

BUY (Unchanged)**TP: Bt 150.00** (From: Bt 188.00)**4 NOVEMBER 2024**

Change in Numbers

Upside : 18.6%

PTT Exp & Production Pcl (PTTEP TB)

At a low oil valuation

We reaffirm our BUY call on PTTEP as its valuation reflects a Brent oil price of only US\$65/bbl. We also believe the stock looks inexpensive, trading on 7.9x PE with a 7.1% dividend yield for 2025F when we assume an average oil price of US\$75/bbl.

**YUPAPAN POLPORNPRASSERT**

662-779-9119

yupapan.pol@thanachartsec.co.th

Looking inexpensive; BUY

This report is a part of Energy sector – *Missing the mark*, dated 4 November 2024. We reaffirm our BUY call on PTTEP despite cutting our DCF-based 12-month TP (2025F base year) to Bt150 from Bt188, based on our lower oil price assumptions. **First**, PTTEP's share price implies a Brent oil price of only US\$65/bbl, which is unsustainably low in our view. The stock also looks inexpensive to us, trading on 7.9x PE with a 7.1% dividend yield in 2025F. **Second**, we believe PTTEP, as an upstream oil & gas producer, has higher earnings visibility than most peers in the sector in the petrochemical and refinery space. Also, gas, which has a more stable price than oil, accounts for 73% of its sale volume in 1H24. PTTEP should also experience volume growth of 6% p.a. over the next 5-years. **Third**, the risk of its Mozambique project is not news and we do not assume a return in our model.

Cutting our oil price assumptions

We cut our Brent oil price assumptions by US\$3-5/bbl to US\$80/75/70 per barrel for 2024F-2026F. This results in our earnings cuts of 4/10/14% in 2024-26F. While demand is weaker than expected due to China's mediocre economic growth, there is also the prospect of a global slowdown next year. On the supply side, supply growth from the US continues, and there's a risk of a partial return of OPEC+ output. Our oil price sensitivity analysis suggests that for every US\$1/bbl change in oil prices, PTTEP's earnings would change in the same direction by 1.6%.

Construction to start in Mozambique

According to PTTEP, the unrest situation in the area has improved, and construction at its Mozambique Area 1 project should be able to resume soon. PTTEP has an 8.5% stake in the project and expects the first LNG delivery in 2H28F-1H29F. The company expects no impairment charge this year as minor project delays haven't significantly affected its valuation. Currently, there are LNG offtake agreements for 11.14m tonnes per year, or 85% of the total capacity of 13.1m tonnes.

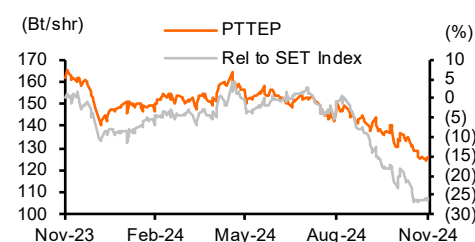
Strong balance sheet and dividend

PTTEP also has a robust balance sheet with a net cash position in 2024F. The stock presents good value, trading at an 7.3x PE for 2025F, with a 7.2% dividend yield. After the US\$470m impairment, its net Mozambique investment is US\$2.6bn or Bt88bn. In our view, assuming the worst-case scenario of a failed investment with everything written off, its shareholders' equity of US\$15bn is big enough to take on that risk.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	300,694	298,541	292,694	296,392
Net profit	76,706	73,886	63,775	60,029
Consensus NP	—	2,260	2,116	1,918
Diff frm cons (%)	—	3,169.8	2,914.0	3,030.4
Norm profit	78,656	73,886	63,775	60,029
Prev. Norm profit	—	76,676	70,839	69,428
Chg frm prev (%)	—	(3.6)	(10.0)	(13.5)
Norm EPS (Bt)	19.8	18.6	16.1	15.1
Norm EPS grw (%)	(13.3)	(6.1)	(13.7)	(5.9)
Norm PE (x)	6.4	6.8	7.9	8.4
EV/EBITDA (x)	2.1	2.1	2.4	2.6
P/BV (x)	1.0	0.9	0.9	0.8
Div yield (%)	7.5	7.5	7.1	6.7
ROE (%)	16.3	14.2	11.4	10.3
Net D/E (%)	(9.1)	(8.8)	0.3	6.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 1-Nov-24 (Bt)	126.50
Market Cap (US\$ m)	14,813.4
Listed Shares (m shares)	3,970.0
Free Float (%)	34.7
Avg Daily Turnover (US\$ m)	40.6
12M Price H/L (Bt)	165.00/124.00
Sector	Energy
Major Shareholder	PTT Pcl 63.79%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P58



