

13 February 2020

Energy & Petrochemicals | Refineries & Petrochemicals

IRPC (IRPC TB)

Sell (Maintained)

Weak Start to 2020

- **SELL maintained, with new TP of THB2.50 from THB2.40, based on 0.6x P/BV, 17% downside.** 2019 net loss of THB1.1bn was better than our expectations due to gains on reversals of impairments. Refinery operations improved marginally, spreads deteriorated while unit costs continue to be high. We remain cautious on IRPC's outlook. At current market spreads, the company could highly likely post another net loss in 1Q20F.
- **2019 net loss was THB1.1bn, better than our expected net loss of THB1.6bn.** The company recognised gain on impairment in the amount of THB1.1bn. A total of THB770m was for reversal of impairment on land and investments as well as gain on disposal of land to WHA Industrial Estate Rayong, while another THB368m was a result of reversal of impairment on land and investments in companies.
- **Dubai crude oil price averaged USD63.60/bbl (-8% YoY) in 2019,** amidst concerns of global economic slowdown due to the US-China trade war. The total accounting gross integrated margin (GIM) was USD8.97/bbl (-32% YoY). Net stock gain was USD0.4/bbl, while market GIM plummeted to USD8.70/bbl (-36% YoY), with refinery GRM at USD2.40/bbl (-53% YoY) and petrochemicals at USD5.05/bbl (-31% YoY). Crude run improved marginally to 198kbpd (+2% YoY).
- **While the IMO 2020 regulation came into effect on 1 Jan,** spreads remain subdued. This is mostly the result of high inventory and weak demand due to the mild winter in the Western Hemisphere and a weaker global economy. Coronavirus fears should further suppress demand and spreads of refined products, in our view. Refinery spreads remain under pressure for 1Q20F, with travel fears due to the coronavirus – this could have a negative impact on product demand and spreads. However, we believe spreads and demand will return from 2Q20F onwards.
- **2020 is starting out rather weak.** With current spreads – and little chance of a strong rebound – we believe IRPC could potentially report a net loss of THB2bn, with market GIM at c.USD7.00/bbl and costs at USD11.00/bbl. The company may not be able to run at full capacity in 1Q20, assuming its utilisation rate at 85% for 1Q20. We are imputing a 100% run rate for the rest of the year, with an optimistic USD11.00/bbl GIM for the rest of the year. We forecast a weak THB1.5bn net profit for 2020F.

Target Price (Return): THB2.50 (-17%)
 Price: THB3.00
 Market Cap: USD1,970m
 Avg Daily Turnover (THB/USD) 410m/13.5m

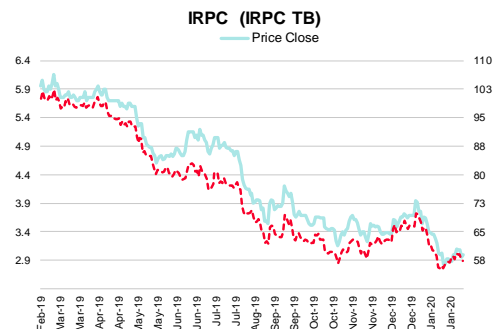
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.5)	(17.6)	(17.1)	(27.5)	(49.2)
Relative	(16.0)	(15.0)	(11.8)	(20.8)	(42.9)
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	6,825	6,002
Recurring net profit growth (%)	14.7	(136.9)	-	320.3	(12.1)
Recurring P/E (x)	7.73	na	37.75	8.98	10.21
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	3.88	9.83	5.03	5.35	4.67
Dividend Yield (%)	6.6	(3.3)	1.3	5.6	4.9
EV/EBITDA (x)	6.43	26.02	7.77	5.48	5.32
Return on average equity (%)	8.9	(1.3)	1.9	8.0	6.7
Net debt to equity (%)	63.0	67.1	52.8	42.1	30.0

