

16 July 2020

Energy & Petrochemicals | Energy

## Star Petroleum Refining (SPRC TB)

**Buy** (Maintained)

### Weaker 2H20 Recovery With Fragile Demand

Target Price (Return): THB7.30 (12.3%)  
 Price: THB6.50  
 Market Cap: USD895m  
 Avg Daily Turnover (THB/USD) 276m/8.70m

- **Maintain BUY with new THB7.30 TP from THB8.40, 12.3% upside and based on 0.9x 2021 PB/V.** 2Q20F net profit is expected at THB1.1bn, while recurring net profit is seen at THB418m. We lower Star Petroleum Refining's earnings and TP as we believe that its refineries will be under pressure, owing to global intermittent lockdowns due to COVID-19's sporadic resurgence. We see demand recovering in 2H20, but recovery will be milder than initially expected.

- **2Q20F net profit is expected at THB1.1bn.** The major non-recurring items include stock losses (THB3.7bn), gains on NRV reversal (THB5bn), and FX losses (THB157m). Stripping out non-recurring items, we expect non-recurring net profit to be at THB418m. SPRC's refinery ran at 80% or 140kbpd, and GRM is expected at USD4.5/bbl, with stock losses of USD9.4/bbl. Gains on NRV reversal are expected at c.USD160m. The refinery's main products are currently 45% diesel, 27% gasoline, 5% high sulphur fuel oil or HSFO, and zero jet fuel.

- **2H20 outlook:** We initially expected a more robust 2H20, as the world eases out of global lockdowns, and as Saudi Aramco raised crude oil premiums. However, demand remains fragile, with rolling lockdowns across the world due to the resurgence of COVID-19 after economies were reopened. Refining spreads remain weak, albeit showing signs of improvement. Gasoline and diesel spreads are currently at USD4.31/bbl and USD6.30/bbl – half their normal spreads – while jet spread is at a meagre -USD0.18/bbl. As such, we believe that demand will recover in 2H20, but may be softer than initially anticipated.

- **Earnings and TP revision.** We lower 2H20 GRM from USD4.00-5.00/bbl to USD4.00-4.50/bbl. SPRC believes that its refinery will be able to run at 150kbpd for the rest of the year, with domestic demand remaining weak. As such we lower our crude run to 150kbpd from 160kbpd. Our 2020F recurring net profit is now at THB26m, down from THB931mn, while reported net loss is expected at THB6.6bn.

- **Maintain BUY.** We believe that refineries will be under pressure as the world seems to be under intermittent lockdowns due to the sporadic COVID-19 resurgence. This, we believe, will dampen people's confidence to travel, and therefore, transportation demand will remain under pressure until the pandemic is contained, or a vaccine is found and distributed globally. We believe demand will recover, but will be milder than anticipated. Our TP is lowered to THB7.30, based on 0.9x 2021 PB/V, from THB8.40 – which is at -1 SD to PB/V. Our BUY call is maintained for this stock.

#### Analyst

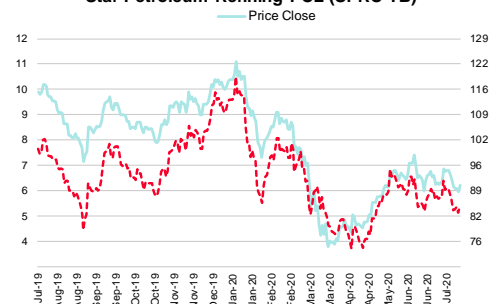
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.3)	3.2	23.8	(31.9)	(38.7)
Relative	(25.0)	2.3	14.2	(17.5)	(17.1)
52-wk Price low/high (THB)				4.08	– 11.4

Star Petroleum Refining PCL (SPRC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	209,159	168,840	108,492	223,791	223,791
Recurring net profit (THBm)	3,454	1,302	26	3,743	4,203
Recurring net profit growth (%)	(32.9)	(62.3)	(98.0)	14,250.7	12.3
Recurring P/E (x)	8.16	21.65	1,080.49	7.53	6.71
P/B (x)	0.7	0.9	0.8	0.8	0.8
P/CF (x)	4.35	na	na	3.14	3.75
Dividend Yield (%)	9.1	2.8	0.1	8.0	8.9
EV/EBITDA (x)	5.96	na	na	4.31	3.53
Return on average equity (%)	5.3	(7.9)	(20.2)	10.9	11.7
Net debt to equity (%)	net cash	20.9	36.2	17.9	5.5

