

30 October 2020

Energy & Petrochemicals | Integrated Oil & Gas

## PTT Exploration & Production (PTTEP TB)

**Buy** (Maintained)

### Riding On Crude Price Recovery; Keep BUY

Target Price (Return): THB93.00 (+18%)  
 Price: THB79.00  
 Market Cap: USD10,038m  
 Avg Daily Turnover (THB/USD): 921m/29.5m

#### Analyst

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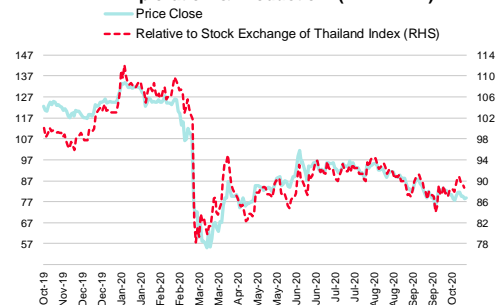


- Maintain BUY, new THB93.00 TP from THB108.00, 18% upside with c.3% FY20F yield.** PTT Exploration & Production's 3Q20 net profit surged 47% QoQ to THB6.1bn, on higher sales volume and better selling prices. We expect a pick-up in 4Q20F sales volume, despite a delay in the start-up of the Sabah H project. After paring down our estimates, we still expect earnings to grow by 8% YoY in FY21, on an expected sales volume of 5% YoY masking weaker natural gas prices.
- Below our expectations.** At 72% and 89% of our and Street full-year profit estimates, PTTEP's 9M20 core profit of THB19.3bn missed our expectations due to its weaker sales volume.
- 3Q20 core net profit surged 47% QoQ to THB6.1bn.** Non-recurring items include net-tax FX gains (USD8m), an oil price hedging gain (USD10m) and gain on forward contracts (USD17m). 3Q20 saw higher sales volume at c.344kboepd (+5% QoQ) as a result of higher nomination from the Bongkot and Contract 4 projects. ASP rose 11% to USD38.77/boe, led by a stronger liquids selling price of USD41.82/bbl (+45% QoQ) – in line with global crude oil prices, masking the weaker natural gas selling price of USD6.22/mmbtu (-2% QoQ). Cumulatively, 9M20 core profit still fell 40% YoY to THB19.3bn, on a weaker ASP (-15%) offsetting stronger sales volume (+3%).
- Sales volume to pick up in 4Q20.** Note that PTTEP adjusted its full-year production down to 350kboepd from 355kboepd, with the delayed target date for the Sabah H project to 2021. This implies that sales volume is expected to pick up 6% QoQ to 365kboepd in 4Q20F, while the natural gas price is expected to fall to USD5.70/mmbtu. PTTEP will only be able to provide clearer sales volume guidance for FY21F towards the end of this year, while the natural gas price is likely to trend lower in FY21F. The Sabah H project is encountering equipment defects, and could start contributing to numbers in 2Q21 only – as the import of manpower has been disrupted by border restrictions. PTTEP's projection of unit cost and EBITDA margins are kept at USD30.00/bbl (9M20's USD30.29/bbl) and 65-70% (9M20's 72%) respectively. Unit costs will be further reduced to USD25.00/bbl by 2022F-2023F when its Bongkot and Erawan extension projects begin.
- Still a BUY.** We cut FY20-22F earnings by 16-33% after toning down our oil price assumptions to USD43.00-55.00/bbl and sales volume schedule. Our TP is adjusted to THB93.00 (from THB108.00) post earnings adjustment and to account for the latest upward revision on equity risk premium. We expect oil prices to stay flatish QoQ at USD45.00/bbl in 1Q21F, before slowly picking up in the next two quarters, then average at USD55.00/bbl in 2H21F. We maintain our long-term crude oil price at USD60.00/bbl.

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.6)	(1.9)	(13.9)	1.0	(33.3)
Relative	(13.0)	2.0	(4.1)	6.8	(9.2)
52-wk Price low/high (THB)	55.0 – 134				

PTT Exploration & Production (PTTEP TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	168,328	187,434	150,266	161,542	190,235
Recurring net profit (THBm)	39,232	46,242	22,261	24,083	32,913
Recurring net profit growth (%)	33.8	17.9	(51.9)	8.2	36.7
Recurring P/E (x)	8.08	6.86	14.24	13.16	9.63
P/B (x)	0.8	0.9	0.8	0.8	0.7
P/CF (x)	2.99	2.90	3.41	3.57	3.12
Dividend Yield (%)	6.3	7.6	2.8	3.0	4.2
EV/EBITDA (x)	2.05	2.36	2.78	2.68	2.30
Return on average equity (%)	9.5	14.0	5.9	6.0	7.9
Net debt to equity (%)	net cash	5.1	net cash	0.2	1.8

