

14 July 2020

Energy & Petrochemicals | Oil & Gas Services

Thai Oil (TOP TB)

Neutral (from Buy)

Fragile Demand Continues To Pressure Spreads

- **Downgrade to NEUTRAL from Buy**, with new TP of THB39.80/share from THB54.00/share based on 0.7x 2021F P/BV, 5% downside. 2Q20F net profit is expected at THB2.6bn, with recurring net loss of THB785m. 2H20F outlook could be weaker than our initial expectations, causing us to trim GRM and earnings.
- **2Q20F net profit is expected at THB2.6bn**, from net loss of THB13.7bn in 1Q20. Non-recurring items include stock loss (THB776m), gain on reversal of NRV (THB2.5bn) and FX gain (THB1.7bn). Stripping out non-recurring items, we expect Thai Oil to report recurring net loss of THB785m for the quarter – its second quarter of recurring net loss where 1Q20 recurring net loss of THB326m was recognised.
- **2Q20F market GRM** is expected to come in at USD1.50/bbl as refined product spreads weakened due to softer demand. The company had to export its jet fuel at a USD5.00/bbl discount to market price, impacting GRM by USD0.50/bbl. Market GIM from aromatics business remained stable at USD1.50/bbl, while lube base business contribution fell further to USD0.20/bbl as demand weakened.
- **Outlook for 2H20F.** We initially expected a more robust 2H20F as the world eases out of global lockdown, and Saudi Aramco started to increase crude oil premium to its customers. However, demand remains fragile and refining spreads remain weak, albeit, showing signs of improvement. Gasoline and diesel spreads are currently at USD4.46/bbl and USD6.53/bbl – less than half their normal spreads. Jet spread is a meagre USD0.05/bbl as global air travel remains limited.
- **Downgrade to NEUTRAL.** We cut our 2020F earnings as we expect 2Q20F earnings will be its second quarter of recurring net loss as a result of weak demand and spreads. 2H20F market GRM is revised to c.USD3.00/bbl from USD4-5.00/bbl. Our recurring net profit is lowered to THB1.5bn, from THB6.4bn. Reported net loss is revised down further to THB8.4bn, from THB7.1bn. We lower our TP to THB39.80/share, based on 0.7x 2021F P/BV, which is equivalent to -2SD P/BV. We downgrade this stock to NEUTRAL from Buy as its outlook remains weak.

Target Price (Return): THB39.80 (-5%)
 Price: THB42.00
 Market Cap: USD2,731m
 Avg Daily Turnover (THB/USD): 847m/26.7m

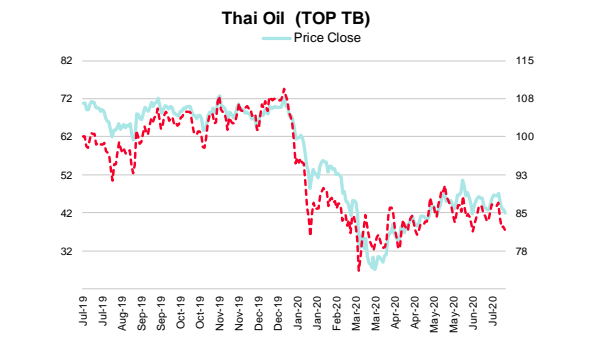
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.8)	(5.6)	20.0	(34.6)	(42.1)
Relative	(24.8)	(2.7)	11.5	(19.2)	(19.6)
52-wk Price low/high (THB)	27.0 – 72.8				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	392,166	364,327	283,493	293,393	294,721
Recurring net profit (THBm)	14,258	3,694	1,507	9,248	14,724
Recurring net profit growth (%)	(21.9)	(74.1)	(59.2)	513.8	59.2
Recurring P/E (x)	6.01	23.20	56.87	9.26	5.82
P/B (x)	0.7	0.7	0.8	0.7	0.7
P/CF (x)	4.08	6.93	15.97	6.85	4.66
Dividend Yield (%)	6.3	3.6	0.8	4.9	7.7
EV/EBITDA (x)	3.18	10.25	75.56	10.16	7.99
Return on average equity (%)	8.3	5.2	(7.4)	8.2	12.3
Net debt to equity (%)	net cash	33.3	101.0	98.8	100.6