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	0.33	0.29
Energy & Petrochemicals	DPS	0.20	(0.10)	0.04	0.17	0.15
IRPC	BVPS	4.27	4.07	4.11	4.28	4.43
IRPC TB	Return on average equity (%)	8.9	(1.3)	1.9	8.0	6.7
Sell						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	7.73	na	37.75	8.98	10.21
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	16.4	1.0	17.9	17.1	20.0
	Dividend Yield (%)	6.6	(3.3)	1.3	5.6	4.9
	EV/EBITDA (x)	6.43	26.02	7.77	5.48	5.32
	EV/EBIT (x)	12.36	na	30.53	9.99	10.38
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	280,551	239,315	282,627	257,481	257,481
	Gross profit	15,914	2,745	7,294	15,480	14,224
	EBITDA	17,178	4,231	12,727	16,699	15,444
	Depreciation and amortisation	(8,237)	(8,542)	(9,489)	(7,534)	(7,534)
	Operating profit	8,941	(4,311)	3,237	9,166	7,910
	Net interest	(1,961)	(1,931)	(1,783)	(1,519)	(1,244)
	Pre-tax profit	8,915	(1,924)	1,857	8,049	7,069
	Taxation	(1,147)	779	(233)	(1,224)	(1,067)
	Reported net profit	7,769	(1,146)	1,624	6,825	6,002
	Recurring net profit	7,929	(2,926)	1,624	6,825	6,002
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	491	(795)	1,478	(2,502)	0
	Cash flow from operations	15,818	6,239	12,189	11,455	13,133
	Capex	(5,735)	(5,611)	(1,244)	(966)	(885)
	Cash flow from investing activities	(8,295)	(3,109)	1,347	(3,073)	(71)
	Dividends paid	(5,926)	(4,037)	(2,043)	(812)	(3,413)
	Cash flow from financing activities	(7,330)	(2,431)	(14,659)	(8,812)	(13,413)
	Cash at beginning of period	2,145	2,338	3,036	1,914	1,484
	Net change in cash	193	698	(1,123)	(430)	(350)
	Ending balance cash	2,338	3,036	1,914	1,484	1,133
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	2,338	3,036	1,914	1,484	1,133
	Tangible fixed assets	126,511	122,554	114,309	107,741	101,092
	Total investments	8,441	9,925	9,667	9,667	9,667
	Total assets	182,446	177,850	166,781	161,816	154,817
	Short-term debt	13,804	15,090	10,000	7,000	6,000
	Total long-term debt	43,561	43,881	36,356	31,356	22,356
	Total liabilities	95,066	94,448	82,567	74,190	64,190
	Total equity	87,380	83,402	84,214	87,627	90,628
	Total liabilities & equity	182,446	177,850	166,781	161,816	154,817
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	31.0	(14.7)	18.1	(8.9)	0.0
	Recurrent EPS growth (%)	14.7	(136.9)	0.0	320.3	(12.1)
	Gross margin (%)	5.7	1.1	2.6	6.0	5.5
	Operating EBITDA margin (%)	6.1	1.8	4.5	6.5	6.0
	Net profit margin (%)	2.8	(0.5)	0.6	2.7	2.3
	Dividend payout ratio (%)	52.0	(178.4)	0.0	0.0	0.0
	Capex/sales (%)	2.0	2.3	0.4	0.4	0.3
	Interest cover (x)	4.56	(2.23)	1.74	5.84	6.17

Source: Company data, RHB

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Figure 1: 2019 earnings plunges into net loss of THB1.1bn

(THB m)	4Q18	3Q19	4Q19	% q-o-q	% y-o-y	2018	2019	% y-o-y
Turnover	69,736	60,127	55,757	(7.3)	(20.0)	280,551	239,315	(14.7)
Gross profit	(35)	263	(400)	(252.1)	N/A	15,914	2,745	(82.8)
Gross profit margin	0%	0%	-1%			6%	1%	
EBIT	(1,671)	(1,252)	(532)	(57.5)	(68.2)	10,197	(356)	(103.5)
EBIT margin	-2%	-2%	-1%			4%	0%	
Pretax profit	(2,158)	(1,751)	(1,011)	(42.2)	(53.1)	8,236	(2,288)	(127.8)
Pretax margin	-3%	-3%	-2%			3%	-1%	
Taxation	434	330	445	34.6	2.4	(1,147)	779	(167.9)
Tax rate	-20%	-19%	-44%			-14%	-34%	
Net profit	(1,627)	(1,321)	(513)	(61.1)	(68.5)	7,735	(1,174)	(115.2)
Net margin	-2%	-2%	-1%			3%	0%	
Recurring income	2,760	(248)	(2,365)	854.7	(185.7)	7,929	(2,926)	(136.9)
EPS (THB)	(0.08)	(0.06)	(0.03)	(61.1)	(68.5)	0.38	(0.06)	(115.2)

Source: Company data, RHB

Figure 2: Major operating items – refinery operations rebound but spreads were soft

	4Q18	3Q19	4Q19	% q-o-q	% y-o-y	Comment (QoQ)	2018	2019	% y-o-y
Dubai (USD/bbl)	67.42	61.20	62.10	1%	-8%	Stable, with concerns on global economic slowdown and oil market oversupply	69.40	63.60	-8%
Market GIM (USD/bbl)									
Refinery	5.90	3.40	1.70	-50%	-71%	Softer refined product spreads	5.21	2.43	-53%
Petrochemicals	7.10	5.50	3.80	-31%	-46%	Weaker petrochemical price and spreads	7.34	5.05	-31%
Power	1.10	1.20	1.20	0%	9%	Stable contribution	1.10	1.18	7%
Total Market GIM	14.10	10.10	6.70	-34%	-52%	Overall weaker commodity prices and spreads	13.64	8.70	-36%
Stock g/l+LCM	(7.40)	(2.10)	0.70	-133%	-109%	Gains on slightly higher crude oil price	(0.49)	0.16	-133%
Oil hedging	(0.10)	(0.30)	0.70	-333%	-800%		0.02	0.20	789%
Accounting GIM	6.60	7.70	8.10	5%	23%	Improved on stock gains	13.10	8.97	-32%
Crude run (kbpd)	208	193	194	0%	-7%	Runs at optimised levels, with given product spreads	194	198	2%
Utilisation rate (%)	97%	90%	90%	0%	-7%		90%	92%	2%