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	9.78	11.52	5.55	6.00	8.20
Energy & Petrochemicals	DPS	5.00	6.00	2.22	2.40	3.28
<b>PTT Exploration &amp; Production</b>	BVPS	97.08	88.97	97.75	101.35	106.27
PTTEP TB	Return on average equity (%)	9.5	14.0	5.9	6.0	7.9
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	8.08	6.86	14.24	13.16	9.63
DCF	P/B (x)	0.8	0.9	0.8	0.8	0.7
	FCF Yield (%)	15.8	(2.5)	8.8	0.9	2.0
<b>Key drivers</b>	Dividend Yield (%)	6.3	7.6	2.8	3.0	4.2
Our TP is mostly sensitive to:	EV/EBITDA (x)	2.05	2.36	2.78	2.68	2.30
i. Long-term crude oil price assumptions;	EV/EBIT (x)	3.95	4.37	6.91	6.52	5.09
ii. USD/THB exchange rate.						
	<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>
<b>Key risks</b>	Total turnover	168,328	187,434	150,266	161,542	190,235
Crude oil price volatility	Gross profit	72,458	84,504	48,588	55,397	71,538
	EBITDA	124,666	136,432	106,690	113,278	134,945
<b>Company Profile</b>	Depreciation and amortisation	(59,809)	(62,811)	(63,824)	(66,761)	(74,011)
PTT Exploration & Production is the Thai Government's arm for oil & gas exploration. Major assets are predominantly in Thailand, with exposure to Myanmar, Malaysia, Indonesia, the UAE, and Oman.	Operating profit	64,857	73,621	42,866	46,517	60,935
	Net interest	(5,018)	(4,531)	(6,217)	(5,817)	(5,926)
	Pre-tax profit	59,971	73,255	37,417	41,468	55,776
	Taxation	(23,764)	(20,952)	(15,155)	(17,385)	(22,863)
	Reported net profit	36,206	52,303	22,261	24,083	32,913
	Recurring net profit	39,232	46,242	22,261	24,083	32,913
	<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	(13,370)	10,298	6,855	(2,007)	(5,187)
	Cash flow from operations	106,058	109,166	92,941	88,838	101,737
	Capex	(56,010)	(117,200)	(65,053)	(86,042)	(95,501)
	Cash flow from investing activities	3,755	(103,769)	(65,053)	(86,042)	(95,501)
	Dividends paid	(17,946)	(21,655)	(8,905)	(9,633)	(13,165)
	Cash flow from financing activities	(55,685)	(17,181)	(8,905)	(9,633)	(13,165)
	Cash at beginning of period	49,419	103,194	85,122	115,716	108,878
	Net change in cash	54,128	(11,784)	18,983	(6,838)	(6,929)
	Ending balance cash	103,194	85,122	104,105	108,878	101,949
	<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	103,194	85,122	115,716	108,878	101,949
	Tangible fixed assets	266,191	321,501	342,412	361,693	383,184
	Total investments	7,697	13,660	14,513	14,513	14,513
	Total assets	632,256	669,464	723,655	738,249	758,401
	Total long-term debt	49,932	103,230	109,549	109,549	109,549
	Total liabilities	242,683	312,405	331,380	331,524	331,929
	Total equity	389,573	357,059	392,274	406,725	426,472
	Total liabilities & equity	632,256	669,464	723,655	738,249	758,401
	<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 (%)	15.6	11.4	(19.8)	7.5	17.8
	Recurrent EPS growth (%)	79.3	17.9	(51.9)	8.2	36.7
	Gross margin (%)	43.0	45.1	32.3	34.3	37.6
	Operating EBITDA margin (%)	74.1	72.8	71.0	70.1	70.9
	Net profit margin (%)	21.5	27.9	14.8	14.9	17.3
	Dividend payout ratio (%)	55.4	46.0	40.0	40.0	40.0
	Capex/sales (%)	33.3	62.5	43.3	53.3	50.2
	Interest cover (x)	8.42	10.10	5.59	6.07	7.95

