

15 April 2020

Energy | Refineries & Petrochemicals

Thai Oil (TOP TB)

Neutral (Maintained)

Saudi Aramco's Slashing Of OSP Helps Refiners

Target Price (Return): THB37.70 (-2%)
 Price: THB38.30
 Market Cap: USD2,386m
 Avg Daily Turnover (THB/USD) 987m/30.7m

- **Maintain NEUTRAL with a new THB37.70 TP from THB29.00, 2% downside.** 1Q20F net loss is expected at THB13.5bn, with recurring net profit at THB86m. 2020F recurring net profit is maintained at THB6.5bn. Margins should improve due to large official selling price discounts set by Saudi Aramco. However, this can be unpredictable over the next couple of months. Product margins remain weak, with a possible recovery in 2H20F.
- **We expect 1Q20F net loss of THB13.5bn.** Stripping out stock and FX losses of THB14.3bn and THB2.5bn, recurring net profit is expected at THB86m. GRM for 1Q20F is expected at USD0.30/bbl, while Thai Oil's lube base and paraxylene businesses should contribute USD1.80/bbl. The refinery ran at 110% for January-February and lowered its run to 105% for March – 2Q20F refinery run is expected at 108%.
- **Saudi Aramco slashed its official selling price to Asia for May,** with its Arab light crude oil to Asia at a USD7.30/bbl discount to the Oman/Dubai average, down by USD4.20/bbl from April. Asian refiners have called for lower crude official selling prices (OSPs) as margins plummet. There are also ample supplies and lower demand due to COVID-19. It raised its OSPs to the US and left Arab Light to North-Western Europe unchanged.
- **Refining spreads remain weak,** with jet, gasoline, and diesel spreads to Dubai at USD0.83/bbl, -USD2.57/bbl, and USD9.93/bbl. For Thailand, transportation fuel demand is expected to fall 20-30% YoY in 2Q20F, with jet demand down 80-90%, gasoline demand down 10%, and diesel demand falling by 2-3%.
- **Outlook.** For April, GRM for Thai Oil is estimated at USD2.00/bbl, while the lower OSP for May could boost GRM to c.USD5.00/bbl. With the current market uncertainty, brought about by the unprecedented demand destruction as a result of COVID-19, we are reluctant to assume such large discounts in OSP for the rest of the year. We assume June's GRM at USD3.00/bbl and 2Q20F GRM to USD3.50/bbl. The company's crude run is expected at 90%, as demand falls. 2Q20F core net profit is expected at THB1.5bn. For 2H20F, we expect refinery to run at 113%. GRM is forecasted at USD4.00/bbl, with core net profit at THB2.4bn per quarter.
- **NEUTRAL maintained.** 2020F net loss is revised to THB7.1bn from a net loss of THB5.2bn, as a product loss of THB1.7bn was not accounted for in our earlier forecast. Recurring net profit is unchanged at THB6.5bn. Margins have improved due to the large OSP discounts set by Saudi Aramco. However, this can be unpredictable over the next couple of months. Our new TP of THB37.70/share is based on 0.7x P/BV.

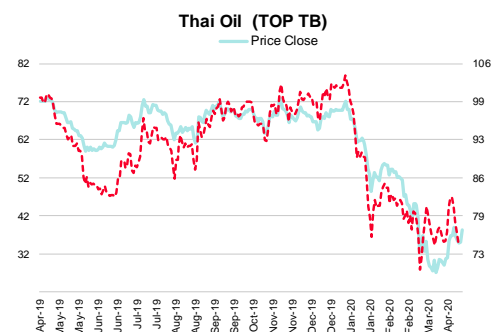
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(45.2)	8.5	(37.6)	(45.4)	(46.9)
Relative	(23.5)	(1.1)	(15.5)	(21.5)	(21.4)
52-wk Price low/high (THB)				27.0	– 73.0