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.80	0.30	0.01	0.86	0.97
Energy & Petrochemicals	DPS	0.59	0.18	0.00	0.52	0.58
<b>Star Petroleum Refining</b>	BVPS	8.89	7.49	7.72	8.07	8.45
SPRC TB	Return on average equity (%)	5.3	(7.9)	(20.2)	10.9	11.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Recurring P/E (x)	8.16	21.65	1,080.49	7.53	6.71
	P/B (x)	0.7	0.9	0.8	0.8	0.8
	FCF Yield (%)	20.8	(11.6)	(53.3)	28.9	23.8
	Dividend Yield (%)	9.1	2.8	0.1	8.0	8.9
	EV/EBITDA (x)	5.96	na	na	4.31	3.53
	EV/EBIT (x)	14.22	na	na	7.37	5.76
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total turnover	209,159	168,840	108,492	223,791	223,791
	Gross profit	2,972	(3,211)	(6,256)	8,555	9,130
	EBITDA	4,713	(2,343)	(6,808)	7,993	8,568
	Depreciation and amortisation	(2,737)	(2,565)	(2,654)	(3,322)	(3,322)
	Operating profit	1,976	(4,908)	(9,463)	4,672	5,246
	Net interest	(50)	(46)	(208)	8	8
	Pre-tax profit	2,804	(3,693)	(8,328)	4,679	5,254
	Taxation	(541)	885	1,666	(936)	(1,051)
	Reported net profit	2,263	(2,809)	(6,662)	3,743	4,203
	Recurring net profit	3,454	1,302	26	3,743	4,203
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	2,356	(1,245)	(1,150)	1,923	0
	Cash flow from operations	6,478	(2,750)	(6,500)	8,988	7,524
	Capex	(615)	(533)	(8,523)	(850)	(827)
	Cash flow from investing activities	3,386	(2,140)	(7,812)	(890)	(777)
	Dividends paid	(4,955)	(2,570)	(792)	(16)	(2,246)
	Cash flow from financing activities	(11,169)	6,062	14,878	(8,098)	(6,747)
	Cash at beginning of period	2,171	74	20	500	500
	Net change in cash	(1,304)	1,171	565	0	0
	Ending balance cash	74	20	500	500	500
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	74	20	500	500	500
	Tangible fixed assets	28,843	26,810	32,678	30,207	27,712
	Total assets	55,011	54,294	59,611	57,589	55,094
	Short-term debt	0	6,819	12,610	6,758	2,533
	Total liabilities	16,482	21,818	26,139	22,619	18,444
	Total equity	38,529	32,476	33,472	34,969	36,650
	Total liabilities & equity	55,011	54,294	59,611	57,589	55,094
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	22.6	(19.3)	(35.7)	106.3	0.0
	Recurrent EPS growth (%)	(32.9)	(62.3)	(98.0)	14250.7	12.3
	Gross margin (%)	1.4	(1.9)	(5.8)	3.8	4.1
	Operating EBITDA margin (%)	2.3	(1.4)	(6.3)	3.6	3.8
	Net profit margin (%)	1.1	(1.7)	(6.1)	1.7	1.9
	Dividend payout ratio (%)	113.6	(28.2)	(0.2)	60.0	60.0
	Capex/sales (%)	0.3	0.3	7.9	0.4	0.4
	Interest cover (x)	39.6	(106.5)	(45.5)		

Source: Company data, RHB

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Figure 1: 2Q20 net profit improves QoQ to THB1.1bn, with recurring net profit at THB418m

FYE Dec (THB m)	2Q19	1Q20	2Q20F	QoQ (%)	YoY (%)	1H19	1H20F	YoY (%)
Turnover	49,332	39,376	20,031	(49.1)	(59.4)	96,729	59,408	(38.6)
EBIT	-1,333	-10,584	1,653	(115.6)	(224.0)	407	-8,931	(2,294.6)
EBIT margin (%)	-3%	-27%	8%			0%	-15%	
Pretax profit	-831	-10,393	1,443	(113.9)	(273.7)	1,232	-8,950	(826.3)
Pretax margin (%)	-2%	-26%	7%			1%	-15%	
Taxation	232	2,108	-289	(113.7)	(224.6)	-141	1,819	(1,385.8)
Net profit	-599	-8,286	1,155	(113.9)	(292.7)	1,091	-7,131	(753.7)
Net margin (%)	-1%	-21%	6%			1%	-12%	
EPS (THB)	-0.14	-1.91	0.27	(113.9)	(292.7)	0.25	-2	(753.7)
Recurring Net Profit	-215	-860	418	(148.5)	(294.5)	1,527	-443	(129.0)

Source: RHB

Figure 2: Refining spreads remain under pressure, as demand remains weak

(USD/bbl)	2Q19	1Q20	2Q20F	QoQ	YoY	Comment QoQ
Accounting GRM	2.3	-20.3	-4.9	-76%	-314%	Product spreads softened, while oil price collapsed
Market GRM	2.6	1.3	4.5	251%	75%	Product spreads softened as demand weakened
Stock g/l	-0.3	-21.6	-9.4	-57%	3257%	Crude oil price collapsed
Crude intake (bkpd)	152	153	140	-9%	-8%	No planned maintenance, but market demand was weak due to COVID-19
Utilisation rate	92%	87%	80%	-9%	-13%	

