

BUY (Unchanged)

TP: Bt 16.00 (From: Bt 18.00)

Change in Numbers

Upside : 30.1%

30 NOVEMBER 2022

Esso (Thailand) Pcl (ESSO TB)

Also using its own drivers

ESSO, along with TOP, is one of our top Thai refinery space picks. While we expect ESSO to benefit from the tight global refinery market, we also like its own stories of capacity debottlenecking and a growing petrol station business. ESSO pays high dividend yields, too.



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Another top pick in the refinery space

This report is a part of *Energy sector – Tight refinery market*, dated 30 November 2022. We reaffirm our BUY call on ESSO, along with TOP, our other top Thai refinery pick. We like ESSO not only for the top-down story of a tight global refinery market, but also for its own growth drivers. ESSO has high exposure to high-margin middle distillate output at 52%. The change in its paraxylene storage to oil storage capacity in early 2023 should result in ESSO running its 175kbd capacity at a higher utilization rate. ESSO also has growth story from its petrol station business. Lastly, we see ESSO as a high dividend yield stock at 12.2/6.2% in 2022-23F. Note that it paid a Bt0.5 DPS for its 1H22 performance and we expect a remaining Bt1.0 DPS (8% yield) to be paid for its 2H22F performance.

GRM still high despite some cuts

We lower our assumptions for ESSO's gross refining margin (GRM) by 9% on average to USD12.0/7.3/7.0/bbl in 2022-24F. This is mainly because of our lower gasoline and high sulfur fuel (HSFO) margin assumptions which offset our higher diesel spread assumptions. Despite these cuts, ESSO's GRM is still elevated relative to its five-year pre-COVID average of USD3.9/bbl. With our lower profit forecasts, our DCF-based 12-month TP (2023F base year) falls to Bt16/share from Bt18.

Higher effective capacity for 2023F

ESSO is converting its paraxylene storage to oil storage capacity and the project should be complete early next year. This would allow the company to run its refinery units at a higher utilization level. Against peers for which we already foresee only limited room for further utilization increases, we estimate ESSO's utilization rate to rise to 77/84% in 2022-23F vs. 71% in 2021.

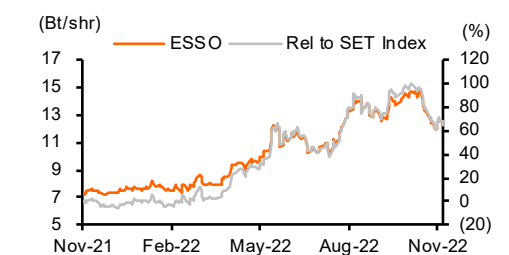
Expanding petrol station business

We expect the refinery business to account for 75% of ESSO's EBITDA and the petrol station business for 25% in 2023F. ESSO's petrol station business offers a growth story. ESSO in 2020 entered into a deal with Susco Pcl (SUSCO TB, Bt4.44, BUY) to manage and rebrand over 80 SUSCO stations to ESSO ones. As of 3Q22, 68 of SUSCO's stations had been converted to the ESSO brand. The company said that it is in negotiations to convert more stations. With that, ESSO's oil retail market share increased to 14% in 3Q22 from 9.5% in 2021.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	172,878	169,762	169,343	165,990
Net profit	4,443	11,687	5,242	4,934
Consensus NP	—	16,206	6,376	6,359
Diff frm cons (%)	—	(27.9)	(17.8)	(22.4)
Norm profit	(1,704)	9,927	6,252	5,760
Prev. Norm profit	—	10,648	7,339	6,508
Chg frm prev (%)	—	(6.8)	(14.8)	(11.5)
Norm EPS (Bt)	(0.5)	2.9	1.8	1.7
Norm EPS grw (%)	na	na	(37.0)	(7.9)
Norm PE (x)	na	4.3	6.8	7.4
EV/EBITDA (x)	32.0	3.8	5.5	5.4
P/BV (x)	2.2	1.5	1.4	1.3
Div yield (%)	0.0	12.2	6.2	5.8
ROE (%)	na	41.8	21.6	18.7
Net D/E (%)	146.7	56.8	45.6	29.7

