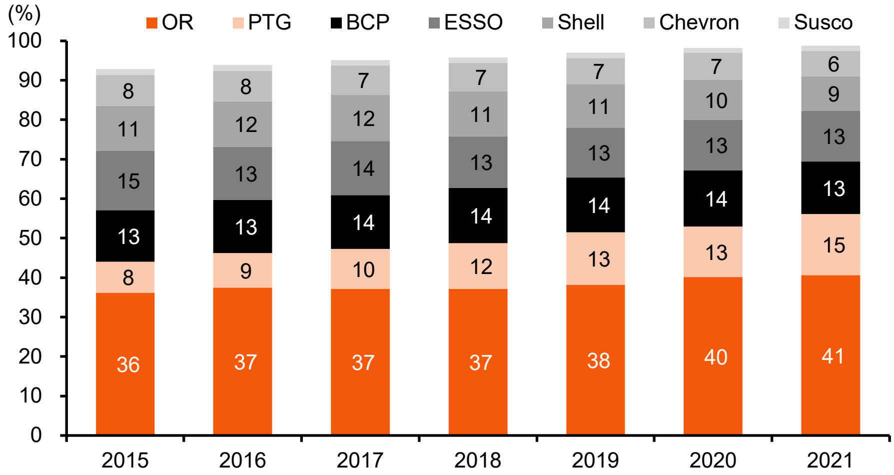
Sources: Department of Energy Business (DOEB), Thanachart estimates

Ex 15: Six Major Petrol Station Operators



Source: Department of Energy Business (DOEB)

Ex 16: Domestic Retail Oil Market Share By Sales Volume

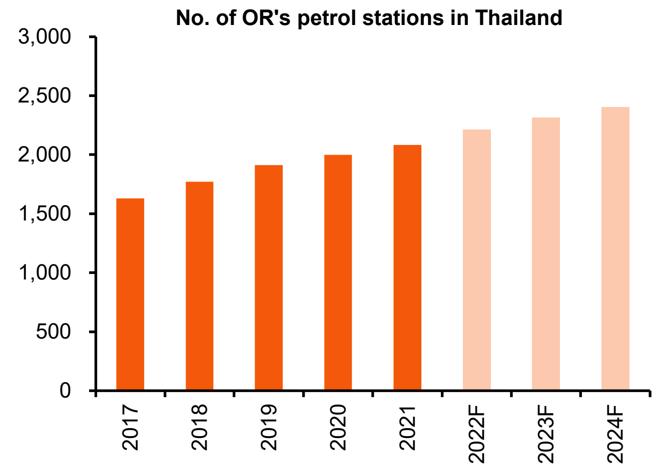


Source: Department of Energy Business (DOEB)

Still some net expansion but in more remote areas

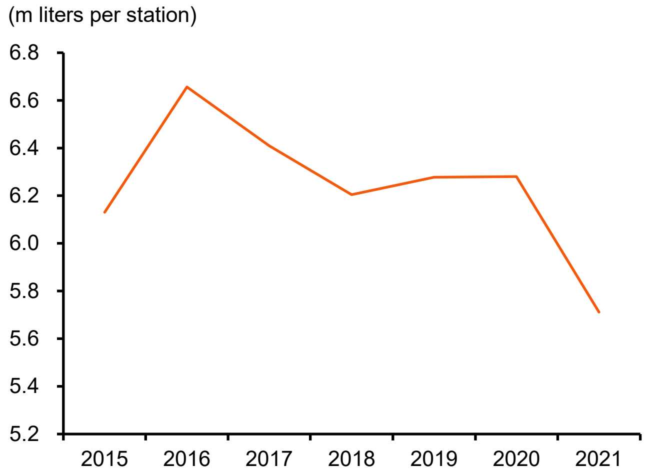
Due to the already well-penetrated market with its organic demand growth outlook, we don't expect OR to aggressively expand the number of its petrol stations. And given that expansion is to focus on more remote areas and secondary roads, average sales volume per station will likely continue to come down. Exhibit 18 shows falling sales volume per station as a result of the impact from the COVID pandemic in 2020-21. However, we still foresee a falling trend over the long term given expansion in areas with less traffic. Net-net, we estimate EBITDA growth at an average of 6% p.a. in 2022-24F, when there should still be some post-COVID recovery effect from the low base in 2020-21. Our EBITDA growth projection beyond that is 4% p.a. in 2025-27F to reflect a more organic growth picture.

Ex 17: OR's Petrol Stations To See Limited Net Growth



Sources: Company data, Thanachart estimates

Ex 18: OR's Oil Retail Sales Volume Per Petrol Station

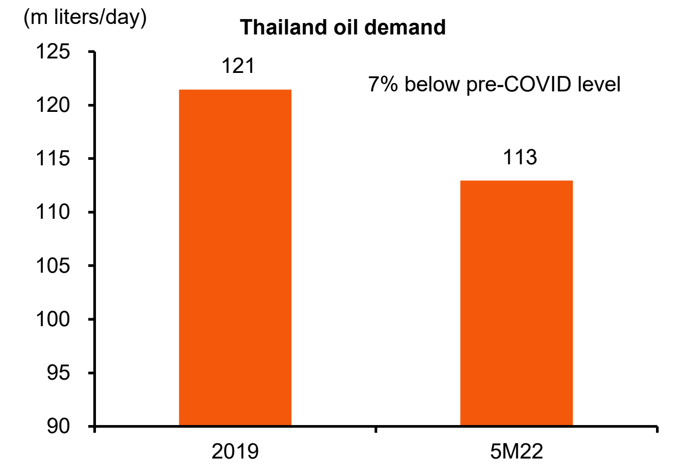


Source: Department of Energy Business (DOEB)

Post-COVID demand recovery nearly over

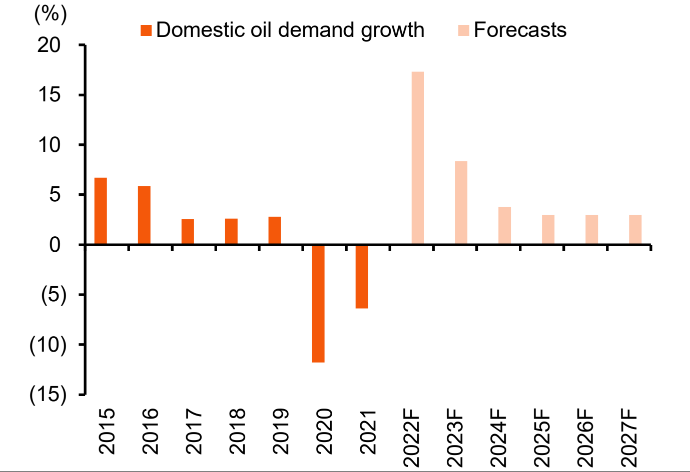
As for the nearer-term outlook of a post-COVID recovery, domestic oil demand recovered by 17% y-y in 5M22 and this is only 7% below the 2019 level. So, despite our expectation for the recovery to continue with a rebound in the economy from a tourism industry turnaround, we only estimate an above-trend growth rate of 17/8/4% in 2022-24F and after that we expect it to come back down to an organic level of 3% p.a.

