

26 February 2020

Energy | Refineries & Petrochemicals

Thai Oil (TOP TB)

Neutral (Maintained)

A Rough Year Ahead

Target Price (Return): THB48.7 (4%)
 Price: THB47.0
 Market Cap: USD3,025m
 Avg Daily Turnover (THB/USD): 739m/24.2m

- **Maintain NEUTRAL and TP of THB48.7/share, 4% upside.** The analyst meeting yesterday indicated a rough year ahead. Refining spreads of middle distillates remained under pressure as transportation fuel demand has been hit by the COVID-19 outbreak. Although a recovery in 2H20 is the base case for most companies under coverage, we remain cautious. We believe commodity spreads and shares prices will continue to be under pressure due to the uncertainty of the duration and impact of COVID-19.
- **Softer oil demand growth in 1Q20F, with recovery expected in 2H20.** COVID-19 is expected to shave off 0.3% of China's 2020 GDP. Global oil demand growth is expected to fall to 0.8-1mbpd (-0.2mbpd to -0.4mbpd lower than the previous estimate of 1.2mbpd). Oil demand growth is expected to recover in 2H20, while OPEC and its alliance (OPEC+) are currently looking at the best options to balance the oil market (with suggestions from its technical committee to cut 0.6mbpd).
- **Several events that should help alleviate weak refining margins:** Refineries have started to cut run as a result of weak spreads/softer demand. China has cut run by 2-15% while other Asia countries have cut by c.1.3% of their refining capacity. Also, global gasoil inventory has started to decline to below its 5-year average. Finally, March and April should see global refinery maintenance peak at c.7-8mbpd – note, the next global refinery maintenance will be in September-October, totalling 6-7mbpd.
- **Aromatics market should remain weak as a result of new capacity addition,** whereby aromatics producers will have to optimise production. Higher cost producers and non-integrated producers to lower PX operating rate. Total additional PX capacity is expected to be 8.4mtpa, while demand is expected at 0.9mtpa. Benzene additional capacity is expected at 3.3mtpa while additional demand is expected at 1.2mtpa. Downstream PTA plants in China have cut production significantly due to the COVID-19 outbreak – Sichuan PTA Pengwei Chemicals (900ktpa, cut 20%), Liaoning PTA Hengli 4 (2500ktpa, cut 50%), Jiangsu PTA Jianguyin Hanbang (600ktpa, shutdown), and Fujian PTA Fujian Fuhau (4500ktpa, cut 20%).
- **Lube base market is expected to see more of a balanced market** with 0.3mtpa additional capacity, which will be similar to the additional demand. Hainan Handi plant (1mtpa capacity) has been deferred to 2021.
- **Current spreads indicate a collapse in GRM to c.USD1.4/bbl in 1Q20F,** indicating 1Q20F net profit of THB45m, excluding stock gains/loss. We expect moderate recovery to c.USD3.1/bbl in 2Q20. 2H20F should see normalcy return, but GRM is expected to be c.USD4.5/bbl. 2020F net profit is expected at THB7.4bn.

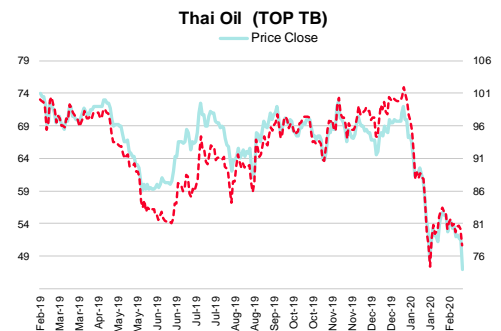
Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|--------|--------|--------|--------|
| Absolute | (32.6) | (11.3) | (30.6) | (28.3) | (36.3) |
| Relative | (23.5) | (2.8) | (20.4) | (15.5) | (22.8) |
| 52-wk Price low/high (THB) | 47.0 – 74.0 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---------------------------------|---------|---------|---------|---------|---------|
| Total turnover (THBm) | 392,166 | 364,327 | 326,189 | 329,600 | 314,836 |
| Recurring net profit (THBm) | 14,258 | 3,694 | 7,435 | 9,154 | 14,629 |
| Recurring net profit growth (%) | (21.9) | (74.1) | 101.3 | 23.1 | 59.8 |
| Recurring P/E (x) | 6.72 | 25.96 | 12.90 | 10.47 | 6.55 |
| P/B (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| P/CF (x) | 4.56 | 7.76 | 12.06 | 8.23 | 4.80 |
| Dividend Yield (%) | 5.6 | 3.2 | 3.5 | 4.3 | 6.9 |
| EV/EBITDA (x) | 3.47 | 10.60 | 14.32 | 12.68 | 9.44 |
| Return on average equity (%) | 8.3 | 5.2 | 6.1 | 7.2 | 11.0 |
| Net debt to equity (%) | (0.2) | 33.3 | 111.5 | 109.4 | 109.3 |