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	392,166	364,327	313,945	293,393	294,721
Recurring net profit (THBm)	14,258	3,694	6,499	9,121	14,596
Recurring net profit growth (%)	(21.9)	(74.1)	75.9	40.3	60.0
Recurring P/E (x)	5.47	21.13	12.01	8.56	5.35
P/B (x)	0.6	0.7	0.7	0.7	0.6
P/CF (x)	3.71	6.31	7.41	5.06	4.27
Dividend Yield (%)	6.9	3.9	3.7	5.3	8.4
EV/EBITDA (x)	2.95	9.90	6.59	9.96	7.84
Return on average equity (%)	8.3	5.2	(6.3)	8.1	12.3
Net debt to equity (%)	net cash	33.3	106.0	99.3	101.2

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	3.19	4.47	7.15
Energy & Petrochemicals	DPS	2.65	1.50	1.43	2.01	3.22
Thai Oil	BVPS	59.66	58.81	53.85	56.31	59.73
TOP TB	Return on average equity (%)	8.3	5.2	(6.3)	8.1	12.3
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	5.47	21.13	12.01	8.56	5.35
For the Thai refineries/petrochemicals, we use P/BV as a valuation basis. This is due to the high volatility in earnings as a result of stock gains/losses. We believe DCF valuation is not appropriate, as the share price and earnings are highly subject to seasonal factors.	P/B (x)	0.6	0.7	0.7	0.7	0.6
	FCF Yield (%)	16.1	(18.4)	(59.8)	(11.6)	2.1
	Dividend Yield (%)	6.9	3.9	3.7	5.3	8.4
	EV/EBITDA (x)	2.95	9.90	6.59	9.96	7.84
	EV/EBIT (x)	4.17	31.14	8.09	14.38	10.14
Key drivers	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Crude oil prices as it is the main feedstock;	Total turnover	392,166	364,327	313,945	293,393	294,721
ii. GRMs, which fluctuate depending on seasonal demand;	Gross profit	20,325	5,987	24,502	14,666	20,977
iii. Stock gains/losses on crude oil price volatilities;	EBITDA	24,807	10,388	27,140	17,711	24,022
iv. THB/USD rate where product and feedstock costs are valued in USD.	Depreciation and amortisation	(7,264)	(7,085)	(5,037)	(5,444)	(5,444)
	Operating profit	17,543	3,303	22,103	12,267	18,578
	Net interest	(3,511)	(3,307)	(3,307)	(2,355)	(2,257)
	Pre-tax profit	12,367	7,756	(9,289)	11,103	17,860
	Taxation	(1,983)	(1,239)	2,104	(1,982)	(3,264)
	Reported net profit	10,149	6,277	(7,185)	9,121	14,596
	Recurring net profit	14,258	3,694	6,499	9,121	14,596
Key risks	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Crude oil prices;	Change in working capital	1,081	4,417	(1,102)	2,055	(226)
ii. THB/USD rate fluctuations;	Cash flow from operations	21,019	12,360	10,534	15,429	18,275
iii. Demand and supply for products.	Capex	(8,435)	(26,737)	(57,171)	(24,444)	(16,668)
	Cash flow from investing activities	(7,471)	(51,001)	(59,670)	(26,815)	(26,116)
	Dividends paid	(10,710)	(5,406)	(2,825)	(2,924)	(4,104)
	Cash flow from financing activities	25,773	8,316	(766)	7,456	8,901
	Cash at beginning of period	67,941	107,262	76,937	15,000	15,000
	Net change in cash	39,321	(30,325)	(49,902)	(3,929)	1,060
	Ending balance cash	107,262	76,937	27,035	11,071	16,060
Company Profile	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thai Oil is a 275kbpd refinery with an aromatics and lube base business that adds value to its refinery. The three businesses make up nearly 90% of EBITDA, with the refinery accounting for 60-80% of consolidated EBITDA (depending on margins).	Total cash and equivalents	107,262	76,937	15,000	15,000	15,000
	Tangible fixed assets	83,077	109,814	166,984	191,428	208,096
	Total investments	16,081	34,262	36,662	37,853	39,393
	Total assets	268,613	283,445	281,691	303,831	322,265
	Short-term debt	6,940	2,912	20,373	17,713	28,119
	Total long-term debt	100,120	115,287	115,287	115,287	115,287
	Total liabilities	142,141	159,521	167,876	185,001	195,406
	Total equity	126,472	123,924	113,814	118,831	126,858
	Total liabilities & equity	268,613	283,445	281,691	303,831	322,265
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	16.2	(7.1)	(13.8)	(6.5)	0.5
	Recurrent EPS growth (%)	(21.9)	(74.1)	75.9	40.3	60.0
	Gross margin (%)	5.2	1.6	7.8	5.0	7.1
	Operating EBITDA margin (%)	6.3	2.9	8.6	6.0	8.2
	Net profit margin (%)	2.6	1.7	(2.3)	3.1	5.0
	Dividend payout ratio (%)	53.3	45.0	(40.7)	45.0	45.0
	Capex/sales (%)	2.2	7.3	18.2	8.3	5.7
	Interest cover (x)	5.00	1.00	6.68	5.21	8.23