Ex 19: Oil Demand At 7% Below 2019's Level



Source: Department of Energy Business (DOEB)

Ex 20: Domestic Refined Oil Demand Growth

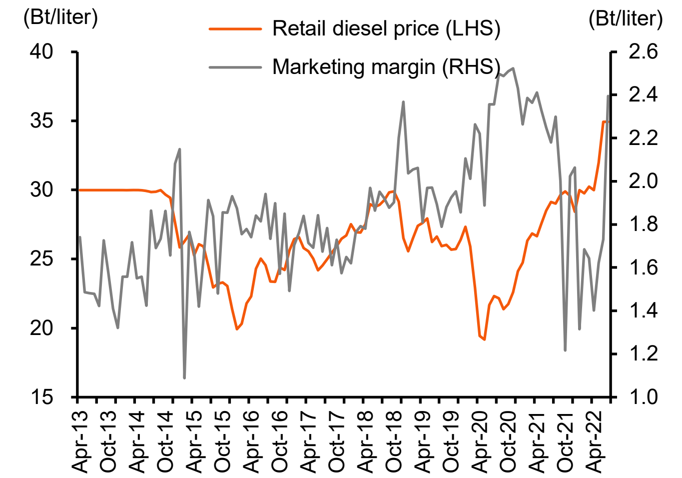


Sources: Department of Energy Business (DOEB), Thanachart estimates

Marketing margin reflects national service role

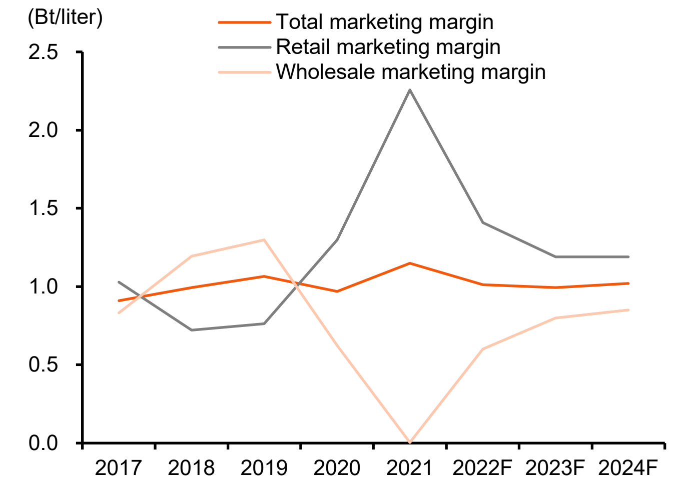
Due to oil demand being in organic mode with a well-penetrated retail market, marketing margin has been in the range of Bt1.2-2.4/liter over the past decade with the mid-range being around Bt1.8/liter. With the biggest petrol station operator OR being a PTT group company, it has been carrying out so-called national service when needed and this has caused low marketing margins during period of high oil prices and vice versa. Volatile oil prices during the COVID period and the Russia-Ukraine war caused erratic moves in the marketing margin in 1Q22 as shown in Exhibit 21. The marketing margin was able to rebound in 2Q22 as the government lifted the cap for the diesel retail price. However, we expect margin to have limited potential upside from here given that it's already at the high end of its historical range. We expect a more normal market next year with recession fears bringing down oil prices and we estimate OR's marketing margin at Bt1 per liter in 2022-24F.

Ex 21: High Oil Prices Normally Pressure Margin



Sources: Department of Energy Business (DOEB), EPPO

Ex 22: OR's Marketing Margin To Be Steady



Sources: Company data, Thanachart estimates

Note: Marketing margin includes stock gain/loss

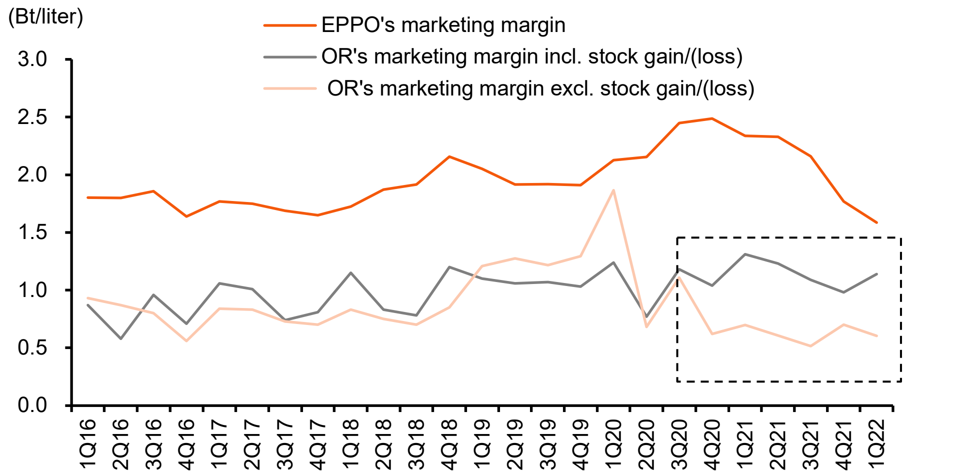
OR's realized marketing margin includes stock gain/loss

Note that OR's realized marketing margin shown in Exhibit 23 is below the industry level reported by the Energy Policy and Planning Office (EPPO). There is nothing wrong with that as it is normal for operators that run the dealer-owned, dealer-operated (DODO) model, where marketing margin is shared between the operator (OR) and its dealers. Of OR's total of 2,083 stations, DODO accounts for 81% and company-owned, company-operated (COCO) and other models accounted for 19% in 2021.

