

28 January 2020

Energy | Refineries & Petrochemicals

Star Petroleum Refining (SPRC TB)

BUY (Maintained)

Expect Earnings To Rebound In 2020F

Target Price (Return)	THB10.30 (+36%)
Price:	THB7.60
Market Cap:	USD1,088m
Avg Daily Turnover (THB/USD)	202.3m/6.6m

- **Maintain BUY, with new TP of THB10.30 from THB12.70, 36% upside and 6.1% yield.** Earnings are expected to see a rebound this year, as the refinery will now run at its optimised levels for the given spreads. 1Q20F will be challenging given fears of travel due to the coronavirus, which could have negative impact on product demand and spreads. However, we believe spreads and demand will return from 2Q20F onwards. We expect Star Petroleum Refining to announce possible expansion or M&A in 2Q20F.

- **4Q19F net loss is expected at THB2.2bn**, recurring net loss is expected at THB260m. This should be SPRC's weakest quarter for the year as it shuts down its refinery for 45 days – the utilisation rate for the quarter was 47%. We expect extra maintenance costs of c.USD70m (slightly higher than our initial estimate of USD65m). Market GRM is expected at USD2.70/bbl, with a slight stock gain of USD0.20/bbl, bringing accounting GRM to USD2.90/bbl.

- **2019F net loss is expected at THB2.1bn**, with recurring net profit of THB1.7bn (where we exclude stock and forex gain/loss as well as extra costs of maintenance expenses). Refinery utilisation for the year is expected at 81%, with market GRM expected to average USD4.70/bbl.

- **All SPRC's refinery production and downstream units had been undergoing their 45-day (±5 days) planned maintenance shutdowns** since 1 Nov 2019. The refinery capacity is now 175kbpd (+10kbpd from previous). The firm's reliability projects have also been completed. These projects will allow for enhanced efficiency and reliability. They will also be environmental, health, and safety compliant. The last time SPRC's refinery underwent a major planned maintenance shutdown was in Feb 2014.

- **Major maintenance costs are estimated to total USD256m**, comprising turnaround and inspection, increased refining capacity to 175kbpd (+10kbpd), and reliability projects. Total investment for the 10kbpd additional capacity: USD80m, with IRR of 22.7% – assuming GRM of USD5.00/bbl. Other projects include new fuel oil tanks – aimed at achieving freight optimisation and increased flexibility due the lower impact of the International Maritime Organisation ruling – and upgrades to several units to increase crude flexibility, which will allow the refinery to run at different crude types.

- **Earnings and TP revision.** We have adjusted our earnings for 2019F down by 7% to THB2.1bn, to reflect our latest estimates. For 2020F, we have lowered our expectations by 19% to THB4bn. This is a result of much softer spreads expected in 1Q20F, where the optimal run for SPRC is expected to be in the range of 165kbpd-170kbpd (c.95% utilisation rate). We have also pared down GRM expectations from USD5.50/bbl to USD4.80/bbl for the year. Our TP has been lowered to THB10.30 from THB12.70, based on 1x PBV (which is -1SD PBV).

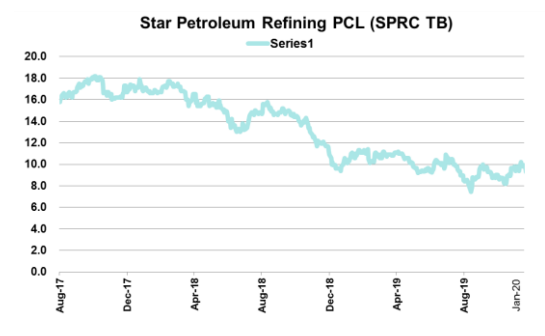
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.04)	(27.36)	(6.67)	(23.00)	(28.70)
Relative	(24.49)	(23.91)	(2.30)	(11.70)	(22.55)
52-wk Price low/high (THB)	7.35-11.7				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (THBm)	8,895	2,263	(2,125)	4,071	5,442
Net profit growth (%)	2.4	(74.6)	(193.9)	(291.6)	33.7
Recurring net profit (THBm)	5,148	3,454	1,734	4,071	5,442
Recurring EPS (THB)	1.2	0.8	0.4	0.9	1.3
BVPS (THB)	10.8	8.9	9.8	10.3	10.9
DPS (THB)	1.1	0.6	(0.2)	0.5	0.6
Recurring P/E (x)	6.5	9.7	19.3	8.2	6.1
P/B (x)	0.7	0.9	0.8	0.8	0.7
Dividend yield (%)	14.8	7.7	(3.2)	6.1	8.1
EV/EBITDA (x)	2.7	7.1	(25.7)	4.0	2.8
Net debt to equity (x)	0	(0)	0	(0)	(0)

