

13 May 2020

Energy & Petrochemicals | Energy

Star Petroleum Refining (SPRC TB)

Buy (from Neutral)

Spreads To Recover 2Q20F Onwards

Target Price (Return): THB8.40 (+29%)
 Price: THB6.50
 Market Cap: USD878m
 Avg Daily Turnover (THB/USD) 211m/6.57m

- **Upgrade to BUY from Neutral, new THB8.40 TP from THB5.00, 29% upside and 2% FY20F yield** (based on 1.1x P/BV), as we believe spreads and earnings have bottomed out. 1Q20's THB8.3bn net loss is in line with our expectations, while recurring net loss is at THB860m. Star Petroleum Refining may book 2Q20 peak earnings, as the crude oil discount – with its change in crude diet and the product slate – should help boost net profit. In 2H20, we expect spreads to recover, as the world eases out of lockdowns and transportation fuel demand rebounds.
- **1Q20 net loss was at THB8.3bn, in line with our estimate.** SPRC also booked a THB860m recurring net loss. Non-recurring items include a stock loss of THB9.5bn and FX gain of THB242m. Accounting GRM was at -USD20.30/bbl, reflecting a weak GRM of USD1.30/bbl and stock loss of -USD21.60/bbl. Total crude intake was at 153kbpd, with a utilisation rate of 87%.
- **Peak earnings in 2Q20F?** With the current turmoil in the oil market, SPRC has changed its crude diet from 66% of Middle East crude to 80% (where the Murban discount is about USD6.00-7.00/bbl). With the change in crude diet, the company now expects to change its product yield to lower its jet fuel yield to 2-3% from 10% and high sulphur fuel oil yield to c.5% from 8% to increase the diesel yield to >40%. As a result of this change, we now expect GRM for 2Q20 to be c.USD5.50/bbl, with a crude run of 140kbpd in 2Q20F, as a result of much softer domestic demand. We expect net profit at THB656m from THB400m for the quarter. The crude run is expected to improve to >160kbpd in 2H20, while its GRM could be at USD4.90/bbl, with a quarterly recurring net profit of about THB550m.
- **Rationalising costs by c.USD35m.** SPRC has embarked on cost-cutting measures for 2020. Its normal capex of USD30m pa is expected to be cut by USD10m, as it defers non-essential projects. It is also looking to cut USD5-10m from its annual opex of USD100m. Its process optimisation programme will be rationalised, which may result in savings of c.USD15m.
- **The Government has allowed refineries to lower legal reserves to 15 days** (4% of annual domestic sales volume) from 21 days (or 6%), effective Apr 2020 to Mar 2021. From Apr 2021, legal reserves will be kept at 18 days (or 5%). This should lessen its working capital burden by c.1m bbl, which is equivalent to USD20m under current price levels.
- **Now a BUY.** We revise earnings estimates slightly on SPRC's results and latest expectations. Our new TP is based on 1.1x P/BV. We believe that earnings and spreads have now bottomed out. SPRC may book peak earnings in 2Q20, as the crude discount, its change in crude diet, and the product slate should boost earnings. Spreads should recover in 2H20, as the world eases out of lockdowns, and the demand for fuel rebounds.

Analyst

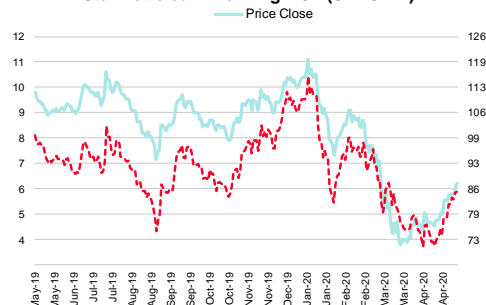
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.3)	35.4	(29.0)	(33.3)	(36.3)
Relative	(21.6)	29.6	(13.4)	(13.2)	(15.1)
52-wk Price low/high (THB)				4.08	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	188,319	223,791	223,791
Recurring net profit (THBm)	3,454	1,302	931	3,659	4,037
Recurring net profit growth (%)	(32.9)	(62.3)	(28.5)	293.2	10.3
Recurring P/E (x)	8.16	21.65	30.29	7.70	6.98
P/B (x)	0.7	0.9	0.9	0.8	0.8
P/CF (x)	4.35	na	6.73	3.32	4.06
Dividend Yield (%)	9.1	2.8	2.0	7.8	8.6
EV/EBITDA (x)	5.96	na	10.38	4.66	3.86
Return on average equity (%)	5.3	(7.9)	(19.8)	10.8	11.4
Net debt to equity (%)	net cash	20.9	37.9	19.3	6.9

