THAILAND | Sector Note | 8 JULY 2022

Sector Weighting | **Underweight** (From: Overweight)

Thailand Utilities Sector

Perfect storm for SPPs

Sector Valuation			Current	Target	Market	Norm EPS grw		— Norm PE —		— P/BV —		Div yield	
	BBG		price	price	Cap	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Company	Code	Rec.	(Bt)	(Bt)	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
B.Grimm Power Pcl	BGRIM TB	HOLD	36.75	34.00	2,651	(81.8)	339.8	216.2	49.2	3.3	3.1	0.2	1.0
Global Power Synergy	GPSC TB	SELL	65.50	58.00	5,110	(63.4)	132.2	74.6	32.1	1.7	1.7	0.7	1.7
Electricity Generating	EGCO TB	BUY	176.50	275.00	2,571	3.9	1.7	8.7	8.6	0.8	0.7	3.7	4.0
Gulf Energy Dev. Pcl	GULF TB	HOLD	47.25	45.00	15,338	22.2	37.4	51.2	37.3	4.4	3.5	1.2	1.6
RATCH Group Pcl	RATCH TB	HOLD	38.25	46.00	2,302	49.7	(19.9)	6.0	7.5	0.8	0.8	9.2	5.0

Source: Thanachart estimates, Based on 7 July 2022 closing prices

The energy price surge has hurt SPPs much more than we had expected. We now no longer foresee much of an earnings recovery in 2H22F given a sudden Asian LNG price rise. We downgrade BGRIM to HOLD and GPSC to SELL. As we maintain our bearish view on most big-cap utilities stocks, we UNDERWEIGHT the sector.

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Stronger negatives for SPPs

We expect SPPs to face worse storms later this year, wiping out our hopes for an earnings recovery in 2H22F and leading us to cut earnings further. *First*, high oil prices continue as the Russia-Ukraine war drags on. Moreover, if oil prices stay above US$100/bbl until year end, this would imply high gas prices for SPPs into at least 1H23F as the domestic pool gas price lags oil price movements by six to nine months. *Second,* LNG supply disruption in the US has caused the Asian spot LNG price to spike to US$40/mmbtu from $20-25 in April-May. This will likely push up Thai gas prices further in 2H22F. *Third,* the 8% YTD weaker baht against the US dollar has raised imported fuel prices. Given these stronger negatives, we don't expect benefits from the government's lifting of electricity tariffs this September to be sufficient to improve SPP profits.

Rising pool gas price

The domestic pool gas price has surged from Bt233/mmbtu in 2021 to Bt408 in 1Q22 and Bt450 in April 2022. Meanwhile, national electricity tariff hikes, via raising the fuel-adjustment tariff (Ft), have not caught up given the government's intention to subsidize the hit to the economy. With the three abovementioned factors, we raise our pool gas price assumptions sharply to Bt445/442/375 (from Bt390/340/300) in 2022-24F. Exhibit 7 shows our quarterly forecasts for the pool gas price.

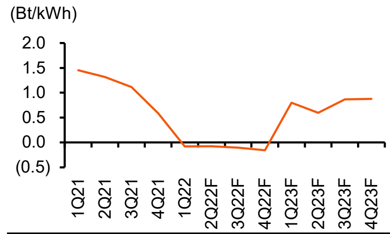
Ft hike later this year likely not enough

For revenue, the national tariff was capped at Bt3.6/kWh in 2021, despite the pool price already starting to rise. It is now at Bt4.0 after two Ft hikes in January and May. We expect another Bt0.8 hike this September to Bt4.8/kWh. We see the national tariff rising by 16% from end 2021 to end 2022F, with the pool gas price rising more strongly by 95%. We therefore expect the loss-making portion of SPP electricity sales to industrial users (IUs) to still outweigh the slim profit from sales to EGAT in 2H22F. We recap that 70-80% of SPP's output is sold to EGAT with fuel costs passed through. The other 20-30% is sold to IUs at discounts to the national tariff, thus suffering from lagging tariff hikes vs. fuel prices.

Downgrading BRRIM and GPSC

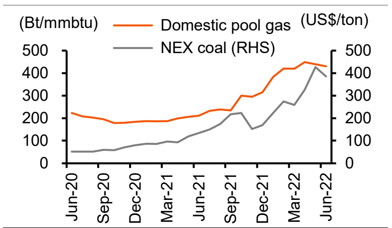
We cut BGRIM's earnings further by 41% and GPSC's by 34% in 2022-24F. We therefore see BGRIM's share price rebound of 24% from this year's low, and by 10% for GPSC, as a profit-taking opportunity. We downgrade BGRIM to HOLD (from Buy) and GPSC to SELL (from Hold).

IU Margin Is Still Squeezed In 2H22



Sources: Company data; Thanachart estimates

Higher-Than-Expected Fuel Prices



Sources: EPPO, Bloomberg

Changes In Recommendation

	Rating		TP (Bt/shr)	
	New	Old	New	Old
BGRIM	HOLD	BUY	34.00	40.00
GPSC	SELL	HOLD	58.00	72.50

Sources: Company data; Thanachart estimates

Thanachart Securities

Stronger negatives for SPPs

Harder hit to margin from rising gas prices in 2H22F

We forecast profitability of the power plants under the "small power producer" (SPP) scheme to weaken in 2H22F. This is contrary to our previous view (but likely to be the current market expectation), of margins beginning to recover toward year end. Our more bearish view is because we now project Thailand's pool gas price (the weighted average price of natural gas supplied to the country from three major sources, namely domestic production in the Gulf of Thailand, gas fields in Myanmar, and imported LNG) to reverse to a rising trend in 3Q22F, driven by three factors:

1) Oil prices remain high

- *First,* global oil prices have remained high at above US$100/bbl since early March, likely driven by the prolonged Russia-Ukraine war which now indirectly involves many other economies. Given the usual six- to nine-month lag time, the impact from the high oil prices will hit the Thai pool gas price harder from 3Q22F.

2) LNG price spikes again

- *Second,* the Asian spot LNG price spiked US$40/mmbtu again in July, after softening to nearly $20 in mid-April. As Thailand has to rely on more imported LNG to offset lower production from its key Erawan gas field in 2022-24F, this is another major factor pushing up the pool gas price in 3Q22F.

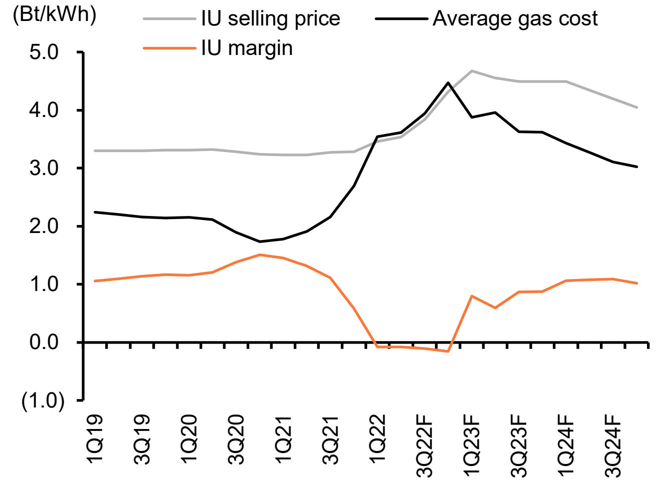
3) Weakening Thai baht

- *Third,* the Thai baht has weakened against the US dollar by 8% YTD, and we expect the trend to continue. This has also raised the pool gas price further, since it implies higher prices for imported fuels.

Downgrade BGRIM and GPSC on prolonged margin squeeze for SPPs

Despite the surging price of gas, which makes up around 60% of the fuel used for electricity generation in Thailand, we expect the government to only gradually lift the national electricity tariff price to prevent a sudden hit to the economy. We don't expect the increase to be sufficient to offset another gas price spike, so we believe SPPs' margin will continue to be squeezed in 2H22F. BGRIM and GPSC look set to be hit hardest since their SPP plants have high portions of electricity sales to industrial users (IUs). We downgrade BGROIM to HOLD (from Buy) and GPSC to SELL (from Hold), after our earnings and TP cuts.

Ex 1: We Expect Weakened IU Margin In 2H22F



Sources: Energy Policy and Planning Office (EPPO), Thanachart estimates

Ex 2: Changes In Our Key Assumptions

	2022F		2023F		2024F	
	New	Old	New	Old	New	Old
Pool gas price (Bt/mmbtu)	445	390	442	340	375	300
National tariff (Bt/kWh)	4.19	4.01	5.06	4.66	4.75	4.75
Brent oil (US$/bbl)	101.0	88.0	90.0	73.0	85.0	71.0
Spot LNG (US$/mmbtu)	28.0	24.0	26.3	22.3	25.0	20.0

Sources: Thanachart estimates

Rising pool gas price

Pool gas price looks set to rise again in 3Q22F

We expect the domestic pool gas price to increase again in 2H22F given the three factors mentioned earlier. We break down their impacts on the pool price as follows:

Extended high oil price impact as Russia-Ukraine conflict drags on

First, prices of natural gas from gas fields in the Gulf of Thailand and in Myanmar (operated by PTT Exploration and Production Pcl, [PTTEP TB, HOLD, Bt156.50]) are linked to the six-month trailing average of global oil prices. The surge in the oil price by 38% from end 2021 to end 2Q22 will therefore significantly drive up the price of this 70% portion of the country's gas supply from 3Q22F. As the Russia-Ukraine situation has now escalated into a regional geopolitical dispute, including the imposition of bans on the trading of major fuels, we believe this situation is likely to keep oil prices high until year end. With the six-month lag time, this negative to SPPs' gas costs may drag on into 1H23F.