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	0.74	4.53	7.22
Energy & Petrochemicals	DPS	2.65	1.50	0.33	2.04	3.25
Thai Oil	BVPS	59.66	58.81	54.31	56.80	60.26
TOP TB	Return on average equity (%)	8.3	5.2	(7.4)	8.2	12.3
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.01	23.20	56.87	9.26	5.82
	P/B (x)	0.7	0.7	0.8	0.7	0.7
	FCF Yield (%)	14.7	(16.8)	(62.1)	(13.9)	2.0
	Dividend Yield (%)	6.3	3.6	0.8	4.9	7.7
	EV/EBITDA (x)	3.18	10.25	75.56	10.16	7.99
	EV/EBIT (x)	4.50	32.22	na	14.67	10.33
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	392,166	364,327	283,493	293,393	294,721
	Gross profit	20,325	5,987	585	14,166	20,476
	EBITDA	24,807	10,388	2,345	17,711	24,022
	Depreciation and amortisation	(7,264)	(7,085)	(3,659)	(5,444)	(5,444)
	Operating profit	17,543	3,303	(1,314)	12,267	18,578
	Net interest	(3,511)	(3,307)	(3,586)	(2,196)	(2,098)
	Pre-tax profit	12,367	7,756	(11,418)	11,262	18,019
	Taxation	(1,983)	(1,239)	2,920	(2,014)	(3,296)
	Reported net profit	10,149	6,277	(8,498)	9,248	14,724
	Recurring net profit	14,258	3,694	1,507	9,248	14,724
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	1,081	4,417	1,943	(990)	(226)
	Cash flow from operations	21,019	12,360	5,363	12,511	18,402
	Capex	(8,435)	(26,737)	(58,549)	(24,444)	(16,668)
	Cash flow from investing activities	(7,471)	(51,001)	(58,786)	(29,118)	(26,116)
	Dividends paid	(10,710)	(5,406)	(2,825)	(678)	(4,162)
	Cash flow from financing activities	25,773	8,316	(8,515)	16,607	7,713
	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	168,363	192,806	209,474
	Total investments	16,081	34,262	36,646	37,837	39,377
	Total assets	268,613	283,445	277,876	305,194	323,627
	Short-term debt	6,940	2,912	15,625	18,072	28,407
	Total long-term debt	100,120	115,287	115,287	115,287	115,287
	Total liabilities	142,141	159,521	163,128	185,360	195,695
	Total equity	126,472	123,924	114,748	119,834	127,932
	Total liabilities & equity	268,613	283,445	277,876	305,194	323,627
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	16.2	(7.1)	(22.2)	3.5	0.5
	Recurrent EPS growth (%)	(21.9)	(74.1)	(59.2)	513.8	59.2
	Gross margin (%)	5.2	1.6	0.2	4.8	6.9
	Operating EBITDA margin (%)	6.3	2.9	0.8	6.0	8.2
	Net profit margin (%)	2.6	1.7	(3.0)	3.2	5.0
	Dividend payout ratio (%)	53.3	45.0	(8.0)	45.0	45.0
	Capex/sales (%)	2.2	7.3	20.7	8.3	5.7
	Interest cover (x)	5.00	1.00	(0.37)	5.59	8.85