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	0.80	0.30	0.21	0.84	0.93
Energy & Petrochemicals	DPS	0.59	0.18	0.13	0.51	0.56
Star Petroleum Refining	BVPS	8.89	7.49	7.63	7.97	8.34
SPRC TB	Return on average equity (%)	5.3	(7.9)	(19.8)	10.8	11.4
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	8.16	21.65	30.29	7.70	6.98
	P/B (x)	0.7	0.9	0.9	0.8	0.8
	FCF Yield (%)	20.8	(11.6)	(15.0)	28.6	23.2
	Dividend Yield (%)	9.1	2.8	2.0	7.8	8.6
	EV/EBITDA (x)	5.96	na	10.38	4.66	3.86
	EV/EBIT (x)	14.22	na	29.70	7.63	6.09
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	209,159	168,840	188,319	223,791	223,791
	Gross profit	2,972	(3,211)	4,784	8,450	8,922
	EBITDA	4,713	(2,343)	3,923	7,473	7,945
	Depreciation and amortisation	(2,737)	(2,565)	(2,551)	(2,906)	(2,906)
	Operating profit	1,976	(4,908)	1,371	4,566	5,039
	Net interest	(50)	(46)	(208)	8	8
	Pre-tax profit	2,804	(3,693)	(8,119)	4,574	5,046
	Taxation	(541)	885	1,624	(915)	(1,009)
	Reported net profit	2,263	(2,809)	(6,495)	3,659	4,037
	Recurring net profit	3,454	1,302	931	3,659	4,037
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2,356	(1,245)	(1,150)	1,923	0
	Cash flow from operations	6,478	(2,750)	4,189	8,488	6,943
	Capex	(615)	(533)	(8,420)	(435)	(412)
	Cash flow from investing activities	3,386	(2,140)	(7,772)	(412)	(362)
	Dividends paid	(4,955)	(2,570)	(792)	(558)	(2,195)
	Cash flow from financing activities	(11,170)	6,062	4,306	(8,076)	(6,581)
	Cash at beginning of period	2,171	74	20	500	500
	Net change in cash	(1,305)	1,171	723	0	0
	Ending balance cash	73	20	501	500	500
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74	20	500	500	500
	Tangible fixed assets	28,843	26,810	32,678	30,207	27,712
	Total assets	55,011	54,294	59,673	57,589	55,094
	Short-term debt	0	6,819	13,048	7,167	3,008
	Total liabilities	16,482	21,818	26,576	23,028	18,919
	Total equity	38,529	32,476	33,097	34,560	36,175
	Total liabilities & equity	55,011	54,294	59,673	57,589	55,094
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	22.6	(19.3)	11.5	18.8	0.0
	Recurrent EPS growth (%)	(32.9)	(62.3)	(28.5)	293.2	10.3
	Gross margin (%)	1.4	(1.9)	2.5	3.8	4.0
	Operating EBITDA margin (%)	2.3	(1.4)	2.1	3.3	3.6
	Net profit margin (%)	1.1	(1.7)	(3.4)	1.6	1.8
	Dividend payout ratio (%)	113.6	(28.2)	(8.6)	60.0	60.0
	Capex/sales (%)	0.3	0.3	4.5	0.2	0.2
	Interest cover (x)	39.6	(106.5)	6.6		

Source: Company data, RHB

Figure 1: SPRC's 1Q20 net loss was at THB8.2bn, with a stock loss of THB9.5bn

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Turnover	47,397	27,804	39,376	41.6	(16.9)
EBIT	1,740	(3,886)	(10,584)	172.3	(708.2)
EBIT margin (%)	3.7	(8.2)	(22.3)		
Pretax profit	2,063	(3,746)	(10,393)	177.5	(603.7)
Pretax margin (%)	4.4	(7.9)	(21.9)		
Taxation	(373)	771	2,108	173.4	(664.7)
Tax rate (%)	(18.1)	(20.6)	(20.3)		
Net profit	1,690	(2,975)	(8,286)	178.5	(590.2)
Net margin (%)	3.6	(6.3)	(17.5)		
EPS (THB)	0.39	(0.69)	(1.91)	178.5	(590.2)
Recurring net profit	1,742	(387)	(860)	122.2	(149.4)

Source: Company data, RHB

Figure 2: Major operating variables: GRM turns negative on softer spreads and oil price collapse

(USD/bbl)	1Q19	4Q19	1Q20	QoQ	YoY	Comment QoQ
Accounting GRM	7.9	1.9	-20.3	(1,199%)	(358%)	Product spreads softened, while oil prices collapsed.
Market GRM	3.1	2.5	1.3	(49%)	(58%)	Product spreads softened as demand weakened.
Stock g/l	4.8	(0.6)	(21.6)	3,278%	(550%)	Crude oil prices collapsed.
Crude intake (kbpd)	164	78	153	97%	(7%)	No planned maintenance, but market demand was weak due to COVID-19.
Utilisation rate	99%	47%	87%	85%	(12%)	

Source: Company data, RHB

Figure 3: We tweaked earnings estimates and increased our TP

	2020F	2021F	2022F
Net profit (THBm, revised)	931	3,659	4,037
Net profit (THBm, old)	947	3,659	4,037
% change	(1.7)	-	-
Net profit (THBm, revised)	(6,495)	3,659	4,037
Net profit (THBm, old)	(6,573)	3,659	4,037
% change	(1.2)	-	-
EPS (THB, revised)	(1.50)	0.84	0.93
EPS (THB, old)	(1.52)	0.84	0.93
% change	(1.2)	-	-
Target price (THB, revised)	8.4		
Target price (THB, old)	5.0		
% change	68%		
Bloomberg consensus			
Net profit (THB m)	702	2,836	3,482
TP (THB/share)	6.39		