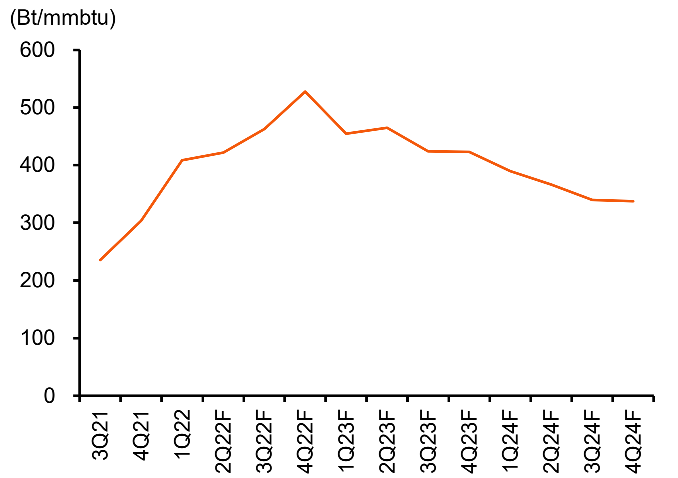
LNG price rises on supply disruption and seasonally high demand

Second, another surge in the liquefied natural gas (LNG) in the Asian spot market has wiped out our hopes of the domestic pool gas price starting to fall in 2H22F. This is also the key reason making us revert to a bearish view on SPPs. We believe the main driver for the spot LNG price spike was the supply disruption caused by a fire at the Freeport LNG terminal in the US last month. The latest reports predict only a partial resumption of LNG production from the Freeport facility in October. However, gas demand will be seasonally strong in the winter. We therefore expect the price of this 15% of the country's gas supply to stay high until year end. Note that the recent change in the domestic pool gas price, which allows diesel and fuel oil to be used as substitutes for LNG in the country's electricity generation, may slightly offset this negative.

Depreciating baht adding salt to the wound

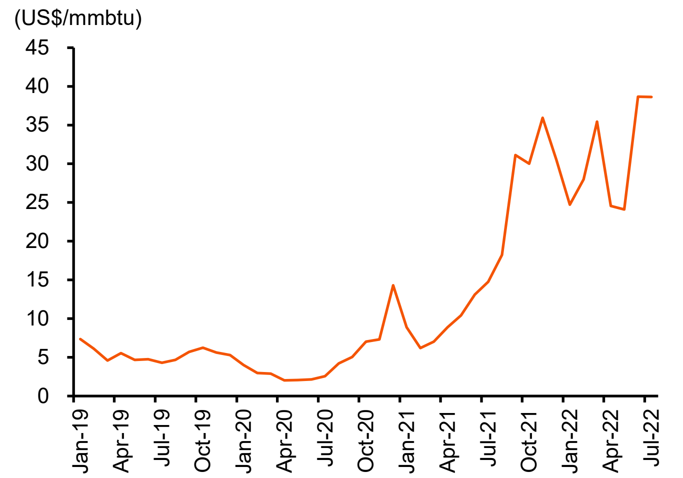
Third, Thailand is an oil importer, and it has now started to import natural gas. The weaker Thai baht therefore implies high prices for these imported fuels. The baht has weakened by 8% YTD against the US dollar, and our house view expects the depreciating baht trend to continue this year given 1) the widening gap between Fed funds rate and the Thai policy rate and 2) a higher trade deficit as the country has to import higher-priced commodities while its exports and tourism industry remain weak.

Ex 3: Another Pool Gas Price Spike



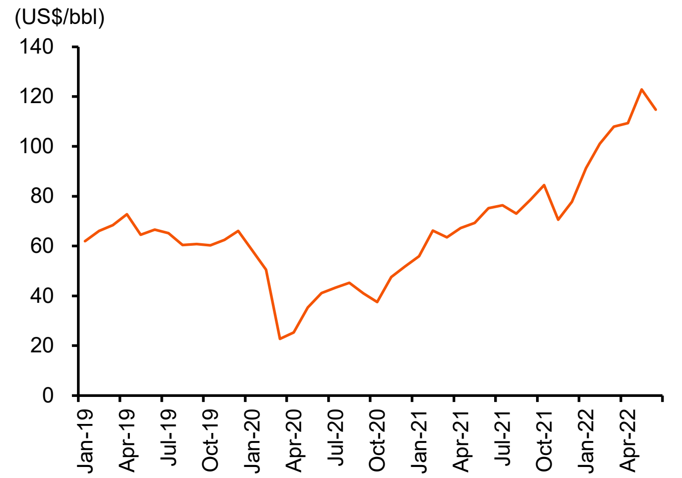
Sources: EPPO, Thanachart estimates

Ex 4: Surging Asian LNG Price Is The Key Driver



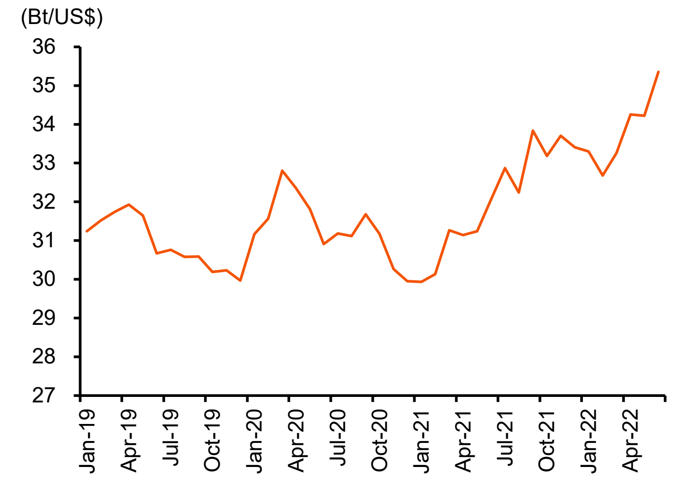
Source: Platts JKM

Ex 5: Global Oil Prices Remain High



Source: Bloomberg

Ex 6: Weakened Baht Causes Higher Imported Fuel Prices



Source: Bloomberg

We project the pool gas price to peak in 4Q22F, then gradually falls

We now project the domestic pool gas price to peak at Bt528/mmbtu in 4Q22F since the recent oil price high was in June while the gas price (including LNG) normally spikes amid strong demand in the fourth quarter. We expect the pool gas price to start to decline in 1Q23F as both the oil and LNG price trends reverse. There should also some help from recovering gas production at the Erawan field, which is the cheapest gas source for Thailand, as it is now in the process of changing operator from the Chevron group to PTTEP. This means high-priced LNG from the spot market can be partially replaced by much lower-priced gas from Erawan, lowering the pool gas price over the next two years.

Ex 7: Our Forecasted Quarterly Pool Gas Price Breakdown

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Domestic & Myanmar	242	273	341	388	344	376	339	305	287	284	271	264
Imported LNG - contract	489	583	530	580	523	466	438	438	418	406	402	400
Imported LNG - spot	1,014	757	875	1,044	863	855	850	1,020	946	838	730	825
Pool gas price	**408**	**422**	**463**	**528**	**455**	**465**	**424**	**423**	**389**	**367**	**340**	**338**

Source: Thanachart estimates

Ft hikes likely not enough

Series of gradual national electricity tariff hikes a relief factor

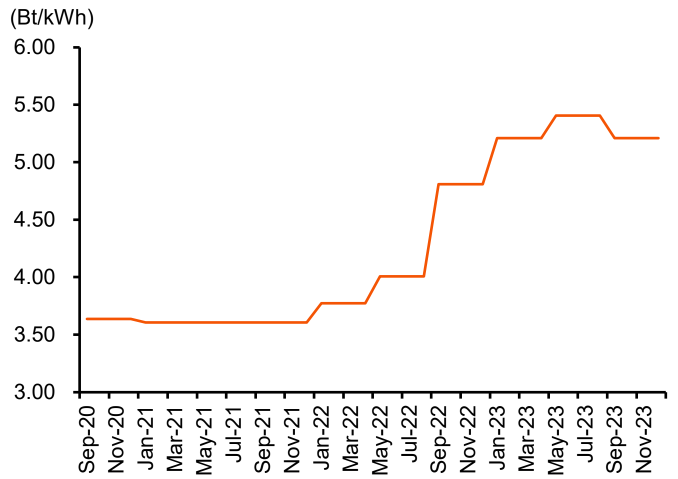
We expect another three rounds of national electricity tariff hikes of 0.8/0.4/0.2Bt/kWh in September 2022, January 2023 and May 2023. We assume the gradual increase since the government is likely to want to avoid creating a sudden hit to the economy. We are confident the tariff will be lifted given the government's depleting subsidy budget while energy prices continue to rise. The Electricity Generating Authority of Thailand (EGAT), as the sole electricity seller, has been selling electricity at lower prices than its generating costs since 2H20. This means the electricity tariff has been subsidized for nearly two years, and we estimate the accumulated amount of subsidy to now be over Bt110bn (2H20-1H22).

Government's budget for subsidization looks to have been depleted

The net position of "electricity funding" in EGAT's balance sheet had reached Bt66bn as of 1Q22, and it looks likely to increase to over Bt90bn in 2Q22. In a normal situation, EGAT is not allowed to have more than a Bt25bn deficit. Therefore, it needs to raise its tariff so its financial position recovers. We have also seen the government start to loosen subsidies and even ask for donations from big energy firms for diesel and liquefied petroleum gas

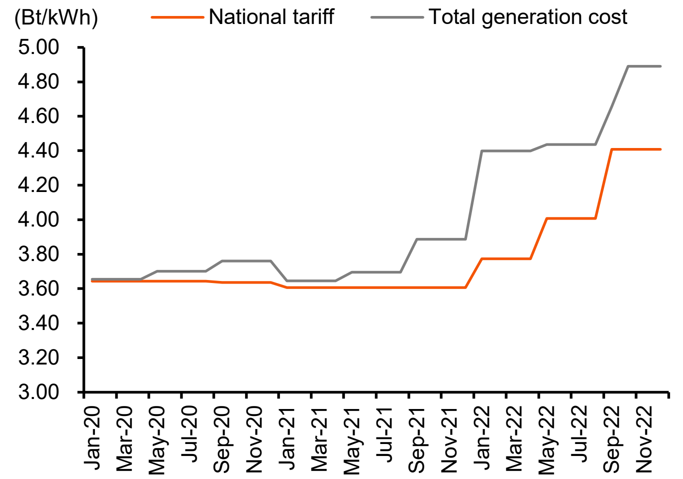
(LPG), which have more of an impact on inflation and domestic consumption. We foresee the electricity tariff soon being in line for a price float with actual global energy prices.

