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KEY HIGHLIGHTS

Update

Thai Oil (TOP TB/HOLD/Bt60.75/Target: Bt61.00)

Most positives priced in; prepare for a soft landing. Downgrade to HOLD.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,641.34	4.45	0.27
SET50	993.15	4.49	0.45
Value (Btm) - SET	72,067		
Top 5 Sector			
BANK	381.29	11.25	3.04
PETRO	1,126.23	30.67	2.80
PROP	242.60	(0.48)	(0.20)
ENERG	25,586.68	(1.09)	(0.00)
ICT	195.16	0.81	0.42

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
KBANK	149.50	3.46	39,637.1
BBL	134.50	5.49	33,170.7
SCB	113.00	3.67	30,842.4
PTTEP	174.00	2.35	17,540.5
BANPU	13.10	0.77	157,835.4

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SUTHA	4.94	30.00	4,740.4
MBAX	6.75	29.81	38,717.8
NFC	6.10	29.24	11,020.5
SLP	0.94	28.77	16,535.3
GC	7.30	26.96	19,513.2

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NEWS	0.04	(20.00)	87,675.4
M-PAT	4.02	(18.29)	12.9
TU-PF	1.07	(13.71)	146.9
BTNC	12.50	(12.59)	36.5
BIS	9.60	(11.93)	20,682.4

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	122.9	21.4	23.2	63.1
Dubai crude*	121.9	12.9	(6.5)	59.4
Baltic Dry Index	2,410.0	(18.0)	(10.9)	8.7
Gold Spot***	1,846.2	0.4	(7.6)	0.9

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
32.4	(158.2)	4,124.3	8,832.8

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 34.60

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

Thai Oil (TOP TB)

Most Positives Priced In; Prepare For A Soft Landing; Downgrade To HOLD

TOP should disclose the rights offering price by end-June. Offering prices are usually at a 10-15% discount to market prices. We expect TOP's 2Q22 core earnings to be the quarterly peak for the year on exceptionally high GRM while 2H22 GRM is likely to soften on more supply coming into the market and higher crude premium. We have rolled over our target to 2023 and downgrade to stock to HOLD as most of the positives have been priced in. Target price: Bt61.00.

WHAT'S NEW

- **TOP likely to disclose the price range of its rights offering next week.** According to the Stock Exchange of Thailand (SET), the record date for Thai Oil's (TOP) rights offering is on 16 Jun 22 (ex-other benefits – XB is on 15 Jun 22). The final offering price should be announced on 30 Jun 22. The rights offering price is usually at a 10-15% discount to the market price as it is aimed at attracting existing shareholders and new investors to subscribe to the new shares. The allocation will be for up to 275.12m newly-issued shares (13.5% of total issued shares). Of this, 239.235m new shares will be for public offering (about 80% would be allocated to existing shareholders and 20% to the public) and the remaining 35.885m newly-issued shares will be reserved as a greenshoe option.
- **Expect TOP to conclude the disposal of shares of Global Power Synergy (GPSC TB) in 2Q22.** TOP plans to sell its GPSC shares to PTT (PTT TB) and/or Siam Management Holding (SMH). This was approved at a shareholders' meeting on 8 Apr 22, for a total of 304m shares (10.78% of the total issued and paid-up shares of GPSC) at a selling price of Bt72.5/share. TOP is expected to receive cash of Bt22.4b (before the deduction of GPSC's dividends and before tax). Note that PTT holds 100% of SMH. We expect TOP to book divestment gains of close to Bt5.5b (after tax) from this disposal of GPSC shares. TOP will hold a 10% stake (from 20.78% before transaction) in GPSC and this will change the recording of GPSC's earnings contribution to the cost method (receiving dividend income) from the equity method after the transaction is completed in 2Q22. TOP will also book a one-time non-cash gains of approximately Bt5.5b from this investment reclassification. Later on, TOP is expected to record a mark-to-market market value for the remaining 10% holding in GPSC in other comprehensive income (OCI). Note that we have already factored in the GPSC divestment gain in our 2022 earnings forecast.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	256,614	346,632	526,485	420,830	463,784
EBITDA	8,604	26,119	72,391	24,657	31,311
Operating profit	1,050	18,695	63,522	15,363	21,578
Net profit (rep./act.)	(3,301)	12,578	45,979	9,469	14,271
Net profit (adj.)	(2,913)	5,583	31,573	9,469	14,271
EPS (Bt)	(1.4)	2.7	14.1	4.2	6.4
PE (x)	n.m.	22.2	4.3	14.4	9.6
P/B (x)	1.0	1.1	1.0	0.9	1.0
EV/EBITDA (x)	27.0	8.9	3.2	9.4	7.4
Dividend yield (%)	1.2	4.3	9.3	4.5	6.8
Net margin (%)	(1.3)	3.6	8.7	2.3	3.1
Net debt/(cash) to equity (%)	83.1	147.4	77.7	54.9	60.6
Interest cover (x)	2.0	7.3	19.0	7.0	8.4
ROE (%)	n.a.	10.9	36.6	6.7	10.4
Consensus net profit	-	-	15,436	12,312	14,123
UOBKH/Consensus (x)	-	-	2.05	0.77	1.01