Ex 1: Earnings Revisions

	2020	2021	2022	2023	2024F	2025F	2026F
Normalized profit (Bt m)							
- New	21,397	42,888	90,721	78,656	73,886	63,775	60,029
- Old					76,676	70,839	69,428
- Change (%)					(3.6)	(10.0)	(13.5)
Net profit (Bt m)							
- New	22,664	38,864	70,901	76,706	73,886	63,775	60,029
- Old					76,676	70,839	69,428
- Change (%)					(3.6)	(10.0)	(13.5)
Brent oil (US\$/bbl)							
- New	64	42	69	101	80	75	70
- Old					83	78	75
- Change (%)					(3.6)	(3.8)	(6.7)

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	213,442	211,871	212,521	232,860	227,854	218,105	208,806	199,939	191,485	183,427	175,747	
Free cash flow	(8,022)	(3,907)	38,200	74,238	82,247	80,149	77,133	74,364	71,835	69,535	67,460	764,551
PV of free cash flow	(7,260)	(3,199)	28,293	49,731	49,845	43,944	37,152	32,259	28,074	24,482	21,398	242,510
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	10.5											
Terminal growth (%)	2.0											
Enterprise value	547,230											
Net debt	(48,009)											
Minority interest	0											
Equity value	595,239											
# of shares	3,970											
Equity value / share	150											

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

PTT Exploration and Production (PTTEP) is a pure upstream exploration and production (E&P) company with production of 464,000 barrels of oil equivalent (boe) per day. Some 70% of its production is natural gas, and almost all of its production comes from fields in Thailand and other Southeast Asian countries. It has proven and probable reserves of 2,286m boe with a reserve life of 10.7 years. PTTEP is the upstream arm of PTT Pcl (PTT TB, Bt33.75, BUY), which owns 65% of PTTEP.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Rating

Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

THANACHART'S SWOT ANALYSIS

S — Strength

- The parent company PTT is the country's sole gas buyer and PTTEP's biggest client.
- Secured off-take agreements limit downside risks to production volume.

O — Opportunity

- Significant resources on its balance sheet are still undeveloped.
- Potential investment overseas or expansion into new businesses.

W — Weakness

- Reserves in the Gulf of Thailand are being depleted, with a reserve life index of only eight years.
- Limited experience and a lack of technical skills in running operations abroad compared to major international peers.

T — Threat

- Threat of low-cost LNG imports.
- Potential impairment risk on overseas business.
- Competition from international peers for projects abroad.
- Political and regulatory risks concerning its concessions, especially those about to expire.
- Overpaying for acquisitions, leading to a lower ROI.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	170.66	150.00	-12%
Net profit 24F (Bt m)	76,342	73,886	-3%
Net profit 25F (Bt m)	71,487	63,775	-11%
Consensus REC	BUY: 28	HOLD: 4	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F net profit estimates are lower than Bloomberg consensus forecasts. We believe this is due to our more conservative assumptions for oil/gas prices.
- Consequently, our DCF-based TP is lower than the Street.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would come from lower oil and/or gas prices.
- A secondary downside risk would be higher-than-expected operating costs.
- Another secondary downside risk could come from new investments that are not value accretive.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	331,350	300,694	298,541	292,694	296,392
Cost of sales	148,949	142,926	149,848	161,870	168,322
Gross profit	182,401	157,768	148,692	130,824	128,070
% gross margin	55.0%	52.5%	49.8%	44.7%	43.2%
Selling & administration expenses	20,386	16,979	18,801	19,471	20,998
Operating profit	162,015	140,788	129,891	111,353	107,072
% operating margin	48.9%	46.8%	43.5%	38.0%	36.1%
Depreciation & amortization	83,168	81,322	91,345	102,089	104,798
EBITDA	245,183	222,110	221,236	213,442	211,871
% EBITDA margin	74.0%	73.9%	74.1%	72.9%	71.5%
Non-operating income	8,552	10,336	10,774	11,370	12,563
Non-operating expenses	0	0	0	0	0
Interest expense	(8,218)	(10,243)	(7,803)	(8,244)	(11,968)
Pre-tax profit	162,348	140,881	132,862	114,479	107,667
Income tax	72,295	63,704	60,452	52,180	49,115
After-tax profit	90,053	77,177	72,410	62,299	58,552
% net margin	27.2%	25.7%	24.3%	21.3%	19.8%
Shares in affiliates' Earnings	668	1,477	1,477	1,477	1,477
Minority interests	0	2	0	0	0
Extraordinary items	(19,820)	(1,949)	0	0	0
NET PROFIT	70,901	76,706	73,886	63,775	60,029
Normalized profit	90,721	78,656	73,886	63,775	60,029
EPS (Bt)	17.9	19.3	18.6	16.1	15.1
Normalized EPS (Bt)	22.9	19.8	18.6	16.1	15.1