Source: Company data, RHB

Figure 1: 1Q20F net loss of THB13.5bn is expected, with a stock loss of THB14.3bn

FYE Dec (THBm)	1Q19	4Q19	1Q20F	QoQ (%)	YoY (%)
Turnover	91,789	96,940	84,055	(13)	(8)
EBIT	5,683	1,820	-13,987	(868)	(346)
EBIT margin (%)	6.2	1.9	-16.6		
Pretax profit	5,120	2,100	-17,313	(924)	(438)
Pretax margin (%)	5.6	2.2	-20.6		
Taxation	-1,000	-345	3,116	(1,004)	(412)
Tax rate (%)	-19.5	-16.4	-18.0		
Net profit	4,408	1,984	-13,597	(785)	(408)
Net margin (%)	4.8	2.0	-16.2		
Recurring Net Profit	998	460	86	(81)	(91)
EPS (THB)	2.16	0.97	-6.67	(785)	(408)

Source: Company data, RHB

Figure 2: Major operating variables

	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
USD/bbl						
Dubai (ave)	63.5	62.1	50.7	(18.3)	(20.1)	COVID-19 fears have taken a toll on travel fuel demand, while the OPEC+ failed March meeting led to a collapse in crude oil prices.
ULG-DB	3.7	12.9	6.7	(48.4)	79.7	
Jet-DB	13.0	13.9	8.5	(38.8)	(34.5)	The winter was warmer than usual, therefore demand softened. Meanwhile, supply remained high. The COVID-19 pandemic also led to travel fears.
GO-DB	12.8	14.3	11.0	(23.1)	(14.1)	
LSFO-DB	-	12.3	13.8	12.4	N/A	Demand for LSFO remains stock.
HSFO-DB	0.6	(18.7)	(7.4)	(60.5)	(1,330.0)	

Source: Company data, RHB

Figure 3: Earnings and TP revision

	2020F	2021F	2022F
Net profit (THBm, revised)	6,499	9,121	14,596
Net profit (THBm, old)	6,514	9,004	14,480
% change	(0.2)	1.3	0.8
Net profit (THBm, revised)	(7,185)	9,121	14,596
Net profit (THBm, old)	(5,212)	9,004	14,480
% change	37.9	1.3	0.8
EPS (THB, revised)	(3.52)	4.47	7.15
EPS (THB, old)	(2.55)	4.41	7.10
% change	37.9	1.3	0.8
Target price (THB/sh, revised)	37.7		
Target price (THB/sh, old)	27.1		
% change	39.0		
Bloomberg consensus			
Net profit	5,024	9,647	10,839
TP	45.0		

Source: RHB

Figure 4: Valuation comparison

	P/E 2020F	P/BV 2020F	EV/EBITDA 2020F	DCF method
Regional peer multiples	26.0	0.8	7.5	
Fair multiple (used)	11.0	0.7	6.0	
DCF valuation, WACC used				9.2%
THB/share (EPS/BVS)	3.2	53.9		
Implied valuation per share	35.0	37.7	39.6	39.5

