

21 July 2020

Energy & Petrochemicals | Downstream Products

IRPC (IRPC TB)

Neutral (Maintained)

Anticipating Demand-Driven Recovery For 2H20F

Target Price (Return): THB2.70 (+1%)
 Price: THB2.68
 Market Cap: USD1,727m
 Avg Daily Turnover (THB/USD): 273m/8.70m

- **Maintain NEUTRAL, with new THB2.70 TP, from THB3.00, 1% upside.** 2Q20F net loss is expected at THB546m, with recurring net loss at THB1.2bn. In the near term, commodity spreads look weak. A recovery in demand as well as prices and spreads are expected, but may be milder than initially anticipated. As such, we revise down our earnings and TP. Risk to our estimates is the second wave of COVID-19 globally.
- **2Q20F net loss is expected at THB546m**, with recurring net loss at THB1.2bn. Non-recurring items are FX gain (THB350m) and net stock gain (THB400m). GIM is expected at a total USD8.50/bbl, with refinery business, petrochemical and utilities contributions at USD2.70/bbl and USD4.70/bbl as well as utilities at USD1.10/bbl. The refinery is expected to run at 188kbpd (87%). Although GIM improved QoQ, we expect unit cost to remain high at USD11.00/bbl.
- **Refined product prices and spreads stayed weak**, as the world grapples with COVID-19 and its resurgence. Cities around the world have had to implement rolling lockdowns, dampening people's confidence to travel. Transportation fuels remain weak, with jet and HSFO spreads in the negative at -USD0.18/bbl and -USD2.80/bbl. Gasoil, gasoline and LSFO remained positive but weak at USD6.30/bbl, USD4.31/bbl and USD6.27/bbl – half of normalised levels. For the polymer value chain, demand for 2Q20F has been supported by the healthcare and food packaging sectors as well as single-use plastics, which has seen a rise in demand during COVID-19.
- **IRPC expects demand-driven recovery in 2H20F.** Petrochemicals business should be supported by the food packaging and healthcare sectors, while refinery margins should start to improve as countries around the world ease out of lockdown. For 2H20F, IRPC expects its refinery to run at 200kbpd, while costs should be at c.USD10.50/bbl and GIM should improve from 2Q20F.
- **Earnings and TP revised.** 2H20F GIM is lowered from USD12.10/bbl to c.USD10.00/bbl as recovery is expected to be milder than initially expected due to the resurgence of COVID-19 globally. Quarterly net loss for 2H20F is expected to be c.THB250m. 2020F earnings are revised to a net loss of THB9.9bn to reflect 2Q20F performance as well as weaker 2H20F recovery. We lower our GIM expectations for 2021F-2022F by USD1.00/bbl to c.USD11.25/bbl, as we believe recovery is expected to be softer than initially anticipated. We lower our TP to THB2.70/share based on 0.75x 2021F P/BV. NEUTRAL call is maintained on this stock.

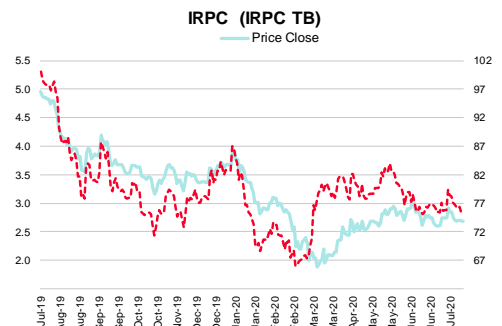
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.2)	(3.6)	1.5	(18.3)	(45.5)
Relative	(13.2)	(2.8)	(5.9)	(3.8)	(23.8)
52-wk Price low/high (THB)	1.88 – 4.96				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	280,551	239,315	152,517	257,481	257,481
Recurring net profit (THBm)	7,929	(2,926)	(1,614)	3,321	4,583
Recurring net profit growth (%)	14.7	(136.9)	(44.8)	-	38.0
Recurring P/E (x)	6.91	na	na	16.49	11.95
P/B (x)	0.6	0.7	0.8	0.7	0.7
P/CF (x)	3.46	8.78	7.78	12.39	3.60
Dividend Yield (%)	7.4	(3.7)	1.5	3.0	4.2
EV/EBITDA (x)	6.09	24.65	na	6.21	5.50
Return on average equity (%)	8.9	(1.3)	(12.7)	4.5	6.1
Net debt to equity (%)	63.0	67.1	72.9	77.4	67.9