Source: Company data, RHB

Figure 1: 2Q20F net profit of THB2.6bn is mostly from non-recurring items

FYE Dec (THBm)	2Q19	1Q20	2Q20F	QoQ (%)	YoY (%)	1H19	1H20F
Turnover	92,564	77,831	60,756	(22)	(34)	184,353	138,586
EBIT	888	-14,391	1,613	(111)	82	6,572	-12,778
EBIT margin (%)	1.0	-18.5	2.7			3.6	-9.2
Pretax profit	377	-17,834	2,486	(114)	560	5,497	-15,348
Pretax margin (%)	0.4	-22.9	4.1			3.0	-11.1
Taxation	-116	3,558	-447	(113)	285	-1,116	3,111
Tax rate (%)	-30.9	-20.0	-18.0			-20.3	-20.3
Net profit	567	-13,754	2,638	(119)	365	4,975	-11,116
Net margin (%)	0.6	-17.7	4.3			2.7	-8.0
Recurring Net Profit	458	-326	-785	141	(272)	1,456	-1,112
EPS (THB)	0.28	-6.74	1.29	(119)	365	2.44	-5.45

Source: Company data, RHB

Figure 2: Major operating variables: weak but improving spreads

FYE Dec (THBm)	2Q19	1Q20	2Q20F	QoQ (%)	YoY (%)	Comment (QoQ)
Dubai (average, USD/bbl)	67.4	50.9	30.6	(40.0)	(54.7)	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.
Market GIM						
TOP	2.50	0.10	1.50	na	(40.0)	Weak spreads were offset by crude discount from Saudi Aramco, while jet export lowered GRM by c.USD0.50/bbl
TPX	1.00	1.50	1.50	-	50.0	PX spreads were relatively stable, while LAB spread improved by USD0.20/bbl
TLB	0.70	0.60	0.20	(66.7)	(71.4)	Weaker demand
Total market GIM	4.20	2.20	3.20	45.5	(23.8)	Weak but improved margins
Stock g/l	-	(12.3)	(1.0)	(91.9)	na	Crude oil prices collapsed in April and rebounded in June
Accounting GIM	4.20	(10.10)	2.20	(121.8)	(47.6)	Overall weak margins, but an improvement QoQ

Source: Company data, RHB

Figure 3: Earnings and TP revision

	2020F	2021F	2022F
Recurring net profit (THB m, revised)	1,507	9,248	14,724
Recurring net profit (THB m, old)	6,499	9,121	14,596
% change	(76.8)	1.4	0.9
Net profit (THB m, revised)	(8,498)	9,248	14,724
Net profit (THB m, old)	(7,185)	9,121	14,596
% change	18.3	1.4	0.9
EPS (THB, revised)	(4.17)	4.53	7.22
EPS (THB, old)	(3.52)	4.47	7.15
% change	18.3	1.4	0.9
Target price (THB/sh, revised)	39.80		
Target price (THB/sh, old)	54.00		
% change	43.20		
Bloomberg consensus			
Net profit	3,347	9,201	8,165
TP	47.50		

Source: RHB

Figure 4: Valuation comparison

2021F	P/E	P/BV	EV/EBITDA	DCF method
Regional peer multiples	14.2	0.9	8.0	
Fair multiple (used)	8.0	0.7	4.5	
DCF valuation, WACC used				9.2%
THB/share (EPS/BVS)	4.5	56.8		
Implied valuation per share	36.3	39.8	39.1	45.9

