

19 February 2020

Energy & Petrochemicals | Refineries & Petrochemicals

## IRPC (IRPC TB)

**Sell** (Maintained)

### 1Q20 Earnings Could Be Weak

- **Maintain SELL, THB2.50 TP implies 19% downside.** At yesterday's analyst meeting, IRPC's management highlighted its plan to enhance its competitiveness and business performance for 2020, as well as detailed its longer-term strategy. We revise our forecasts to include its latest cash outlay, where we expect it to raise more debt to finance capex. Its 2020 outlook remains weak, as current spreads point to a tough 1Q20F.
- **Management highlighted its plan to enhance competitiveness.** Its growth strategy involves the commencement of several projects:
  - Specialty-grade acrylonitrile butadiene styrene (ABS), which will be sold to Japan (commercial operation date (COD) in 2Q20). Capex is at THB420m with an IRR of 32%;
  - Project ATOM (involving a PP compound, with a Japanese partner) which has an IRR of 28%. It has a COD of 1Q20, and capex totalling THB350m. This is another specialty-grade PP supply plan to the auto industry via a JV partner in Japan;
  - iPolymer, with a capex of THB66m. This is an e-commerce platform for it to capture the Chinese market;
  - Floating solar project, with 12.5MW and a COD in 1Q20. It will involve capex of THB625m and an IRR of 17%.
- **For the longer term, plans include land development and sales** through its JV with WHA Corp (WHA TB, BUY, TP: THB4.85). The land, which spans 2,152 *rai*, will be sold from 2021 onwards. IRPC's THB9.4bn ultra-clean fuels project – which will upgrade gasoil to Euro-V grade fuel – is scheduled to be completed in 2020.
- **Further debt financing.** Capex for FY20-24F is expected to total THB53.9bn, while debt repayment is estimated at THB52bn over FY20-23F+. We believe it will need to seek further debt financing of c.THB10-30bn during the forecasted period. However, it will still be able to book a net D/E of less than 1x in that timeframe, ie within its treasury policy.
- **Weak start to 2020.** With the current spreads, it may not be able to run at full capacity, but at 85% in 1Q. Thus, we estimate that it may book a 1Q20F net loss of THB2bn (market GIM: c.USD7.00/bbl, costs: USD11.00/bbl). We impute a 100% run rate for the rest of FY20, with an optimistic USD11.00/bbl GIM. FY20F earnings should be weak, at THB1.6bn.
- **We revise net profit estimates** to take into account its capex and debt repayment schedule. We maintain operational assumptions (in terms of spreads and utilisation rates, etc), but interest expenses should tick upwards. As such, we cut FY21-22F earnings by c.12%. Maintain SELL, with an unchanged TP of THB2.50 based on 0.6x FY20F P/BV.

Target Price (Return): THB2.50 (-19%)  
 Price: THB2.88  
 Market Cap: USD1,861m  
 Avg Daily Turnover (THB/USD) 416m/13.7m

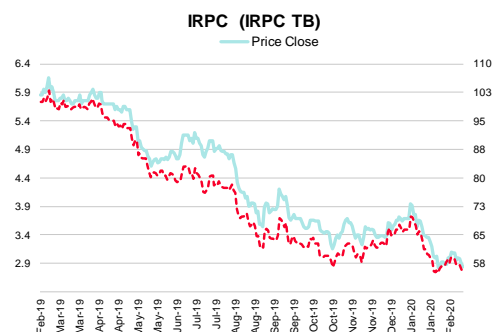
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.8)	(15.5)	(15.0)	(27.6)	(51.9)
Relative	(19.5)	(10.9)	(10.3)	(21.2)	(45.2)
52-wk Price low/high (THB)	2.82 – 6.15				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	280,551	239,315	282,627	257,481	257,481
Recurring net profit (THBm)	7,929	(2,926)	1,624	6,009	6,051
Recurring net profit growth (%)	14.7	(136.9)	-	270.1	0.7
Recurring P/E (x)	7.32	na	35.74	9.66	9.59
P/B (x)	0.7	0.7	0.7	0.7	0.6
P/CF (x)	3.67	9.30	4.72	5.46	4.40
Dividend Yield (%)	7.0	(3.5)	1.4	5.2	5.2
EV/EBITDA (x)	6.26	25.33	7.75	6.17	6.55
Return on average equity (%)	8.9	(1.3)	1.9	7.0	6.8
Net debt to equity (%)	63.0	67.1	58.2	55.3	61.8

