

9 March 2020

Utilities | Power

Electricity Generating (EGCO TB)

Buy (Maintained)

Earnings Resilient Against COVID-19 Impact

Target Price (Return): THB371.00 (+38%)
 Price: THB268.00
 Market Cap: USD4,489m
 Avg Daily Turnover (THB/USD): 434m/14.2m

- **Maintain BUY, new THB371.00 TP from THB394.00, 38% upside and c.3% yield.** At Electricity Generating's recent analyst meeting, management remained committed to seeking further investment opportunities. Meanwhile, three pipeline projects should boost earnings up to FY22. Management also believes the drought will not significantly impact its hydropower plants in Laos, as lower water levels there have been anticipated. Finally, it expects the COVID-19 outbreak to have a limited impact on operations.
- **EGCO continues to seek opportunities** to acquire operating assets and develop greenfield projects in both conventional and renewable energy, as well as in the fuel supply business. It also aims to explore new business opportunities in smart energy solutions.
- **Three pipeline projects.** The Gangdong 19.8MW fuel cell power plant in South Korea is 82.45% completed, and should start operations in 4Q20. In Thailand, the Thai Pipeline Network is a 342km oil transportation pipeline that runs from Saraburi to Khon Kaen. This is a 20-year exclusive contract EGCO has with Thai Petroleum Pipeline Co (Thappline), which will begin in 4Q21. The pipeline is now 22% completed. Finally, the Nam Theun 1 power plant (NT1PC) is a 650MW hydro power plant (EGCO holds 25%), with a 27-year power purchase agreement with Electricity Generating Authority of Thailand and Électricité du Laos. The project is 66% completed, and should commence in 2Q22. These projects are already imputed in our valuation.
- **The drought impact on Nam Theun 2 (374.50MWe)/Xayaburi (160MWe) hydro power plant.** NTPC has a reservoir where the water level remains high, and is not near any emergency level. For the Xayaburi power plant, this is a run-of-the-river power plant and there is no reservoir. The current low water level is within expectations, especially during Jan-May. During this period, the run rate may be 20-30% lower than in normal periods.
- **Impact of COVID-19 outbreak in South Korea on its Paju (893.25MWe) gas fired-power plant's dispatch.** Management does not foresee any significant impact, as the power plant is one of the more efficient facilities, and its dispatch merit order is near the top. If there is a lower dispatch required, it will affect coal-fired power plants and nuclear power plants first.
- **Earnings still resilient.** We cut EGCO's TP by 6% to THB371.00 from THB394.00, as we tweak our DCF assumptions (stock beta and D/E weightings). Our earnings forecasts remain unchanged. As the COVID-19 outbreak grips the world with a fear of travel and mass social gatherings, there are no signs that EGCO customers will lower their dispatch. Its earnings should remain resilient, and we make no change to our BUY recommendation.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.3)	(11.9)	(21.6)	(24.7)	0.0
Relative	(4.7)	(0.7)	(9.1)	(6.4)	16.1
52-wk Price low/high (THB)	265 – 384				

Electricity Generating (EGCO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	35,522	37,511	35,897	36,092	31,621
Recurring net profit (THBm)	21,073	13,059	13,219	13,236	12,887
Recurring net profit growth (%)	78.3	(38.0)	1.2	0.1	(2.6)
Recurring P/E (x)	6.70	10.80	10.67	10.66	10.95
P/B (x)	1.4	1.4	1.3	1.2	1.1
P/CF (x)	18.63	7.68	16.46	20.74	22.48
Dividend Yield (%)	3.5	3.2	3.3	3.3	3.2
EV/EBITDA (x)	14.88	13.27	10.18	9.72	9.95
Return on average equity (%)	22.6	12.8	12.4	11.7	10.6
Net debt to equity (%)	56.6	65.7	56.2	47.3	39.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	40.03	24.81	25.11	25.14	24.48
Utilities	DPS	9.50	8.68	8.79	8.80	8.57
Electricity Generating	BVPS	190.40	198.47	207.13	223.47	239.38
EGCO TB	Return on average equity (%)	22.6	12.8	12.4	11.7	10.6
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	6.70	10.80	10.67	10.66	10.95
DCF and SOP	P/B (x)	1.4	1.4	1.3	1.2	1.1
	FCF Yield (%)	3.3	(12.8)	1.8	0.6	0.2
Key drivers	Dividend Yield (%)	3.5	3.2	3.3	3.3	3.2
i. Gas and coal prices, as these are its main feedstock;	EV/EBITDA (x)	14.88	13.27	10.18	9.72	9.95
ii. Dispatch factor from EGAT;	EV/EBIT (x)	22.24	19.83	14.35	13.83	14.28
iii. THB/USD rate because feedstock is quoted in USD, and part of its outstanding debt is in USD as well.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	35,522	37,511	35,897	36,092	31,621
i. Fuel cost;	Gross profit	8,916	9,091	9,876	9,728	8,776
ii. Seasonal factors;	EBITDA	9,569	9,268	11,269	11,114	10,202
iii. Plant shutdowns;	Depreciation and amortisation	(3,165)	(3,067)	(3,281)	(3,297)	(3,095)
iv. Instability of the THB/USD rate.	Operating profit	6,404	6,201	7,988	7,817	7,107
	Net interest	(1,357)	1,641	(3,327)	(3,175)	(3,175)
Company Profile	Pre-tax profit	22,055	13,986	14,111	14,149	13,767
Electricity Generating is the second largest private power producer in Thailand. Its main expertise is in conventional IPPs.	Taxation	(938)	(859)	(814)	(837)	(839)
	Reported net profit	21,073	13,059	13,219	13,236	12,887
	Recurring net profit	21,073	13,059	13,219	13,236	12,887
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	212	8,323	1,445	(300)	90
	Cash flow from operations	7,573	18,373	8,573	6,801	6,277
	Capex	(2,861)	(36,415)	(6,000)	(6,000)	(6,000)
	Cash flow from investing activities	31,589	(30,010)	3,450	3,507	3,836
	Dividends paid	(5,050)	(4,571)	(4,627)	(4,633)	(4,510)
	Cash flow from financing activities	(10,983)	(2,453)	(6,627)	(8,633)	(4,510)
	Cash at beginning of period	6,787	34,877	20,488	25,883	27,559
	Net change in cash	28,179	(14,090)	5,396	1,676	5,602
	Ending balance cash	34,877	20,487	25,884	27,559	33,162
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	34,877	20,488	25,883	27,559	33,162
	Tangible fixed assets	68,869	64,484	66,203	67,907	69,812
	Total investments	56,385	87,800	88,800	89,800	90,800
	Total assets	206,428	208,522	214,380	219,103	227,070
	Short-term debt	27,347	5,792	5,792	5,792	5,792
	Total long-term debt	64,640	83,773	81,773	77,773	77,773
	Total liabilities	105,578	103,419	104,639	100,683	100,232
	Total equity	100,850	105,103	109,740	118,420	126,838
	Total liabilities & equity	206,428	208,522	214,380	219,103	227,070
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	18.3	5.6	(4.3)	0.5	(12.4)
	Recurrent EPS growth (%)	78.3	(38.0)	1.2	0.1	(2.6)
	Gross margin (%)	25.1	24.2	27.5	27.0	27.8
	Operating EBITDA margin (%)	26.9	24.7	31.4	30.8	32.3
	Net profit margin (%)	59.3	34.8	36.8	36.7	40.8
	Capex/sales (%)	8.1	97.1	16.7	16.6	19.0
	Interest cover (x)	1.60	4.95	2.40	2.46	2.24

