

11 February 2020

Energy & Petrochemicals | Integrated Oil & Gas

**PTT (PTT TB)**

**Neutral** (Maintained)

## Weak Commodity Market To Drag Down Earnings

Target Price (Return): THB44.50 (2%)  
 Price: THB43.50  
 Market Cap: USD39,728m  
 Avg Daily Turnover (THB/USD): 2,009m/66.2m

- **Maintain NEUTRAL with a new THB44.50 TP from THB46.00, 2% upside.** The weaker commodity market is expected to drag down PTT's 2019F earnings 23% YoY to THB92bn. We are expecting prices and spreads to remain soft in the near term, as fears of the 2019-nCov coronavirus grips the world. We lower our earnings forecasts by 10-20% for 2019-2022 to take into consideration the much fragile commodities markets.
- **2019F earnings are expected at THB92bn**, down 23% YoY. Recurring net income is expected at THB83.1bn. This is with a net stock gain of THB3.1bn, FX gain of THB11.6bn, THB3.8bn in employee expense provisions, and lawsuit settlement expenses of THB2bn. Sales volumes increased in PTT's core business, but were dragged down by softer commodity prices and spreads. This is more the result of the uncertainties of the US-China trade war – the main theme last year – with Middle East tensions also providing some partial uplift in oil prices.
- **4Q19F net profit is expected to be weak at THB16.5bn** (-18.3% QoQ, -15.3% YoY), while recurring net profit is likely to hit THB18.7bn. The major non-recurring items: Net stock loss (THB200m) and THB2bn in expenses for the lawsuit settlement – this is with regards to Nacap Asia Pacific (Thailand) for the dispute of the construction contract of Sai Noi-North/South Bangkok Power Plants' gas pipeline project. As a result of this settlement, a total cash outflow of c.TH B4.5bn should be recognised in 1Q20F, with the remaining capitalised as pipeline assets.
- **PTT's natural gas business is expected to see softer sales volume** (with planned turnarounds), while the oil marketing business' sales volumes should improve, given the 40 new stations opened nationwide.
- **Weak petrochemicals prices and spreads.** Polyethylene prices and spreads fell further as more capacity entered and demand remained subdued. HDPE prices fell 12% QoQ to USD841.00/ton in 4Q19F, while 1QTD prices fell 1% further to USD837.00/ton. HDPE spreads are currently at all-time lows of USD273.00/ton. We note that regional naphtha crackers' break-even price is c.USD400.00/ton. As such, several naphtha crackers have already started to shut down or cut their run rates. Spreads should be near bottom now. Crude oil price (Dubai) was relatively stable QoQ at USD62.08/bbl (+1.4% QoQ).
- **Earnings and TP revision.** Earnings are lowered by 10-22% for 2019F-2022F, as we take into account weaker earnings from PTT's subsidiaries and/or the softer commodity market. Our TP is lowered to THB44.50/share, as we believe there is little catalyst for any large positive upside to the share price at the moment.

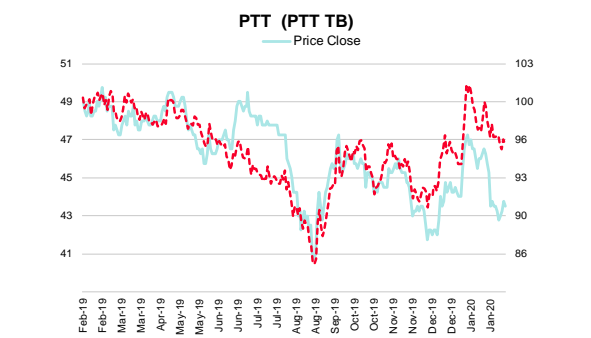
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	(7.9)	(5.4)	(3.3)	(11.2)
Relative	1.7	(4.7)	1.0	4.7	(4.1)
52-wk Price low/high (THB)	40.8 – 49.8				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (THBm)	1,995,722	2,336,155	2,323,359	2,303,718	2,322,622
Recurring net profit (THBm)	123,940	129,954	83,101	99,296	102,115
Recurring net profit growth (%)	31.0	4.9	(36.1)	19.5	2.8
Recurring P/E (x)	10.02	9.56	14.95	12.51	12.17
P/B (x)	1.5	1.4	1.4	1.4	1.4
P/CF (x)	5.78	3.33	4.31	4.71	4.52
Dividend Yield (%)	4.6	4.6	3.0	3.2	3.3
EV/EBITDA (x)	5.23	4.81	6.38	6.09	5.93
Return on average equity (%)	17.1	14.1	10.3	11.0	11.3
Net debt to equity (%)	10.7	8.3	18.6	21.5	22.3
Interest cover (x)	6.63	7.78	5.20	6.78	7.90