Ex 8: We Assume Another Three Tariff Hikes



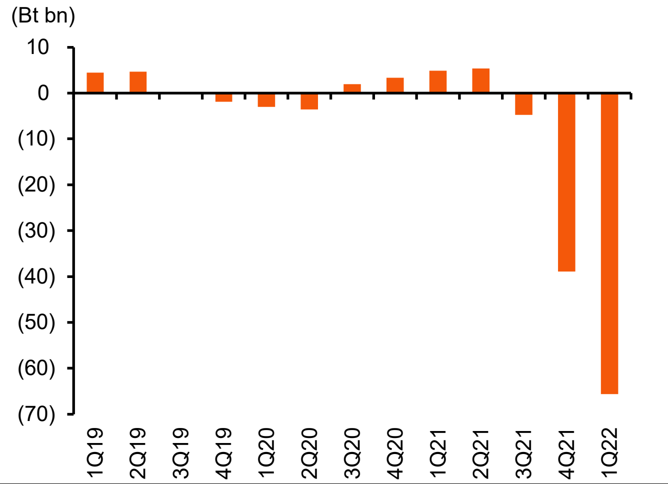
Sources: EPPO, Thanachart estimates

Ex 9: Current Tariff Is Lower Than Total Generation Cost



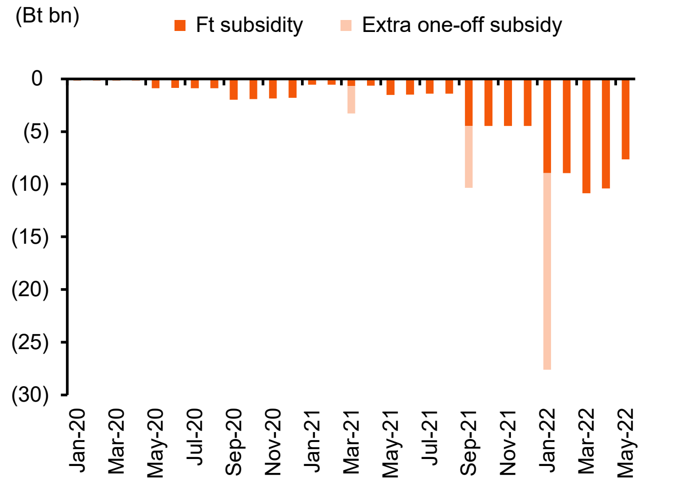
Sources: EPPO, EGAT, Thanachart estimates

Ex 10: EGAT's Net Electricity Funding Position



Sources: EGAT, Thanachart estimates

Ex 11: Estimated Monthly Subsidies For Electricity Price

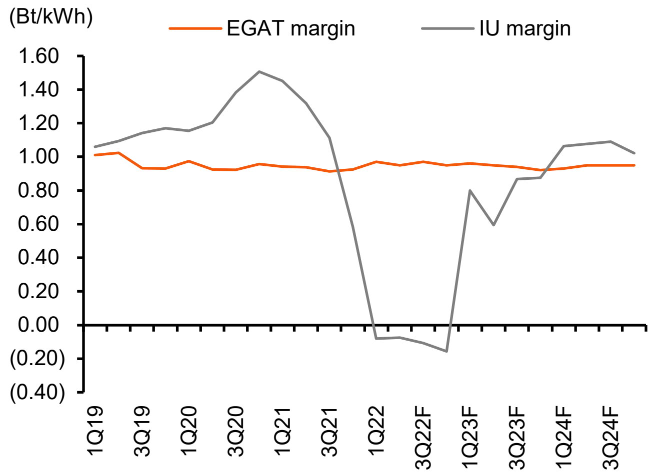


Sources: EPPO, EGAT, Thanachart estimates

We expect SPP margins to gradually recover to normalized level in 2024F

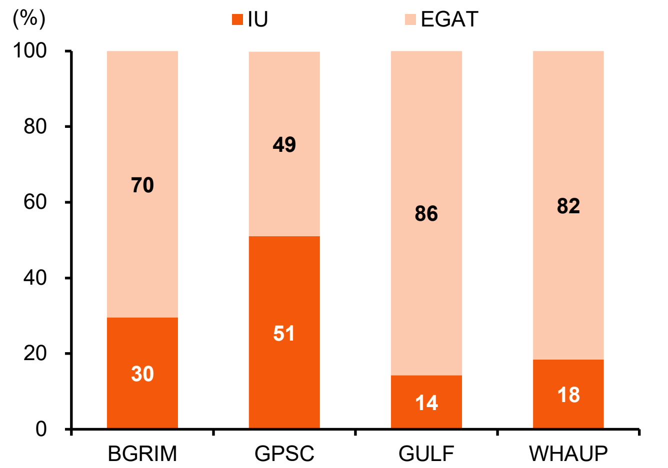
Based on our assumptions for the domestic pool gas price to peak in 4Q22F and a series of national electricity tariff hikes, we forecast SPP's throughput margin (selling price minus fuel cost) from electricity sales to IUs to recover from being slightly negative this year to Bt0.8/kWh in 2023F before normalizing to Bt1.1/kWh in 2024F (vs. its Bt1.2 average between 2017-20 before the current energy price crisis). BGRIM and GPSC have a sizable mix of IUs in their sales volumes from SPPs, at around 30% and 50% respectively, so we therefore see them as major losers from the SPP margin squeeze. We downgrade BGRIM to HOLD (from Buy) with a lower TP of Bt34 (from Bt40), and GPSC to SELL (from Hold) cutting our TP to Bt58.0 (from Bt72.5). For investors with a long-term investment horizon, we prefer BGRIM to play the SPP margin recovery story over the next two years, based on its more direct SPP exposure and stronger earnings growth outlook.

Ex 12: SPP Margin To Only Normalize In 2024F



Source: Thanachart estimates

Ex 13: BGRIM And GPSC Have High Exposure To IUs



Sources: Company data, Thanachart estimates

Ex 14: Sector Valuation Comparison

		BGRIM	EGCO	GPSC	GULF	RATCH	Industry
Rating		**HOLD**	**BUY**	**SELL**	**HOLD**	**HOLD**	
Target price (Bt)	**Thanachart**	**34.00**	**275.00**	**58.00**	**45.00**	**46.00**	
	Consensus	42.00	216.00	80.00	54.75	50.00	
Consensus rec.	BUY	12	7	9	7	6	
	HOLD	6	2	9	7	2	
	SELL	1	0	0	1	2	
Sales (Bt m)	2021	46,628	35,903	74,874	47,467	37,327	242,199
	2022F	64,512	35,816	115,391	80,636	41,919	338,274
	2023F	65,985	35,405	121,187	104,923	41,559	369,059
	2024F	69,032	33,104	121,609	134,012	39,141	396,897
Norm profits (Bt m)	2021	2,429	10,258	6,769	8,852	6,573	34,881
	2022F	443	10,657	2,476	10,820	9,842	34,238
	2023F	1,949	10,837	5,749	14,862	10,680	44,077
	2024F	3,046	10,373	7,587	21,421	11,967	54,394
Sales growth (%)	2021	5.8	6.9	7.6	44.4	9.1	14.8
	2022F	38.4	(0.2)	54.1	69.9	12.3	34.9
	2023F	2.3	(1.1)	5.0	30.1	(0.9)	7.1
	2024F	4.6	(6.5)	0.3	27.7	(5.8)	4.1
Norm EPS growth (%)	2021	(9.0)	8.4	(9.9)	89.4	20.6	19.9
	2022F	(81.8)	3.9	(63.4)	22.2	49.7	(13.9)
	2023F	339.8	1.7	132.2	37.4	(19.9)	98.2
	2024F	56.3	(4.3)	32.0	44.1	5.1	26.6
Operating margin (%)	2021	15.1	15.9	12.2	22.7	6.7	14.5
	2022F	4.6	16.8	3.7	16.5	11.3	10.6
	2023F	8.1	16.3	6.6	16.0	10.9	11.6
	2024F	11.6	15.6	8.3	17.6	10.0	12.6
ROE (%)	2021	8.5	9.5	6.4	11.0	10.0	9.1
	2022F	1.5	9.1	2.3	9.7	13.5	7.2
	2023F	6.5	8.7	5.2	10.4	11.4	8.5
	2024F	9.7	7.9	6.7	12.3	10.3	9.4
Dividend yield (%)	2021	1.1	3.7	2.3	0.9	5.8	2.8
	2022F	0.2	3.7	0.7	1.2	9.2	3.0
	2023F	1.0	4.0	1.7	1.6	5.0	2.7
	2024F	1.6	4.2	2.3	2.7	5.6	3.3
P/BV (x)	2021	3.3	0.8	1.7	5.7	0.8	2.5
	2022F	3.3	0.8	1.7	4.4	0.8	2.2
	2023F	3.1	0.7	1.7	3.5	0.8	2.0
	2024F	3.0	0.7	1.6	2.9	0.7	1.8
Norm PE (x)	2021	39.4	9.1	27.3	62.6	8.9	29.5
	2022F	216.2	8.7	74.6	51.2	6.0	71.3
	2023F	49.2	8.6	32.1	37.3	7.5	26.9
	2024F	31.5	9.0	24.3	25.9	7.1	19.5
EV/EBITDA (x)	2021	13.5	20.9	15.7	48.4	23.2	24.3
	2022F	20.8	19.3	23.3	38.0	18.9	24.1
	2023F	16.5	18.4	18.0	30.0	17.8	20.1
	2024F	12.9	18.3	16.0	21.5	19.8	17.7
Net D/E (x)	2021	1.7	0.8	0.9	1.9	0.6	1.2
	2022F	2.0	0.7	1.1	1.5	0.9	1.2
	2023F	2.0	0.6	1.1	1.2	0.3	1.0
	2024F	1.8	0.4	1.2	0.9	0.2	0.9