Another component of OR's marketing margin that is not shown in EPPO's industry report level is stock gain and loss. Our forecast for falling retail marketing margin for OR factors in both normalization (which implies a margin recovery) from the falling oil price trend and stock loss (which implies a lower margin) as a result of the declining oil price trend. Note that our house view on Brent oil prices is US$100/90/85 per barrel in 2022-24F.

OR's marketing margin isn't only from oil retail business but also its wholesale business, including jet fuel sales. Of total OR's oil sales volume, retailing oil at petrol stations accounts for around 50% and the other half is from wholesale sales. Jet fuel margin normally contracts when oil prices decline as the selling price is based on a one-month lag.

Ex 23: OR's Marketing Margin Vs. EPPO's



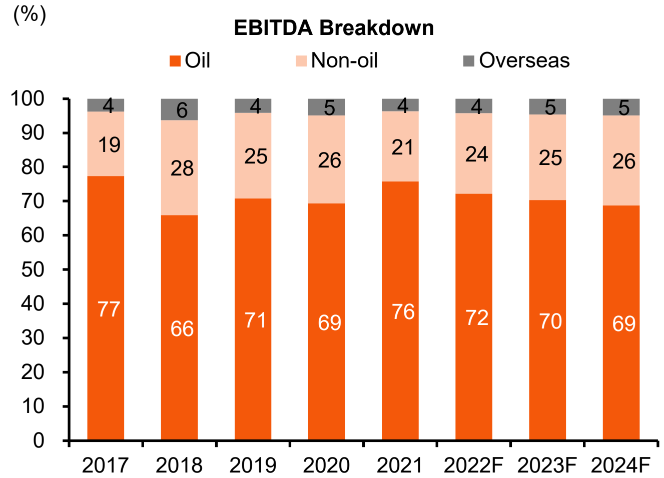
Sources: Department of Energy Business (DOEB), Company data

Non-oil outlook unexciting

No excitement after Café Amazon, in our view

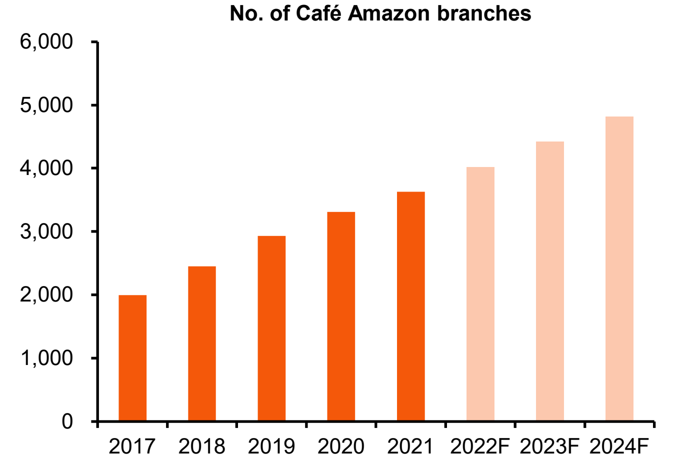
We believe OR has been trading at high PE multiples because the market has been expecting the company to expand its non-oil businesses aggressively. The success of Café Amazon has kept these hopes alive, in our view. However, we now expect a potential PE de-rating for OR based on the outlook of slower growth for the non-oil businesses from the higher base and also the weak prospects for major big bang acquisitions turning around the overall growth outlook for the firm. Note that Café Amazon alone generated EBITDA of around Bt1.8bn in 2021 after its inception in 2001.

Ex 24: OR's EBITDA Breakdown



Sources: Company data; Thanachart estimates

Ex 25: Café Amazon, The Biggest Coffee Shop Chain



Sources: Company data, Thanachart estimates

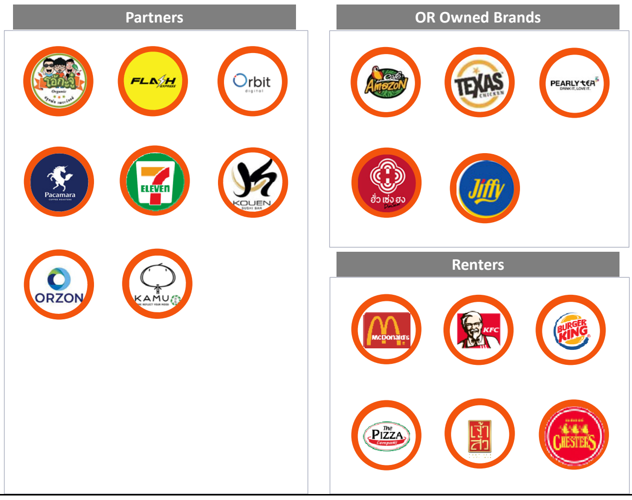
Three reasons for unexciting growth

As shown in Exhibit 12, we estimate non-oil EBITDA growth of 22/14/10% in 2022-24F. As non-oil businesses' proportion of total EBITDA isn't substantial, this growth level wouldn't be enough to help pull up the whole firm's growth. The reasons why we do not expect stronger non-oil growth are: 1) Café Amazon is already at a high base since it is the biggest coffee shop chain in Thailand; 2) we foresee limited growth from 7-Eleven and Jiffy convenience stores given muted growth in its petrol station numbers, and 3) a new non-oil business star is nowhere in sight. Note that OR and CP All (CPALL TB, Bt61.00, BUY) have been strategic partners since 2003 with a 10-year master franchise contract for 7-Eleven stores at OR's stations. In 2021, PTT and CPALL extended the contract for another 10 years. The third contract is scheduled to start in 2023 and expire in 2033.