Source: Thai Oil PCL, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

HOLD

(Downgraded)

Share Price	Bt60.75
Target Price	Bt61.00
Upside	+0.4%
(Previous TP)	Bt65.00

COMPANY DESCRIPTION

TOP is an oil refinery company. It also produces oil related products including LPG, Kerosene, fuel oil and chemicals.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	TOP TB
Shares issued (m):	2,040.0
Market cap (Btm):	117,301.6
Market cap (US\$m):	3,414.5
3-mth avg daily t'over (US\$m):	26.4

Price Performance (%)

52-week high/low	Bt60.25/Bt44.00			
1mth	3mth	6mth	1yr	YTD
1.8	7.5	21.1	(3.8)	16.2

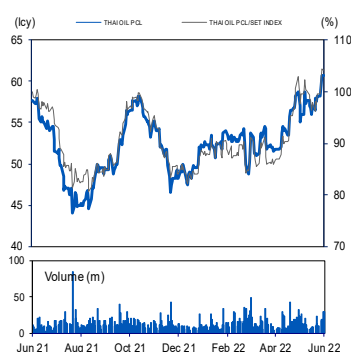
Major Shareholders

PTT	49.1
NVDR	4.5
HSBC (Singapore) Nominees Pte. Ltd.	2.6

FY22 NAV/Share (Bt) 62.35

FY22 Net Debt/Share (Bt) 63.20

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expect 2Q22 core earnings to be the quarterly peak for the year.** We expect TOP's 2Q22 core earnings to be this year's quarterly peak due to: a) the exceptionally high gross refining margin (GRM), b) TOP is expected to keep its utilisation rate high at around 110% to support the strong domestic petroleum demand, and c) an expected huge inventory gain on higher crude oil prices during the quarter.
- However, the positive factors will be partially offset by: a) higher crude premium in 2Q22. Saudi Arabia has announced a US\$3.47/bbl increase in its Arab light official selling price (OSP) to US\$6.23/bbl in 2Q22 vs US\$2.77/bbl in 1Q22, given the tight crude oil supply in the market, b) huge hedging loss as TOP's policy is to hedge product spreads by 40-50% of its production while most of product spreads increased in 2Q22, and c) the continued softening in aromatics spreads due to huge new supplies. Paraxylene (PX) spread has declined to US\$41.79/tonne in 2Q22 qtd (1Q22: US\$124.13) while benzene (BZ) spread has declined to US\$43.70/tonne in 2Q22 qtd (1Q22: US\$110.19).
- **GRM is likely to soften in 2H22** due to: a) more supply coming into the market, especially the resuming planned maintenance shutdown starting from May 22 to end of 2022 (please see the global refinery maintenance graph on the right), and b) the recent high oil prices have raised concerns on petroleum demand. There is not much upside for petroleum demand from current levels as gasoline and diesel demand (except for jet fuel) have already returned to pre-COVID levels.
- **Higher pressure on crude premium to be sustained into 3Q22.** Based on our channel checks, Saudi Aramco may raise its August official selling price (OSP) for Arab Light crude to Asia in August to an all-time-high of US\$9.00-10.00/bbl (vs US\$6.50/bbl in Jul 22). The hike in crude premium should come from the concerns about tight supply, expectations of strong demand from the US driving season in July, and China's re-opening of some cities after extended COVID-19 lockdowns.

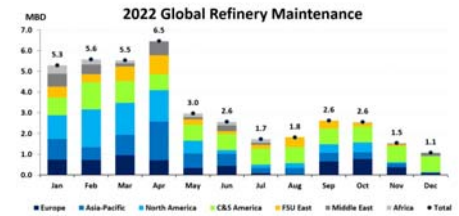
EARNINGS REVISION/RISK

- **We adjust our 2022 core profit up by 202% but cut 2023 core profit by 8.4%.** For 2022, we raise product spreads assumptions to reflect the unexpected sharp increase in petroleum demand. For 2022-23, we also cut aromatics spreads by lower PX and BZ spreads assumptions to reflect the upcoming new supplies in the region together with the cost pressure (please see the earnings and assumption revision table).

VALUATION/RECOMMENDATION

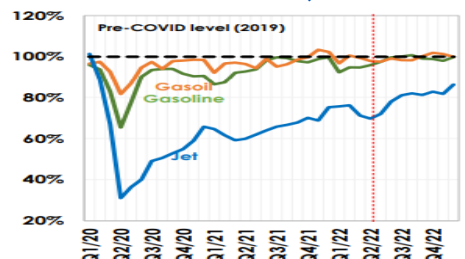
- **Downgrade to HOLD from BUY** with a new 2023 target price of Bt61.00 (from Bt65.00 previously), based on five-year regional PE mean of 14x. We have rolled over the target price to next year as it will reflect a more realistic valuation than the current. We think the exceptionally high GRM this year will not persist into 2023.
- For refinery plays, we recommend switching to Star Petroleum Refining (SPRC TB/BUY/Target: Bt15.00) as it will benefit the most from the potential high gasoline prices, which will be boosted by the US' driving season demand.
- **Our sector top picks are:** Indorama Ventures (IVL TB/BUY/Target: Bt65.00) and PTT Oil & Retail Business (OR TB/BUY/Target: Bt33.00) as they will see positive earnings momentum in the next couple of quarters.