Source: Company data, RHB

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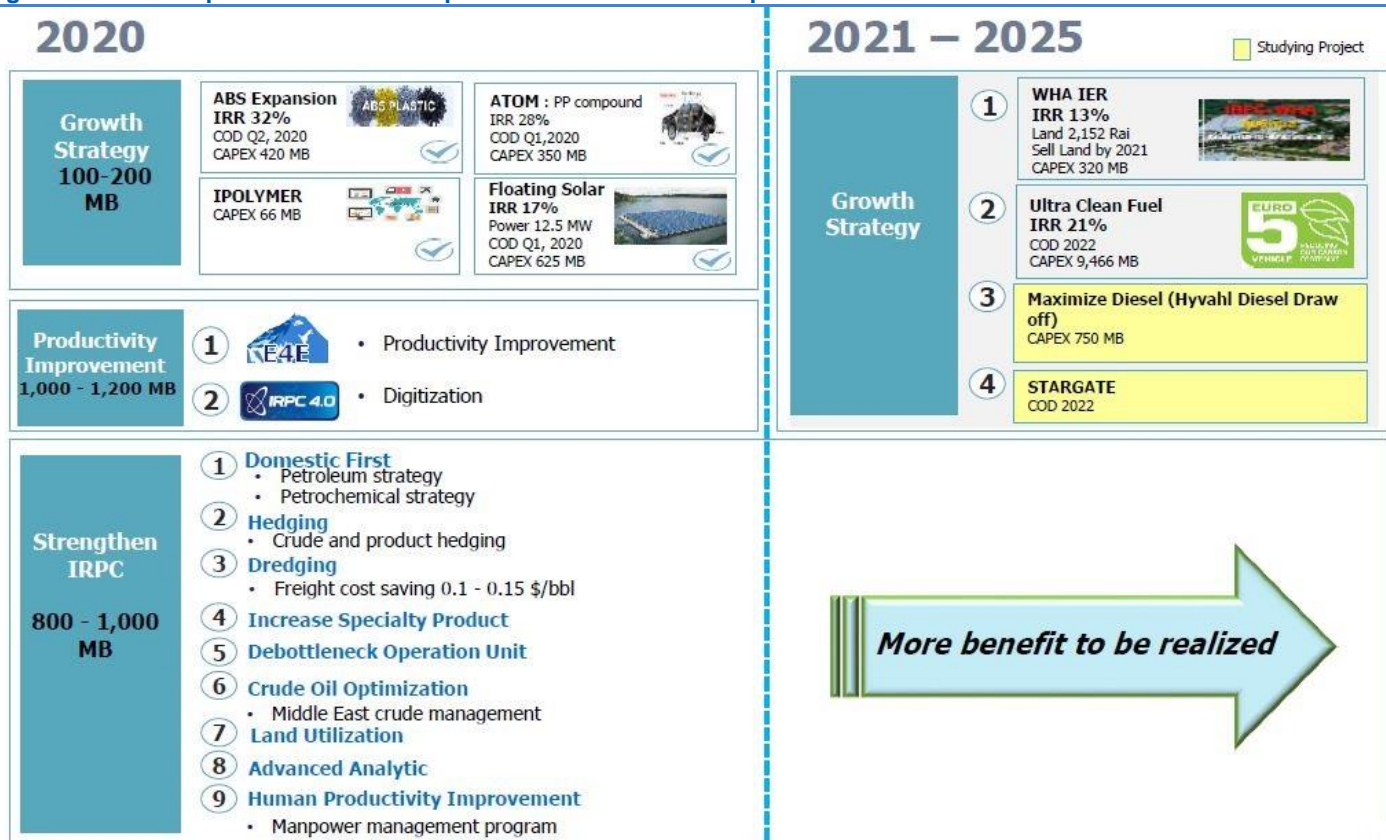
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## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.39	(0.14)	0.08	0.29	0.30
Energy & Petrochemicals	DPS	0.20	(0.10)	0.04	0.15	0.15
<b>IRPC</b>	BVPS	4.27	4.07	4.11	4.26	4.41
IRPC TB	Return on average equity (%)	8.9	(1.3)	1.9	7.0	6.8
Sell						
	<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)	7.32	na	35.74	9.66	9.59
	P/B (x)	0.7	0.7	0.7	0.7	0.6
	FCF Yield (%)	17.4	1.1	11.0	5.7	(8.5)
	Dividend Yield (%)	7.0	(3.5)	1.4	5.2	5.2
	EV/EBITDA (x)	6.26	25.33	7.75	6.17	6.55
	EV/EBIT (x)	12.03	na	29.81	11.54	12.09
	<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	280,551	239,315	282,627	257,481	257,481
	Gross profit	15,914	2,745	7,428	14,977	15,224
	EBITDA	17,178	4,231	12,972	16,197	16,444
	Depreciation and amortisation	(8,237)	(8,542)	(9,601)	(7,334)	(7,534)
	Operating profit	8,941	(4,311)	3,371	8,664	8,910
	Net interest	(1,961)	(1,931)	(1,917)	(1,989)	(2,186)
	Pre-tax profit	8,915	(1,924)	1,856	7,077	7,127
	Taxation	(1,147)	779	(233)	(1,068)	(1,076)
	Reported net profit	7,769	(1,146)	1,624	6,009	6,051
	Recurring net profit	7,929	(2,926)	1,624	6,009	6,051
	<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	491	(795)	1,478	(2,502)	0
	Cash flow from operations	15,818	6,239	12,300	10,639	13,182