Source: Company data, RHB

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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)	0.16	0.22
Energy & Petrochemicals	DPS	0.20	(0.10)	0.04	0.08	0.11
IRPC	BVPS	4.27	4.07	3.55	3.63	3.74
IRPC TB	Return on average equity (%)	8.9	(1.3)	(12.7)	4.5	6.1
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.91	na	na	16.49	11.95
	P/B (x)	0.6	0.7	0.8	0.7	0.7
	FCF Yield (%)	18.4	1.1	3.3	(4.8)	14.0
	Dividend Yield (%)	7.4	(3.7)	1.5	3.0	4.2
	EV/EBITDA (x)	6.09	24.65	na	6.21	5.50
	EV/EBIT (x)	11.70	na	na	17.12	13.51
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	280,551	239,315	152,517	257,481	257,481
	Gross profit	15,914	2,745	(3,326)	14,538	15,793
	EBITDA	17,178	4,231	(818)	16,951	18,206
	Depreciation and amortisation	(8,237)	(8,542)	(8,931)	(10,798)	(10,798)
	Operating profit	8,941	(4,311)	(9,749)	6,152	7,408
	Net interest	(1,961)	(1,931)	(2,257)	(2,377)	(2,130)
	Pre-tax profit	8,915	(1,924)	(12,373)	3,925	5,428
	Taxation	(1,147)	779	2,459	(604)	(845)
	Reported net profit	7,769	(1,146)	(9,914)	3,321	4,583
	Recurring net profit	7,929	(2,926)	(1,614)	3,321	4,583
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	491	(795)	8,526	(9,550)	0
	Cash flow from operations	15,818	6,239	7,043	4,419	15,232
	Capex	(5,735)	(5,611)	(5,236)	(7,065)	(7,589)
	Cash flow from investing activities	(8,295)	(3,109)	(2,771)	(8,149)	(8,071)
	Dividends paid	(5,926)	(4,037)	(2,043)	(807)	(1,660)
	Cash flow from financing activities	(7,330)	(2,431)	(4,104)	5,335	(7,302)
	Cash at beginning of period	2,145	2,338	3,036	3,555	5,160
	Net change in cash	193	698	169	1,605	(141)
	Ending balance cash	2,338	3,036	3,555	5,160	5,019
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	2,338	3,036	3,555	5,160	5,019
	Tangible fixed assets	126,511	122,554	118,859	115,125	111,916
	Total investments	8,441	9,925	9,667	9,667	9,667
	Total assets	182,446	177,850	163,500	172,877	169,527
	Short-term debt	13,804	15,090	8,170	27,642	8,146
	Total long-term debt	43,561	43,881	48,391	35,061	48,915
	Total liabilities	95,066	94,448	90,820	98,536	92,895
	Total equity	87,380	83,402	72,680	74,341	76,632
	Total liabilities & equity	182,446	177,850	163,500	172,877	169,527
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	31.0	(14.7)	(36.3)	68.8	0.0
	Recurrent EPS growth (%)	14.7	(136.9)	(44.8)	0.0	38.0
	Gross margin (%)	5.7	1.1	(2.2)	5.6	6.1
	Operating EBITDA margin (%)	6.1	1.8	(0.5)	6.6	7.1
	Net profit margin (%)	2.8	(0.5)	(6.5)	1.3	1.8
	Dividend payout ratio (%)	52.0	(178.4)	(8.1)	50.0	50.0
	Capex/sales (%)	2.0	2.3	3.4	2.7	2.9
	Interest cover (x)	4.56	(2.23)	(4.32)	2.45	3.25