Sources: Company data; Thanachart estimates

Valuation Comparison

Ex 15: Comparison With Regional Peers

Name	BBG 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 (%)
Huadian Power	1071 HK	China	na	49.2	11.4	7.7	0.6	0.5	12.3	10.4	4.5	6.6
Huaneng Power	600011 CH	China	na	28.5	17.5	13.6	1.3	1.2	10.2	9.2	0.6	2.7
Cheung Kong Infrastructure	1038 HK	Hong Kong	10.6	(3.5)	12.9	13.4	1.0	1.0	49.2	48.4	5.1	5.2
China Power Int'l	2380 HK	Hong Kong	na	39.8	21.0	15.0	1.5	1.4	10.5	8.3	0.8	2.4
China Resources Power	836 HK	Hong Kong	54.5	30.2	9.2	7.0	0.9	0.8	6.7	5.7	3.0	5.2
CLP Holdings	2 HK	Hong Kong	(16.7)	21.9	17.9	14.7	1.4	1.4	9.7	9.4	4.8	4.7
Hongkong Electric Holdings	6 HK	Hong Kong	7.2	(1.0)	15.5	15.6	1.2	1.2	75.5	75.9	5.7	5.7
Huaneng Power	902 HK	Hong Kong	na	73.5	13.8	8.0	0.8	0.8	10.4	9.3	1.5	4.7
Tata Power	TPWR IN	India	35.5	42.1	32.8	23.1	3.1	2.8	15.3	13.4	0.7	0.8
Tenaga Nasional	TNB MK	Malaysia	(7.3)	7.7	10.0	9.3	0.8	0.7	6.6	6.6	6.9	5.3
YTL Corp	YTL MK	Malaysia	na	na	na	38.7	0.5	0.5	10.6	9.8	4.5	4.0
YTL Power	YTLP MK	Malaysia	na	na	na	16.9	0.4	0.4	11.4	9.7	5.8	5.6
Manila Electric	MER PM	Philippines	7.1	2.1	15.7	15.4	3.9	3.6	9.9	9.0	4.0	4.5
BCPG Pcl *	BCPG TB	Thailand	(2.4)	(24.7)	13.9	18.5	1.1	1.1	9.1	10.7	3.0	3.0
B.Grimm Power Pcl *	BGRIM TB	Thailand	(81.8)	339.8	216.2	49.2	3.3	3.1	20.8	16.5	0.2	1.0
Banpu Power Pcl *	BPP TB	Thailand	69.7	6.5	10.6	9.9	1.0	0.9	132.8	94.9	5.7	6.0
CK Power Pcl *	CKP TB	Thailand	13.7	(4.5)	19.9	20.8	1.7	1.6	21.1	15.6	2.0	2.4
EA Pcl*	EA TB	Thailand	44.9	20.6	33.4	27.7	7.4	6.2	24.0	20.4	0.9	1.1
Electricity Generating *	EGCO TB	Thailand	3.9	1.7	8.7	8.6	0.8	0.7	19.3	18.4	3.7	4.0
Global Power Synergy *	GPSC TB	Thailand	(63.4)	132.2	74.6	32.1	1.7	1.7	23.3	18.0	0.7	1.7
Gulf Energy Dev. Pcl *	GULF TB	Thailand	22.2	37.4	51.2	37.3	4.4	3.5	38.0	30.0	1.2	1.6
Gunkul Engineering *	GUNKUL TB	Thailand	41.7	23.7	16.9	13.7	3.2	2.8	17.9	13.8	2.4	2.9
RATCH Group *	RATCH TB	Thailand	49.7	(19.9)	6.0	7.5	0.8	0.8	18.9	17.8	9.2	5.0
WHA Utilities & Power *	WHAUP TB	Thailand	45.9	9.3	10.3	9.4	1.1	1.0	25.3	22.4	5.8	6.4
Average			**13.1**	**36.9**	**29.1**	**18.0**	**1.8**	**1.7**	**24.5**	**21.0**	**3.4**	**3.9**

Sources: Bloomberg, * Thanachart estimates

Based on 7 July 2022 closing prices

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET Index	**(4.3)**	**(7.1)**	**(0.9)**	**(5.7)**	—	—	—	—
Utilities Sector	**(2.6)**	**(4.4)**	**(0.2)**	**(8.1)**	1.6	2.7	0.7	(2.3)
BCPG	(8.6)	(10.9)	(25.4)	(11.7)	(4.4)	(3.8)	(24.4)	(5.9)
BGRIM	8.1	12.2	(12.0)	(9.3)	12.4	19.3	(11.1)	(3.5)
BPP	(8.3)	(13.9)	(17.8)	(16.9)	(4.1)	(6.7)	(16.9)	(11.1)
CKP	4.7	11.0	0.9	11.0	9.0	18.1	1.8	16.7
EA	(11.6)	(11.3)	29.9	(18.5)	(7.3)	(4.2)	30.8	(12.7)
EGCO	(0.8)	5.1	3.5	0.6	3.4	12.2	4.4	6.3
GPSC	1.2	(7.4)	(13.2)	(26.2)	5.4	(0.3)	(12.3)	(20.5)
GULF	0.5	(5.0)	39.0	3.3	4.8	2.1	39.9	9.0
GUNKUL	(7.6)	(11.4)	14.0	(2.7)	(3.4)	(4.2)	14.9	3.1
RATCH	(1.3)	(7.9)	(9.4)	(10.4)	3.0	(0.7)	(8.5)	(4.7)
WHAUP	(5.1)	(9.2)	(11.7)	(7.8)	(0.8)	(2.0)	(10.8)	(2.1)

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Defensive as agreed revenues on PPAs are predetermined.
- Changes in fuel prices are passed through via PPAs for IPPs and mostly by formulae adjustments for SPPs.

W — Weakness

- Most IPPs set their tariff as front-end loaded, so tariffs for ageing plants, especially ones approaching expiry, are set to fall drastically.
- There is sometimes intervention in the Ft adjustment.

O — Opportunity

- Huge investment potential in neighboring countries.
- Government supports and subsidizes renewable energy.

T — Threat

- Local communities may protest against new projects.
- Increased regulatory risk on environmental concerns.

REGIONAL COMPARISON

	—EPS growth—		—— PE ——		—— P/BV ——		— EV/EBITDA —		— Div. Yield —	
Name	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**
	(%)	**(%)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**
China	na	38.9	14.5	10.6	0.9	0.9	11.2	9.8	2.5	4.6
Hong Kong	13.9	26.8	15.0	12.3	1.1	1.1	27.0	26.2	3.5	4.7
India	35.5	42.1	32.8	23.1	3.1	2.8	15.3	13.4	0.7	0.8
Malaysia	(7.3)	7.7	10.0	21.6	0.5	0.5	9.5	8.7	5.7	4.9
Philippines	7.1	2.1	15.7	15.4	3.9	3.6	9.9	9.0	4.0	4.5
Thailand	13.1	47.5	42.0	21.3	2.4	2.1	31.9	25.3	3.2	3.2
Average	**12.5**	**27.5**	**21.7**	**17.4**	**2.0**	**1.8**	**17.5**	**15.4**	**3.3**	**3.8**

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

HOLD (From: BUY)

Change in Recommendation

TP: Bt 34.00 (From: Bt 40.00)

Downside : 7.5%

8 JULY 2022

B.Grimm Power Pcl (BGRIM TB)

Extended headwind

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Thanachart Securities

We expect a higher pool gas price and a larger loss for BGRIM's SPP plants in 2H22F. Increases in the electricity tariff have yet to catch up with rising fuel cost. We cut our earnings for BGRIM further and downgrade our recommendation to HOLD.

Downgrading to HOLD

This report is part of our report *Utilities – Perfect storm for SPPs,* dated 8 July 2022. We downgrade BGRIM to HOLD (from Buy) after slashing our 2022-24F earnings by 73/34/35%. Our DCF-derived SOTP-based 12-month TP is also cut to Bt34 (from Bt40), despite our valuation base year roll-over to 2023F. *First,* we expect a larger loss from its SPP plants in 2H22F due to a further rise in the pool gas price. *Second,* the portion of electricity sales to industrial users (IUs), which has no cost pass-through formula in its contracts and is thus suffering from rising gas costs but a capped national electricity tariff, will be larger versus its total sales volume in 4Q22. *Third,* we expect BGRIM's earnings turnaround to be delayed by a few quarters into 1H23F.

More losses from SPP plants in 2H22F

We expect BGRIM's throughput margin (selling price – fuel cost) of electricity sales to IUs to fall further to Bt-0.13/kWh in 2H22F, from Bt-0.08 in 1H22F. This is since we project the pool gas price to rise 20% h-h to Bt495/mmbtu in 2H22F, while expect the national electricity tariff to be raised by only 15% through a Bt0.8/kWh Ft hike in September. Note that the IU-sales portion accounts for 30% of total sales volume from BGRIM's SPP plants. We now expect BGRIM's earnings to start recovering later in 1Q23F (from 2H22F) as we project IU margin to turn positive to Bt0.8/kWh and Bt1.1 in 2023-24F (vs. the Bt1.2 average in 2017-20). This is based on our assumptions of falling oil prices next year, another Bt0.4/kWh Ft hike in 1Q23, and a full production recovery of low-priced gas from 'Erawan' field in 2024.

Larger mix of IU sales from 4Q22F

Power purchase agreements (PPAs) of five BGRIM's SPP units (307MW from 1.5GW operating SPP plants) will expire in 4Q22-1Q23. They will be replaced by five new plants with a new set of PPAs. Under those new contracts, total contracted capacity for electricity sales to EGAT is lower at 143MW (from 187MW for the old plants) while IU capacity expands to 190MW (from 127MW). This lifts the IU portion in BGRIM's total SPP sales volume to 37%, from 32% (see Exhibit 5). Since we now forecast a weak margin from electricity sales to IUs amid the high energy price environment, this new mix would be negative for BGRIM's earnings until its IU margin fully recovers, likely in 2024F.