Source: Company data, RHB

Financial Exhibits

| Asia | Financial summary (THB) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|-------------------------|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Thailand | Recurring EPS | 6.99 | 1.81 | 3.64 | 4.49 | 7.17 |
| Energy & Petrochemicals | DPS | 2.65 | 1.50 | 1.64 | 2.02 | 3.23 |
| Thai Oil | BVPS | 59.66 | 58.81 | 60.81 | 63.28 | 66.71 |
| TOP TB | Return on average equity (%) | 8.3 | 5.2 | 6.1 | 7.2 | 11.0 |
| Neutral | | | | | | |
| | Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Recurring P/E (x) | 6.72 | 25.96 | 12.90 | 10.47 | 6.55 |
| | P/B (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| | FCF Yield (%) | 13.1 | (15.0) | (86.8) | (13.3) | 3.5 |
| | Dividend Yield (%) | 5.6 | 3.2 | 3.5 | 4.3 | 6.9 |
| | EV/EBITDA (x) | 3.47 | 10.60 | 14.32 | 12.68 | 9.44 |
| | EV/EBIT (x) | 4.91 | 33.32 | 22.77 | 18.79 | 12.28 |
| | Income statement (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Total turnover | 392,166 | 364,327 | 326,189 | 329,600 | 314,836 |
| | Gross profit | 20,325 | 5,987 | 11,635 | 13,686 | 20,432 |
| | EBITDA | 24,807 | 10,388 | 14,680 | 16,732 | 23,477 |
| | Depreciation and amortisation | (7,264) | (7,085) | (5,444) | (5,444) | (5,444) |
| | Operating profit | 17,543 | 3,303 | 9,236 | 11,287 | 18,033 |
| | Net interest | (3,511) | (3,307) | (3,192) | (3,095) | (2,997) |
| | Pre-tax profit | 12,367 | 7,756 | 8,644 | 10,793 | 17,636 |
| | Taxation | (1,983) | (1,239) | (1,209) | (1,639) | (3,007) |
| | Reported net profit | 10,149 | 6,277 | 7,435 | 9,154 | 14,629 |
| | Recurring net profit | 14,258 | 3,694 | 7,435 | 9,154 | 14,629 |
| | Cash flow (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Change in working capital | 1,081 | 4,417 | (2,326) | (341) | 2,510 |
| | Cash flow from operations | 21,019 | 12,360 | 7,953 | 11,657 | 19,983 |
| | Capex | (8,435) | (26,737) | (91,136) | (24,444) | (16,668) |
| | Cash flow from investing activities | (7,471) | (51,001) | (94,258) | (27,817) | (27,176) |
| | Dividends paid | (10,710) | (5,406) | (2,825) | (3,346) | (4,119) |
| | Cash flow from financing activities | 25,773 | 8,316 | 24,368 | 16,160 | 7,193 |
| | Cash at beginning of period | 67,941 | 107,262 | 76,937 | 15,000 | 15,000 |
| | Net change in cash | 39,321 | (30,325) | (61,937) | 0 | (0) |
| | Ending balance cash | 107,262 | 76,937 | 15,000 | 15,000 | 15,000 |
| | Balance sheet (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Total cash and equivalents | 107,262 | 76,937 | 15,000 | 15,000 | 15,000 |
| | Tangible fixed assets | 83,077 | 109,814 | 200,950 | 225,394 | 242,061 |
| | Total investments | 16,081 | 34,262 | 36,862 | 39,462 | 42,062 |
| | Total assets | 268,613 | 283,445 | 317,938 | 345,562 | 362,319 |
| | Short-term debt | 6,940 | 2,912 | 42,422 | 45,226 | 53,938 |
| | Total long-term debt | 100,120 | 115,287 | 115,287 | 115,287 | 115,287 |
| | Total liabilities | 142,141 | 159,521 | 189,925 | 212,514 | 221,226 |
| | Total equity | 126,472 | 123,924 | 128,013 | 133,047 | 141,093 |
| | Total liabilities & equity | 268,613 | 283,445 | 317,938 | 345,562 | 362,319 |
| | Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Revenue growth (%) | 16.2 | (7.1) | (10.5) | 1.0 | (4.5) |
| | Recurrent EPS growth (%) | (21.9) | (74.1) | 101.3 | 23.1 | 59.8 |
| | Gross margin (%) | 5.2 | 1.6 | 3.6 | 4.2 | 6.5 |
| | Operating EBITDA margin (%) | 6.3 | 2.9 | 4.5 | 5.1 | 7.5 |
| | Net profit margin (%) | 2.6 | 1.7 | 2.3 | 2.8 | 4.6 |
| | Dividend payout ratio (%) | 53.3 | 45.0 | 45.0 | 45.0 | 45.0 |
| | Capex/sales (%) | 2.2 | 7.3 | 27.9 | 7.4 | 5.3 |
| | Interest cover (x) | 5.00 | 1.00 | 2.89 | 3.65 | 6.02 |

