

HOLD (From: BUY)

Change in Recommendation

TP: Bt 7.00

(From: Bt 11.00)

Downside : 2.8%

4 NOVEMBER 2024

Small Cap Research

Bangchak Sriracha Pcl (BSRC TB)

Fairly priced

We lower our earnings estimates and TP for BSRC to Bt7.0 to reflect our lower GRM assumptions due to the weaker refinery industry prospects. At 0.8x 2025F P/BV, we see BSRC as fairly priced against its ROE of 9%. We downgrade the stock to HOLD and consider BCP a better refinery choice.



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Downgrading to HOLD

This report is a part of Energy sector – *Cheap for a reason*, dated 4 November 2024. Due to our lower gross refining margin (GRM) assumptions, we cut our earnings estimates for BSRC by 12/41/30% in 2024-26F and our DCF-based 12-month TP (2025F base year) to Bt7.0 (from Bt11.0). We downgrade our recommendation to HOLD from Buy. **First**, we are more bearish on the refinery market outlook due to slower demand growth and new supply pressure in 2025F. **Second**, growth from synergy benefits with its parent Bangchak Corporation Pcl (BCP TB, BUY, Bt33.75) are not enough to counter the impact of falling GRM, and we estimate a 7% EPS contraction in 2025F. **Lastly**, we consider BSRC as fairly priced, trading at 0.8x P/BV against its ROE of 8.9% in 2025F.

More cautious on GRM outlook

New refining capacity, alongside tepid demand, especially from China, have combined to push margins to multi-year lows. We are turning more bearish on the refinery market and lower our refinery margin assumptions. We cut BSRC's GRM by 3/9/5% to US\$4.2/4.1/4.4 per barrel in 2024-26F.

Synergies cushion

Both BCP, which owns 70% of BSRC, and BSRC now target combined synergy benefits of Bt5.0bn in 2024F vs. Bt3bn previously. Of the total synergies, the portion that goes to BSRC is about 50%, and BCP gets the other half. The key synergy value is from the higher utilization of its refinery plant, as more products can be sold via BCP's petrol stations. BSRC's crude run rose to 89% in 2Q24 from 86% in 1Q24 and the pre-acquisition 10-year average of 74%. It can drive this up to 95%, but we believe this would require some additional capex.

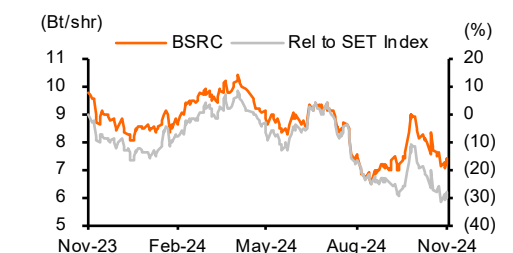
Higher non-oil contribution

BSRC's EBITDA breakdown in 1H24 was 63% for refinery businesses and 37% for oil retail or petrol station businesses. Note that up to 3Q24, about 90% of BSRC's petrol stations were rebranded as BCP stations. The company targets 100% conversion within 2024. BSRC plans to offer more non-oil products at its petrol stations, which should lift the overall profitability of its petrol station business.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	229,538	165,990	165,990	165,990
Net profit	2,142	1,527	2,314	2,813
Consensus NP	—	2,186	4,519	5,309
Diff frm cons (%)	—	(30.1)	(48.8)	(47.0)
Norm profit	2,529	2,826	2,629	3,338
Prev. Norm profit	—	3,217	4,454	4,756
Chg frm prev (%)	—	(12.1)	(41.0)	(29.8)
Norm EPS (Bt)	0.7	0.8	0.8	1.0
Norm EPS grw (%)	(77.0)	11.7	(7.0)	27.0
Norm PE (x)	9.9	8.8	9.5	7.5
EV/EBITDA (x)	9.1	5.3	5.0	3.9
P/BV (x)	0.9	0.9	0.8	0.8
Div yield (%)	3.5	2.5	3.7	4.5
ROE (%)	9.2	10.0	8.9	10.7
Net D/E (%)	97.7	47.2	37.9	22.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 1-Nov-24 (Bt)	7.20
Market Cap (US\$ m)	735.0
Listed Shares (m shares)	3,460.9
Free Float (%)	23.7
Avg Daily Turnover (US\$ m)	1.1
12M Price H/L (Bt)	10.40/6.50
Sector	Energy
Major Shareholder	Bangchak Corp. Pcl 76.34%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Earnings Revisions