Source: Company data, RHB

30 October 2020

Energy &amp; Petrochemicals | Integrated Oil &amp; Gas

Figure 1: PTTEP's 3Q20 quarterly earnings review

FYE Dec (THBm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Revenue	1,494	1,041	1,228	18%	-18%	4,292	3,751	-13%	
<b>EBITDA</b>	<b>1,069</b>	<b>722</b>	<b>897</b>	24%	-16%	<b>3,204</b>	<b>2,710</b>	-15%	
<i>EBITDA margin %</i>	71.5	69.4	73.0			74.7	72.2		
Depreciation and amortisation	(512)	(487)	(515)	6%	1%	(1,448)	(1,538)	6%	
<b>EBIT</b>	<b>557</b>	<b>235</b>	<b>382</b>	62%	-31%	<b>1,756</b>	<b>1,172</b>	-33%	
Interest expense	(60)	(61)	(62)	2%	3%	(173)	(188)	9%	
JVs & associates	1	(2)	5	<i>nm</i>	<i>nm</i>	6	17	<i>nm</i>	
<b>PBT</b>	<b>553</b>	<b>65</b>	<b>370</b>	<i>nm</i>	-33%	<b>1,673</b>	<b>1,163</b>	-31%	
Tax	(194)	69	(140)	<i>nm</i>	-28%	(488)	(524)	7%	
<b>Net Profit</b>	<b>359</b>	<b>134</b>	<b>230</b>	72%	-36%	<b>1,185</b>	<b>639</b>	-46%	
EI/Others	(55)	(6)	(35)	<i>nm</i>	-36%	(119)	(26)	-78%	
<b>Core Net Profit</b>	<b>304</b>	<b>128</b>	<b>195</b>	53%	-36%	<b>1,066</b>	<b>613</b>	-43%	
<b>Core Net Profit (THB m)</b>	<b>(24,138)</b>	<b>4,138</b>	<b>6,098</b>	47%	<i>nm</i>	<b>0</b>	<b>19,318</b>	<i>nm</i>	
<i>Core Profit margin %</i>	20.3	12.3	15.9			24.8	16.3		

Source: Company data, RHB

Figure 2: Major operating variables: natural gas prices have started to decline

FYE Dec	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
<b>Revenue breakdown</b>									
Sales volume (boepd)	352,862	327,004	344,317	5%	-2%	335,696	344,909	3%	
Average sales price (USD/boe)	46.0	35.0	38.8	11%	-16%	46.8	39.7	-15%	
Natural gas price (USD/mmbtu)	6.8	6.4	6.2	-2%	-8%	6.9	6.5	-6%	
Liquids (USD/bbl)	58.8	28.9	41.8	45%	-29%	60.8	41.1	-32%	
<b>Cost breakdown (USD/boe)</b>									
Finance cost	1.8	2.0	2.0	-4%	6%	1.9	2.0	5%	
DDA	15.8	16.4	16.3	-1%	3%	15.8	16.3	3%	
Royalties	4.2	2.6	3.3	26%	-21%	4.3	3.2	-25%	
SG&A	2.8	2.0	2.1	5%	-24%	2.6	2.0	-23%	
Exploration exp.	1.8	1.0	0.3	-75%	-86%	1.1	0.8	-23%	
Operating exp.	5.6	6.2	5.7	-7%	2%	5.1	5.9	16%	
<b>Total cost</b>	<b>32.0</b>	<b>30.3</b>	<b>29.6</b>			<b>30.8</b>	<b>30.3</b>		

Source: Company data, RHB

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Energy &amp; Petrochemicals | Integrated Oil &amp; Gas

Figure 3: DCF valuation

FYE Dec (THBm)	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
EBIT	46,517	60,935	74,227	78,938	80,414	82,358	84,344	86,372
EBIT*(1-tax rate)	27,910	36,561	44,536	47,363	48,248	49,415	50,606	51,823
Add: D&A	66,761	74,011	74,009	74,007	74,006	74,004	74,003	74,001
Less: WC investments (WC Inv)	-2,007	-5,187	-2,224	-747	-426	-435	-443	-452
Less: Fixed investments (FC Inv)	-86,042	-95,501	-82,099	-67,611	-74,298	-74,298	-74,298	-74,298
FCFF	6,622	9,884	34,222	53,012	47,530	48,687	49,868	51,075
Disc. FCFF	6,622	8,864	27,527	38,243	30,752	28,251	25,952	23,839
Terminal value at T=10	354,238							
PV of terminal value	132,991							
NPV	365,049							
Less Debt	6,167							
Equity Value of Firm	371,216							
<b>Equity Value per share (THB)</b>	<b>93</b>							
Rf	1.50%							
Beta (x)	1.5							
Risk premium	11.00%							
CoE	18.0000%							
% Debt -Target	50.00%							
% Equity-Target	50.00%							
TG (%)	2.50%							
CoD	5.00%							
WACC	11.500%							

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-04	Buy	108	85
2020-03-18	Buy	91	57
2020-03-09	Buy	120	75
2020-01-23	Buy	147	129
2019-12-17	Buy	144	123
2019-10-21	Buy	150	117
2019-08-02	Buy	156	132

Source: RHB, Bloomberg

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Analyst	Company
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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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