

24 February 2020

Energy & Petrochemicals | Refineries & Petrochemicals

Star Petroleum Refining (SPRC TB)

Buy (Maintained)

Looking At a Stronger 2H20F

Target Price (Return): THB10.7 (21%)
 Price: THB8.85
 Market Cap: USD1,214m
 Avg Daily Turnover (THB/USD) 205m/6.72m

- **Maintain BUY, with new TP of THB10.70 from THB10.30, 21% upside plus c.5% yield.** 2019 net loss was THB2.8bn – within expectations – due mainly to planned major maintenance. 2020F earnings should rebound as the refinery will now run at optimised levels. 1Q20F will be challenging due to fears of the COVID-19 outbreak dampening transportation fuel demand. However, we believe demand and spreads should to start to improve from 2Q20F. We expect SPRC to announce a possible expansion or M&A in 2Q20F.

- **2019 net loss was THB2.8bn** – within expectations – while recurring net profit was THB1.3bn. Star Petroleum Refining completed its 45 days (+/-5days) planned major maintenance and refinery expansion in 4Q19. Total cost was USD256m, with USD149m booked in its income statement. Market gross refining margins fell to USD3.39/bbl (-40% YoY) on the back of softer spread, higher crude premium, and higher freight costs. Stock gain totalled USD0.73/bbl, putting accounting GRM at USD4.12/bbl.

We note the one-off item – USD22m expense from an email compromise resulting in the payment of invoice to an incorrect account. Internal and external experts have been called in to investigate and strengthen controls. The company is working with the authorities to recover the payment.

- **SPRC announced dividend payment of THB0.1827/share** for 2019 operating performance. 1H19 dividend payment totalled THB0.1202/share, therefore dividend payment for 2H19 will be THB0.0625/share. Dividend payment will be paid on 7 May 2020, while the record date will be on 6 Mar.

- **2020F should see a net profit rebound to THB4bn.** SPRC has increased its sweet crude intake (as crude oil premium is now similar to the heavier crudes). This has allowed the refinery to lower its high sulphur fuel oil (HSFO) content by about 3-5% and higher middle distillate yields by the same amount. Crude oil premium (including freight) remains high at USD5.5/bbl.

Given current spreads, we expect market GRM to be soft at c.USD2.23/bbl for 1Q20F, with net profit at c.TH70-80m. We expect crude oil premium to be lower and spreads to improve for the remaining part of the year. We expect FY20F market GRM to average at USD4.66/bbl, resulting in a YoY rebound in net profit to c.TH4bn.

- **BUY maintained.** We revise our earnings to reflect the latest results. Our TP is adjusted up slightly to THB10.7/share, based on 1.1x P/BV. 2020F earnings should see a rebound as the refinery runs at optimised levels for the given spreads. 1Q20F will be challenging given fears of travel due to the COVID-19 outbreak, which should dampen transportation fuel demand.

Analyst

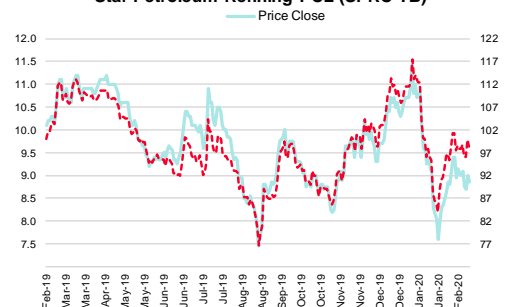
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.3)	(2.2)	(5.9)	6.0	(22.4)
Relative	(11.9)	2.9	0.2	14.7	(13.1)
52-wk Price low/high (THB)				7.45	– 11.4