Source: Company data, RHB

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Figure 1: 2Q20F net loss is expected at THB546m, as spreads fell below operating costs

(THB m)	2Q19	1Q20	2Q20F	% QoQ	% YoY	1H19	1H20F	% YoY
Turnover	63,710	48,910	27,224	(44.3)	(57.3)	63,710	76,134	19.5
Gross profit	1,194	(7,854)	621	(107.9)	(47.9)	1,194	(7,233)	(705.8)
Gross profit margin	2%	-16%	2%			2%	-10%	
EBIT	886	(10,727)	(584)	(94.6)	(166.0)	886	(11,311)	(1,376.6)
EBIT margin	1%	-22%	-2%			1%	-15%	
Pretax profit	407	(11,192)	(759)	(93.2)	(286.5)	407	(11,951)	(3,037.8)
Pretax margin	1%	-23%	-3%			1%	-16%	
Taxation	(5)	2,246	121	(94.6)	(2,471.7)	(5)	2,367	(46,359.7)
Tax rate	-1%	-20%	-16%			-1%	-20%	
Net profit	507	(8,905)	(546)	(93.9)	(207.7)	507	(9,451)	(1,964.4)
Net margin	1%	-18%	-2%			1%	-12%	
Recurring income	456	(588)	(1,175)	99.8	(357.7)	456	(1,763)	(486.6)
EPS (THB)	0.02	(0.44)	(0.03)	(93.9)	(207.7)	0.02	(0.46)	(1,964.4)

Source: RHB

Figure 2: GRM improved QoQ to USD9.27/bbl, while unit cost to remain high at USD11.00/bbl

	2Q19	1Q20	2Q20F	% QoQ	% YoY	Comment (QoQ)
Dubai (USD/bbl)	67.40	53.00	30.55	-42%	-55%	Collapsed OPEC+ deal and COVID-19 pandemic resulted in a decline in demand
Market GIM (USD/bbl)						
Refinery	2.70	0.80	2.70	238%	0%	Weaker refined product spreads offset by higher discount from Saudi Aramco crude discount
Petrochemicals	5.20	4.70	4.70	0%	-10%	Stable contribution
Power	1.20	1.30	1.10	-15%	-8%	Relatively stable contribution
Total Market GIM	9.10	6.80	8.50	25%	-7%	Weaker refinery spreads offset by improved petrochemicals spreads
Net stock g/l	0.84	(13.30)	0.76	N/A	-9%	Stock loss is offset by gain on NRV
Oil hedging	-	0.70	-	-100%	N/A	
Accounting GIM	9.94	(5.80)	9.27	-260%	-7%	Weaker spreads and stock loss were offset by Saudi Aramco crude discount and gain on NRV
Crude run (kbpd)	200	188	188	0%	-6%	Ran at optimised levels, with given product spreads
Utilisation rate (%)	93%	87%	87%	0%	-6%	

Source: RHB

Figure 3: Earnings and TP revision

	2020F	2021F	2022F
Recurring net profit (THB m, revised)	(1,614)	3,332	4,604
Recurring net profit (THB m, prior)	1,480	5,634	5,419
change	-209%	-41%	-15%
Net profit (THB m, revised)	(9,931)	3,332	4,604
Net profit (THB m, old)	(6,837)	5,634	5,419
change	45%	-41%	-15%
EPS (THB, FD-revised)	(0.49)	0.16	0.23
EPS (THB, FD-old)	(0.33)	0.28	0.27
% change	45%	-41%	-15%
Target price (revised)	2.7		
Target price (old)	3.0		
change	-10.0%		
Bloomberg consensus			
Net profit (THB bn)	(4,942.0)	2,252.0	3,601.0
TP (THB/share)	2.83		

Source: RHB

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Figure 4: Valuation comparison