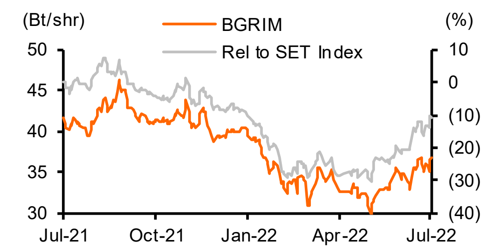
Some near-term support

BGRIM still has a capacity growth story of 8/15% in 2022-23F with more M&A targets this year. The potential release of Vietnam's new Power Development Plan (PDP-8) in 2H22 would also offer a growth opportunity for BGRIM to develop new gas-fired power plants there under the LNG-to-power scheme. We also see an earnings recovery driving its share price next year.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	46,628	64,512	65,985	69,032
Net profit	2,276	443	1,949	3,046
Consensus NP	—	1,947	3,404	4,570
Diff frm cons (%)	—	*(77.2)*	*(42.7)*	*(33.4)*
Norm profit	2,429	443	1,949	3,046
Prev. Norm profit	—	1,611	2,943	4,693
Chg frm prev (%)	—	*(72.5)*	*(33.8)*	*(35.1)*
Norm EPS (Bt)	0.9	0.2	0.7	1.2
Norm EPS grw (%)	(9.0)	(81.8)	339.8	56.3
Norm PE (x)	39.4	216.2	49.2	31.5
EV/EBITDA (x)	13.5	20.8	16.5	12.9
P/BV (x)	3.3	3.3	3.1	3.0
Div yield (%)	1.1	0.2	1.0	1.6
ROE (%)	8.5	1.5	6.5	9.7
Net D/E (%)	171.6	198.4	203.3	182.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 07-Jul-22 (Bt)	36.75
Market Cap (US$ m)	2,650.5
Listed Shares (m shares)	2,606.9
Free Float (%)	31.3
Avg Daily Turnover (US$ m)	11.9
12M Price H/L (Bt)	46.25/29.75
Sector	Utilities
Major Shareholder	B.Grimm Group 38.43%

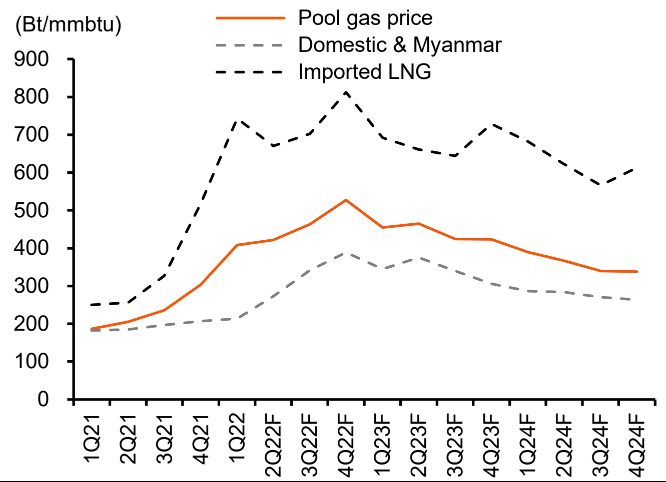
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our Key Assumption Changes

	2022F	2023F	2024F
Normalized profit (Bt m)			
New	443	1,949	3,046
Old	1,611	2,943	4,693
Change (%)	*(72.5)*	*(33.8)*	*(35.1)*
Pool gas price (Bt/mmbtu)			
New	445	442	375
Old	390	340	300
Change (%)	*14.1*	*29.9*	*25.0*
National electricity tariff (Bt/kWh)			
New	4.19	5.06	4.75
Old	4.01	4.66	4.75
Change (%)	*4.5*	*8.6*	*0.0*

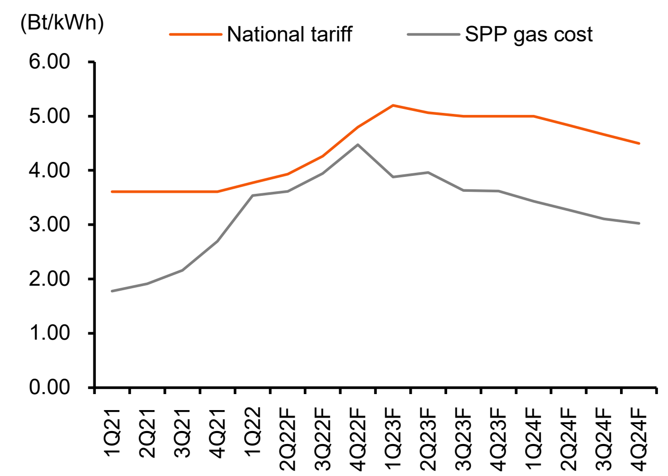
Source: Thanachart estimates

Ex 2: Another Gas Price Spike In 2H22F



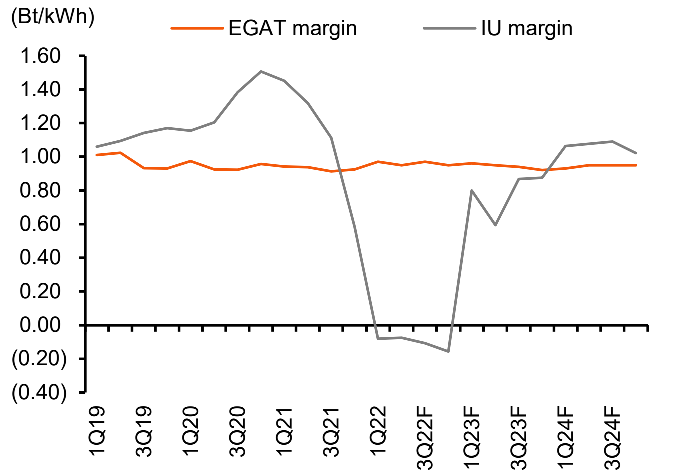
Sources: Energy Policy and Planning Office (EPPO), Thanachart estimates

Ex 3: Lagging National Electricity Tariff Adjustments



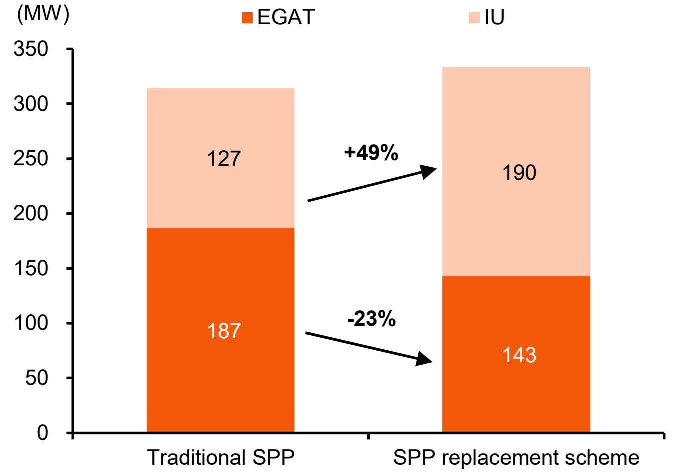
Sources: EPPO, Thanachart estimates

Ex 4: We Now Expect Full SPP Margin Recovery In 2024F



Sources: Company data, Thanachart estimates

Ex 5: Lower EGAT Mix In The New PPAs



Sources: Company data, Thanachart estimates

Note: Calculated from BGRIM's five SPP units (ABP1-2, BPLC, and BPAM1-2) migrating from traditional SPP to new PPAs under SPP replacement scheme.

Ex 6: Our DCF-derived Sum-Of-The-Parts (SOTP) 12-month TP Calculation

	Valuation method	WACC (%)	Value per BGRIM share (Bt/shr)
Operating gas-fired SPP plants	**DCF**	**5.2 - 6.4%**	**8.4**
(ABP, ABPR, BPLC, BPWHA, BIP, BPAM, ATP, UVBGP)			
SPP replacement projects	**DCF**	**5.7%**	**8.3**
(ABP1, ABP2, BPLC1, BPAM1, BPAM2)			
Projects under development	**DCF**	**5.5 - 6.5%**	**2.7**
(BGPR, U-Tapao airport, other IPS projects)			
Renewable projects			**4.3**
Solar - Thailand	DCF	6.0%	1.2
Solar - Vietnam	DCF	6.7%	0.8
Solar - Cambodia	DCF	7.1%	0.0
Solar - Malaysia	DCF	6.4%	1.8
Wind - Thailand	DCF	5.7%	0.5
Cash on hand			**1.0**
Potential projects	0	0	**9.2**
- Korea wind farms	DCF	10.0%	1.1
- Vietnam wind farms	DCF	10.0%	0.2
- Vietnam LNG-to-Power	DCF	10.0%	5.8
- M&A pipeline	DCF	10.0%	2.0
Grand total			**34.0**

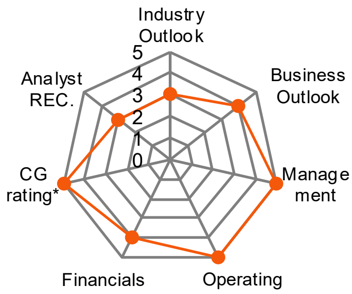
Source: Thanachart estimates

COMPANY DESCRIPTION

Established in 1993, BGRIM, a power arm of B.Grimm Group which has been operating businesses in Thailand for over 140 years, is one of the largest power producers in Thailand under the Small Power Producer (SPP) scheme. BGRIM provides electricity and steam for the national power grid as well as nearly 200 large manufacturers in many industrial estates and has also expanded its power business into Vietnam and Laos. The company has a target to expand its total capacity to 5.0GW by 2025.

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

- Good engineering team with strong expertise in developing and operating gas-fired power plants for over 20 years.
- Benefits from relationships with B.Grimm Group and other key strategic partners.

W — Weakness

- Financial gearing looks a bit high compared with peers', but is still well below its targeted threshold.

O — Opportunity

- Expansion of power business in neighbouring countries and the rest of Asia.
- Increasing power industry liberalization opens room for new business areas, i.e., smart grid and peer-to-peer trading.

T — Threat

- Relies on government's policy in balancing between fuel cost pass-on for power plants and its potential inflationary impacts on economy.
- Regulatory risks from business overseas.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	42.45	34.00	-20%
Net profit 22F (Bt m)	1,947	443	-77%
Net profit 23F (Bt m)	3,404	1,949	-43%
Consensus REC	**BUY: 12**	**HOLD: 6**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earning forecasts are significantly below the Bloomberg consensus numbers in 2022-23F, which we attribute to us assuming much higher domestic pool gas prices in those years.
- Our TP is therefore 20% lower.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A stronger/(weaker)-than-expected rise in domestic gas pool price than our assumptions is the key downside/(upside) risk to our earnings forecasts and target price.
- Faster/(slower) national electricity tariff adjustment to reflect rising fuel prices is another key upside/(downside) risk to our numbers.
- Lower-than-expected capacity growth, from both developing greenfield projects and potential M&As, than we currently expect would represent a secondary downside risk to our earnings and valuation.