Source: RHB

Figure 3: Earnings and TP revision

	2020F	2021F	2022F
Recurring net profit (THB m, revised)	26	3,743	4,203
Recurring net profit (THB m, old)	931	3,659	4,037
% change	(97.2)	2.3	4.1
Net profit (THB m, revised)	-6,662	3,743	4,203
Net profit (THB m, old)	-6,495	3,659	4,037
% change	2.6	2.3	4.1
EPS (THB, revised)	(1.54)	0.86	0.97
EPS (THB, old)	(1.50)	0.84	0.93
% change	2.6	2.3	4.1
Target price (THB/sh, revised)	7.3		
Target price (THB/sh, old)	8.4		
% change	-13%		
Bloomberg Consensus			
Net profit (THB m)	(900)	2,867	3,403
TP (THB/share)	7.22		

Source: RHB

Figure 4: Valuation comparison

2021F	PER	PBV	EV/EBITDA	DCF method
Regional peer multiples (x)	14.4	0.9	8.2	
Fair multiple (x)	8.5	0.9	4.0	
DCF valuation, WACC used				7.9%
EPS/BVS (THB/share)	0.9	8.1		
Implied valuation (THB/share)	7.3	7.3	7.4	8.5

Source: RHB

Figure 5: Regional peer comparison

Company	PER (x)		PBV (x)		EV/EBITDA (x)		Div yield (%)		ROE (%)		ROA (%)	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Star Petroleum Refining PCL	N/A	10.65	0.89	0.86	23.98	6.48	2.06	6.11	-5.61	8.63	-1.98	5.40
Bangchak Corp PCL	51.72	8.54	0.55	0.53	12.43	8.67	2.91	6.30	-0.65	6.73	0.61	2.89
Esso Thailand PCL	N/A	8.38	1.17	1.06	24.68	9.13	1.10	4.48	-1.62	14.29	0.51	5.33
IRPC PCL	N/A	21.09	0.69	0.68	10.05	7.20	2.67	3.63	-2.03	3.94	-0.30	1.99
Indorama Ventures PCL	14.75	11.08	1.13	1.06	9.90	8.69	3.00	3.56	7.99	9.56	2.95	3.48
PTT PCL	15.68	12.71	1.22	1.17	6.99	6.19	3.83	4.36	7.34	8.75	3.48	3.93
PTT Global Chemical PCL	36.10	15.80	0.74	0.72	12.12	8.95	2.26	3.49	2.05	4.77	1.54	3.07
Thai Oil PCL	63.52	10.51	0.74	0.71	13.29	7.80	2.24	4.36	0.86	7.31	0.94	3.50
Reliance Industries Ltd	28.09	27.51	2.86	2.43	17.65	16.20	0.37	0.36	10.58	9.49	5.04	4.74
China Petroleum & Chemical Corp	33.89	9.57	0.49	0.48	6.12	4.88	4.24	6.40	2.30	4.94	1.12	2.36
PetroChina Co Ltd	N/A	26.12	0.36	0.35	6.35	5.37	1.98	2.92	-0.68	1.22	-0.16	0.99
Indian Oil Corp Ltd	12.19	7.01	0.71	0.73	9.43	6.79	4.27	5.95	5.19	10.21	1.08	6.57
<b>Average</b>	<b>31.99</b>	<b>14.39</b>	<b>0.97</b>	<b>0.90</b>	<b>11.73</b>	<b>8.17</b>	<b>2.63</b>	<b>4.16</b>	<b>2.85</b>	<b>7.38</b>	<b>1.53</b>	<b>3.53</b>

Note: Data as at 15 Jul 2020

Source: Bloomberg, RHB

Figure 6: SPRCC's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 7: Thai Oil & Gas Index's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 8: SPRC's implied P/BV at different SD levels

	-3SD PBV	-2SD PBV	-1SD PBV	Mean	+1SD PBV	+2SD PBV	+3SD PBV
PBV multiple (x)	0.40	0.70	0.90	1.10	1.40	1.60	1.90
Implied valuation (THB/share)	3.2	5.6	7.3	8.9	11.3	12.9	15.3

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-13	Buy	8.4	6.5
2020-04-27	Neutral	5.0	5.1
2020-02-23	Buy	10.7	8.9
2020-01-28	Buy	10.3	8.0
2019-11-26	Buy	12.7	9.9
2019-11-06	Buy	10.0	9.1
2019-08-08	Neutral	10.0	9.0
2019-07-31	Neutral	10.5	9.9
2019-05-15	Neutral	10.2	9.8
2019-03-18	Trading Buy	na	10.6
2019-02-22	Neutral	12.3	10.5
2019-01-24	Buy	14.0	11.1
2018-11-06	Buy	19.8	13.4

Source: RHB, Bloomberg

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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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