	2022	2023	2024F	2025F	2026F
ESSO's market GRM (US\$/bbl)					
New	5.8	3.8	4.2	4.1	4.4
Old			4.4	4.5	4.6
Change (%)			(3.4)	(9.2)	(4.6)
Refinery utilization (%)					
New	75	68	90	92	95
Old			90	92	95
Change (%)			0.0	0.0	0.0
Net profit (Bt m)					
New	9,508	2,142	1,527	2,314	2,813
Old			2,970	4,174	4,756
Change (%)			(48.6)	(44.6)	(40.8)
Normalized profit (Bt m)					
New	11,007	2,529	2,826	2,629	3,338
Old			3,217	4,454	4,756
Change (%)			(12.1)	(41.0)	(29.8)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DCF-based TP Calculation, Using A Base Year Of 2025F

(Bt m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	Terminal Value
EBITDA + dividend	7,304	8,156	6,582	5,941	6,215	5,732	5,251	4,754	4,426	4,826	4,863	
Free cash flow	4,712	5,515	3,984	3,514	3,779	3,337	2,938	2,526	2,258	2,544	2,529	35,026
PV of free cash flow	4,327	4,650	3,085	2,498	2,466	1,999	1,570	1,234	1,008	1,039	944	13,080
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	8.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	37,902											
Net debt (2024F)	13,584											
Minority interest	7											
Equity value	24,311											
# of shares (m)	3,461											
Equity value/share (Bt)	7.0											

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Bangchak Sriracha Pcl (BSRC) 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. BSRC also has a PX capacity of 0.5m tonnes. The company is a 76%-owned subsidiary of Bangchak Corporation Pcl, its new parent. The company expects to rebrand all of its petrol stations into Bangchak stations by the end of 2024.

Source: Thanachart

THANACHART’S SWOT ANALYSIS

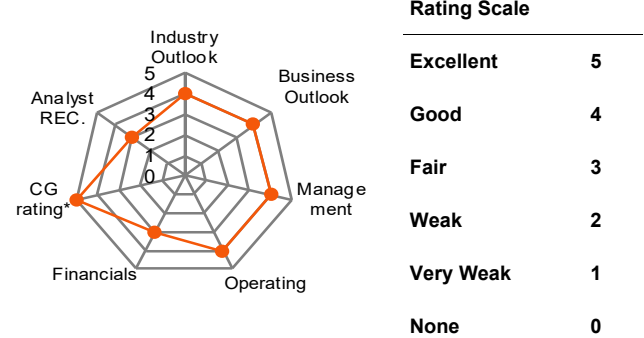
S — Strength

- Synergies post-BCP acquisition.

O — Opportunity

- Its retail network and refinery are still underutilized. We expect more optimization after BCP’s acquisition back in 2023.

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

- 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)	8.87	7.00	-21%
Net profit 24F (Bt m)	2,186	1,527	-30%
Net profit 25F (Bt m)	4,519	2,314	-49%
Consensus REC	BUY: 4	HOLD: 3	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F profits are lower than the Bloomberg consensus estimates, likely as we incorporate more conservative GRM assumptions.
- Our TP is below the Street’s, given our lower earnings forecasts.

Sources: Bloomberg consensus, Thanachart estimates

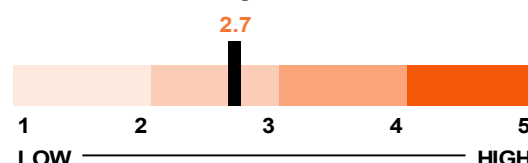
RISKS TO OUR INVESTMENT CASE

- Lower-than-expected refining margins would be the key downside risk to our call.
- Higher-than-expected domestic demand growth would negatively impact BSRC’s oil retail business, which is an upside risk to our call.

Source: Thanachart

Bangchak Sriracha Pcl (BSRC) is a mid-scale Thai refining company with a capacity of 174k b/d. Our ESG score for BSRC is 2.7, at the low end of our coverage. We see BSRC's green-energy strategy as lagging behind its peers. We don't believe BSRC intends to make new investments requiring heavy capex in Thailand.

