

COMPANY UPDATE

PTT (PTT TB)

Expect 2020 Earnings To Recover

We reaffirm our positive view on PTT's earnings outlook for 2020, driven by: a) more earnings contribution from PTTEP with strong sales volume and stabilising unit costs, and b) positive impact from IMO2020 with no major maintenance shutdowns at refinery affiliates. We also expect the PTTOR listing in 2H20 to be a key catalyst for PTT as it could lead to a re-rating. Maintain BUY. Target price: Bt58.00.

WHAT'S NEW

- **Expect 2020 earnings to recover.** Management guidance for its 2020 earnings outlook is mostly in line with our views. We expect PTT's core earnings outlook to remain positive for 2020, driven by:

a) More contribution from PTTEP (65.2%-owned) with sales volume CAGR expected at 7% in 2019-23, driven by contributions from past M&As, while unit cost is expected to stabilise at US\$30-32/boe in 2019-23. PTTEP's gas ASP should have a limited negative impact from the new IMO2020 regulation, thanks to its hedging transactions; and

b) higher refinery margins expected from refinery affiliates on the IMO2020's implementation which would drive more diesel demand amid no major maintenance shutdowns at refinery and aromatic plants in 2020. These should be partly offset by weaker natural gas sales to industrial users (8% of total PTT's gas sales). PTT charges natural gas prices sold to industrial users based on high sulphur fuel oil (HSFO) prices which are likely to decline in 2020 due to the IMO2020 impact. Earnings performance of PTT's petrochem affiliates in 2020 would still be under pressure, given the huge new supply of petrochem products in Southeast Asia as well as uncertainties from the US-China trade tension.

- **PTTOR listing to be delayed to 2H20.** PTT is still preparing documents for the IPO of PTT Oil & Retail (PTTOR) and expects to submit all documents to the Securities and Exchange Commission (SEC) in 1Q20 at the earliest. After receiving all the documents, the SEC will take 165 days (maximum) to consider the stock's listing on the Stock Exchange of Thailand (SET). With this timeline, we should see PTTOR's first trading day in 2H20.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	1,995,722	2,336,155	2,204,702	2,222,958	2,266,938
EBITDA	375,841	361,726	318,891	374,226	407,737
Operating profit	259,551	238,169	192,771	239,737	262,956
Net profit (rep./act.)	135,180	118,058	97,089	104,316	115,856
Net profit (adj.)	132,372	127,145	93,333	104,316	115,856
EPS (Bt)	4.6	4.5	3.3	3.7	4.1
PE (x)	9.1	9.5	12.9	11.6	10.4
P/B (x)	1.5	1.4	1.2	1.1	1.0
EV/EBITDA (x)	5.4	5.6	6.4	5.4	5.0
Dividend yield (%)	47.3	5.9	4.7	4.7	4.7
Net margin (%)	6.8	5.1	4.4	4.7	5.1
Net debt/(cash) to equity (%)	66.9	48.7	36.9	23.1	10.1
Interest cover (x)	12.9	13.1	10.7	12.5	13.7
ROE (%)	17.1	13.9	10.3	9.8	10.0
Consensus net profit	-	-	105,535	114,971	119,077
UOBKH/Consensus (x)	-	-	0.88	0.91	0.97

Source: PTT PCL, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt42.25
Target Price	Bt58.00
Upside	+37.3%

COMPANY DESCRIPTION

Thailand-based oil & gas company engaged in the upstream petroleum, downstream petroleum, coal business and other related businesses.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	PTT TB
Shares issued (m):	28,563.0
Market cap (Btm):	1,206,786.6
Market cap (US\$m):	39,764.9
3-mth avg daily t'over (US\$m):	67.6

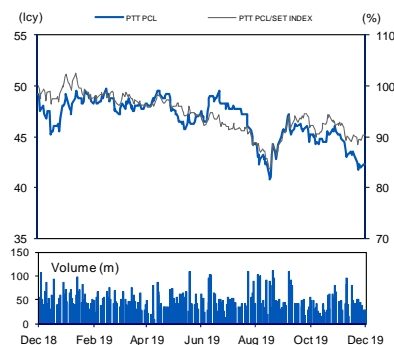
Price Performance (%)

52-week high/low	Bt50.25/Bt40.75				
1mth	3mth	6mth	1yr	YTD	
(7.7)	(4.5)	(10.1)	(18.0)	(8.2)	

Major Shareholders

MOF	51.2
Vayupak Fund 1	15.3
NVDR	3.0
FY19 NAV/Share (Bt)	35.47
FY19 Net Debt/Share (Bt)	13.07