2021F	P/E	P/BV	EV/EBITDA	DCF method
Regional peer multiples	13.4	1.0	9.0	
DCF valuation, WACC used				8.0%
EPS/BVS (THB/share)	0.2	3.7		
Fair multiple used	13.4	0.75	6.7	
Implied valuation per share	2.2	2.7	2.8	2.9

Source: RHB

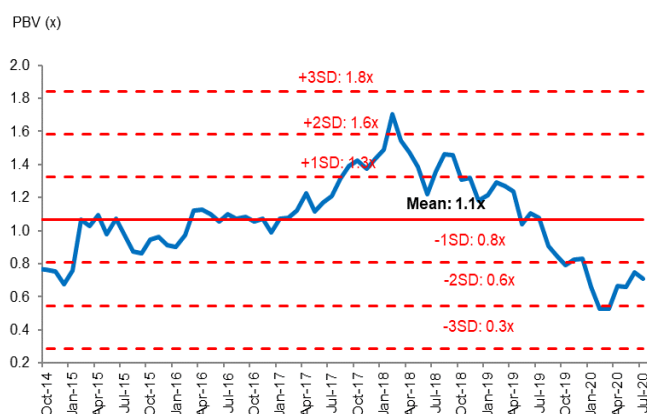
Figure 5: Regional peer comparison

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	N/A	21.09	0.69	0.68	10.05	7.20	2.67	3.63	-2.03	3.94	-0.30	1.99
Bangchak Corp	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	N/A	8.38	1.17	1.06	24.68	9.13	1.10	4.48	-1.62	14.29	0.51	5.33
Indorama Ventures	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	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	36.10	15.80	0.74	0.72	12.12	8.95	2.26	3.49	2.05	4.77	1.54	3.07
Star Petroleum Refining	N/A	10.65	0.89	0.86	23.98	6.48	2.06	6.11	-5.61	8.63	-1.98	5.40
Thai Oil	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	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	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	12.19	7.01	0.71	0.73	9.43	6.79	4.27	5.95	5.19	10.21	1.08	6.57
Average	31.99	13.44	0.99	0.92	13.00	8.10	2.57	4.39	2.52	7.81	1.38	3.84

Note: Data as at 20 July 2020

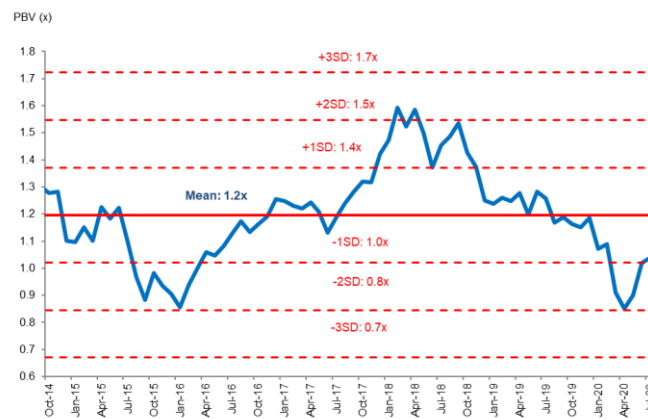
Source: Bloomberg, RHB

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

	-3SD P/BV	-2SD P/BV	-1SD P/BV	Mean	+1SD P/BV	+2SD P/BV	+3SD P/BV
P/BV multiple (x)	0.3	0.6	0.8	1.1	1.3	1.6	1.8
Implied valuation (THB/share)	1.1	2.2	3.0	4.1	4.8	5.9	6.7

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-19	Neutral	3.00	2.90
2020-05-08	Sell	1.50	2.64
2020-03-19	Sell	1.60	2.02
2020-02-19	Sell	2.50	2.84
2020-01-29	Sell	2.40	2.92
2019-11-13	Sell	2.90	3.56
2019-08-16	Sell	3.40	3.92
2019-08-06	Sell	4.10	4.32

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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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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