Thanachart ESG Rating



	SET ESG Index	SET ESG (BBB-AAA)	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
BSRC	-	-	-	B	58.59	55.27	20.00	-	5.0

Sources: SETTRADE, SET ESG Index, SET ESG Rating, The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)

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Factors

Our Comments

ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- BSRC is the Thai refinery with the sector's second-lowest carbon emission intensity level at 161kg/BOE (barrels of crude oil equivalent) vs. the sector average of 280kg/BOE. However, we still assign the company the lowest ESG score at 2.7 because it lags behind its peers in having clear targets and plans for ESG issues.
- BSRC released 0.9m tonnes of CO2 equivalent in 2023, 9% lower in carbon emissions than in 2022. However, the company has reduced greenhouse gas emissions intensity by approximately 1.2% compared to 2021.
- BSRC targets to achieve carbon neutrality by 2026 and net-zero greenhouse gas (GHG) emissions by 2050. This has been changed given its new parent.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- BSRC has high operational safety standards and achieved several safety milestones in 2022. There were no safety lost-time incidents and no reportable spills in 2022. Neither its refinery nor aromatics plants have reported any spills for 16 years, while there have been no lost-time incidents for its employees and contractors for 12 years.
- BSRC has won the platinum award for 13 consecutive years from The American Chamber of Commerce in Thailand in recognition of Corporate Social Responsibility.

GOVERNANCE & SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- We see BSRC as having an appropriate board structure. There are six independent directors out of 12 and four female directors.
- The domestic listed refinery, BCP, has now acquired BSRC. We expect potential synergies post-acquisition that should lead to higher returns for the company.
- Earnings volatility is high given the nature of the company's business, which is exposed to fluctuations in oil prices and refining margins. However, BSRC has low net gearing and limited capex requirements, mainly for its petrol station business and refinery maintenance.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	263,000	229,538	165,990	165,990	165,990
Cost of sales	244,209	221,259	158,513	158,628	157,872
Gross profit	18,792	8,279	7,477	7,361	8,118
% gross margin	7.1%	3.6%	4.5%	4.4%	4.9%
Selling & administration expenses	5,440	5,215	3,771	3,771	3,771
Operating profit	13,352	3,064	3,706	3,590	4,346
% operating margin	5.1%	1.3%	2.2%	2.2%	2.6%
Depreciation & amortization	2,772	2,700	3,542	3,714	3,810
EBITDA	16,123	5,765	7,248	7,304	8,156
% EBITDA margin	6.1%	2.5%	4.4%	4.4%	4.9%
Non-operating income	40	289	242	276	276
Non-operating expenses	0	0	0	0	0
Interest expense	(376)	(735)	(1,124)	(1,043)	(964)
Pre-tax profit	13,016	2,619	2,824	2,823	3,658
Income tax	2,320	451	382	578	703
After-tax profit	10,696	2,168	2,442	2,245	2,955
% net margin	4.1%	0.9%	1.5%	1.4%	1.8%
Shares in affiliates' Earnings	312	361	384	384	384
Minority interests	(1)	0	0	0	0
Extraordinary items	(1,499)	(387)	(1,298)	(315)	(525)
NET PROFIT	9,508	2,142	1,527	2,314	2,813
Normalized profit	11,007	2,529	2,826	2,629	3,338
EPS (Bt)	2.7	0.6	0.4	0.7	0.8
Normalized EPS (Bt)	3.2	0.7	0.8	0.8	1.0

We expect BSRC to see resilient profit despite falling GRM in 2025F

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	51,922	35,876	28,115	28,125	28,063
Cash & cash equivalent	586	976	3,000	3,000	3,000
Account receivables	8,430	9,548	6,904	6,904	6,904
Inventories	23,893	18,182	13,026	13,035	12,973
Others	19,013	7,171	5,186	5,186	5,186
Investments & loans	2,871	2,835	2,835	2,835	2,835
Net fixed assets	22,982	22,888	21,345	19,631	17,822
Other assets	7,766	9,022	7,475	7,475	7,475
Total assets	85,541	70,621	59,771	58,067	56,195
LIABILITIES:					
Current liabilities:	49,624	22,618	17,047	14,950	13,574
Account payables	5,872	5,262	3,770	3,773	3,755
Bank overdraft & ST loans	26,436	8,234	4,824	4,209	2,990
Current LT debt	5,334	4,641	2,719	2,372	1,685
Others current liabilities	11,983	4,481	5,734	4,596	5,145
Total LT debt	4,166	15,433	9,041	7,889	5,604
Others LT liabilities	4,547	4,607	4,930	4,930	4,930
Total liabilities	58,337	42,658	31,019	27,769	24,109
Minority interest	7	7	7	7	7
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	691	315	315	315	315
Retained earnings	5,399	6,534	7,323	8,868	10,656
Shareholders' equity	27,197	27,956	28,745	30,290	32,078
Liabilities & equity	85,541	70,621	59,771	58,067	56,195