We expect volume growth to support earnings over 2025-28F

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	196,842	234,800	230,631	260,663	292,261
Cash & cash equivalent	122,369	144,387	144,387	174,387	204,387
Account receivables	42,166	62,241	61,795	60,585	61,351
Inventories	19,115	20,914	17,243	18,626	19,369
Others	13,192	7,259	7,207	7,066	7,155
Investments & loans	9,609	9,783	9,957	10,131	10,306
Net fixed assets	410,614	440,271	499,986	577,447	645,163
Other assets	252,799	217,967	208,184	206,428	207,539
Total assets	869,864	902,821	948,759	1,054,669	1,155,268
LIABILITIES:					
Current liabilities:	114,616	88,590	83,665	89,225	97,213
Account payables	52,940	49,412	51,805	55,961	58,192
Bank overdraft & ST loans	16,887	3,560	0	0	0
Current LT debt	0	0	2,891	5,279	9,814
Others current liabilities	44,789	35,619	28,968	27,985	29,207
Total LT debt	97,095	95,320	93,486	170,688	235,537
Others LT liabilities	191,033	219,468	228,071	224,167	226,637
Total liabilities	402,744	403,378	405,222	484,079	559,387
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	3,970	3,970	3,970	3,970	3,970
Share premium	105,418	105,418	105,418	105,418	105,418
Warrants	0	0	0	0	0
Surplus	28,668	23,067	30,990	30,990	30,990
Retained earnings	329,065	366,988	403,159	430,212	455,504
Shareholders' equity	467,121	499,443	543,537	570,590	595,881
Liabilities & equity	869,864	902,821	948,759	1,054,669	1,155,268

PTTEP generates strong cash flows, which lead to a robust balance sheet

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	162,348	140,881	132,862	114,479	107,667
Tax paid	(70,801)	(74,429)	(56,520)	(54,576)	(47,875)
Depreciation & amortization	83,168	81,322	91,345	102,089	104,798
Chg In working capital	2,499	(25,403)	6,510	3,983	723
Chg In other CA & CL / minorities	(19,566)	11,737	(9,055)	3,030	1,370
Cash flow from operations	157,647	134,108	165,142	169,005	166,683
Capex	(113,475)	(110,978)	(151,060)	(179,550)	(172,515)
Right of use	(16,319)	4,978	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	6,186	(174)	(174)	(174)	(174)
Adj for asset revaluation	0	116	0	0	0
Chg In other assets & liabilities	26,628	51,945	18,387	(2,148)	1,359
Cash flow from investments	(96,980)	(54,114)	(132,848)	(181,872)	(171,331)
Debt financing	(4,695)	(13,476)	(2,502)	79,589	69,385
Capital increase	0	0	0	0	0
Dividends paid	(28,670)	(36,720)	(37,715)	(36,722)	(34,737)
Warrants & other surplus	9,539	(7,780)	7,923	0	0
Cash flow from financing	(23,826)	(57,977)	(32,295)	42,867	34,647
Free cash flow	44,173	23,129	14,082	(10,545)	(5,832)