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Thailand	Recurring EPS (THB)	1.2	0.8	0.4	0.9	1.3
Energy & Petrochemicals	EPS (THB)	2.1	0.5	(0.5)	0.9	1.3
Star Petroleum Refining	DPS (THB)	1.14	0.59	(0.25)	0.47	0.63
Bloomberg SPRC TB	BVPS (THB)	10.8	8.9	9.8	10.3	10.9
BUY	ROE (%)	21.1	5.9	11.5	9.2	11.5

Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
For the Thai refineries/petrochemicals, we use P/PBV as a valuation basis. This is due to the high volatility in earnings as a result of stock gains/losses. We believe that DCF valuation is not appropriate as the share price and earnings are highly subject to seasonal factors	Recurring P/E (x)	6.5	9.7	19.3	8.2	6.1
	P/E (x)	3.8	14.8	(15.7)	8.2	6.1
	P/B (x)	0.7	0.9	0.8	0.8	0.7
	FCF Yield (%)	14.5	20.3	22.8	24.9	24.3
	Dividend yield (%)	14.8	7.7	(3.2)	6.1	8.1
	EV/EBITDA (x)	2.7	7.1	(25.7)	4.0	2.8
Key drivers	EV/EBIT (x)	3.5	16.2	(9.0)	6.2	4.1

- i. Crude oil prices as it is the main feedstock;
- ii. Gross refining margins, seasonally dependent on demand and supply of the refined product;
- iii. Stock gains/losses as a result of volatility of crude oil price
- iv. THB/USD rate where product and feedstock costs are priced in USD

Key risks

- i. Crude oil prices;
- ii. THB/USD rate fluctuating;
- iii. Demand and supply for products

Company Profile

SPRC was founded in 1992 and is the second smallest refinery in Thailand. Its total capacity is currently 175kbpd. It was listed on the SET on 8 Dec 15, at IPO price of THB9.0/share. Major shareholder is now Chevron South Asia Holdings

Income statement (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	170,535	209,159	167,679	121,673	223,563
Gross profit	10,405	2,972	(2,914)	6,088	8,268
EBITDA	12,289	4,713	(1,338)	7,936	9,829
Depreciation & amortisation	(2,828)	(2,737)	(2,571)	(2,805)	(3,114)
Operating profit	9,461	2,060	(3,836)	5,130	6,715
Net interest	(45)	(50)	(41)	(41)	87
Pre-tax profit	10,925	2,804	(2,811)	5,089	6,802
Taxation	(2,029)	(541)	686	(1,018)	(1,360)
Net profit	8,895	2,263	(2,125)	4,071	5,442
Recurring net profit	5,148	3,454	1,734	4,071	5,442

Cash flow (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	923	2,356	1,032	(1,000)	(1,008)
Cash flow from operations	11,138	6,563	412	5,877	7,548
Capex	2,568	(615)	(8,855)	(1,125)	(739)
Cash flow from investing	(1,843)	3,386	(8,643)	(1,039)	(769)
Dividends paid	(12,297)	(4,955)	(2,570)	1,062	(2,036)
Cash flow from financing	(7,356)	(12,047)	8,656	(2,599)	(3,721)
Cash at beginning of period	233	2,171	74	500	2,739
Net change in cash	1,938	(2,097)	426	2,239	3,058
Ending balance cash	2,171	74	500	2,739	5,797