We estimate a higher ROE from synergies with BCP

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

With limited capex and a healthy refinery margin, we expect positive FCF

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	13,016	2,619	2,824	2,823	3,658
Tax paid	(2,320)	(451)	(382)	(578)	(703)
Depreciation & amortization	2,772	2,700	3,542	3,714	3,810
Chg In working capital	(4,611)	3,984	6,307	(7)	44
Chg In other CA & CL / minorities	(12,565)	4,751	3,623	(755)	932
Cash flow from operations	(3,709)	13,603	15,914	5,197	7,741
Capex	(2,048)	(2,606)	(2,000)	(2,000)	(2,000)
Right of use	482	388	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	1,585	36	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(1,957)	(2,020)	572	(315)	(525)
Cash flow from investments	(1,939)	(4,203)	(1,428)	(2,315)	(2,525)
Debt financing	6,945	(7,627)	(11,724)	(2,114)	(4,191)
Capital increase	0	0	0	0	0
Dividends paid	(1,730)	(1,038)	(738)	(768)	(1,025)
Warrants & other surplus	217	(376)	0	0	0
Cash flow from financing	5,433	(9,041)	(12,462)	(2,882)	(5,216)
Free cash flow	(5,757)	10,997	13,914	3,197	5,741

VALUATION

We think BSRC's valuation is fair

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	2.3	9.9	8.8	9.5	7.5
Normalized PE - at target price (x)	2.2	9.6	8.6	9.2	7.3
PE (x)	2.6	11.6	16.3	10.8	8.9
PE - at target price (x)	2.5	11.3	15.9	10.5	8.6
EV/EBITDA (x)	3.7	9.1	5.3	5.0	3.9
EV/EBITDA - at target price (x)	3.7	8.9	5.2	4.9	3.9
P/BV (x)	0.9	0.9	0.9	0.8	0.8
P/BV - at target price (x)	0.9	0.9	0.8	0.8	0.8
P/CFO (x)	(6.7)	1.8	1.6	4.8	3.2
Price/sales (x)	0.1	0.1	0.2	0.2	0.2
Dividend yield (%)	6.9	3.5	2.5	3.7	4.5
FCF Yield (%)	(23.1)	44.1	55.8	12.8	23.0
(Bt)					
Normalized EPS	3.2	0.7	0.8	0.8	1.0
EPS	2.7	0.6	0.4	0.7	0.8
DPS	0.5	0.3	0.2	0.3	0.3
BV/share	7.9	8.1	8.3	8.8	9.3
CFO/share	(1.1)	3.9	4.6	1.5	2.2
FCF/share	(1.7)	3.2	4.0	0.9	1.7

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	57.3	(12.7)	(27.7)	0.0	0.0
Net profit (%)	114.0	(77.5)	(28.7)	51.5	21.6
EPS (%)	114.0	(77.5)	(28.7)	51.5	21.6
Normalized profit (%)	na	(77.0)	11.7	(7.0)	27.0
Normalized EPS (%)	na	(77.0)	11.7	(7.0)	27.0
Dividend payout ratio (%)	18.2	40.4	40.0	40.0	40.0
Operating performance					
Gross margin (%)	7.1	3.6	4.5	4.4	4.9
Operating margin (%)	5.1	1.3	2.2	2.2	2.6
EBITDA margin (%)	6.1	2.5	4.4	4.4	4.9
Net margin (%)	4.1	0.9	1.5	1.4	1.8
D/E (incl. minor) (x)	1.3	1.0	0.6	0.5	0.3
Net D/E (incl. minor) (x)	1.3	1.0	0.5	0.4	0.2
Interest coverage - EBIT (x)	35.5	4.2	3.3	3.4	4.5
Interest coverage - EBITDA (x)	42.9	7.8	6.5	7.0	8.5
ROA - using norm profit (%)	14.1	3.2	4.3	4.5	5.8
ROE - using norm profit (%)	47.4	9.2	10.0	8.9	10.7
DuPont					
ROE - using after tax profit (%)	46.1	7.9	8.6	7.6	9.5
- asset turnover (x)	3.4	2.9	2.5	2.8	2.9
- operating margin (%)	5.1	1.5	2.4	2.3	2.8
- leverage (x)	3.4	2.8	2.3	2.0	1.8
- interest burden (%)	97.2	78.1	71.5	73.0	79.1
- tax burden (%)	82.2	82.8	86.5	79.5	80.8
WACC (%)	8.5	8.5	8.5	8.9	8.9
ROIC (%)	23.2	4.1	5.8	6.7	8.4
NOPAT (Bt m)	10,972	2,537	3,205	2,855	3,511
invested capital (Bt m)	62,546	55,287	42,329	41,760	39,358

Sources: Company data, Thanachart estimates

We expect net gearing to improve over the next few years

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SET ESG Index (SET ESG)

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Score range	Description
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
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.

S&P Global Market Intelligence

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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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> 25 to 50	Second Quartile	Scores within this range indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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