Source: Thanachart

Much more severely hit by fuel price surge than we'd expected earlier

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	44,087	46,628	64,512	65,985	69,032
Cost of sales	34,848	37,935	59,775	58,570	58,767
Gross profit	**9,239**	**8,694**	**4,738**	**7,415**	**10,265**
% gross margin	21.0%	18.6%	7.3%	11.2%	14.9%
Selling & administration expenses	2,008	1,673	1,776	2,065	2,268
Operating profit	**7,231**	**7,021**	**2,962**	**5,350**	**7,997**
% operating margin	16.4%	15.1%	4.6%	8.1%	11.6%
Depreciation & amortization	5,616	5,308	5,442	5,522	5,643
EBITDA	**12,847**	**12,329**	**8,404**	**10,872**	**13,640**
% EBITDA margin	29.1%	26.4%	13.0%	16.5%	19.8%
Non-operating income	251	188	260	266	278
Non-operating expenses	0	0	0	0	0
Interest expense	(3,056)	(3,384)	(3,436)	(3,526)	(3,745)
Pre-tax profit	**4,426**	**3,825**	**(214)**	**2,090**	**4,530**
Income tax	233	298	0	178	385
After-tax profit	**4,193**	**3,526**	**(214)**	**1,912**	**4,145**
% net margin	9.5%	7.6%	-0.3%	2.9%	6.0%
Shares in affiliates' Earnings	58	44	(63)	66	211
Minority interests	(1,581)	(1,141)	720	(29)	(1,310)
Extraordinary items	(495)	(153)	0	0	0
NET PROFIT	**2,175**	**2,276**	**443**	**1,949**	**3,046**
Normalized profit	**2,670**	**2,429**	**443**	**1,949**	**3,046**
EPS (Bt)	0.8	0.9	0.2	0.7	1.2
Normalized EPS (Bt)	1.0	0.9	0.2	0.7	1.2

Not too significant an impact on the balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	29,879	41,058	23,861	29,171	29,885
Cash & cash equivalent	20,389	25,707	5,000	10,000	10,000
Account receivables	6,818	8,983	10,605	10,847	11,348
Inventories	1,033	971	1,638	1,605	1,610
Others	1,638	5,397	6,619	6,719	6,927
Investments & loans	1,086	3,124	3,871	5,479	5,579
Net fixed assets	80,300	84,804	94,883	98,702	97,901
Other assets	19,431	20,211	20,629	21,035	21,382
Total assets	**130,696**	**149,198**	**143,244**	**154,388**	**154,747**
LIABILITIES:					
Current liabilities:	26,993	12,724	20,009	20,861	20,582
Account payables	5,641	5,691	9,826	9,628	9,660
Bank overdraft & ST loans	15,080	750	4,206	4,694	4,538
Current LT debt	5,705	5,745	5,194	5,797	5,605
Others current liabilities	567	538	784	741	779
Total LT debt	**58,361**	**89,241**	**74,711**	**83,393**	**80,621**
Others LT liabilities	6,038	6,418	8,643	8,874	9,177
Total liabilities	**91,392**	**108,382**	**103,364**	**113,128**	**110,380**
Minority interest	11,834	11,344	10,624	10,653	11,963
Preferreds shares	0	0	0	0	0
Paid-up capital	5,214	5,214	5,214	5,214	5,214
Share premium	9,644	9,644	9,644	9,644	9,644
Warrants	0	0	0	0	0
Surplus	5,544	6,842	6,842	6,842	6,842
Retained earnings	**7,068**	**7,771**	**7,556**	**8,907**	**10,704**
Shareholders' equity	27,470	29,471	29,256	30,607	32,404
Liabilities & equity	**130,696**	**149,198**	**143,244**	**154,388**	**154,747**

Sources: Company data, Thanachart estimates

Hefty capex in 2022-23F for SPP replacements and new SPP units

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	4,426	3,825	(214)	2,090	4,530
Tax paid	(233)	(298)	0	(178)	(385)
Depreciation & amortization	5,616	5,308	5,442	5,522	5,643
Chg In working capital	(12,339)	(2,054)	1,847	(407)	(474)
Chg In other CA & CL / minorities	739	(4,504)	(1,038)	(78)	40
Cash flow from operations	**(1,792)**	**2,277**	**6,037**	**6,949**	**9,354**
Capex	(13,663)	(9,643)	(15,313)	(9,113)	(4,596)
Right of use	(1,256)	(309)	(200)	(200)	(150)
ST loans & investments	(16)	(1,413)	0	0	0
LT loans & investments	581	(2,038)	(747)	(1,609)	(100)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(320)	(629)	1,799	(204)	(139)
Cash flow from investments	**(14,673)**	**(14,031)**	**(14,460)**	**(11,125)**	**(4,985)**
Debt financing	16,040	17,346	(11,625)	9,775	(3,121)
Capital increase	0	0	0	0	0
Dividends paid	(965)	(1,173)	(658)	(598)	(1,249)
Warrants & other surplus	(1,884)	898	0	0	0
Cash flow from financing	**13,192**	**17,072**	**(12,284)**	**9,177**	**(4,369)**
Free cash flow	**(15,454)**	**(7,366)**	**(9,275)**	**(2,164)**	**4,758**

High PE in the near term, but on track for a strong recovery

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	35.9	39.4	216.2	49.2	31.5
Normalized PE - at target price (x)	33.2	36.5	200.0	45.5	29.1
PE (x)	44.1	42.1	216.2	49.2	31.5
PE - at target price (x)	40.8	38.9	200.0	45.5	29.1
EV/EBITDA (x)	12.0	13.5	20.8	16.5	12.9
EV/EBITDA - at target price (x)	11.5	12.9	20.0	15.9	12.4
P/BV (x)	3.5	3.3	3.3	3.1	3.0
P/BV - at target price (x)	3.2	3.0	3.0	2.9	2.7
P/CFO (x)	(53.5)	42.1	15.9	13.8	10.2
Price/sales (x)	2.2	2.1	1.5	1.5	1.4
Dividend yield (%)	1.2	1.1	0.2	1.0	1.6
FCF Yield (%)	(16.1)	(7.7)	(9.7)	(2.3)	5.0
(Bt)					
Normalized EPS	1.0	0.9	0.2	0.7	1.2
EPS	0.8	0.9	0.2	0.7	1.2
DPS	0.5	0.4	0.1	0.4	0.6
BV/share	10.5	11.3	11.2	11.7	12.4
CFO/share	(0.7)	0.9	2.3	2.7	3.6
FCF/share	(5.9)	(2.8)	(3.6)	(0.8)	1.8

Sources: Company data, Thanachart estimates

Prolonged margin hiccup as global energy prices remain high

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(0.1)	5.8	38.4	2.3	4.6
Net profit (%)	(6.3)	4.6	(80.5)	339.8	56.3
EPS (%)	(6.3)	4.6	(80.5)	339.8	56.3
Normalized profit (%)	15.2	(9.0)	(81.8)	339.8	56.3
Normalized EPS (%)	15.2	(9.0)	(81.8)	339.8	56.3
Dividend payout ratio (%)	53.9	48.1	50.0	50.0	50.0
Operating performance					
Gross margin (%)	21.0	18.6	7.3	11.2	14.9
Operating margin (%)	16.4	15.1	4.6	8.1	11.6
EBITDA margin (%)	29.1	26.4	13.0	16.5	19.8
Net margin (%)	9.5	7.6	(0.3)	2.9	6.0
D/E (incl. minor) (x)	2.0	2.3	2.1	2.3	2.0
Net D/E (incl. minor) (x)	1.5	1.7	2.0	2.0	1.8
Interest coverage - EBIT (x)	2.4	2.1	0.9	1.5	2.1
Interest coverage - EBITDA (x)	4.2	3.6	2.4	3.1	3.6
ROA - using norm profit (%)	2.1	1.7	0.3	1.3	2.0
ROE - using norm profit (%)	9.6	8.5	1.5	6.5	9.7
DuPont					
ROE - using after tax profit (%)	15.1	12.4	na	6.4	13.2
- asset turnover (x)	0.3	0.3	0.4	0.4	0.4
- operating margin (%)	17.0	15.5	na	8.5	12.0
- leverage (x)	4.5	4.9	5.0	5.0	4.9
- interest burden (%)	59.2	53.1	(6.6)	37.2	54.7
- tax burden (%)	94.7	92.2	na	91.5	91.5
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	10.2	7.5	3.3	4.5	6.4
NOPAT (Bt m)	6,850	6,473	3,258	4,895	7,317
invested capital (Bt m)	86,226	99,500	108,366	114,492	113,168

Sources: Company data, Thanachart estimates

SELL (From: HOLD) | TP: Bt 58.00 (From: Bt 72.50) | 8 JULY 2022

Change in Recommendation | Downside : 11.5%

Global Power Synergy (GPSC TB)

Sharp earnings cuts

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We downgrade GPSC to SELL after sharp earnings cuts on a larger hit from rising fuel prices. We expect its earnings recovery to lag peers' given its sizable coal exposure. Together with a limited capacity growth outlook, GPSC now looks expensive to us at 24x 2024F PE.

Thanachart Securities

Downgrading to SELL

This is part of our report *Utilities – Perfect storm for SPPs,* dated 8 July 2022. We downgrade GPSC to SELL (from Hold) and lower our DCF-derived SOTP-based 12-month TP, rolled over to a 2023F base year, to Bt58.0 (from Bt72.5). *First,* we cut our earnings for GPSC by 57/28/26% in 2022-24F given our higher energy price assumptions (Exhibit 1). *Second,* most of GPSC's new 3.0GW capacity over 2022-24F is from low-margin solar farms in India, while 1.1GW of its highly profitable IPP and SPP plants in Thailand are set to expire in 2024-25. We therefore foresee limited earnings growth for GPSC beyond 2025F and project its ROE to start falling. *Third,* GPSC's valuation looks expensive to us, trading on 32x 2023F PE and remaining high at 24x in 2024F when we expect its SPP margin to fully recover.