Balance sheet (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	2,171	74	500	2,739	5,797
Tangible fixed assets	30,791	28,698	35,127	33,447	31,072
Total investments	-	-	-	-	-
Total assets	59,797	55,011	61,198	61,720	63,110
Short-term debt	2,354	-	1,563	1,000	-
Total long-term debt	-	-	-	-	-
Total liabilities	146,500	146,500	146,500	146,500	146,500
Total equity	42,101	38,529	42,431	44,466	47,187
Total liabilities & equity	59,797	55,011	61,198	61,720	63,110

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	10.0	22.6	(19.8)	(27.4)	83.7
Recurrent EPS growth (%)	(6.8)	(32.9)	(49.8)	134.8	33.7
Gross margin (%)	6.1	1.4	(1.7)	5.0	3.7
Operating margin (%)	5.5	1.0	(2.3)	4.2	3.0
Net profit margin (%)	5.2	1.1	(1.3)	3.3	2.4
Return on total capital (%)	15.0	4.2	8.6	6.7	8.6

Source: RHB, Company data

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Figure 1: 4Q19F net loss of THB2.2bn expected

FYE Dec (THB m)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	2018	2019F	YoY (%)
Turnover	54,668	44,307	26,643	(39.9)	(51.3)	209,159	167,679	(19.8)
EBIT	(4,276)	(1,393)	(2,850)	104.6	(33.3)	2,060	(3,836)	(286.2)
EBIT margin (%)	(7.8)	(2.5)	(5.2)			3.8	(7.0)	
Pretax profit	(4,250)	(1,180)	(2,864)	142.7	(32.6)	2,804	(2,811)	(200.3)
Pretax margin (%)	(7.8)	(2.2)	(5.2)			5.1	(5.1)	
Taxation	1,040	255	573	124.5	(44.9)	(541)	686	(227.0)
Tax rate (%)	(24.5)	(21.6)	(20.0)			(19.3)	(24.4)	
Net profit	(3,211)	(925)	(2,291)	147.7	(28.6)	2,263	(2,125)	(193.9)
Net margin (%)	(5.9)	(1.7)	(4.2)			4.1	(3.9)	
Recurring Net Profit	(1,252)	162	(260)	(259.9)	(79.3)	3,454	1,734	(49.8)
EPS (THB)	(0.74)	(0.21)	(0.53)	147.7	(28.6)	0.52	(0.49)	(193.9)

Source: Company data, RHB

Figure 2: Major operating variables

(USD/bbl)	4Q18	3Q19	4Q19	QoQ	YoY	Comment QoQ	2018	2019F	% YoY
Accounting GRM	(6.0)	3.1	2.9	(5%)	(149%)	Product spreads softened, while crude premium and freight rates remain elevated	4.73	4.05	(14%)
Market GRM	4.4	5.1	2.7	(46%)	(38%)	Product spreads softened	5.67	3.36	(41%)
Stock g/l	(10.4)	(2.0)	0.2	(110%)	(102%)	Crude oil price increased slightly	(0.94)	0.69	(173%)
Crude intake (bkpd)	165	145	78	(46%)	(53%)	Planned maintenance shutdown (45days)	160	134	(16%)
Utilisation rate	100%	88%	47%	(46%)	(53%)		97%	81%	(16%)

Source: Company data, RHB

Figure 3: Earnings and TP revision

	2019F	2020F	2021F
Net profit (THB m, revised)	(2,125)	4,071	5,442
Net profit (THB m, old)	(1,979)	5,053	5,440
% change	(7.4)	(19.4)	0.0
EPS (THB, revised)	(0.49)	0.94	1.26
EPS (THB, old)	(0.46)	1.17	1.25
% change	(7.4)	(19.4)	0.0
Target price (THB/sh, revised)	10.5		
Target price (THB/sh, old)	12.7		
% change	(17%)		
Bloomberg Consensus			
Net profit (THB m)	3,815	5,073	5,714
TP (THB/share)	11.23		

Source: RHB

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Figure 4: Key assumption changes – market GRM and utilisation rate for 2020F revised lower