Source: RHB

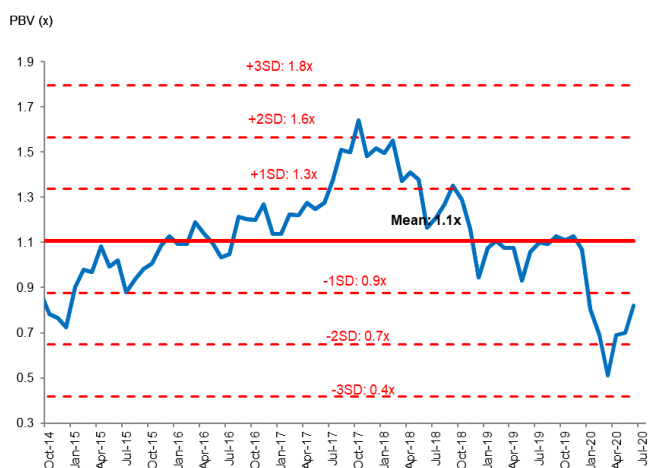
Figure 5: Regional peer comparison

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
Thai Oil PCL	36.67	10.30	0.73	0.70	11.97	7.80	2.63	4.48	1.75	7.34	1.55	3.56
Bangchak Corp PCL	53.30	8.80	0.57	0.54	12.54	8.74	2.83	6.11	-0.65	6.73	0.61	2.89
Esso Thailand PCL	na	8.04	1.13	1.02	24.21	8.95	1.15	4.67	-1.62	14.29	0.51	5.33
IRPC PCL	na	19.31	0.72	0.70	9.32	6.91	2.71	3.68	-1.54	4.35	0.00	2.22
Indorama Ventures PCL	15.16	11.39	1.16	1.09	10.01	8.78	2.92	3.46	7.99	9.56	2.95	3.48
PTT PCL	15.68	12.71	1.22	1.17	6.99	6.19	3.83	4.36	7.34	8.75	3.48	3.93
PTT Global												
Chemical PCL	34.69	15.68	0.72	0.70	11.87	8.84	2.35	3.58	2.14	4.77	1.60	3.07
Star Petroleum Refining PCL	na	10.82	0.91	0.87	24.24	6.55	2.03	6.02	-5.61	8.63	-1.98	5.40
Reliance Industries Ltd	26.86	26.94	2.74	2.33	16.98	15.59	0.39	0.37	10.58	9.32	5.04	4.74
China Petroleum & Chemical Corp	40.04	9.98	0.51	0.49	6.55	5.04	3.67	6.10	2.26	4.99	1.17	2.39
PetroChina Co Ltd	na	25.99	0.37	0.36	6.68	5.51	1.40	2.73	-0.58	1.36	-0.21	1.02
Indian Oil Corp Ltd	12.18	7.02	0.71	0.72	9.43	6.73	4.28	6.40	5.19	10.36	1.08	6.57
Average	28.27	14.24	0.98	0.91	12.62	7.98	2.51	4.32	2.32	7.55	1.30	3.73

Note: Data as at 10 Jul 2020

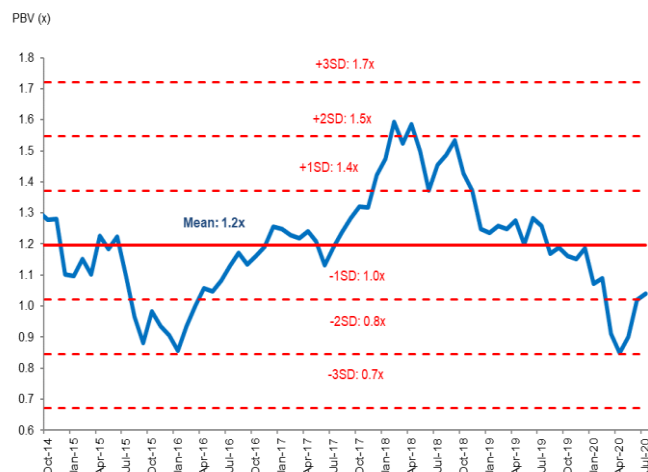
Source: Bloomberg, RHB

Figure 6: TOP'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: TOP'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	1.6	1.8
Implied valuation (THB/share)	28.4	39.8	51.1	62.5	73.8	90.9	102.2

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-10	Buy	54	43
2020-04-15	Neutral	38	39
2020-03-19	Neutral	29	28
2020-02-17	Neutral	49	54
2020-01-24	Buy	70	53
2019-11-11	Buy	84	70
2019-10-22	Buy	78	68
2019-08-15	Buy	80	64
2019-05-16	Buy	75	64
2019-04-04	Buy	72	71

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

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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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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