Other non-oil businesses still provide a smaller portion of overall EBITDA

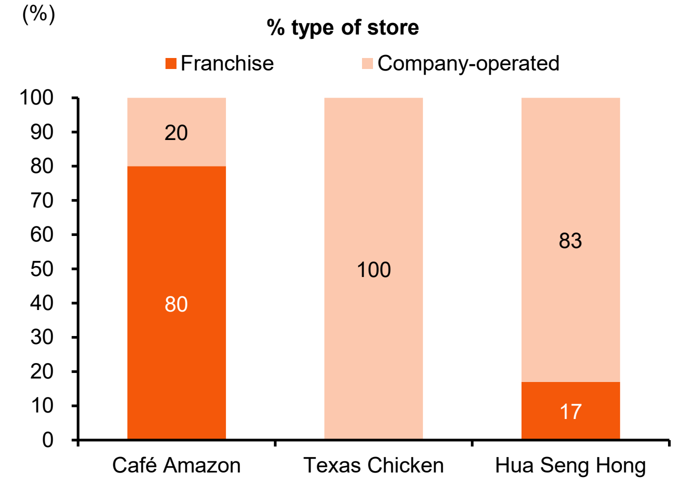
The contribution of other non-oil businesses remains modest given the small number of branches in each chain. Key other non-oil businesses includes Texas Chicken and Hua Seng Hong restaurants. PTT signed a franchise agreement with Texas Chicken in 2015 and a master franchise agreement with Hua Seng Hong in 2016. Revenue from these food stores is derived in the form of an upfront fee, marketing fee and management fee that OR also partly shares with the franchisor and master franchisor. Other food chains that would like to operate within OR's petrol stations can also do so by renting space in the stations. Well-known brands that rent space in OR's stations include Black Canyon, Chester's Grill, The Pizza Company, Burger King, KFC and McDonald's.

Ex 26: OR's Key Non-Oil Businesses



Source: Company data

Ex 27: OR's Key Non-Oil Businesses



Source: Company data

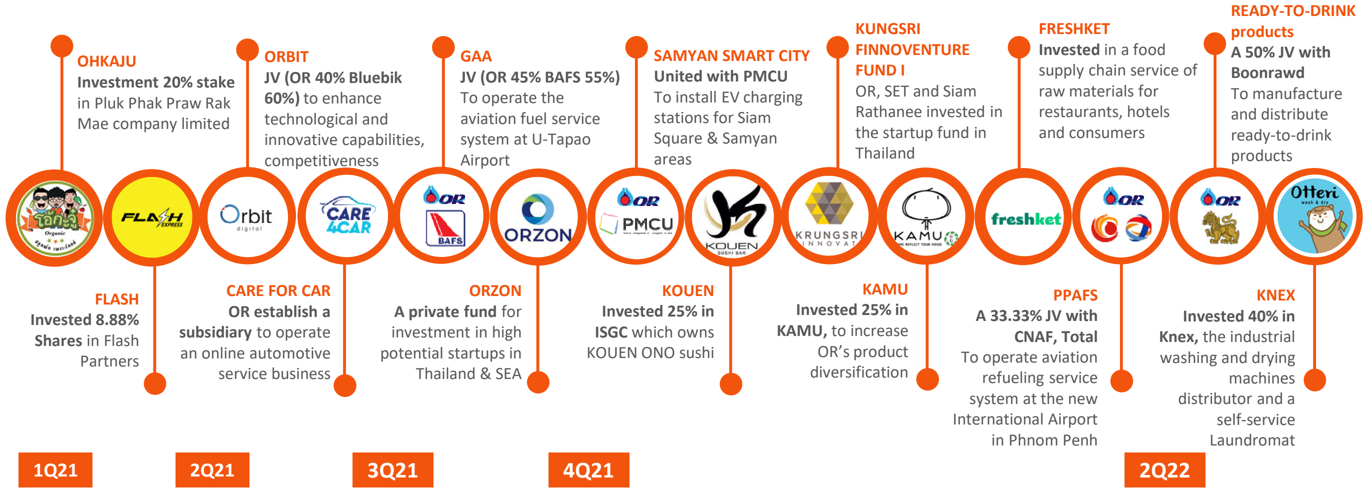
14 recent deals

OR struck 14 deals with a combined investment amount of Bt5bn over the past 18 months since its IPO in 2021 as shown in Exhibit 28. We have not yet factored these into our model given that they are still in their early stages with limited data available. Since these names are not big players, we prefer to wait and see OR's new business plans for them before we factor in a strong outlook.

Most are small deals and not all are making profits

Most of the acquisitions are small deals with a capex size ranging between Bt200-1,500m. The biggest one is a Bt1.5bn investment for an 8.8% stake in Flash Express which still needs more funding to compete in the price war game in the logistics industry. Other businesses include Ohkaju, Ottari, Koeun, Peaberry Thai and others. The company has also partnered with 500 Startups Group, Thailand's leading capital venture, to set up a private fund, named ORZON, to help the company find deals. Aside from that OR also has its own in-house business development units.

Ex 28: OR Invested In 14 Business Deals In The Past 18 Months



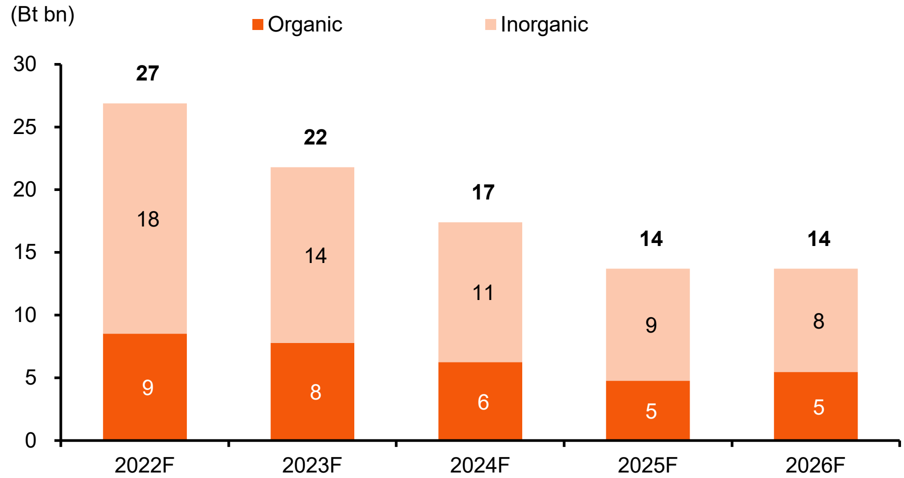
Source: Company data

Falling capex implies weak growth outlook

Lower capex implies a slower expansion plan

OR's five-year capex plan is shown in Exhibit 29. This implies falling investment over the next five years. Both petrol station and Café Amazon expansions are falling as their store numbers are already at high base. Based on OR's guidance, capex for organic growth is set at Bt9bn and will drop to Bt5bn by 2025F. The company's capex plan already takes into account some budget for future acquisitions. Note that there could be potential upside for 2024-26F as there could be more acquisitions.