PRICE PERFORMANCE



COMPANY INFORMATION

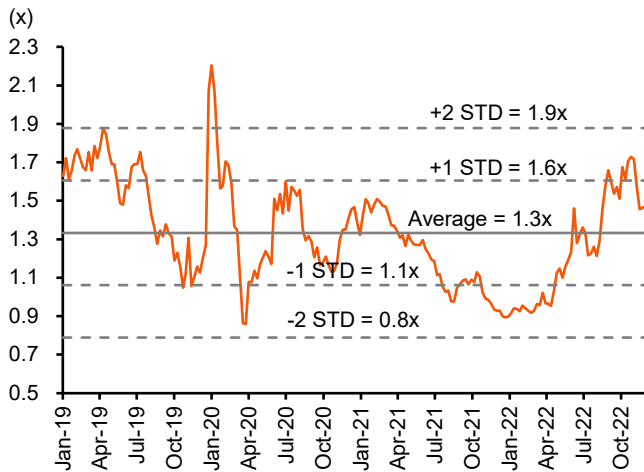
Price as of 29-Nov-22 (Bt)	12.30
Market Cap (US\$ m)	1,203.1
Listed Shares (m shares)	3,460.9
Free Float (%)	34.0
Avg Daily Turnover (US\$ m)	9.1
12M Price H/L (Bt)	14.70/7.20
Sector	Energy
Major Shareholder	ExxonMobil Int'l 65.99%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P24

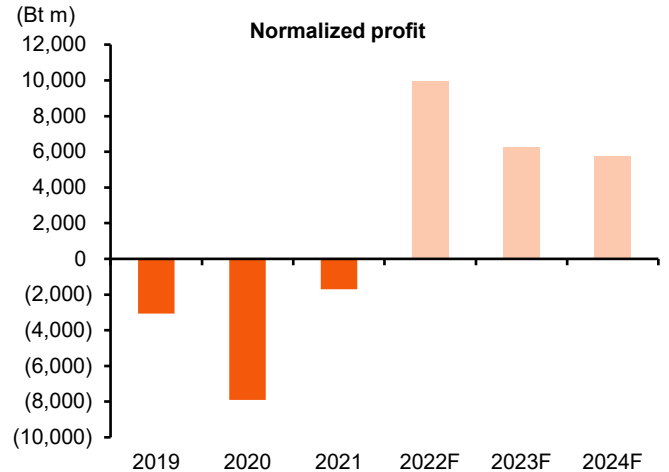


Ex 1: ESSO's P/BV At Bottom Of Historical Range...



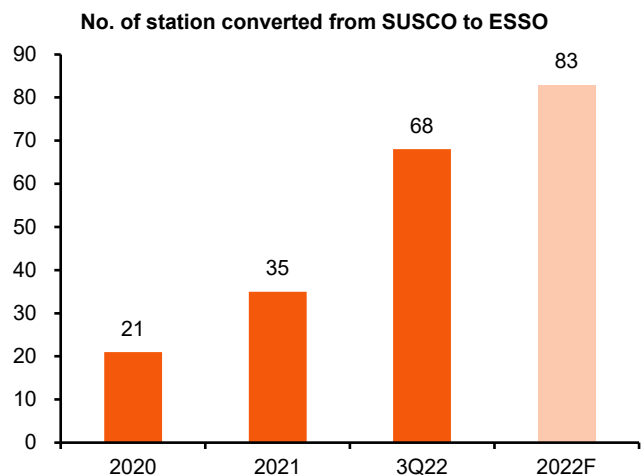
Sources: Bloomberg, Thanachart estimates

Ex 2: ...But Profit At High End Of Historical Range



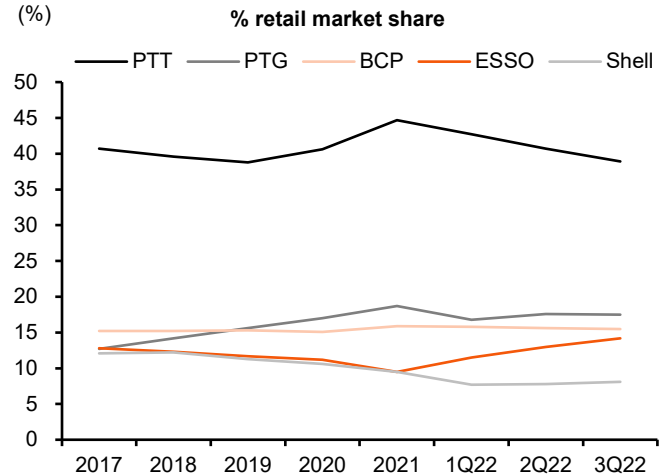
Sources: Company data, Thanachart estimates