PTTEP continues to generate high cash flows from operations

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	5.5	6.4	6.8	7.9	8.4
Normalized PE - at target price (x)	6.6	7.6	8.1	9.3	9.9
PE (x)	7.1	6.5	6.8	7.9	8.4
PE - at target price (x)	8.4	7.8	8.1	9.3	9.9
EV/EBITDA (x)	2.0	2.1	2.1	2.4	2.6
EV/EBITDA - at target price (x)	2.4	2.5	2.5	2.8	3.0
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/BV - at target price (x)	1.3	1.2	1.1	1.0	1.0
P/CFO (x)	3.2	3.7	3.0	3.0	3.0
Price/sales (x)	1.5	1.7	1.7	1.7	1.7
Dividend yield (%)	7.3	7.5	7.5	7.1	6.7
FCF Yield (%)	8.8	4.6	2.8	(2.1)	(1.2)
(Bt)					
Normalized EPS	22.9	19.8	18.6	16.1	15.1
EPS	17.9	19.3	18.6	16.1	15.1
DPS	9.3	9.5	9.5	9.0	8.5
BV/share	117.7	125.8	136.9	143.7	150.1
CFO/share	39.7	33.8	41.6	42.6	42.0
FCF/share	11.1	5.8	3.5	(2.7)	(1.5)

At 0.9x 2025F P/BV, we see PTTEP's valuation as attractive

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	51.3	(9.3)	(0.7)	(2.0)	1.3
Net profit (%)	82.4	8.2	(3.7)	(13.7)	(5.9)
EPS (%)	82.4	8.2	(3.7)	(13.7)	(5.9)
Normalized profit (%)	111.5	(13.3)	(6.1)	(13.7)	(5.9)
Normalized EPS (%)	111.5	(13.3)	(6.1)	(13.7)	(5.9)
Dividend payout ratio (%)	51.8	49.2	51.0	56.0	56.2
Operating performance					
Gross margin (%)	55.0	52.5	49.8	44.7	43.2
Operating margin (%)	48.9	46.8	43.5	38.0	36.1
EBITDA margin (%)	74.0	73.9	74.1	72.9	71.5
Net margin (%)	27.2	25.7	24.3	21.3	19.8
D/E (incl. minor) (x)	0.2	0.2	0.2	0.3	0.4
Net D/E (incl. minor) (x)	(0.0)	(0.1)	(0.1)	0.0	0.1
Interest coverage - EBIT (x)	19.7	13.7	16.6	13.5	8.9
Interest coverage - EBITDA (x)	29.8	21.7	28.4	25.9	17.7
ROA - using norm profit (%)	11.0	8.9	8.0	6.4	5.4
ROE - using norm profit (%)	20.6	16.3	14.2	11.4	10.3
DuPont					
ROE - using after tax profit (%)	20.4	16.0	13.9	11.2	10.0
- asset turnover (x)	0.4	0.3	0.3	0.3	0.3
- operating margin (%)	51.5	50.3	47.1	41.9	40.4
- leverage (x)	1.9	1.8	1.8	1.8	1.9
- interest burden (%)	95.2	93.2	94.5	93.3	90.0
- tax burden (%)	55.5	54.8	54.5	54.4	54.4
WACC (%)	10.1	10.1	10.1	10.5	10.5
ROIC (%)	20.2	16.8	15.6	12.2	10.2
NOPAT (Bt m)	89,868	77,127	70,791	60,598	58,229
invested capital (Bt m)	458,733	453,936	495,528	572,170	636,846

We see room for ROE to improve on higher gearing and margin expansion

Sources: Company data, Thanachart estimates

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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

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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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Thanachart Securities Pcl.

Research Team

18 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research, Strategy
pimpaka.nic@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanoom

Auto, Industrial Estate, Media, Prop. Fund
rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Retail Market Strategy
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy
adisak.phu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert

Energy, Petrochemical
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market Strategy
thaloengsak.kuc@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail
phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst
witchanan.tam@thanachartsec.co.th

Nariporn Klangprechitt, CISA

Analyst, Retail Market Strategy
nariporn.kla@thanachartsec.co.th