Ex 29: OR's Five-Year Capex Plan



Sources: Company data, Thanachart estimates

Mobility still accounts for 36% of the capex plan

Mobility accounts for the biggest part of OR's five-year capex plan, making up 36% of total capex (please see Exhibit 30). The major contributor to mobility capex is oil petrol station expansions while the rest is for EV charging stations and upgrading existing stations. The company plans to add 129 new stations this year, though some stations may be closed down. In 2023, OR plans to add 100 stations a year. This compares to the addition of 140 stations a year between 2017-19.

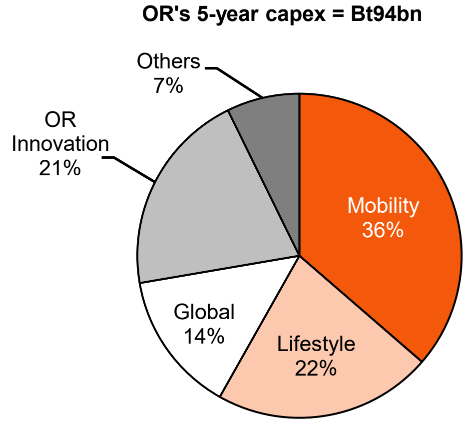
Café Amazon is growing from a high base

For Café Amazon, OR plans to add 400 new branches p.a. over the next five years vs. 450 branches p.a. between 2017-19. Café Amazon has been a real success for OR in expanding into the non-oil business. It is OR's owned brand set up from ground zero in 2001. We believe the success is its premium mass price point with a good store concept. Around 80% of Café Amazon branches are franchise stores. The company earns royalty fees from franchisees and revenue from selling raw materials to them.

OR plans to focus on improving non-oil profitability

We highlight that non-oil EBITDA growth was relatively slow at 3% p.a. from 2017-21 despite Café Amazon's branch expansion of 16% p.a. over the same period. This implies a lower return per new store. OR is therefore focusing more on profitability improvement. It is looking to add new products at Café Amazon outlets, such as bakery items, to increase ticket selling size. The company is also in the process of establishing a distribution center to improve efficiency and save on logistics costs. The company targets cost savings of Bt100m p.a. from its new distribution center completed in May 2021. That cost saving accounts for only 2% of non-oil EBITDA this year and less than 1% of total EBITDA.

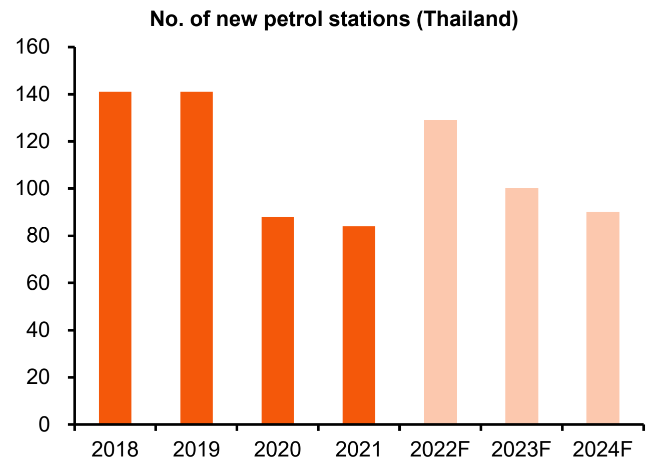
Ex 30: Company's Capex Guidance Over The Next Five Years



Sources: Company data, Thanachart estimates

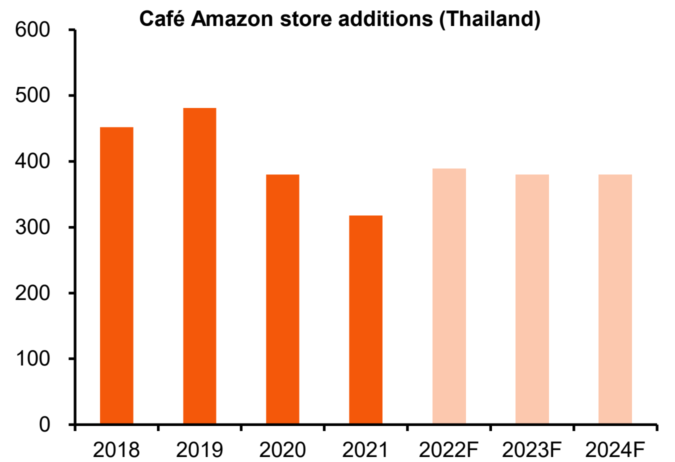
Note: Mobility includes oil business, lifestyle includes consumer and retail businesses, and global includes overseas businesses. Innovation includes budget for new business opportunities, IT and digital transformation. Others mean investment budget in other businesses

Ex 31: Gross Petrol Station Expansion



Sources: Company data, Thanachart estimates

Ex 32: Café Amazon's Branch Expansion

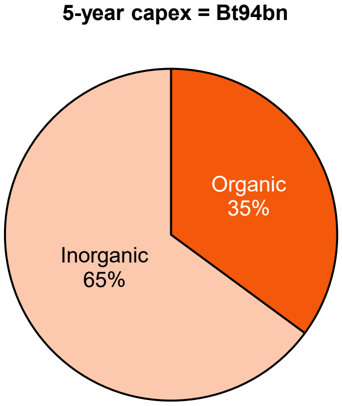


Sources: Company data, Thanachart estimates

35% of planned capex is for new businesses

Of the combined five-year capex plan, 35% is set aside for inorganic growth or new businesses. This is a continued attempt by the company to find new growth drivers.

Ex 33: 35% Of Combined Five-year Capex For New Businesses



Source: Company data

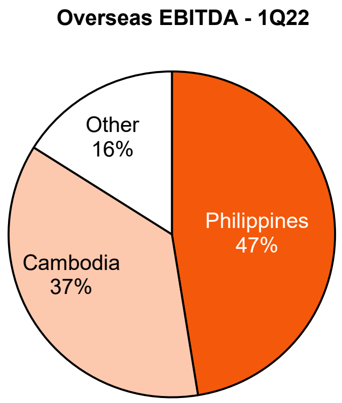
Overseas expansions proceeding slowly

Very slow progress with overseas expansions

OR first moved into the ASEAN oil retail market in 1995. However, EBITDA generated from overseas businesses remains very small and accounted for just 3% of the total in 2021. The key markets for OR are the Philippines and Cambodia, while penetration of Laos, Singapore and Myanmar is still in the early stages. We see Cambodia as OR's strongest market with 124 petrol stations and 198 Café Amazon branches as of 1Q22.