Ex 3: More Aggressive Expansion in 2022F



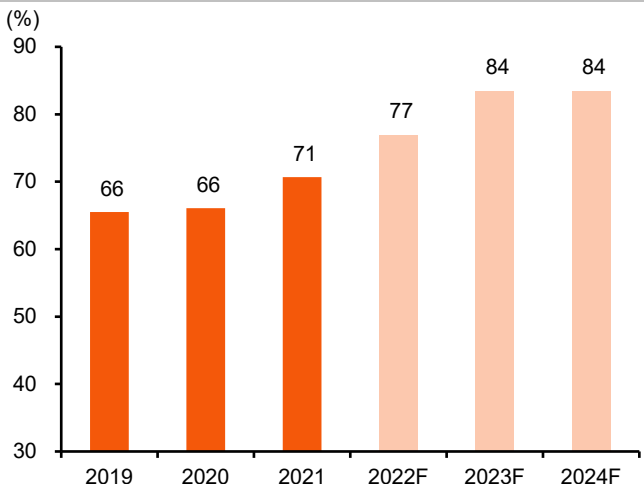
Sources: Company data; Thanachart estimates

Ex 4: ESSO's Is Gaining More Retail Market Share



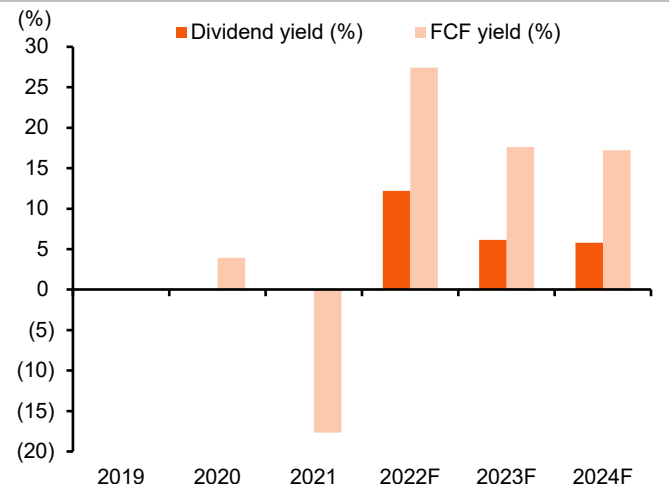
Source: DOEB

Ex 5: ESSO's Utilization Rate



Sources: Company data; Thanachart estimates

Ex 6: FCF Yield Vs. Dividend Yield



Sources: Company data; Thanachart estimates

Ex 7: Earning Revisions

	2019	2020	2021	2022F	2023F	2024F
ESSO's market GRM (USD/bbl)						
New	2.2	1.3	3.7	10.7	7.3	7.0
Old				12.0	8.0	7.4
Change (%)				(11.2)	(9.3)	(4.7)
Refinery utilization (%)						
New	65.5	66.1	70.7	77.0	83.5	83.5
Old				77.0	83.5	83.5
Change (%)				0.0	0.0	0.0
Petrol station volume growth (%)						
New	(3.7)	(2.3)	4.2	13.0	6.0	4.0
Old				13.0	6.0	4.0
Change (ppt)				0.0	0.0	0.0
Normalized profit (Bt m)						
New	(3,066)	(7,911)	(1,704)	9,927	6,252	5,760
Old				10,648	7,339	6,508
Change (%)				(6.8)	(14.8)	(11.5)
Net profit (Bt m)						
New	(3,066)	(7,911)	4,443	11,687	5,242	4,934
Old				17,297	5,845	5,808
Change (%)				(32.4)	(10.3)	(15.0)

Sources: Company data, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA + dividend	10,247	9,714	6,686	7,990	7,553	7,620	7,688	7,755	7,822	7,890	7,957	
Free cash flow	6,892	7,198	4,192	5,405	4,928	5,037	5,105	5,173	5,241	5,309	5,377	81,793
PV of free cash flow	6,395	6,195	3,305	3,936	3,315	3,130	2,930	2,743	2,472	2,303	2,146	32,642
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	7.8											
Terminal growth (%)	2.0											
Enterprise value - add investments	71,512											
Net debt (2022F)	16,084											
Minority interest	8											
Equity value	55,419											
# of shares (m)	3,461											
Equity value/share (Bt)	16.0											