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>		<b>Financial summary (THB)</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Thailand	Recurring EPS	4.34	4.55	2.91	3.48	3.58
Energy & Petrochemicals	DPS	2.00	2.00	1.29	1.39	1.43
<b>PTT</b>	BVPS	28.66	30.64	31.74	31.74	31.74
PTT TB	Return on average equity (%)	17.1	14.1	10.3	11.0	11.3
Buy						
<b>Valuation basis</b>		<b>Valuation metrics</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
SOP	Recurring P/E (x)	10.02	9.56	14.95	12.51	12.17
	P/B (x)	1.5	1.4	1.4	1.4	1.4
	FCF Yield (%)	22.4	26.8	6.8	15.6	18.8
	Dividend Yield (%)	4.6	4.6	3.0	3.2	3.3
	EV/EBITDA (x)	5.23	4.81	6.38	6.09	5.93
	EV/EBIT (x)	8.39	7.58	11.82	10.77	10.42
<b>Key drivers</b>		<b>Income statement (THBm)</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
i. Crude oil prices, as oil derivative and natural gas prices are derived directly/indirectly;	Total turnover	1,995,722	2,336,155	2,323,359	2,303,718	2,322,622
ii. Commodity spreads are seasonal/cyclical;	Gross profit	293,383	296,718	234,462	255,077	264,155
iii. Stock gains/losses as a result of volatility in crude oil prices;	EBITDA	309,073	338,437	279,318	301,609	314,102
iv. THB/USD rate, where product and feedstock costs are priced in USD.	Depreciation and amortisation	(116,289)	(123,556)	(128,585)	(131,099)	(135,359)
	Operating profit	192,784	214,881	150,733	170,510	178,743
	Net interest	(29,086)	(27,628)	(29,015)	(17,895)	(16,718)
	Pre-tax profit	212,928	219,057	151,792	165,793	175,333
	Taxation	(28,307)	(53,647)	(33,348)	(38,120)	(40,397)
	Reported net profit	135,191	119,684	92,046	99,296	102,115
	Recurring net profit	123,940	129,954	83,101	99,296	102,115
<b>Key risks</b>		<b>Cash flow (THBm)</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
i. Crude oil prices;	Change in working capital	(65,137)	99,577	59,247	10,974	10,940
ii. THB/USD rate fluctuating;	Cash flow from operations	214,812	373,675	288,526	263,638	275,126
iii. Demand for and supply of products.	Capex	63,964	(40,373)	(203,424)	(69,310)	(41,415)
	Cash flow from investing activities	(155,992)	(206,875)	(327,164)	(265,624)	(244,423)
	Dividends paid	(37,495)	(57,140)	(47,874)	(36,818)	(39,719)
	Cash flow from financing activities	(121,848)	(47,157)	52,873	(64,716)	(90,018)
	Cash at beginning of period	215,566	166,189	292,184	318,059	251,357
	Net change in cash	(63,028)	119,642	14,235	(66,702)	(59,315)
	Ending balance cash	166,189	292,184	318,059	251,357	192,042
<b>Company Profile</b>		<b>Balance sheet (THBm)</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
As the Thai Government's petroleum business arm, PTT owns diverse businesses including upstream E&P, and downstream oil and gas companies. It also has a coal mining business.	Total cash and equivalents	395,840	434,605	398,098	327,394	264,277
	Tangible fixed assets	1,270,695	1,311,068	1,514,492	1,583,802	1,625,217
	Total investments	124,266	117,395	121,800	121,509	121,220
	Total assets	2,232,314	2,355,484	2,504,331	2,499,825	2,475,071
	Short-term debt	84,561	88,671	147,951	170,353	165,323
	Total long-term debt	444,920	454,964	502,995	452,695	407,426
	Total liabilities	983,759	1,036,990	1,143,648	1,127,792	1,089,910
	Total equity	1,248,556	1,318,494	1,360,682	1,372,033	1,385,161
	Total liabilities & equity	2,232,314	2,355,484	2,504,331	2,499,825	2,475,071
<b>Key metrics</b>		<b>Key metrics</b>				
		<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Revenue growth (%)	16.1	17.1	(0.5)	(0.8)	0.8
	Recurrent EPS growth (%)	31.0	4.9	(36.1)	19.5	2.8
	Gross margin (%)	14.7	12.7	10.1	11.1	11.4
	Operating EBITDA margin (%)	15.5	14.5	12.0	13.1	13.5
	Net profit margin (%)	6.8	5.1	4.0	4.3	4.4
	Dividend payout ratio (%)	42.3	40.0	40.0	40.0	40.0
	Capex/sales (%)	(3.2)	1.7	8.8	3.0	1.8
	Interest cover (x)	6.63	7.78	5.20	6.78	7.90