	Capex	(5,735)	(5,611)	(5,905)	(7,346)	(18,119)
	Cash flow from investing activities	(8,295)	(3,109)	(3,314)	(9,046)	(17,738)
	Dividends paid	(5,926)	(4,037)	(2,043)	(812)	(3,004)
	Cash flow from financing activities	(4,694)	(888)	(2,940)	1,066	5,845
	Cash at beginning of period	2,145	2,338	3,036	4,568	5,160
	Net change in cash	2,829	2,241	6,046	2,659	1,290
	Ending balance cash	4,974	4,579	9,082	7,227	6,450
	<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	2,338	3,036	4,568	5,160	1,290
	Tangible fixed assets	126,511	122,554	118,859	118,672	129,257
	Total investments	8,441	9,925	9,667	9,667	9,667
	Total assets	182,446	177,850	173,986	176,423	183,138
	Short-term debt	13,804	15,090	8,170	21,311	8,146
	Total long-term debt	43,561	43,881	45,391	32,061	48,915
	Total liabilities	95,066	94,448	89,772	89,205	92,895
	Total equity	87,380	83,402	84,214	87,218	90,244
	Total liabilities & equity	182,446	177,850	173,986	176,423	183,138
	<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 (%)	31.0	(14.7)	18.1	(8.9)	0.0
	Recurrent EPS growth (%)	14.7	(136.9)	0.0	270.1	0.7
	Gross margin (%)	5.7	1.1	2.6	5.8	5.9
	Operating EBITDA margin (%)	6.1	1.8	4.6	6.3	6.4
	Net profit margin (%)	2.8	(0.5)	0.6	2.3	2.3
	Dividend payout ratio (%)	52.0	(178.4)	0.0	0.0	0.0
	Capex/sales (%)	2.0	2.3	2.1	2.9	7.0
	Interest cover (x)	4.56	(2.23)	1.66	4.06	3.90