Star Petroleum Refining PCL (SPRC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	209,159	168,840	125,907	223,563	223,563
Recurring net profit (THBm)	3,454	1,302	4,104	5,293	5,654
Recurring net profit growth (%)	(32.9)	(62.3)	215.2	29.0	6.8
Recurring P/E (x)	11.11	29.47	9.35	7.25	6.79
P/B (x)	1.0	1.2	0.9	0.9	0.8
P/CF (x)	5.92	na	6.55	3.72	4.38
Dividend Yield (%)	6.7	2.1	5.3	6.9	7.4
EV/EBITDA (x)	8.13	na	5.17	3.59	2.92
Return on average equity (%)	5.3	(7.9)	11.0	12.2	12.2
Net debt to equity (%)	(0.2)	20.9	8.0	(8.1)	(18.9)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.80	0.30	0.95	1.22	1.30
Energy & Petrochemicals	DPS	0.59	0.18	0.47	0.61	0.65
Star Petroleum Refining	BVPS	8.89	7.49	9.73	10.34	11.00
SPRC TB	Return on average equity (%)	5.3	(7.9)	11.0	12.2	12.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	11.11	29.47	9.35	7.25	6.79
	P/B (x)	1.0	1.2	0.9	0.9	0.8
	FCF Yield (%)	15.3	(8.6)	(7.6)	25.2	21.2
	Dividend Yield (%)	6.7	2.1	5.3	6.9	7.4
	EV/EBITDA (x)	8.13	na	5.17	3.59	2.92
	EV/EBIT (x)	19.38	na	8.08	5.30	4.24
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	209,159	168,840	125,907	223,563	223,563
	Gross profit	2,972	(3,211)	6,129	8,115	8,486
	EBITDA	4,713	(2,343)	8,079	9,676	10,047
	Depreciation and amortisation	(2,737)	(2,565)	(2,907)	(3,114)	(3,114)
	Operating profit	1,976	(4,908)	5,171	6,562	6,933
	Net interest	(50)	(46)	(41)	54	135
	Pre-tax profit	2,804	(3,693)	5,130	6,616	7,068
	Taxation	(541)	885	(1,026)	(1,323)	(1,414)
	Reported net profit	2,263	(2,809)	4,104	5,293	5,654
	Recurring net profit	3,454	1,302	4,104	5,293	5,654
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2,356	(1,245)	(1,150)	1,920	0
	Cash flow from operations	6,478	(2,750)	5,862	10,327	8,768
	Capex	(615)	(533)	(8,776)	(642)	(619)
	Cash flow from investing activities	3,386	(2,140)	(8,079)	(669)	(569)
	Dividends paid	(4,955)	(2,570)	(792)	(2,052)	(2,646)
	Cash flow from financing activities	(11,169)	6,062	2,697	(6,540)	(2,827)
	Cash at beginning of period	2,171	74	20	500	3,618
	Net change in cash	(1,304)	1,171	480	3,118	5,372
	Ending balance cash	74	20	500	3,618	8,989
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74	20	500	3,618	8,989
	Tangible fixed assets	28,843	26,810	32,678	30,207	27,712
	Total assets	55,011	54,294	59,624	60,706	63,583
	Short-term debt	0	6,819	3,894	0	0
	Total liabilities	16,482	21,818	17,422	15,858	15,908
	Total equity	38,529	32,476	42,202	44,849	47,676
	Total liabilities & equity	55,011	54,294	59,624	60,706	63,583
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	22.6	(19.3)	(25.4)	77.6	0.0
	Recurrent EPS growth (%)	(32.9)	(62.3)	215.2	29.0	6.8
	Gross margin (%)	1.4	(1.9)	4.9	3.6	3.8
	Operating EBITDA margin (%)	2.3	(1.4)	6.4	4.3	4.5
	Net profit margin (%)	1.1	(1.7)	3.3	2.4	2.5
	Dividend payout ratio (%)	113.6	(28.2)	50.0	50.0	50.0
	Capex/sales (%)	0.3	0.3	7.0	0.3	0.3
	Interest cover (x)	39.6	(106.5)	126.1		

Source: Company data, RHB

Figure 1: 2019 net profit fell on major maintenance expenses and weaker spreads

FYE Dec (THB m)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	2018	2019	YoY (%)
Turnover	54,668	44,307	27,804	(37.2)	(49.1)	209,159	168,840	(19.3)
EBIT	-4,276	-1,393	-3,886	179.0	(9.1)	2,060	-4,873	(336.5)
EBIT margin (%)	-7.8	-2.5	-7.1			3.8	-8.9	
Pretax profit	-4,250	-1,180	-3,746	217.5	(11.9)	2,804	-3,693	(231.7)
Pretax margin (%)	-7.8	-2.2	-6.9			5.1	-6.8	
Taxation	1,040	255	771	202.2	(25.8)	-541	885	(263.6)
Tax rate (%)	-24.5	-21.6	-20.6			-19.3	-24.0	
Net profit	-3,881	-925	-2,975	221.7	(23.3)	2,263	-2,809	(224.1)
Net margin (%)	-7.1	-1.7	-5.4			4.1	-5.1	
Recurring Net Profit	-1,923	162	-374	(330.4)	(80.5)	3,454	1,315	(61.9)
EPS (THB)	-0.90	-0.21	-0.69	221.7	(23.3)	0.52	-0.65	(224.1)

Source: Company data, RHB

- **Total major maintenance cost was c.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 and upgrades to several units to increase crude flexibility, which will allow the refinery to run at different crude types.