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

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

Source: Thanachart

THANACHART'S SWOT ANALYSIS

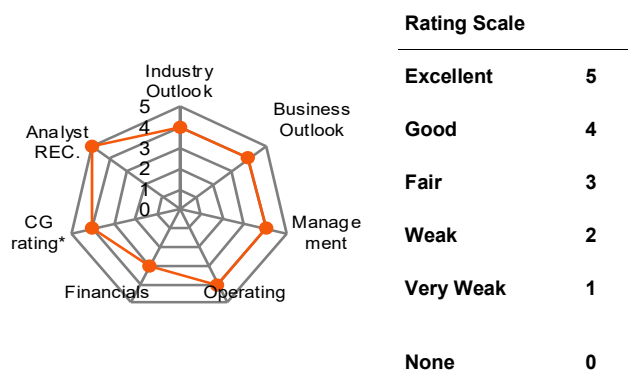
S — Strength

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

O — Opportunity

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

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

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

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	14.46	16.00	11%
Net profit 22F (Bt m)	16,206	11,687	-28%
Net profit 23F (Bt m)	6,376	5,242	-18%
Consensus REC	BUY: 2	HOLD: 4	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- 2023F profit is lower than consensus as we incorporate an inventory loss.
- Consequently, our TP is higher than the Street's. We believe this is due to our more positive refinery outlook.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

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

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	126,672	172,878	169,762	169,343	165,990
Cost of sales	131,408	168,408	152,082	157,052	154,397
Gross profit	(4,736)	4,471	17,681	12,291	11,592
% gross margin	-3.7%	2.6%	10.4%	7.3%	7.0%
Selling & administration expenses	5,217	5,068	4,976	4,964	4,866
Operating profit	(9,953)	(597)	12,704	7,327	6,727
% operating margin	-7.9%	-0.3%	7.5%	4.3%	4.1%
Depreciation & amortization	2,568	2,808	2,853	2,920	2,987
EBITDA	(7,385)	2,210	15,557	10,247	9,714
% EBITDA margin	-5.8%	1.3%	9.2%	6.1%	5.9%
Non-operating income	70	29	70	71	71
Non-operating expenses	0	0	0	0	0
Interest expense	(360)	(311)	(308)	(219)	(186)
Pre-tax profit	(10,243)	(879)	12,465	7,179	6,611
Income tax	(2,048)	1,051	2,922	1,311	1,234
After-tax profit	(8,195)	(1,930)	9,544	5,869	5,378
% net margin	-6.5%	-1.1%	5.6%	3.5%	3.2%
Shares in affiliates' Earnings	285	227	384	384	384
Minority interests	(1)	(1)	(1)	(1)	(1)
Extraordinary items	0	6,147	1,760	(1,010)	(826)
NET PROFIT	(7,911)	4,443	11,687	5,242	4,934
Normalized profit	(7,911)	(1,704)	9,927	6,252	5,760
EPS (Bt)	(2.3)	1.3	3.4	1.5	1.4
Normalized EPS (Bt)	(2.3)	(0.5)	2.9	1.8	1.7

Core profit expects to remains elevated despite off from high base in 2022F.

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	22,921	33,784	33,905	34,425	33,854
Cash & cash equivalent	262	802	3,000	3,000	3,000
Account receivables	5,083	8,171	8,024	8,004	7,846
Inventories	13,144	18,786	16,965	17,519	17,223
Others	4,432	6,025	5,917	5,902	5,785
Investments & loans	5,649	4,455	4,455	4,455	4,455
Net fixed assets	24,750	23,706	22,553	21,333	20,046
Other assets	8,058	8,109	8,041	8,031	7,958
Total assets	61,378	70,055	68,955	68,245	66,313
LIABILITIES:					
Current liabilities:	35,446	42,008	31,986	30,302	26,577
Account payables	4,452	5,117	4,621	4,772	4,692
Bank overdraft & ST loans	16,703	19,323	12,721	11,002	8,343
Current LT debt	5,167	5,667	3,731	3,227	2,447
Others current liabilities	9,125	11,900	10,913	11,301	11,095
Total LT debt	6,333	3,999	2,633	2,277	1,727
Others LT liabilities	5,239	4,839	6,036	6,030	5,982
Total liabilities	47,019	50,846	40,655	38,609	34,286
Minority interest	7	7	8	9	10
Preferreds shares	0	0	0	0	0
Paid-up capital	17,075	17,075	17,075	17,075	17,075
Share premium	4,032	4,032	4,032	4,032	4,032
Warrants	0	0	0	0	0
Surplus	325	731	731	731	731
Retained earnings	(7,080)	(2,637)	6,454	7,790	10,180
Shareholders' equity	14,352	19,201	28,292	29,627	32,017
Liabilities & equity	61,378	70,055	68,955	68,245	66,313