Source: Company data, RHB

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Figure 1: 4Q19F net profit expected to fall to THB16.5bn (-18.3% QoQ)

FYE Dec (THBm)	4Q18	3Q19	4Q19F	QoQ (%)	YoY (%)	2018	2019F	YoY (%)
Turnover	617,416	538,436	543,821	1.0	(11.9)	2,336,155	2,323,359	(0.5)
EBIT	35,793	37,221	32,264	(13.3)	(9.9)	231,816	163,057	(29.7)
EBIT margin (%)	5.8	6.9	5.9			9.9	7.0	
Pretax profit	30,237	32,436	25,376	(21.8)	(16.1)	210,542	145,683	(30.8)
Pretax margin (%)	4.9	6.0	4.7			9.0	6.3	
Net profit	19,538	20,254	16,541	(18.3)	(15.3)	119,684	92,046	(23.1)
Net margin (%)	3.2	3.8	3.0			5.1	4.0	
EPS (THB)	0.7	0.70	0.57	(18.3)	(15.5)	4.2	3.2	(22.3)
Recurring income	28,692	20,416	18,741	(8.2)	(34.7)	129,954	83,101	(36.1)

Source: Company data, RHB

Figure 2: Major operating variables

	4Q18	3Q19	4Q19F	QoQ (%)	YoY (%)	Comment (QoQ)
<b>Dubai (average, USD/bbl)</b>	<b>67</b>	<b>61</b>	<b>62</b>	1.4	(7.9)	Concerns of global economy and oversupply continued to dominate.
<b>Natural gas transmission business (mmscfd)</b>						
EGAT	809	710	747	5.2	(7.7)	Earthquake in Laos affecting the Hongsa power plant, hence, higher gas demand.
IPP	684	616	695	12.8	1.6	
SPP	1,229	1,353	1,312	(3.0)	6.8	Industry lower utilisation the as economy slows.
Industry	763	773	707	(8.5)	(7.3)	Industry lower utilisation as the economy slows.
GSP	987	1,051	1,035	(1.5)	4.9	Plant turnarounds: GSP#1 (four days), GSP#4 (one day).
NGV	235	214	208	(2.8)	(11.5)	Customers switch to diesel as NGV prices increase.
Total sales volume	4,707	4,717	4,704	(0.3)	(0.1)	Industry, SPP, and NGV softer sales volumes.
<b>Gas separation plant (ktons)</b>						
LPG	839	923	923	(0.0)	10.1	Stable.
NGL	160	175	172	(1.5)	7.7	Slightly softer.
Ethane	596	638	610	(4.3)	2.4	Plant turnaround.
Propane	237	238	242	1.6	2.3	Customers have planned turnarounds.
Total production	1,831	1,973	1,947	(1.3)	6.4	Plant turnaround in 3Q.
<b>Oil business</b>						
Oil marketing sales volume (ml)	6,542	6,227	6,784	8.9	3.7	40 new retail stations opened.
Margin (THB/l)	1.20	1.02	1.03	0.98	(14.2)	Seasonal decline.