Weakening SPP profit in 2H22F

From GPSC's current 5.8GW of operating capacity, 38% or 2.2GW is SPP plants. They comprise 1.6GW of gas-fired projects and another 0.6GW of coal fired. Most output from them is sold to industrial users (IUs), and this is not on cost pass-through contracts, so it has suffered badly from the surge in fuel prices while its selling price is capped. We expect its SPPs to make a larger loss h-h in 2H22F as their fuel costs (natural gas and coal) are edging higher. We expect fuel prices to start falling in 2023F but forecast GPSC's earnings to recover slower than peers' because of its substantial exposure to coal prices, which have risen much more sharply than gas prices.

Some help in 2Q22F

We see a few near-term positive drivers for GPSC's earnings in 2Q-3Q22F. 1) Gheco-1 (IPP) and Glow Energy-5 (SPP) should be back in operation after unplanned shutdowns in 1Q22. 2) Higher electricity output from its Xayaburi hydropower plant (25%-owned) on the seasonal effect, and from its 43%-owned solar farms in India through capacity expansion. Having said that, we believe the market will be more focused on its weakened SPP margin than these short-term drivers.

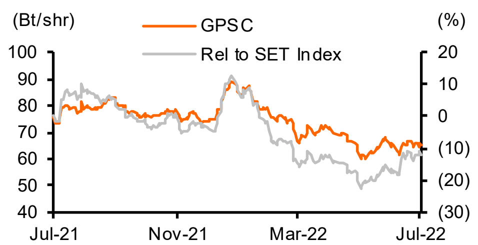
Limited long-term catalysts

We see limited long-term share price catalysts for GPSC. We believe its secured new projects, due to commence operations over 2022-24F, have been reflected in its share price. Most of these are solar farms in India, which appear to have disappointing returns. On the other hand, the market does not yet seem to be concerned about the expiry of its IPP and SPP projects in 2024-25, which are highly profitable ones. Progress in developing a Li-ion battery plant (50% owned), expected to counter its expiring power contracts, also remains slow. Its capacity stands at only 30MWh, with its plan to reach a 10GWh target not yet firmed up.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	74,874	115,391	121,187	121,609
Net profit	7,319	2,476	5,749	7,587
Consensus NP	—	5,793	8,028	10,293
Diff frm cons (%)	—	*(57.3)*	*(28.4)*	*(26.3)*
Norm profit	6,769	2,476	5,749	7,587
Prev. Norm profit	—	6,492	7,699	9,885
Chg frm prev (%)	—	*(61.9)*	*(25.3)*	*(23.2)*
Norm EPS (Bt)	2.4	0.9	2.0	2.7
Norm EPS grw (%)	(9.9)	(63.4)	132.2	32.0
Norm PE (x)	27.3	74.6	32.1	24.3
EV/EBITDA (x)	15.7	23.3	18.0	16.0
P/BV (x)	1.7	1.7	1.7	1.6
Div yield (%)	2.3	0.7	1.7	2.3
ROE (%)	6.4	2.3	5.2	6.7
Net D/E (%)	89.9	107.1	112.2	117.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 07-Jul-22 (Bt)	65.50
Market Cap (US$ m)	5,109.8
Listed Shares (m shares)	2,819.7
Free Float (%)	24.8
Avg Daily Turnover (US$ m)	24.4
12M Price H/L (Bt)	88.75/59.75
Sector	Utilities
Major Shareholder	PTT Group 73.31%

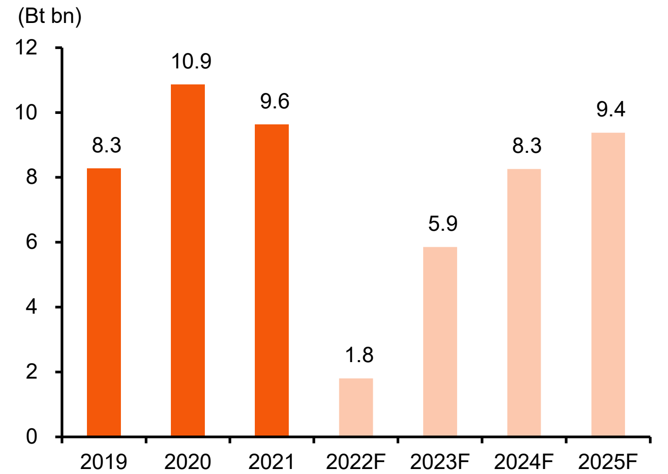
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our Key Assumption Changes

	2022F	2023F	2024F
Normalized profit (Bt m)			
New	2,476	5,749	7,587
Old	6,492	7,699	9,885
Change (%)	*(61.9)*	*(25.3)*	*(23.2)*
Pool gas price (Bt/mmbtu)			
New	445	442	375
Old	390	340	300
Change (%)	*14.1*	*29.9*	*25.0*
Coal price (US$/kg)			
New	200	180	160
Old	120	100	90
Change (%)	*66.7*	*80.0*	*77.8*
National electricity tariff (Bt/kWh)			
New	4.19	5.06	4.75
Old	4.01	4.66	4.75
Change (%)	*4.5*	*8.6*	*0.0*

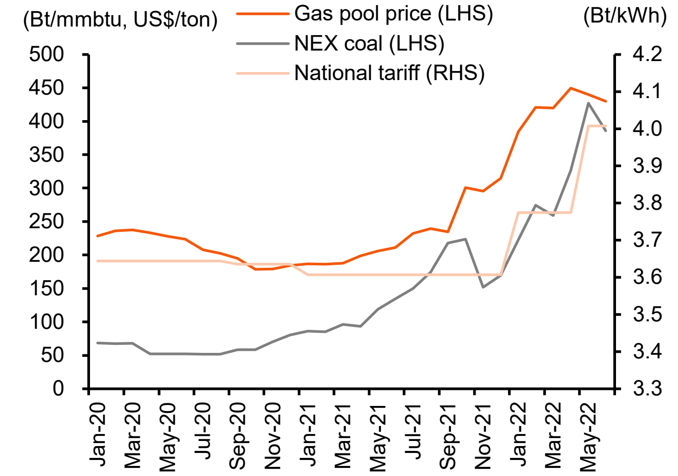
Source: Thanachart estimates

Ex 2: Very Weak Gross Profit From SPPs This Year …



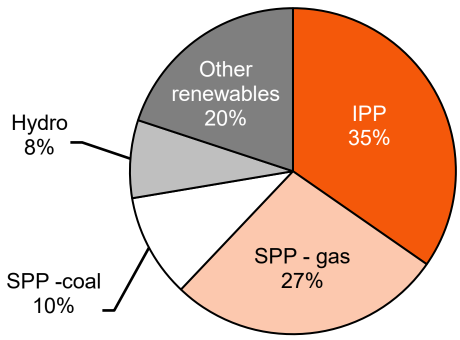
Sources: Company data, Thanachart estimates

Ex 3: … As National Tariff Hike Lags Rising Fuel Prices



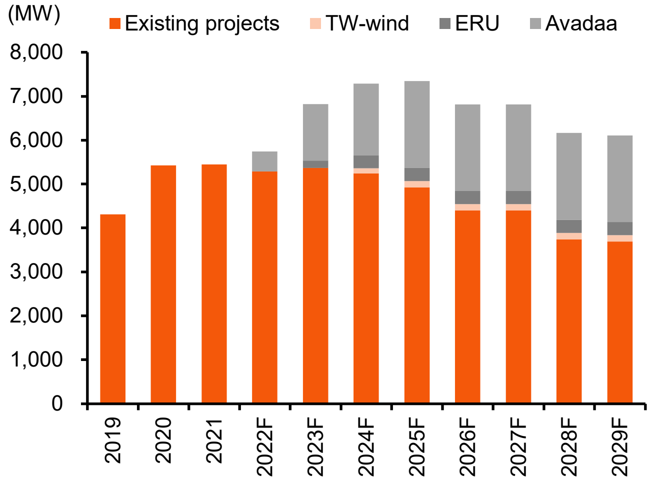
Sources: EPPO, Bloomberg, Thanachart estimates

Ex 4: GPSC's Current Capacity Mix (1Q22)



Sources: Company data

Ex 5: Most New Capacity Comes With Lower Returns



Sources: Company data, Thanachart estimates

Ex 6: Our 12-month DCF-derived Valuation Plus Potential Capacity

(Bt m)		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA excl. depre from right of use		17,682	20,695	21,627	19,641	18,923	18,795	16,172	15,043	14,643	14,572	15,431	
Free cash flow		(6,406)	(7,061)	13,822	17,906	15,819	15,583	13,835	12,922	12,727	12,650	13,740	284,927
PV of free cash flow		(6,044)	(6,284)	11,604	14,183	11,568	10,702	8,925	7,830	7,244	6,762	6,580	136,453
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	6.0												
Terminal growth (%)	2.0												
Enterprise value - add investments	209,523												
Net debt (2022F)	125,813												
Minority interest	9,500												
Equity value	74,210												
# of shares (m)	2,820												
Valuation/share (Bt)	**26.3**												

	Valuation method	WACC	Equity value	Value per share
Plus associates				
BIC	DCF	5.1%	1,451	0.5
TSR/SSE	DCF	6.4%	1,991	0.7
NNEG	DCF	4.9%	2,714	1.0
GRP	DCF	7.1%	1,620	0.6
NL1PC	DCF	6.0%	2,571	0.9
RPCL	DCF	4.8%	648	0.2
XPCL	DCF	5.1%	20,790	7.4
Avaada	DCF	6.1%	15,962	5.7
Taiwan wind farms	DCF	6.0%	7,264	2.6
24M battery plants	DCF	8.0%	22,705	6.7
Total				**26.2**
Plus potential				
Renewable projects	DCF	6.0%	15,651	5.6
Total				**5.6**
Grand total				**58.0**

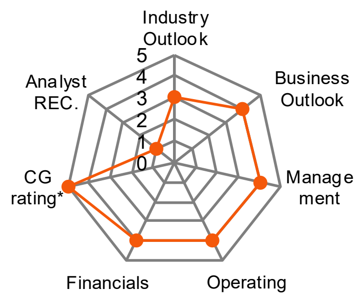
Source: Thanachart estimates

COMPANY DESCRIPTION

Established in January 2013, Global Power Synergy Company Ltd (GPSC) emerged from the amalgamation of PTTUT and IPT as PTT Group's flagship in power and utility businesses. GPSC generates and distributes electricity, steam, and processed water to the national grid and industrial customers in Thailand. GPSC acquired Glow Energy which doubled its generation capacity in March 2019. The company now has total of 8.0GW equity-capacity power plants, both domestic and overseas, in which 33% is from renewable sources.