With low capex, higher profit should improve its balance sheet

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(10,243)	(879)	12,465	7,179	6,611
Tax paid	2,048	(1,051)	(2,922)	(1,311)	(1,234)
Depreciation & amortization	2,568	2,808	2,853	2,920	2,987
Chg In working capital	6,754	(8,064)	1,472	(384)	374
Chg In other CA & CL / minorities	2,269	1,436	(494)	786	295
Cash flow from operations	3,394	(5,751)	13,374	9,191	9,034
Capex	(1,718)	(1,763)	(1,700)	(1,700)	(1,700)
Right of use	(4,287)	(18)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(1,941)	1,193	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3,126	5,685	3,025	(1,007)	(800)
Cash flow from investments	(4,821)	5,098	1,325	(2,707)	(2,500)
Debt financing	1,259	787	(9,905)	(2,578)	(3,990)
Capital increase	0	0	0	0	0
Dividends paid	(1)	(1)	(2,596)	(3,906)	(2,544)
Warrants & other surplus	153	406	0	0	0
Cash flow from financing	1,411	1,193	(12,501)	(6,484)	(6,534)
Free cash flow	1,676	(7,514)	11,674	7,491	7,334

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

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	4.3	6.8	7.4
Normalized PE - at target price (x)	na	na	5.6	8.9	9.6
PE (x)	na	9.6	3.6	8.1	8.6
PE - at target price (x)	na	12.5	4.7	10.6	11.2
EV/EBITDA (x)	na	32.0	3.8	5.5	5.4
EV/EBITDA - at target price (x)	na	37.8	4.6	6.7	6.7
P/BV (x)	3.0	2.2	1.5	1.4	1.3
P/BV - at target price (x)	3.9	2.9	2.0	1.9	1.7
P/CFO (x)	12.5	(7.4)	3.2	4.6	4.7
Price/sales (x)	0.3	0.2	0.3	0.3	0.3
Dividend yield (%)	0.0	0.0	12.2	6.2	5.8
FCF Yield (%)	3.9	(17.7)	27.4	17.6	17.2
(Bt)					
Normalized EPS	(2.3)	(0.5)	2.9	1.8	1.7
EPS	(2.3)	1.3	3.4	1.5	1.4
DPS	0.0	0.0	1.5	0.8	0.7
BV/share	4.1	5.5	8.2	8.6	9.3
CFO/share	1.0	(1.7)	3.9	2.7	2.6
FCF/share	0.5	(2.2)	3.4	2.2	2.1

We think ESSO's valuation looks attractive, at 1.4x 2023F P/BV

With low capex and strong cashflow, we expect ESSO to pay good yield.

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(25.2)	36.5	(1.8)	(0.2)	(2.0)
Net profit (%)	na	na	163.0	(55.1)	(5.9)
EPS (%)	na	na	163.0	(55.1)	(5.9)
Normalized profit (%)	na	na	na	(37.0)	(7.9)
Normalized EPS (%)	na	na	na	(37.0)	(7.9)
Dividend payout ratio (%)	0.0	0.0	44.4	50.0	50.0
Operating performance					
Gross margin (%)	(3.7)	2.6	10.4	7.3	7.0
Operating margin (%)	(7.9)	(0.3)	7.5	4.3	4.1
EBITDA margin (%)	(5.8)	1.3	9.2	6.1	5.9
Net margin (%)	(6.5)	(1.1)	5.6	3.5	3.2
D/E (incl. minor) (x)	2.0	1.5	0.7	0.6	0.4
Net D/E (incl. minor) (x)	1.9	1.5	0.6	0.5	0.3
Interest coverage - EBIT (x)	na	na	41.2	33.5	36.1
Interest coverage - EBITDA (x)	na	7.1	50.4	46.9	52.2
ROA - using norm profit (%)	na	na	14.3	9.1	8.6
ROE - using norm profit (%)	na	na	41.8	21.6	18.7
DuPont					
ROE - using after tax profit (%)	na	na	40.2	20.3	17.4
- asset turnover (x)	2.0	2.6	2.4	2.5	2.5
- operating margin (%)	na	na	7.5	4.4	4.1
- leverage (x)	3.5	3.9	2.9	2.4	2.2
- interest burden (%)	103.6	154.7	97.6	97.0	97.3
- tax burden (%)	na	na	76.6	81.7	81.3
WACC (%)	7.8	7.8	7.8	7.8	7.8
ROIC (%)	(20.4)	(1.4)	20.5	13.5	12.7
NOPAT (Bt m)	(9,953)	(597)	9,726	5,990	5,471
invested capital (Bt m)	42,293	47,389	44,376	43,134	41,534

Sources: Company data, Thanachart estimates

We expect net gearing to improve over the next few years

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SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

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BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

The Dow Jones Sustainability Indices (DJSI)

The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Below		N/A

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