Source: Company data, RHB

Figure 3: Earnings and TP revision

(THBm)	Dec-19F	Dec-20F	Dec-21F
Net profit (revised)	92,046	99,296	102,115
Net profit (prior to revision)	118,366	127,270	114,161
% change	(22.2)	(22.0)	(10.6)
EPS (THB, revised)	3.2	3.5	3.6
EPS (THB, prior to revision)	4.1	4.5	4.0
% change	(22.2)	(22.0)	(10.6)
TP (THB/share, revised)	44.5		
TP (THB/share, prior to revision)	46.0		
% change	(3.3)		
<b>Bloomberg consensus</b>			
TP	49		
Net profit	105,800	114,447	119,075

Source: RHB

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Figure 4: SOP valuation

	PTT's % stake	TP (THB/share)	Entity value to PTT (THBm)
<b>Upstream E&amp;P</b>			
PTTEP	65.3%	147.0	381,003
<b>Refineries &amp; petrochemicals</b>			
TOP	48.0%	70.0	70,115
IRPC	48.1%	2.4	23,567
PTTGC	48.2%	59.0	130,055
<b>Utilities :</b>			
GPSC	22.6%	80.0	27,061
Listed subsidiaries/affiliates/associates			631,802
PTT only , DCF valuation (WACC 9.01%)			686,748
Less net debt, PTT only			(48,070)
Entity value			1,270,481
<b>Intrinsic value (THB/share)</b>			<b>44.5</b>

Source: RHB

Figure 5: Valuation comparison

	P/E 2020F	P/BV 2020F	EV/EBITDA 2020F	SOPV
Regional trading multiple average	10.6	1.1	4.9	
RHB fair multiple	12.5	1.0	4.2	
EPS/BV/WACC	3.5	47.6		9.0%
<b>Implied valuation (THB/share)</b>	<b>43.5</b>	<b>47.6</b>	<b>44.3</b>	<b>44.5</b>