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

- Growing along with PTT Group's expansion.
- Access to low financing costs as part of PTT Group.
- Strong balance sheet providing ability and flexibility to fund new investments.

W — Weakness

- No direct experience in investing abroad.
- Late player in the renewable segment.

O — Opportunity

- Expansion into neighboring countries' power industries, both domestic and overseas expansion, through greenfield development and M&As.
- Tapping into new S-curve industries of electric vehicle (EV) and energy storage system (ESS) through its investment in Li-ion battery plant.

T — Threat

- Thailand's high reserve margin and EGAT's own planned generation look as if they will last longer than the market had earlier anticipated.
- Relies on group's policy in key investment decisions.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	77.93	58.00	-26%
Net profit 22F (Bt m)	5,793	2,476	-57%
Net profit 23F (Bt m)	8,028	5,749	-28%
Consensus REC	**BUY: 9**	**HOLD: 9**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings forecasts are significantly lower than the Bloomberg consensus numbers, which we believe is because we assume much higher pool gas prices.
- Our TP is therefore 26% lower.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A faster-than-expected recovery of SPP margin, either from the cost or the tariff side, is the key upside risk to our investment case and earnings forecasts.
- A faster-than-expected development of its Li-ion battery plants in Thailand and in China represents a secondary upside risk to our valuation.
- A faster investment pace and a higher rate of return from asset acquisitions and new projects vs. our present assumptions would represent another upside risk to our numbers.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	69,578	74,874	115,391	121,187	121,609
Cost of sales	56,448	63,616	108,894	110,970	109,237
Gross profit	**13,129**	**11,258**	**6,498**	**10,217**	**12,372**
% gross margin	18.9%	15.0%	5.6%	8.4%	10.2%
Selling & administration expenses	1,951	2,095	2,199	2,265	2,311
Operating profit	**11,178**	**9,163**	**4,298**	**7,952**	**10,061**
% operating margin	16.1%	12.2%	3.7%	6.6%	8.3%
Depreciation & amortization	8,706	9,314	9,037	9,870	10,777
EBITDA	**19,885**	**18,477**	**13,335**	**17,822**	**20,837**
% EBITDA margin	28.6%	24.7%	11.6%	14.7%	17.1%
Non-operating income	1,405	1,483	1,551	1,583	1,614
Non-operating expenses	0	0	0	0	0
Interest expense	(4,024)	(3,860)	(4,725)	(5,465)	(5,805)
Pre-tax profit	**8,560**	**6,786**	**1,124**	**4,069**	**5,870**
Income tax	993	1,031	169	631	939
After-tax profit	**7,567**	**5,754**	**956**	**3,439**	**4,931**
% net margin	10.9%	7.7%	0.8%	2.8%	4.1%
Shares in affiliates' Earnings	924	1,536	1,606	2,622	3,103
Minority interests	(982)	(522)	(87)	(312)	(447)
Extraordinary items	(1)	550	0	0	0
NET PROFIT	**7,508**	**7,319**	**2,476**	**5,749**	**7,587**
Normalized profit	**7,509**	**6,769**	**2,476**	**5,749**	**7,587**
EPS (Bt)	2.7	2.6	0.9	2.0	2.7
Normalized EPS (Bt)	2.7	2.4	0.9	2.0	2.7

Heavily hit by a margin squeeze for SPPs

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	43,454	45,490	61,954	63,652	63,569
Cash & cash equivalent	20,289	13,793	20,000	20,000	20,000
Account receivables	9,084	13,441	15,807	16,601	16,659
Inventories	6,253	6,938	11,934	12,161	11,971
Others	7,828	11,318	14,214	14,890	14,939
Investments & loans	17,376	37,660	44,522	54,560	55,238
Net fixed assets	99,978	95,581	93,503	97,995	114,918
Other assets	95,849	91,648	113,152	114,477	112,476
Total assets	**256,656**	**270,379**	**313,132**	**330,684**	**346,200**
LIABILITIES:					
Current liabilities:	22,063	23,036	32,590	35,604	35,517
Account payables	6,746	6,407	13,425	13,681	13,468
Bank overdraft & ST loans	0	0	5,833	6,244	6,729
Current LT debt	11,993	9,121	4,899	5,245	5,652
Others current liabilities	3,324	7,508	8,433	10,433	9,668
Total LT debt	**102,239**	**110,474**	**135,081**	**144,618**	**155,847**
Others LT liabilities	20,487	19,121	27,947	29,149	29,155
Total liabilities	**144,789**	**152,632**	**195,618**	**209,371**	**220,520**
Minority interest	8,966	9,413	9,500	9,812	10,259
Preferreds shares	0	0	0	0	0
Paid-up capital	28,197	28,197	28,197	28,197	28,197
Share premium	70,176	70,176	70,176	70,176	70,176
Warrants	0	0	0	0	0
Surplus	(17,563)	(15,219)	(15,219)	(15,219)	(15,219)
Retained earnings	**22,091**	**25,180**	**24,860**	**28,347**	**32,267**
Shareholders' equity	102,901	108,334	108,014	111,501	115,421
Liabilities & equity	**256,656**	**270,379**	**313,132**	**330,684**	**346,200**

Already tight balance sheet to add new investments

Sources: Company data, Thanachart estimates

Into a huge capex cycle over 2023-25F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	8,560	6,786	1,124	4,069	5,870
Tax paid	(993)	(1,031)	(169)	(631)	(939)
Depreciation & amortization	8,706	9,314	9,037	9,870	10,777
Chg In w orking capital	83	(5,381)	(343)	(765)	(81)
Chg In other CA & CL / minorities	(3,391)	3,198	(2,196)	3,946	2,110
Cash flow from operations	**12,965**	**12,885**	**7,454**	**16,489**	**17,736**
Capex	(7,235)	(4,715)	(4,652)	(12,052)	(25,388)
Right of use	(2,973)	78	(50)	(50)	(50)
ST loans & investments	(68)	(1,408)	1,832	0	0
LT loans & investments	5	(20,284)	(6,862)	(10,038)	(677)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	5,520	3,526	(14,936)	(2,382)	(75)
Cash flow from investments	**(4,751)**	**(22,804)**	**(24,668)**	**(24,522)**	**(26,190)**
Debt financing	(2,229)	5,308	26,218	10,295	12,121
Capital increase	0	0	0	0	0
Dividends paid	(3,666)	(4,230)	(2,796)	(2,262)	(3,667)
Warrants & other surplus	(1,834)	2,344	0	0	0
Cash flow from financing	**(7,729)**	**3,422**	**23,422**	**8,033**	**8,454**
Free cash flow	**5,730**	**8,170**	**2,802**	**4,437**	**(7,651)**

Valuations now look expensive to us given its weak growth outlook

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	24.6	27.3	74.6	32.1	24.3
Normalized PE - at target price (x)	21.8	24.2	66.1	28.4	21.6
PE (x)	24.6	25.2	74.6	32.1	24.3
PE - at target price (x)	21.8	22.3	66.1	28.4	21.6
EV/EBITDA (x)	14.0	15.7	23.3	18.0	16.0
EV/EBITDA - at target price (x)	12.9	14.6	21.7	16.8	15.0
P/BV (x)	1.8	1.7	1.7	1.7	1.6
P/BV - at target price (x)	1.6	1.5	1.5	1.5	1.4
P/CFO (x)	14.2	14.3	24.8	11.2	10.4
Price/sales (x)	2.7	2.5	1.6	1.5	1.5
Dividend yield (%)	2.3	2.3	0.7	1.7	2.3
FCF Yield (%)	3.1	4.4	1.5	2.4	(4.1)
(Bt)					
Normalized EPS	2.7	2.4	0.9	2.0	2.7
EPS	2.7	2.6	0.9	2.0	2.7
DPS	1.5	1.5	0.5	1.1	1.5
BV/share	36.5	38.4	38.3	39.5	40.9
CFO/share	4.6	4.6	2.6	5.8	6.3
FCF/share	2.0	2.9	1.0	1.6	(2.7)

Sources: Company data, Thanachart estimates

Net gearing is kept below 1.0x as per the company's internal policy

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	4.5	7.6	54.1	5.0	0.3
Net profit (%)	84.9	(2.5)	(66.2)	132.2	32.0
EPS (%)	38.5	(2.5)	(66.2)	132.2	32.0
Normalized profit (%)	100.6	(9.9)	(63.4)	132.2	32.0
Normalized EPS (%)	50.3	(9.9)	(63.4)	132.2	32.0
Dividend payout ratio (%)	56.3	57.8	55.0	55.0	55.0
Operating performance					
Gross margin (%)	18.9	15.0	5.6	8.4	10.2
Operating margin (%)	16.1	12.2	3.7	6.6	8.3
EBITDA margin (%)	28.6	24.7	11.6	14.7	17.1
Net margin (%)	10.9	7.7	0.8	2.8	4.1
D/E (incl. minor) (x)	1.0	1.0	1.2	1.3	1.3
Net D/E (incl. minor) (x)	0.8	0.9	1.1	1.1	1.2
Interest coverage - EBIT (x)	2.8	2.4	0.9	1.5	1.7
Interest coverage - EBITDA (x)	4.9	4.8	2.8	3.3	3.6
ROA - using norm profit (%)	3.0	2.6	0.8	1.8	2.2
ROE - using norm profit (%)	7.4	6.4	2.3	5.2	6.7
DuPont					
ROE - using after tax profit (%)	7.4	5.4	0.9	3.1	4.3
- asset turnover (x)	0.3	0.3	0.4	0.4	0.4
- operating margin (%)	18.1	14.2	5.1	7.9	9.6
- leverage (x)	2.5	2.5	2.7	2.9	3.0
- interest burden (%)	68.0	63.7	19.2	42.7	50.3
- tax burden (%)	88.4	84.8	85.0	84.5	84.0
WACC (%)	6.0	6.0	6.0	6.0	6.0
ROIC (%)	5.0	3.9	1.7	2.9	3.4
NOPAT (Bt m)	9,882	7,770	3,654	6,719	8,451
invested capital (Bt m)	196,845	214,137	233,827	247,609	263,650

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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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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