Source: Company data, RHB

Figure 1: TP revision

By country	DCF/share	WACC
Thailand	92,822	6.7%
Loas	46,658	6.7%
Phillipines	18,751	6.7%
Indonesia	49,014	6.7%
South Korea	42,739	6.2%
Australia	7,152	6.2%
Cash	25,883	
Debt	(87,565)	
Total SOPV	195,453	
Total SOPV/share	371	

Major assumptions	Revised	Prior revision
Risk free rate	2.4%	2.4%
Market risk premium	6.9%	6.9%
Stock beta	1.00	0.75
Cost of equity, Ke	9.3%	7.6%
Pre-tax cost of debt	3.6%	3.60
Equity (%)	60%	53%
Debt (%)	40%	47%

Source: RHB

Figure 2: Valuation comparison

2020	P/E	P/BV	EV/EBITDA	DCF
Regional peer multiples	28.4	2.9	23.98	
DCF valuation, WACC used				6.7%
THB/share (EPS/BVS)	25	207		
Fair multiple used	15.0	1.8	11.00	
Implied valuation per share	377	373	379	371

Source: RHB

Figure 3: Peer comparison

Company	Plant type	P/E (x)		P/BV (x)		EV/EBITDA (x)		Div yield (%)		ROE (%)		ROA (%)	
		2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Gulf Energy Development	IPP	80.00	57.07	7.99	7.22	34.40	29.29	0.61	0.76	10.75	12.51	3.84	3.97
Electricity Generating*	IPP	11.55	11.02	1.22	1.14	17.61	16.71	3.13	3.28	11.07	10.41	5.64	5.68
Ratch Group*	IPP	12.53	11.27	1.34	1.26	15.29	13.76	4.25	4.62	11.00	11.58	5.94	6.43
Banpu Power	IPP	9.35	8.31	0.91	0.86	28.64	26.59	5.24	5.62	10.85	10.71	8.54	8.93
WHA Utilities & Power	SPP	7.56	7.64	1.02	0.95	15.31	13.90	6.08	6.26	13.93	13.03	8.47	8.53
Global Power Synergy*	SPP	20.83	19.70	1.62	1.55	13.55	12.95	2.23	2.44	7.54	7.87	3.62	3.75
B Grimm Power	SPP	38.04	32.28	3.90	3.55	13.95	12.96	1.13	1.29	11.48	11.38	3.86	4.23
CK Power	RE	23.80	18.65	1.16	1.17	15.00	14.99	1.93	2.58	4.89	5.95	2.39	3.82
Energy Absolute	RE	21.06	18.38	5.09	4.19	15.51	13.82	1.25	1.66	27.86	24.70	10.61	10.11
BCPG	RE	13.09	12.62	1.84	1.74	14.45	13.53	4.71	4.54	13.95	13.94	6.41	6.45
SPCG	RE	6.92	6.90	1.15	1.05	5.82	6.11	5.78	5.83	17.45	15.96	13.17	12.94
Thai IPPs (ex-Gulf)		11.14	10.20	1.16	1.09	20.51	19.02	4.21	4.50	10.97	10.90	6.71	7.01
Thai IPPs (including Gulf)		28.36	21.92	2.86	2.62	23.98	21.59	3.31	3.57	10.92	11.30	5.99	6.25

Note: Data as at 6 Mar 2020

Source: Bloomberg, RHB

Figure 4: EGCO's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 5: Thai Oil & Gas Index's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 6: EGCO's implied P/BV at different SD levels

	-2SD	-1SD	Mean	+1SD	+2SD
P/BV (x)	0.30	0.60	0.90	1.20	1.50
Implied valuation (THB/share)	62.1	124.3	186.4	248.6	310.7

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-13	Buy	394	353
2019-09-27	Buy	394	354

Source: RHB, Bloomberg

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90 - 100		ดีเลิศ	Excellent
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

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

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- ได้รับการรับรอง CAC

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