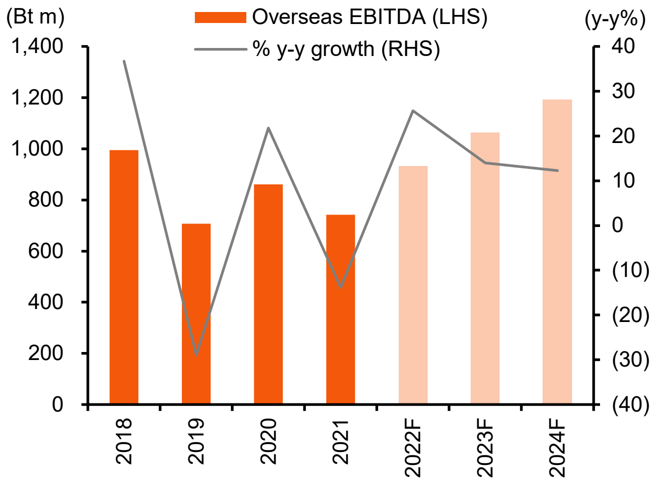
We believe OR's slow progress in overseas expansions is due to the very competitive nature of the oil markets in those countries. According to OR, the Philippines market is very fragmented and thus a red ocean market. We believe that the key growth driver for OR's overseas business could be coffee shop expansion, where Cambodia would offer the strongest growth opportunity. Myanmar and Laos may offer lower growth prospects for Café Amazon as they are smaller markets. Coffee revenue in the Philippines will also likely be slower as local preferences are geared more to proper meals and instant coffee.

Ex 34: Overseas EBITDA Breakdown



Source: Company data

Ex 35: Overseas EBITDA Growth



Sources: Company data, Thanachart estimates

Ex 36: OR's Overseas Businesses

	Year of entry	No of stations	Café Amazon	Jiffy
Philippines	1997	187	18	0
Cambodia	1995	118	188	67
Laos	2012	51	77	29

Source: Company data

Ex 37: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)		2023F	2024F	2025F	2026F	2018F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA & equity income		19,696	20,847	21,727	22,639	23,584	24,513	25,474	26,469	27,501	28,570	29,678	
Free cash flow		9,572	12,444	12,015	12,862	13,663	14,454	15,265	16,102	16,966	17,859	17,484	247,686
PV of free cash flow		9,574	11,499	10,255	10,008	9,779	9,516	9,242	8,966	8,690	8,086	7,248	102,675
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	8.2												
Terminal growth (%)	2.0												
Enterprise value -	205,538												
add investments													
Net debt (end-2022F)	(47,498)												
Minority interest	54												
Equity value	252,982												
# of shares (m)	12,000												
Equity value/share (Bt)	**21**												

Source: Thanachart estimates

Valuation Comparison

Ex 38: Valuation Comparison With Regional Peers

Company	Code	Country	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 (%)	ROE 22F (%)	ROE 23F (%)
Petrol station operators														
Pure petrol station operators														
PTT Oil And Retail	OR TB *	Thailand	19.1	7.0	23.6	22.0	2.8	2.6	12.7	11.7	1.2	1.3	12.5	12.3
PTG Pcl	PTG TB *	Thailand	50.7	19.3	15.7	13.2	2.6	2.4	7.2	6.1	3.2	3.8	17.7	19.0
SUSCO Pcl	SUSCO TB *	Thailand	46.5	11.9	10.2	9.2	0.9	0.8	5.5	4.7	5.9	6.6	8.7	9.4
Bangchak Corp	BCP TB *	Thailand	116.4	(34.9)	4.0	6.2	0.7	0.6	3.0	4.5	6.2	4.1	17.5	10.5
ESSO (Thailand)	ESSO TB *	Thailand	na	(9.9)	5.7	6.3	1.2	1.1	4.0	4.9	9.7	4.8	25.3	18.1
Average			**58.2**	**(1.3)**	**11.8**	**11.4**	**1.6**	**1.5**	**6.5**	**6.4**	**5.2**	**4.1**	**16.3**	**13.8**
Petrol station operators with other business														
Ampol	ALD AU	Australia	126.3	(17.6)	9.3	11.2	2.1	2.1	5.4	5.9	2.7	6.2	12.0	25.8
Sinopec	386 HK	China	(3.5)	0.5	6.2	6.2	0.5	0.5	3.5	3.6	10.1	11.1	9.6	9.0
Average			**61.4**	**(8.5)**	**7.7**	**8.7**	**1.3**	**1.3**	**4.5**	**4.8**	**6.4**	**8.6**	**10.8**	**17.4**
Average			**59.3**	**(3.4)**	**10.7**	**10.6**	**1.6**	**1.5**	**5.9**	**5.9**	**5.6**	**5.4**	**14.8**	**14.9**
Thailand retailers														
Berli Jucker	BJC TB *	Thailand	47.9	10.7	24.6	22.2	1.1	1.0	13.0	12.7	3.0	3.4	4.3	4.7
CP All	CPALL TB *	Thailand	66.1	57.4	42.8	27.2	4.9	4.4	12.5	10.5	1.2	1.8	12.8	17.9
Central Pattana	CPN TB *	Thailand	133.9	35.1	35.1	26.0	3.5	3.2	19.9	16.1	1.3	1.7	10.4	12.9
Central Retail Corp.	CRC TB *	Thailand	na	40.3	40.8	29.1	3.6	3.3	10.0	9.0	1.0	1.4	9.1	11.9
Siam Global House	GLOBAL TB *	Thailand	11.8	20.8	23.3	19.3	3.9	3.5	18.6	15.5	1.7	2.1	18.0	19.2
Home Product	HMPRO TB *	Thailand	21.1	20.5	26.3	21.9	7.3	6.7	15.1	13.0	3.0	3.7	28.2	31.8
Siam Makro	MAKRO TB *	Thailand	(20.6)	40.6	37.1	26.4	1.2	1.2	14.3	12.3	2.0	2.8	3.3	4.6
Average			**43.4**	**32.2**	**32.9**	**24.6**	**3.6**	**3.3**	**14.8**	**12.7**	**1.9**	**2.4**	**12.3**	**14.7**

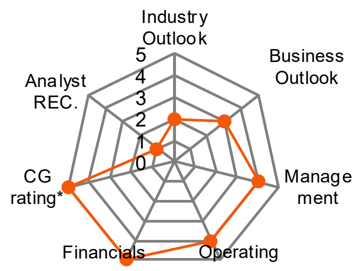
Sources: Bloomberg, * Thanachart estimates
Based on 22 July 2022 closing prices

COMPANY DESCRIPTION

PTT Oil and Retail (OR), are the flagship companies in the oil and retail business under PTT Group, which is the most comprehensive oil marketing operator in Thailand. OR, as of 1Q22, runs the largest network with a total of 2,312 oil retail stations across the country and a volume market share of 41% (as of 2021). OR also has a presence in Cambodia, Laos and the Philippines. The company also has a strong non-oil business which accounted for 21% of EBITDA in 2021.