Source: Bloomberg, RHB

Figure 4: Valuation comparison

	2020F P/E	2020F P/BV	2020F EV/EBITDA	DCF
Regional peer multiples (x)	31.1	0.9	10.7	
Fair multiple (x)	31.1	1.1	10.7	
DCF valuation, WACC used				7.9%
EPS/BVS (THB/share)	0.2	7.6		
Implied valuation (THB/share)	6.7	8.4	9.7	8.6

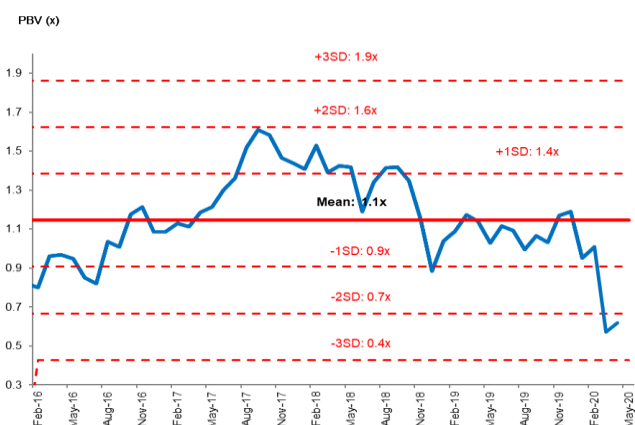
Source: RHB

Figure 5: Peer comparison

	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	37.65	9.33	0.79	0.76	8.09	4.90	3.21	6.69	0.99	9.33	0.69	5.96
Bangchak	16.95	7.48	0.51	0.49	8.77	6.63	3.41	7.24	2.03	7.11	1.31	3.12
Esso Thailand	30.11	6.02	0.89	0.78	11.22	7.56	1.75	7.48	3.17	13.04	2.56	5.45
IRPC	114.78	14.67	0.66	0.65	10.68	7.36	3.07	4.17	0.14	4.63	0.49	2.24
Indorama Ventures	12.56	10.01	1.11	1.03	7.56	6.83	3.39	3.83	9.12	10.48	3.16	3.59
PTT	13.31	10.90	1.11	1.07	6.14	5.68	4.24	4.83	8.01	8.80	3.64	3.96
PTT Global Chemical	23.85	12.37	0.60	0.58	10.14	7.71	2.93	4.48	2.63	5.03	1.68	3.06
Thai Oil	46.41	10.77	0.73	0.70	11.66	7.65	2.90	4.47	2.77	7.81	1.51	3.38
Reliance Industries	22.18	21.20	2.26	2.00	13.61	12.08	0.47	0.46	10.58	9.78	5.04	4.88
China Petroleum & Chemical	23.38	10.68	0.56	0.54	6.82	5.33	3.55	5.29	3.14	5.02	1.33	2.38
PetroChina	N/A	31.33	0.36	0.36	6.42	5.39	1.58	2.68	0.30	1.59	0.29	1.01
Indian Oil	7.59	4.81	0.60	0.57	6.49	4.75	5.74	8.59	6.78	11.23	4.59	6.69
Average	31.11	12.75	0.85	0.80	9.05	7.00	3.00	4.87	4.43	7.68	2.33	3.62

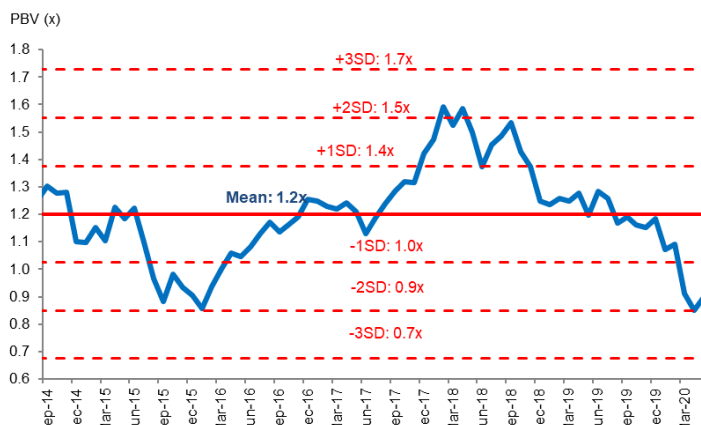
Source: Company data, RHB

Figure 6: SPRC'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: Sensitivity analysis for P/BV levels

	-3SD	-2SD	-1SD	Mean	+1SD	+2SD	+3SD
P/BV (x)	0.40	0.70	0.90	1.10	1.40	1.60	1.90
Implied valuation (THB/share)	3.05	5.34	6.87	8.40	10.69	12.21	14.50

Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-27	Neutral	5.0	5.1
2020-03-19	Neutral	5.0	4.6
2020-02-23	Buy	10.7	8.9
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

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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Analyst	Company
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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

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

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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