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Minimal impact from the recent ethane price adjustment.** The current gas selling agreements (GSA) between PTT and PTT Global Chemical (PTTGC) - PTT's flagship company in the petrochem sector - allows PTTGC to negotiate on ethane (one of PTTGC's feedstocks) costs with PTT if Dubai prices decline below US\$70/bbl and stabilises for a while. On the back of the GSP agreements, PTT has sold ethane from its Gas Separation Plant (GSP) to PTTGC at a US\$15/tonne discount from the current pricing formula since Feb 19. This new adjustment will last for two years (ending Feb 21). PTT expects this US\$15/tonne discount on ethane cost to lower PTT's earnings by less than Bt1.0b per year (less than 1% of PTT's net profit in 2020). The GSAs between both parties will gradually expire starting end-20 until 2025 while PTTGC's major GSA with PTT will expire in 2025.
- To focus only energy-related EEC infrastructure development.** Management stated clearly that PTT is not interested in building the high-speed train and U-Tapao Airport. It will only be focused on the energy-related Eastern Economic Corridor (EEC) infrastructure project - including Map Ta Phut Industrial Port Phase III (aiming for LNG trading in neighboring countries) and Laem Chabang Deep Sea Port Project Phase III (to manage container shipments which relate to PTT's existing expertise). Ideally, both projects should generate an average return of 9.5% each.
- PTT to benefit from the higher natural gas consumption in the latest PDP-2018.** The latest Thailand Power Development Plan (PDP-2018) indicates that new gas-fired power plants would replace both new coal-fired and new nuclear power plants. As a result, the percentage of natural gas used as fuel in the Thai power sector increases to 53% compared with 37% in the previous PDP.

EARNINGS REVISION/RISK

- None.

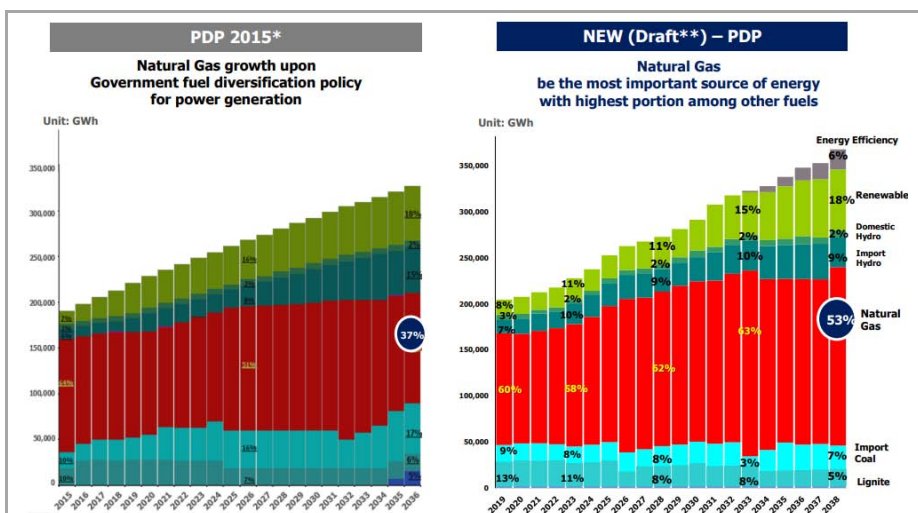
VALUATION/RECOMMENDATION

- Maintain BUY and target price of Bt58.00**, based on SOTP valuation. PTT is trading at 11.6x core 2020F PE, below regional peers' 5-year forward core PE mean of almost 13x. The key catalyst for PTT is the listing of PTTOR, hopefully in 2H20, which could lead to a re-rating in PTT's valuation.

SHARE PRICE CATALYST

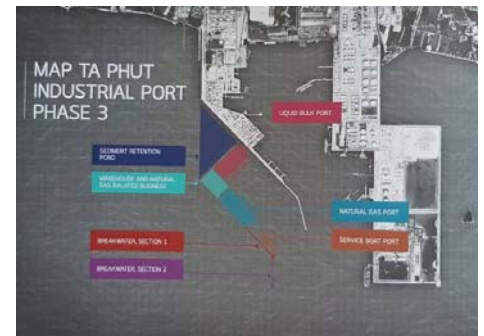
- PTTOR listing in 2H20.

OLD VS NEW THAILAND POWER DEVELOPMENT PLANS



*Source: Ministry of Energy, **Source: EPPO (Public Hearing presentation), PTT

MAP TA PHUT PORT PHASE 3 PROJECT



Source: Fleetmon.com.