Figure 2: Refinery ran at lower utilisation rate due to planned maintenance shutdown, while margins were weaker

(USD/bbl)	4Q18	3Q19	4Q19	QoQ	YoY	Comment (QoQ)	2018	2019	% YoY
Accounting GRM	-6.0	3.1	1.9	-41%	-131%	Product spreads softened, while crude premium and freight rates remained elevated	4.73	4.12	-13%
Market GRM	4.4	5.1	2.5	-51%	-43%	Product spreads softened	5.67	3.39	-40%
Stock g/l	-10.4	-2.0	-0.6	-67%	-94%	Crude oil price softened slightly	(0.94)	0.73	-178%
Crude intake (bkpd)	165	145	78	-46%	-53%	Planned maintenance shutdown (45 days)	160	134	-16%
Utilisation rate	100%	88%	47%	-46%	-53%	Planned maintenance shutdown (45 days)	97%	81%	-16%

Source: Company data, RHB

Figure 3: Valuation comparison

	P/E 2020F	P/BV 2020F	EV/EBITDA 2020F	DCF method
Regional peer multiples (x)	11.7	0.9	7.1	
Fair multiple (x)	11.0	1.1	5.5	
DCF valuation, WACC used				7.9%
EPS/BVS (THB/share)	0.9	9.7		
Implied valuation (THB/share)	10.4	10.7	10.2	12.1

Source: RHB

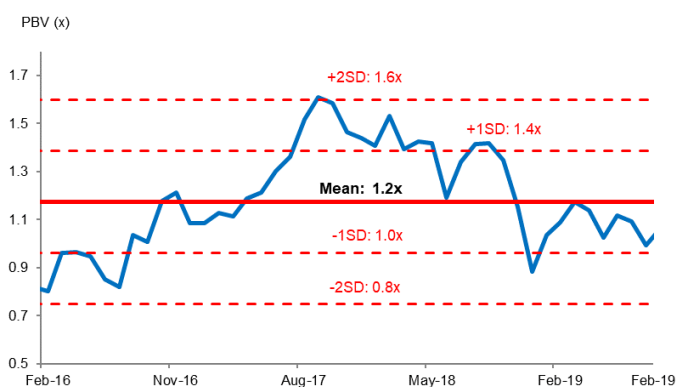
Figure 4: Regional peer comparison

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
Star Petroleum Refining	10.78	9.68	1.01	0.96	0.09	N/A	5.16	5.96	9.31	9.84	6.91	7.06
Bangchak Corp	10.16	8.68	0.78	0.74	7.67	7.19	4.97	5.32	7.83	8.48	3.57	3.83
Esso Thailand	6.96	5.99	0.92	0.85	6.79	5.98	6.73	7.56	13.53	14.37	6.01	7.24
IRPC	17.09	12.31	0.67	0.65	7.90	7.18	3.65	4.65	4.42	5.59	2.29	2.76
Indorama Ventures	10.32	8.85	1.07	0.99	7.13	6.64	3.46	3.69	10.74	11.21	4.28	4.42
PTT	11.67	11.17	1.31	1.23	6.00	5.77	4.15	4.34	10.54	10.53	5.10	4.96
PTT Global Chemical	12.45	10.13	0.74	0.71	8.04	7.14	4.34	5.23	6.16	7.19	4.31	4.86
Thai Oil	10.99	9.59	0.82	0.78	6.60	6.09	4.14	4.58	7.96	8.22	3.62	3.79
Reliance Industries	19.94	14.94	2.14	1.92	12.42	9.67	0.52	0.60	11.22	12.97	4.83	6.16
China Petroleum & Chemical Corp	8.53	7.82	0.61	0.58	4.57	4.37	7.68	7.94	7.36	7.69	3.54	3.76
PetroChina	10.90	9.70	0.44	0.43	4.62	4.53	4.90	5.28	4.25	4.61	2.16	2.35
Indian Oil	9.11	6.62	0.89	0.83	6.66	5.35	4.86	6.86	9.69	12.96	5.87	7.08
Average	11.65	9.62	0.94	0.88	7.13	6.36	4.49	5.10	8.52	9.44	4.14	4.66

Note: Data as at 21 Feb 2020

Source: Bloomberg, RHB

Figure 5: SPRC's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 6: Thai Oil & Gas Index's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 7: SPRC's implied P/BV at different SD levels

	-2SD P/BV	-1SD P/BV	Mean	+1SD P/BV	+2SD P/BV
P/BV multiple (x)	0.80	1.00	1.20	1.40	1.60
Implied valuation (THB/share)	7.79	9.73	11.68	13.63	15.57

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-28	Buy	10.3	8.0
2019-11-26	Buy	12.7	9.9
2019-11-06	Buy	10.0	9.1
2019-10-24	Buy	10.0	8.6
2019-08-08	Neutral	10.0	9.0
2019-07-31	Neutral	10.5	9.9
2019-05-15	Neutral	10.2	9.8
2019-03-18	Trading Buy	na	10.6
2019-02-22	Neutral	12.3	10.5

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

ประกาศเจตนาธรรม 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.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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