Source: RHB

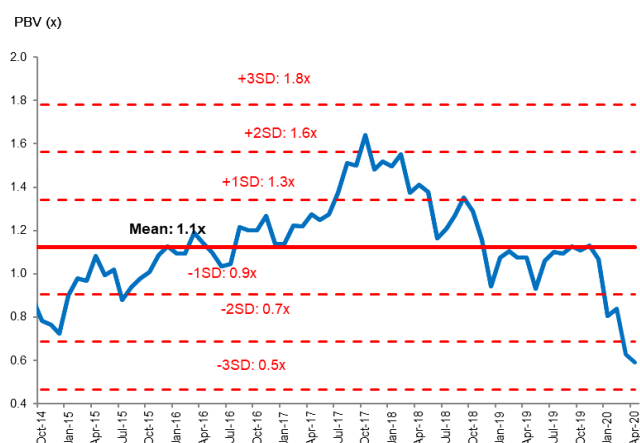
Figure 5: Regional peer comparison

Company	Market cap (USDm)	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
Thai Oil	2,390.17	15.02	8.17	0.64	0.61	7.15	5.42	3.38	5.50	3.91	8.03	2.24	3.50
Bangchak Corp	776.76	12.59	6.99	0.51	0.48	7.61	6.52	4.21	7.36	2.99	7.16	2.15	3.23
Esso Thailand	526.61	25.64	5.33	0.81	0.67	10.53	7.13	3.52	8.46	3.25	12.90	2.56	5.45
IRPC	1,542.22	34.44	12.53	0.61	0.59	8.99	7.02	3.47	4.76	1.50	5.23	1.37	2.53
Indorama Ventures	3,964.02	10.22	8.13	0.94	0.87	6.89	6.20	3.93	4.51	9.17	10.79	3.34	3.74
PTT	32,378.93	13.49	11.18	1.17	1.12	6.26	5.81	4.10	4.61	8.31	9.02	3.82	4.08
PTT Global Chemical	5,188.34	17.50	10.37	0.58	0.56	8.78	6.81	3.17	5.46	3.28	5.67	2.16	3.63
Star Petroleum Refining	659.75	15.20	7.12	0.64	0.62	5.99	4.06	4.62	8.70	1.84	8.96	2.12	5.97
Reliance Industries	89,931.98	14.74	12.19	1.55	1.41	9.68	7.93	0.72	0.79	10.93	12.08	4.97	5.85
China Petroleum & Chemical	73,752.63	16.08	10.55	0.58	0.56	6.26	5.26	3.98	5.39	3.40	5.14	1.63	2.52
PetroChina	114,267.94	121.23	20.36	0.38	0.38	5.75	5.02	1.87	3.22	0.65	2.04	0.70	1.41
Indian Oil Corp	9,854.32	7.17	4.88	0.63	0.60	5.97	4.65	5.84	8.48	8.82	12.26	5.44	6.90
Average		26.21	9.97	0.77	0.71	7.52	6.04	3.59	5.61	4.92	8.30	2.75	4.12

Note: Data as at 13 Apr 2020

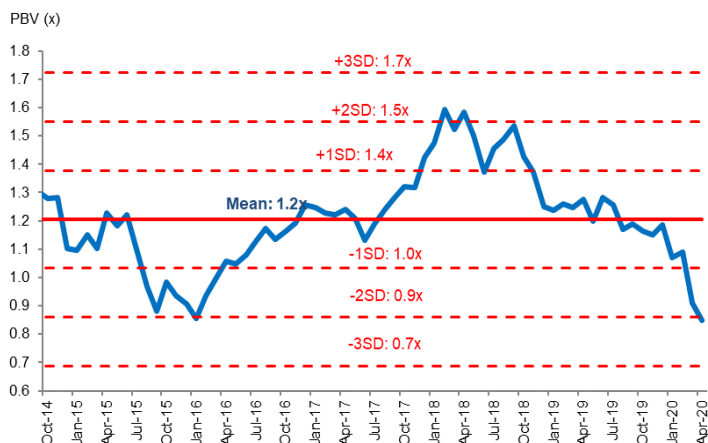
Source: Bloomberg, RHB

Figure 6: Thai Oil'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: Thai Oil's implied P/BV at different SD levels

	-3SD P/BV	-2SD P/BV	-1SD P/BV	Mean	+1SD P/BV	+2SD P/BV	+3SD P/BV
P/BV multiple (x)	0.5	0.7	0.9	1.1	1.3	1.5	2.5
Implied valuation (THB/share)	26.9	37.7	48.5	59.2	70.0	80.8	134.6

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-19	Neutral	29	28
2020-02-17	Neutral	49	54
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

Source: RHB, Bloomberg

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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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