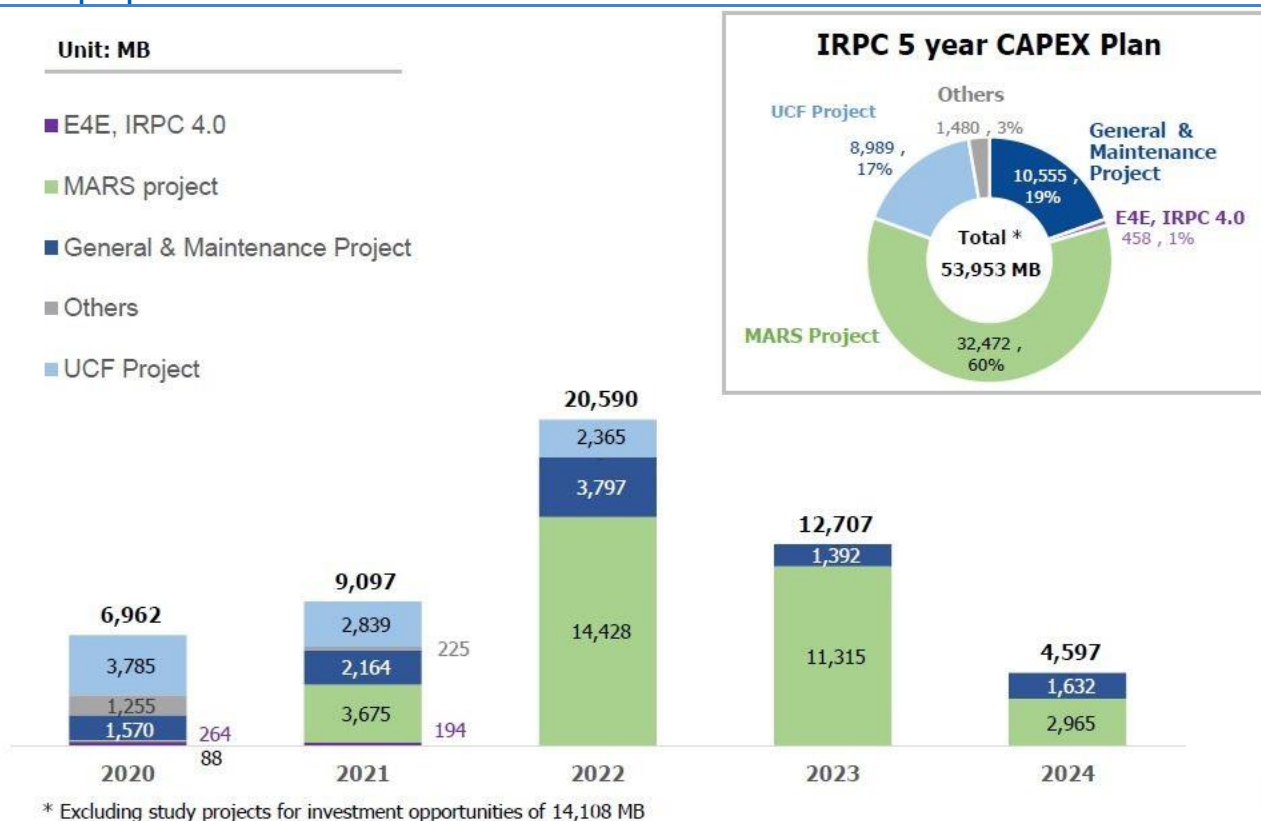
Source: Company data, RHB

Figure 1: Business plan to enhance competitiveness and business performance in 2020-2025



Source: Company data

Figure 2: Capex plan for 2020-2024



Source: Company data

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Figure 3: Revisions to our estimates

	2020F	2021F	2022F
Net profit (THBm, revised)	1,624	6,009	6,051
Net profit (THBm, old)	1,624	6,825	6,847
change	0%	-12%	-12%
EPS (THB, FD-revised)	0.08	0.29	0.30
EPS (THB, FD-old)	0.08	0.33	0.34
% change	0%	-12%	-12%
Target price (revised)	2.5		
Target price (old)	2.5		
change	0.0%		
Bloomberg consensus			
Net profit (THB bn)	2,779.2	4,577.5	6,008.0
TP (THB/share)	3.39		