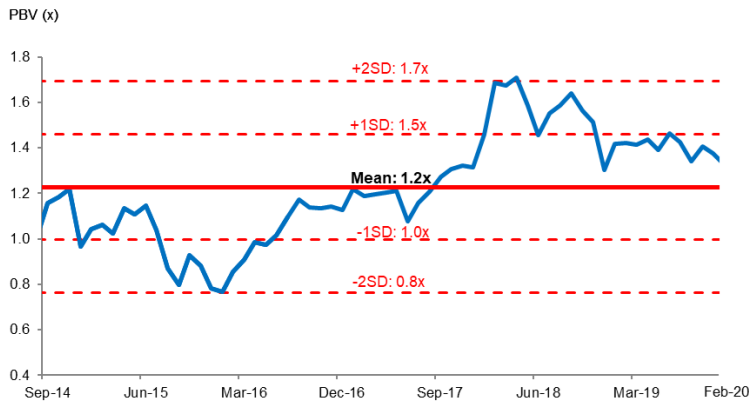
Source: RHB

Figure 6: 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
PTT	10.94	10.70	1.27	1.19	5.83	5.66	4.38	4.51	10.87	10.71	5.22	5.04
Saudi Arabian Oil Co	17.38	16.63	5.56	5.08	8.15	7.74	4.24	4.43	34.13	32.10	23.93	22.19
PetroChina	10.50	9.79	0.45	0.44	4.46	4.42	4.89	5.33	4.47	4.60	2.62	2.64
Equinor ASA	11.03	9.86	1.45	1.38	2.87	2.65	5.87	6.16	12.89	13.96	5.85	6.28
Exxon Mobil Corp	19.38	16.55	1.39	1.39	7.40	7.20	5.70	5.92	7.43	8.73	3.83	3.00
Chevron Corp	16.37	16.09	1.42	1.42	6.08	6.14	4.58	4.82	8.47	9.29	5.09	4.19
Exxon Mobil Corp	19.38	16.55	1.39	1.39	7.40	7.20	5.70	5.92	7.43	8.73	3.83	3.00
Royal Dutch Shell	10.58	9.70	1.08	1.05	4.85	4.65	7.20	7.33	10.08	10.64	5.36	5.80
TOTAL SA	9.84	9.45	1.04	1.00	4.52	4.36	6.20	6.50	10.65	10.84	5.14	4.73
Repsol SA	7.15	7.09	0.63	0.60	4.04	4.04	7.90	8.06	9.04	8.75	4.89	4.20
BP PLC	11.98	11.45	1.29	1.27	4.97	4.90	6.68	6.84	10.06	10.84	5.85	7.05
MOL Hungarian Oil & Gas	6.84	6.38	1.05	0.97	4.30	4.03	5.20	5.77	11.35	11.71	5.80	5.90
Galp Energia SGPS SA	14.26	13.76	2.40	2.31	5.56	5.31	5.30	5.85	17.52	17.92	5.25	5.09
OMV AG	8.55	7.96	1.05	0.98	4.30	4.16	4.68	5.05	12.38	12.99	4.50	4.71
Eni SpA	11.32	10.08	0.89	0.87	3.68	3.45	6.75	6.90	7.95	8.63	3.51	3.91
SK Innovation Co Ltd	11.98	10.46	0.67	0.64	7.25	6.22	3.78	4.01	5.62	6.20	2.57	3.05
Petron Corp	6.33	7.29	0.46	0.45	6.27	6.21	4.29	4.29	6.45	7.77	0.85	1.24
China Petroleum & Chemical Corp	7.72	7.66	0.61	0.59	4.39	4.29	8.38	8.19	8.12	7.86	3.77	3.90
<b>Average</b>	<b>11.45</b>	<b>10.63</b>	<b>1.08</b>	<b>1.05</b>	<b>5.15</b>	<b>4.95</b>	<b>5.82</b>	<b>6.06</b>	<b>9.37</b>	<b>9.97</b>	<b>4.29</b>	<b>4.29</b>

Source: Bloomberg, RHB

Figure 7: PTT's SD forward P/BV



Source: Bloomberg, RHB

Figure 8: SET Energy Index's SD forward P/BV



Source: Bloomberg, RHB

Figure 9: Implied valuation of forward P/BV at various SD levels

	-2SD P/BV	-1SD P/BV	Mean	+1SD P/BV	+ 2SD P/BV
P/BV (x)	0.80	1.00	1.20	1.50	1.70
Implied valuation	38	48	57	71	81

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-17	Neutral	46.0	46.0
2019-11-18	Neutral	46.0	44.5
2019-11-13	Neutral	44.5	45.3
2019-11-04	Neutral	44.5	45.5
2019-10-02	Neutral	45.0	45.8
2019-08-19	Neutral	45.0	43.3
2019-08-14	Neutral	46.0	43.3
2019-08-05	Neutral	50.0	45.8
2019-05-21	Buy	57.0	46.3
2019-05-14	Buy	57.0	47.3

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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