GLOBAL REFINERY MAINTENANCE IN 2022



Source: TOP

GLOBAL OIL DEMAND GROWTH (AVG. 2019 = 100%)



Source: Bloomberg, UOB Kay Hian

SINGAPORE GRM AT ALL TIME HIGH LEVEL



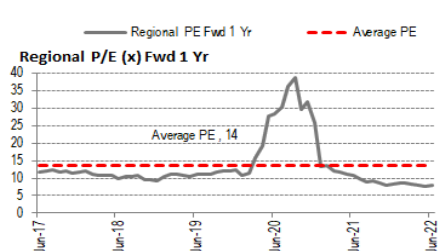
Source: Aspen, UOB Kay Hian

KEY ASSUMPTION CHANGES IN 2022-23

	New		Old	
	2022F	2023F	2022F	2023F
Core profit (Btm)	31,573	9,469	10,464	10,341
Net profit (Btm)	45,979	9,469	21,464	10,341
Refinery business				
Utilization rate (%)	110.0	110.0	110.0	110.0
Gasoline spread	20.0	10.0	10.0	10.0
Diesel spread	25.0	9.0	9.0	9.0
Jet spread	20.0	9.0	9.0	9.0
LSFO spread	10.0	6.0	6.0	6.0
HSFO spread	-9.0	-4.0	-4.0	-4.0
Aromatic business				
PX spread	100	100	200	200
BZ spread	50	50	200	200

Source: UOB Kay Hian

5-YEAR REFINERY REGIONAL PE MEAN



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	346,632	526,485	420,830	463,784
EBITDA	26,119	72,391	24,657	31,311
Deprec. & amort.	7,424	8,869	9,295	9,734
EBIT	18,695	63,522	15,363	21,578
Net interest income/(expense)	(3,595)	(3,817)	(3,512)	(3,716)
Pre-tax profit	15,100	59,705	11,851	17,862
Tax	(2,034)	(11,941)	(2,015)	(3,036)
Minorities	(488)	(1,785)	(368)	(554)
Net profit	12,578	45,979	9,469	14,271
Net profit (adj.)	5,583	31,573	9,469	14,271

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	10,015	41,346	74,478	7,998
Pre-tax profit	14,612	57,920	11,484	17,307
Tax	(2,034)	(11,941)	(2,015)	(3,036)
Deprec. & amort.	7,424	8,869	9,295	9,734
Associates	0	0	0	0
Working capital changes	(18,565)	(19,812)	49,821	(23,313)
Other operating cashflows	8,578	6,310	5,894	7,307
Investing	(43,337)	(42,604)	(15,946)	(13,597)
Investments	(43,337)	(42,604)	(15,946)	(13,597)
Financing	12,602	(10,003)	(18,200)	(11,929)
Dividend payments	(3,551)	(5,304)	(12,629)	(6,155)
Proceeds from borrowings	23,082	(882)	(2,059)	(2,058)
Others/interest paid	(6,929)	(3,817)	(3,512)	(3,716)
Net cash inflow (outflow)	(20,719)	(11,261)	40,332	(17,528)
Beginning cash & cash equivalent	53,244	29,696	38,922	37,926
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	29,696	38,922	37,926	27,110

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	178,502	223,998	242,018	260,043
Other LT assets	70,981	81,241	85,038	83,833
Cash/ST investment	29,696	38,922	37,926	27,110
Other current assets	71,543	59,020	86,116	72,604
Total assets	350,722	403,181	451,098	443,591
ST debt	2,142	5,745	2,202	5,997
Other current liabilities	36,334	23,175	47,821	36,322
LT debt	192,131	186,687	156,784	138,430
Other LT liabilities	8,442	47,669	99,514	132,312
Shareholders' equity	111,672	139,905	144,777	130,531
Total liabilities & equity	350,722	403,181	451,098	443,591

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.5	13.7	5.9	6.8
Pre-tax margin	4.4	11.3	2.8	3.9
Net margin	3.6	8.7	2.3	3.1
ROA	3.8	12.2	2.2	3.2
ROE	10.9	36.6	6.7	10.4
Growth				
Turnover	35.1	51.9	(20.1)	10.2
EBITDA	203.6	177.2	(65.9)	27.0
Pre-tax profit	n.a.	295.4	(80.2)	50.7
Net profit	n.a.	265.6	(79.4)	50.7
Net profit (adj.)	n.a.	465.5	(70.0)	50.7
EPS	n.a.	414.1	(70.0)	50.7
Leverage				
Debt to total capital	63.5	57.9	52.3	52.5
Debt to equity	174.0	137.5	109.8	110.6
Net debt/(cash) to equity	147.4	109.7	83.6	89.9
Interest cover (x)	7.3	19.0	7.0	8.4

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