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 oil retail network which could allow the company to maintain its No.1 ranking
- Owns Thailand's leading coffee brand, Café Amazon, which is the key magnet for its petrol stations.
- Strong partnership with 7-Eleven, Thailand No.1 convenience store operator.

W — Weakness

- Highly dependent on 7-Eleven stores. A breaking of the master franchise contract with 7-Eleven could lead to lower profitability for PTTOR's non-oil business.
- Located in the low growth and competitive oil retail industry.
- Highly volatile earnings due to inventory gains/losses.

O — Opportunity

- Oversea markets could offer substation growth opportunities.
- OR's strong balance sheet allows it to find new businesses or investments that can enhance its existing operation.

T — Threat

- Risk on government intervention when oil price is high.
- Rising EV penetration rate could lead to lower oil demand.
- Potential cannibalization of store expansion

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	28.10	21.00	-25%
Net profit 22F (Bt m)	11,924	12,980	9%
Net profit 23F (Bt m)	13,183	14,037	6%
Consensus REC	**BUY: 11**	**HOLD: 6**	**SELL: 4**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F profits are slightly ahead of the Bloomberg consensus. We believe this is due to us having higher margin assumptions.
- However, our DCF-based TP is lower, likely as we are less positive on the longer-term outlook.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A stronger-than-expected oil demand recovery is the key upside risk to our call.
- OR may acquire a new non-oil business that could lead to higher-than-expected returns and reduce its earnings volatility would represent a secondary upside risk to our call.
- A faster-than-expected expansion of Café Amazon that could lead to upside surprise to our EBITDA forecasts.

Source: Thanachart

We expect profit growth to taper off from 2022F onward

OR has a strong balance sheet given limited capex for its existing business

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	428,804	511,799	871,374	869,248	812,812
Cost of sales	395,682	475,592	823,724	820,819	766,041
Gross profit	**33,122**	**36,207**	**47,650**	**48,429**	**46,772**
% gross margin	7.7%	7.1%	5.5%	5.6%	5.8%
Selling & administration expenses	25,261	25,087	34,855	34,770	32,512
Operating profit	**7,861**	**11,120**	**12,795**	**13,659**	**14,259**
% operating margin	1.8%	2.2%	1.5%	1.6%	1.8%
Depreciation & amortization	6,585	7,910	7,755	8,296	8,847
EBITDA	**14,446**	**19,030**	**20,551**	**21,955**	**23,106**
% EBITDA margin	3.4%	3.7%	2.4%	2.5%	2.8%
Non-operating income	4,045	3,480	3,480	3,480	3,480
Non-operating expenses	0	0	0	0	0
Interest expense	(1,447)	(1,250)	(929)	(645)	(435)
Pre-tax profit	**10,459**	**13,351**	**15,347**	**16,495**	**17,305**
Income tax	1,776	2,719	2,992	3,216	3,374
After-tax profit	**8,683**	**10,632**	**12,355**	**13,279**	**13,931**
% net margin	2.0%	2.1%	1.4%	1.5%	1.7%
Shares in affiliates' Earnings	535	372	758	758	758
Minority interests	0	4	0	0	0
Extraordinary items	(427)	465	(133)	0	0
NET PROFIT	**8,791**	**11,474**	**12,980**	**14,037**	**14,689**
Normalized profit	**9,218**	**11,009**	**13,113**	**14,037**	**14,689**
EPS (Bt)	0.7	1.0	1.1	1.2	1.2
Normalized EPS (Bt)	0.8	0.9	1.1	1.2	1.2

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	68,594	126,066	138,502	138,301	133,581
Cash & cash equivalent	19,004	66,224	66,224	66,224	66,224
Account receivables	12,109	20,235	23,873	23,815	22,269
Inventories	19,021	24,432	22,568	22,488	20,987
Others	18,461	15,175	25,837	25,774	24,101
Investments & loans	4,792	5,948	5,948	5,948	5,948
Net fixed assets	41,996	42,663	49,626	54,589	58,651
Other assets	29,597	32,982	10,889	8,629	6,370
Total assets	**144,979**	**207,659**	**204,964**	**207,467**	**204,550**
LIABILITIES:					
Current liabilities:	40,469	51,730	39,011	38,451	35,343
Account payables	23,373	37,275	22,568	22,488	20,987
Bank overdraft & ST loans	24	93	0	0	0
Current LT debt	9,145	4,775	936	668	323
Others current liabilities	7,928	9,587	15,507	15,295	14,032
Total LT debt	**41,634**	**29,502**	**17,789**	**12,697**	**6,140**
Others LT liabilities	24,961	26,555	38,764	36,696	32,812
Total liabilities	**107,063**	**107,787**	**95,564**	**87,845**	**74,294**
Minority interest	93	54	54	54	54
Preferreds shares	0	0	0	0	0
Paid-up capital	90,000	120,000	120,000	120,000	120,000
Share premium	0	0	0	0	0
Warrants	0	0	0	0	0
Surplus	(67,456)	(42,590)	(42,590)	(42,590)	(42,590)
Retained earnings	**15,279**	**22,407**	**31,935**	**42,158**	**52,791**
Shareholders' equity	37,823	99,818	109,345	119,568	130,201
Liabilities & equity	**144,979**	**207,659**	**204,964**	**207,467**	**204,550**