Key assumption changes	2019F	2020F	2021F
Total capacity, kbpd	165	175	175
Refinery utilisation rate-Revised	81%	95%	100%
Refinery utilisation rate-prior	81%	100%	100%
Market GRM-Revised	4.7	4.8	5.5
Market GRM-Prior	4.7	5.5	5.7
% Change	0%	(14%)	(4%)

Source: RHB

Figure 5: Valuation comparison

	P/E 2020	P/BV 2020	EV/EBITDA 2020	DCF method
Regional peer multiples (x)	10.1	0.9	6.6	
Fair multiple (x)	10.1	1.0	6.6	
DCF valuation, WACC used				7.9%
EPS/BVS (THB/share)	0.9	10.3		
Implied valuation (THB/share)	9.5	10.3	12.2	13.2

Source: RHB

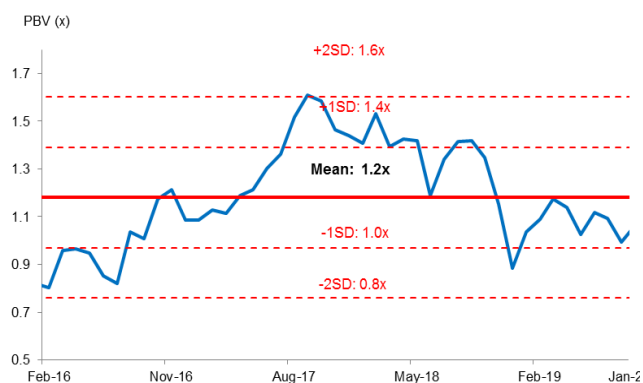
Figure 6: Regional peer comparison

Company	PER (x)		PBV (x)		EV/EBITDA (x)		Div yield (%)		ROE (%)		ROA (%)	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Star Petroleum Refining PCL	N/A	8.11	0.97	0.86	47.12	4.27	1.90	7.08	(2.08)	10.64	(1.80)	7.51
Bangchak Corp PCL	13.42	9.08	0.74	0.71	9.25	7.84	3.81	5.42	5.66	8.09	2.50	3.69
Esso Thailand PCL	N/A	5.37	0.85	0.78	17.71	5.96	4.56	8.37	3.24	14.09	2.43	6.58
IRPC PCL	84.12	11.17	0.68	0.65	10.95	7.24	2.97	5.17	0.69	5.26	0.43	3.19
Indorama Ventures PCL	13.16	8.32	1.02	0.93	8.76	6.58	3.40	4.40	7.74	11.12	3.13	4.58
PTT PCL	11.57	10.90	1.35	1.27	6.24	5.81	4.19	4.40	11.01	10.91	4.93	5.22
PTT Global Chemical PCL	15.93	11.38	0.73	0.70	9.06	7.22	3.41	4.61	4.70	6.43	3.11	4.52
Thai Oil PCL	15.25	8.32	0.81	0.76	6.95	4.76	3.74	5.46	5.46	9.41	2.50	4.49
Reliance Industries Ltd	23.68	20.38	2.82	2.19	13.31	12.50	0.46	0.52	12.65	11.22	5.32	5.16
China Petroleum & Chemical Corp	8.32	7.89	0.66	0.63	4.66	4.49	7.94	8.17	7.90	8.12	3.85	3.77
PetroChina Co Ltd	12.31	10.97	0.49	0.47	4.85	4.63	4.50	4.68	3.99	4.47	2.18	2.62
Indian Oil Corp Ltd	7.20	7.65	0.94	0.93	5.80	6.07	6.44	5.88	13.44	12.23	7.49	4.61
Average	20.49	10.13	1.01	0.91	8.87	6.64	4.13	5.19	6.95	9.21	3.44	4.40

Note: Data as at 27 Jan 2020

Source: Bloomberg, RHB

Figure 7: SPRC's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 8: Thai Oil & Gas Index's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 9: SPRC's implied P/BV at different SD levels

	-2SD PBV	-1SD PBV	Mean	+1SD PBV	+2SD PBV
PBV multiple (x)	0.80	1.00	1.20	1.40	1.60
Implied valuation (THB/share)	8.20	10.26	12.31	14.36	16.41

Source: RHB

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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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