Source: RHB

Figure 4: Valuation comparison

2020F	P/E	PBV	EV/EBITDA	DCF method
Regional peer multiples	10.9	1.0	7.0	
DCF valuation, WACC used				8.0%
THB/share (EPS/BVS)	0.1	4.1		
Fair multiple used	32.0	0.60	4.0	
Implied valuation per share	2.5	2.5	2.5	3.1

Source: RHB

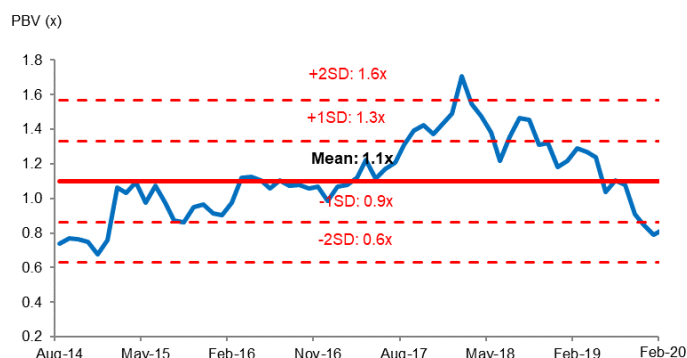
Figure 5: Regional peer comparison

Company	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
IRPC	17.21	12.35	0.67	0.65	8.05	7.22	3.56	4.54	4.42	5.63	2.29	2.77
Bangchak Corp	9.97	8.52	0.77	0.73	8.09	7.60	5.07	5.42	7.83	8.48	3.57	3.83
Esso Thailand	7.36	6.34	0.97	0.90	7.01	6.18	6.36	7.15	13.53	14.37	6.01	7.24
Indorama Ventures	10.32	8.85	1.07	0.99	7.13	6.64	3.46	3.69	10.74	11.21	4.28	4.42
PTT	11.18	10.71	1.25	1.18	5.84	5.62	4.32	4.53	10.57	10.52	5.12	4.95
PTT Global Chemical	12.71	10.41	0.76	0.74	8.14	7.25	4.34	4.94	6.29	7.25	4.47	4.98
Star Petroleum Refining	11.94	9.66	1.03	0.97	5.76	5.07	5.10	5.89	8.76	9.96	6.32	7.02
Thai Oil	11.24	9.85	0.85	0.81	6.76	6.24	4.01	4.43	8.06	8.29	3.68	3.84
Reliance Industries	19.83	14.86	2.13	1.91	12.36	9.63	0.52	0.60	11.22	12.97	4.83	6.16
China Petroleum & Chemical Corp	8.24	7.80	0.61	0.59	4.49	4.35	7.92	7.95	7.71	7.74	3.54	3.76
PetroChina Co	10.61	9.75	0.45	0.43	4.61	4.56	4.98	5.31	4.44	4.64	2.22	2.35
Indian Oil Corp	9.20	6.55	0.89	0.83	6.64	5.34	4.92	6.98	9.69	12.96	5.87	7.08
<b>Average</b>	<b>10.86</b>	<b>9.39</b>	<b>0.98</b>	<b>0.92</b>	<b>6.99</b>	<b>6.22</b>	<b>4.64</b>	<b>5.17</b>	<b>8.98</b>	<b>9.85</b>	<b>4.54</b>	<b>5.06</b>

Note: Data as at 18 Feb 2020

Source: Bloomberg, RHB

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

	-2SD	-1SD	Mean	+1SD	+2SD
P/BV (x)	0.6	0.9	1.1	1.3	1.6
Implied valuation (THB/share)	2.5	3.7	4.5	5.3	6.6

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-13	Sell	2.50	2.98
2020-01-29	Sell	2.40	2.92
2020-01-29	Sell	2.40	2.92
2019-11-13	Sell	2.90	3.56
2019-11-05	Sell	2.90	3.46
2019-10-21	Sell	2.90	3.42
2019-08-16	Sell	3.40	3.92
2019-08-06	Sell	4.10	4.32
2019-07-25	Sell	4.10	4.86

Source: RHB, Bloomberg

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	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

ประกาศเจตนารมณ์ 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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