AVERAGE POOLED GAS PRICE TREND



Source: PTT

SOTP VALUATION

		Value (Btm)	Value (Bt/sh)	Methodology
1. PTT's Operations				
PTT core gas and Oil business	100%	872,969	31	DCF @ WACC 8.7% Ge=2%
(-) Net debt (PTT only)				
PTT Only - Equity Value		0	0	
2. Subsidiaries				
	Share holding	Value (Bt/sh)	Value (Bt/sh)	Methodology
PTTEP	65.4%	175.0	454,365	DCF @ WACC 8.1%
PTTGC	47.7%	55.0	119,168	4.1 5-Y mean of 11.5x PE
TOP	47.5%	81.0	78,540	2.7 Regional PE mean of 13x
IRPC	48.1%	4.6	45,165	1.6 14x PE
GPSC	22.6%	95.0	32,140	1.1 DCF Valuation
3. Affiliates				
Others Affiliates		63,149	2.2	
Total		1,664,496	58.00	

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	2,336,155	2,204,702	2,222,958	2,266,938
EBITDA	361,726	318,891	374,226	407,737
Deprec. & amort.	123,556	126,119	134,489	144,781
EBIT	238,169	192,771	239,737	262,956
Associate contributions	8,515	5,574	2,099	2,331
Net interest income/(expense)	(27,628)	(29,845)	(29,845)	(29,845)
Pre-tax profit	217,431	168,501	211,991	235,442
Tax	(53,647)	(38,763)	(62,968)	(69,933)
Minorities	(45,726)	(32,648)	(44,707)	(49,653)
Net profit	118,058	97,089	104,316	115,856
Net profit (adj.)	127,145	93,333	104,316	115,856

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	313,172	228,157	233,246	256,906
Pre-tax profit	118,058	97,089	104,316	115,856
Tax	(53,647)	(38,763)	(62,968)	(69,933)
Deprec. & amort.	123,556	126,119	134,489	144,781
Associates	115,601	n.a.	n.a.	n.a.
Working capital changes	(44,043)	4,948	(5,560)	(3,732)
Non-cash items	53,647	38,763	62,968	69,933
Other operating cashflows	0	0	0	0
Investing	(34,148)	(224,709)	(115,382)	(124,577)
Investments	(34,148)	(224,709)	(115,382)	(124,577)
Financing	(153,029)	41,945	(103,294)	(100,140)
Dividend payments	(85,035)	(57,126)	(57,126)	(57,126)
Proceeds from borrowings	(33,776)	(7,800)	(103,294)	(100,140)
Others/interest paid	(34,217)	106,871	57,126	57,126
Net cash inflow (outflow)	125,995	45,393	14,570	32,188
Beginning cash & cash equivalent	166,189	292,184	337,577	352,147
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	292,184	337,577	352,147	384,335

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	83,125	78,796	78,796	78,796
Other LT assets	1,415,395	1,429,852	1,410,745	1,390,541
Cash/ST investment	292,184	337,577	352,147	384,335
Other current assets	564,779	633,999	646,901	653,200
Total assets	2,355,484	2,480,224	2,488,589	2,506,872
ST debt	88,670	92,742	92,758	92,758
Other current liabilities	318,211	303,917	311,259	313,826
LT debt	630,108	618,237	514,927	414,787
Other LT liabilities	n.a.	n.a.	n.a.	n.a.
Shareholders' equity	875,084	1,013,050	1,108,321	1,214,951
Minority interest	443,411	452,279	461,324	470,551
Total liabilities & equity	2,355,484	2,480,224	2,488,589	2,506,872

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	15.5	14.5	16.8	18.0
Pre-tax margin	9.3	7.6	9.5	10.4
Net margin	5.1	4.4	4.7	5.1
ROA	5.1	4.0	4.2	4.6
ROE	13.9	10.3	9.8	10.0
Growth				
Turnover	17.1	(5.6)	0.8	2.0
EBITDA	(3.8)	(11.8)	17.4	9.0
Pre-tax profit	2.1	(22.5)	25.8	11.1
Net profit	(12.7)	(17.8)	7.4	11.1
Net profit (adj.)	(3.9)	(26.6)	11.8	11.1
EPS	(3.9)	(26.6)	11.8	11.1
Leverage				
Debt to total capital	35.3	32.7	27.9	23.1
Debt to equity	82.1	70.2	54.8	41.8
Net debt/(cash) to equity	48.7	36.9	23.1	10.1
Interest cover (x)	13.1	10.7	12.5	13.7

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