Sources: Company data, Thanachart estimates

OR chooses to use cash to explore new businesses

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	10,459	13,351	15,347	16,495	17,305
Tax paid	(1,792)	(2,397)	(3,003)	(3,084)	(3,468)
Depreciation & amortization	6,585	7,910	7,755	8,296	8,847
Chg In w orking capital	619	366	(16,481)	58	1,546
Chg In other CA & CL / minorities	1,965	6,212	(3,973)	477	1,263
Cash flow from operations	**17,835**	**25,441**	**(354)**	**22,242**	**25,493**
Capex	(7,100)	(6,742)	(12,459)	(11,000)	(10,650)
Right of use	(12,899)	(3,446)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(95)	(1,155)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	7,501	(1,735)	31,910	(2,067)	(3,885)
Cash flow from investments	**(12,593)**	**(13,078)**	**19,451**	**(13,067)**	**(14,535)**
Debt financing	(2,863)	(15,662)	(15,644)	(5,360)	(6,903)
Capital increase	0	30,000	0	0	0
Dividends paid	(9,450)	(4,423)	(3,453)	(3,815)	(4,056)
Warrants & other surplus	(225)	24,943	0	0	0
Cash flow from financing	**(12,538)**	**34,858**	**(19,096)**	**(9,175)**	**(10,958)**
Free cash flow	**10,735**	**18,699**	**(12,813)**	**11,242**	**14,843**

We see its high PE as unjustified as profit is still driven by its oil retail business

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	33.5	28.1	23.6	22.0	21.0
Normalized PE - at target price (x)	27.3	22.9	19.2	18.0	17.2
PE (x)	35.1	26.9	23.8	22.0	21.0
PE - at target price (x)	28.7	22.0	19.4	18.0	17.2
EV/EBITDA (x)	23.6	14.6	12.7	11.7	10.8
EV/EBITDA - at target price (x)	19.6	11.6	10.0	9.1	8.3
P/BV (x)	8.2	3.1	2.8	2.6	2.4
P/BV - at target price (x)	6.7	2.5	2.3	2.1	1.9
P/CFO (x)	17.3	12.1	(871.9)	13.9	12.1
Price/sales (x)	0.7	0.6	0.4	0.4	0.4
Dividend yield (%)	0.4	1.0	1.2	1.3	1.3
FCF Yield (%)	3.5	6.1	(4.1)	3.6	4.8
(Bt)					
Normalized EPS	0.8	0.9	1.1	1.2	1.2
EPS	0.7	1.0	1.1	1.2	1.2
DPS	0.1	0.3	0.3	0.3	0.3
BV/share	3.2	8.3	9.1	10.0	10.9
CFO/share	1.5	2.1	(0.0)	1.9	2.1
FCF/share	0.9	1.6	(1.1)	0.9	1.2

Sources: Company data, Thanachart estimates

Despite OR's asset-light strategy, returns are not superior to peers'

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(25.7)	19.4	70.3	(0.2)	(6.5)
Net profit (%)	(19.3)	30.5	13.1	8.1	4.6
EPS (%)	(19.3)	30.5	13.1	8.1	4.6
Normalized profit (%)	(13.9)	19.4	19.1	7.0	4.6
Normalized EPS (%)	(13.9)	19.4	19.1	7.0	4.6
Dividend payout ratio (%)	13.7	28.2	28.2	28.2	28.2
Operating performance					
Gross margin (%)	7.7	7.1	5.5	5.6	5.8
Operating margin (%)	1.8	2.2	1.5	1.6	1.8
EBITDA margin (%)	3.4	3.7	2.4	2.5	2.8
Net margin (%)	2.0	2.1	1.4	1.5	1.7
D/E (incl. minor) (x)	1.3	0.3	0.2	0.1	0.0
Net D/E (incl. minor) (x)	0.8	(0.3)	(0.4)	(0.4)	(0.5)
Interest coverage - EBIT (x)	5.4	8.9	13.8	21.2	32.8
Interest coverage - EBITDA (x)	10.0	15.2	22.1	34.1	53.1
ROA - using norm profit (%)	6.2	6.2	6.4	6.8	7.1
ROE - using norm profit (%)	24.1	16.0	12.5	12.3	11.8
DuPont					
ROE - using after tax profit (%)	22.7	15.4	11.8	11.6	11.2
- asset turnover (x)	2.9	2.9	4.2	4.2	3.9
- operating margin (%)	2.8	2.9	1.9	2.0	2.2
- leverage (x)	3.9	2.6	2.0	1.8	1.6
- interest burden (%)	87.8	91.4	94.3	96.2	97.5
- tax burden (%)	83.0	79.6	80.5	80.5	80.5
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	9.8	12.7	15.2	17.8	17.2
NOPAT (Bt m)	6,526	8,856	10,301	10,996	11,479
invested capital (Bt m)	69,622	67,963	61,847	66,709	70,440

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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 ADVANC16C2211A, ADVANC16C2210A, AMAT16C2209A, AOT16C2209A, AWC16C2207A, BAM16C2207A, BANP16C2207A, BANPU16C2210A, BCH16C2211A, BCH16C2207A, BEC16C2207A, BGRI16C2209A, BLA16C2208A, BLA16C2209A, CBG16C2207A, CBG16C2210A, CENTEL16C2209A, CHG16C2207A, COM716C2211C, COM716C2211B, COM716C2208A, COM716C2209A, COM716C2211A, DOHO16C2207A, EA16C2207A, EA16C2209A, ESSO16C2209A, ESSO16C2209B, GPSC16C2207A, GPSC16C2209A, GULF16C2207A, GULF16C2210A, GUNK16C2207A, GUNK16C2209A, HANA16C2211A, HANA16C2207A, HANA16C2209A, IVL16C2209A, JMART16C2210A, JMT16C2207A, JMT16C2210A, KBANK16C2211A, KBAN16C2208A, KBAN16C2209A, KCE16C2211A, KCE16C2208A, KCE16C2209A, KTC16C2209A, MEGA16C2207A, MINT16C2207A, MINT16C2211A, MTC16C2209A, PTG16C2209A, PTTE16C2209A, PTTG16C2207A, RBF16C2209A, RCL16C2208A, S5016C2209A, S5016P2209A, SAWA16C2209A, SCB16C2208A, SET5016P2209B, SPRC16C2209A, STEC16C2209A, TOP16C2211A, TTA16C2207A, TTA16C2208A, TTA16C2211A, TU16C2210A, 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, SAWAD, SCB, SET50, SPRC, STEC, TOP, TTA, TU, 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.

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: The One Enterprise Pcl. (ONEE TB)

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
18 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 Phadthananarak
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