Source: Company data, RHB

Figure 1: Refining capacity additions in Asia Pacific and Middle East

| COD | Country | Nameplate (kbd) | Company |
|-----------------|--------------|-----------------|------------------------------|
| 1Q20 | India | 56 | BPCL Mumbai |
| 2Q20 | China | 200 | Sinopec Zhanjiang |
| 2Q20 | Saudi Arabia | 400 | Jazan |
| 2Q20 | Iraq | 66 | North Refining Company-Baji |
| 2Q20 | Iraq | 66 | South Refining Company-Basra |
| 2Q20 | Kuwait | 60 | KPC-Mina Al-Ahmadi |
| 2Q20 | UAE | 65 | ENOC-Jebel Ali |
| 3Q20 | India | 56 | HPCL Mumbai |
| 1Q21 | India | 125 | HPCL Vizaq |
| 2Q21 | Pakistan | 27 | National Refinery- Karachi |
| 4Q21 | Kuwait | 630 | Al Zour (GR) - KNPC |
| Closures | | | |
| 4Q20 | China | -75 | Local refineries |
| 4Q20 | Japan | -107 | JX Group - Osaka |
| 4Q21 | China | -50 | Local refineries |

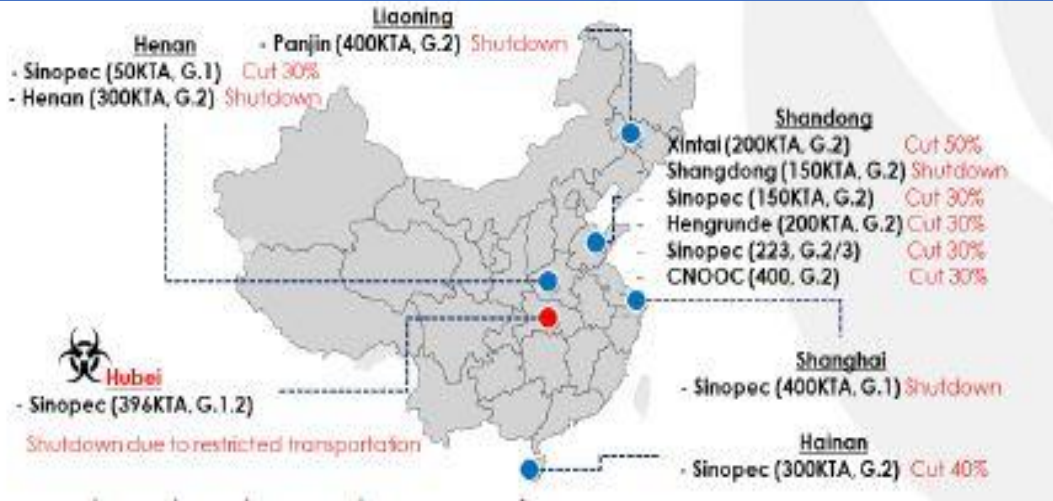
Source: RHB

Figure 2: PTA plants cut run or shutdown in China as a result of COVID-19



Source: Company data, RHB

Figure 3: Base oil production cuts in China as a result of COVID-19



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2020-02-16 | Neutral | 49 | 53 |
| 2020-01-24 | Buy | 70 | 53 |
| 2020-01-16 | Buy | 70 | 62 |
| 2019-11-11 | Buy | 84 | 70 |
| 2019-10-22 | Buy | 78 | 68 |
| 2019-08-15 | Buy | 80 | 64 |
| 2019-08-13 | Buy | 80 | 64 |
| 2019-07-23 | Buy | 80 | 71 |
| 2019-05-16 | Buy | 75 | 64 |

Source: RHB, Bloomberg

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

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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

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

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- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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