Source: Company data, RHB

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Figure 3: Earnings and TP revised to reflect 2019 results

	2019	2020F	2021F
Net profit (THB m, revised)	(1,174)	1,624	6,825
Net profit (THB m, old)	(1,671)	1,571	6,803
change	-30%	3%	0%
EPS (THB, FD-revised)	(0.06)	0.08	0.33
EPS (THB, FD-old)	(0.08)	0.08	0.33
% change	-30%	3%	0%
Target price (revised)	2.5		
Target price (old)	2.4		
change	4.2%		

Source: RHB

Figure 4: Valuation comparison

	PER 2020F	PBV 2020F	EV/EBITDA 2020F	DCF method
Regional peer multiples	11.0	1.0	6.8	
DCF valuation, WACC used				8.0%
THB/share (EPS/BVS)	0.1	4.1		
Fair multiple used	20.0	0.60	6.8	
Implied valuation per share	1.6	2.5	4.2	3.1

Source: RHB

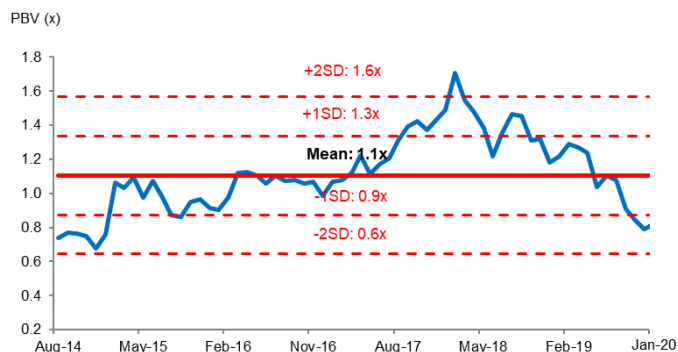
Figure 5: Regional peer comparison

Company	PER (x)		PBV (x)		EV/EBITDA (x)		Div yield (%)		ROE (%)		ROA (%)	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
IRPC PCL	13.33	11.49	0.71	0.69	7.99	7.23	4.16	5.13	4.77	5.62	2.90	3.24
Bangchak Corp PCL	10.25	8.70	0.79	0.74	8.22	7.68	4.91	5.20	7.84	8.63	3.60	3.91
Esso Thailand PCL	6.93	6.29	0.96	0.90	6.99	6.15	6.41	7.20	13.53	14.37	6.01	7.24
Indorama Ventures PCL	10.75	9.22	1.11	1.03	7.29	6.79	3.34	3.55	10.75	11.21	4.28	4.42
PTT PCL	10.98	10.76	1.26	1.18	5.81	5.64	4.39	4.52	10.82	10.65	5.20	5.01
PTT Global Chemical PCL	12.92	10.59	0.78	0.75	7.91	7.05	4.26	4.86	6.28	7.25	4.47	4.98
Star Petroleum Refining PCL	11.82	9.91	1.06	1.00	5.94	5.23	5.13	5.77	8.76	9.96	6.32	7.02
Thai Oil PCL	10.25	9.32	0.86	0.82	5.54	5.22	4.45	4.66	8.87	8.83	4.25	4.20
Reliance Industries Ltd	19.27	14.38	2.07	1.85	12.06	9.38	0.56	0.62	11.23	12.97	4.83	6.16
China Petroleum & Chemical Corp	7.77	7.65	0.61	0.59	4.41	4.30	8.35	8.16	7.95	7.77	3.77	3.90
PetroChina Co Ltd	10.33	9.62	0.44	0.43	4.47	4.43	4.97	5.42	4.47	4.60	2.62	2.64
Indian Oil Corp Ltd	9.20	6.63	0.91	0.85	6.62	5.35	4.89	6.86	9.72	13.19	5.87	7.08
Average	10.95	9.37	0.99	0.92	6.84	6.11	4.70	5.16	9.11	9.95	4.66	5.14

Note: Data as at 12 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 PBV	-1SD PBV	Mean	+1SD PBV	+2SD PBV
PBV multiple (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
2020-01-29	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
2019-05-10	Sell	4.90	5.30

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

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

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

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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