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KEY HIGHLIGHTS

Update

Esso Thailand (ESSO TB/HOLD/Bt13.70/Target: Bt12.50)

Long-term positive on tightening supply with near-term earnings pressure.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,571.40	10.62	0.68
SET50	942.77	4.86	0.52
Value (Btm) - SET	62,343		
Top 5 Sector			
BANK	372.59	2.79	0.75
PETRO	919.17	10.14	1.12
PROP	246.02	3.10	1.28
ENERG	24,075.09	34.00	0.14
ICT	164.63	1.37	0.84

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
EA	93.00	4.49	38,177.2
PTT	34.25	(0.72)	91,968.1
CPALL	57.00	3.64	55,674.9
AOT	70.25	(1.06)	41,593.7
PTTEP	169.50	(0.29)	12,536.5

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
WAVE	0.20	25.00	39,050.0
STOWER	0.05	25.00	8,393.0
CPH	39.75	15.22	6,779.4
TPS	3.30	14.58	14,556.3
JWD	20.90	12.97	29,705.5

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PPPM	0.15	(11.76)	59,083.7
CHIC	0.95	(11.21)	65,565.8
MORE	2.48	(10.79)	396,944.3
MITSIB	1.12	(10.40)	11,659.2
CRD	0.91	(9.00)	2,673.7

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	91.9	2.0	(5.0)	25.2
Dubai crude*	89.1	(1.7)	(14.1)	16.6
Baltic Dry Index	1,838.0	18.4	(15.0)	(17.1)
Gold Spot***	1,651.1	(1.4)	(3.4)	(9.7)

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(62.1)	(220.5)	4,297.0	5,716.9

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 38.03

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

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

Esso Thailand (ESSO TB)

Long-term Positive On Tightening Supply With Near-term Earnings Pressure

Although investors are aware of possibly weak results in 3Q22, we believe ESSO's earnings should turn positive in 4Q22. The company is also a key beneficiary of refinery plant shutdowns in Thailand in 4Q22. However, we think share price upside is still limited. We recommend switching to SPRC. Maintain HOLD. Target price: Bt12.50.

WHAT'S NEW

- **Long-term oil demand remains solid.** We visited ESSO Thailand (ESSO) last week and discussed with management the industry outlook and the company's strategy. Overall, management believes oil and natural gas still play an important role over the coming decade and projects demand to grow 15% from 2021 to 2050 (implying CAGR of about 0.5%). The solid energy demand will come from the Asia-Pacific and Latin America regions supported by a sharp spike in population; the industrial sector accounted for 50% of total end-use energy consumption. Over the next five years, ESSO expects oil demand to rise sharply after the peak of the COVID-19 crisis while global refinery supply will remain tight due to a lack of new investment and permanent shutdowns of over 3.5m barrel per day during COVID-19.
- **Target higher diesel proportion.** ESSO is also preparing for the de-bottlenecking of gasoline tank farms to lift gasoline production and refinery run rate from only 70-75% currently (lowest among Thai refineries) to above 80% by 1H23. However, demand for gasoline is expected to be affected by the surging popularity of electric vehicles (EV). ESSO indicates flat gasoline demand over the next 30 years. It aims to increase the proportion of diesel over the long term to offset the impact from EV disruption.
- **Scope on oil stations.** We agree with management on positive domestic refined products demand, especially for diesel, jet fuel and gasoline. We also see stronger earnings recovery for the oil station business after the peak of COVID-19. To capture impressive growth of the oil retail business, ESSO revisits the oil retail business model and is ambitious to achieve more than 800 oil stations in 2022 (add 100 stations from 2021). However, ESSO has decided to scope only oil stations and outsource the F&B businesses in its petrol stations to its partners (JV with Minor Group (MINT)) as well as outsource operation of the convenience store business to Lotus Thailand (subsidiary of CP group). This should enhance throughput/station and drive a faster asset churn rate compared with other oil retailer companies (Bangchak Corporation (BCP), PTG energy (PTG) and PTT Oil and Retail Business (OR), in our view.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	126,672	172,878	183,915	200,434	197,600
EBITDA	(7,367)	8,375	25,141	7,881	7,766
Operating profit	(9,953)	5,550	22,341	5,081	4,966
Net profit (rep./act.)	(7,911)	4,443	18,023	4,325	4,121
Net profit (adj.)	(7,911)	4,443	7,260	4,325	4,121
EPS (Bt)	(2.3)	1.3	2.1	1.2	1.2
PE (x)	n.m.	10.7	6.5	11.0	11.5
P/B (x)	3.3	2.5	1.7	1.6	1.5
EV/EBITDA (x)	n.m.	7.8	2.6	8.3	8.4
Dividend yield (%)	0.0	1.1	2.2	1.5	1.5
Net margin (%)	(6.2)	2.6	9.8	2.2	2.1
Net debt/(cash) to equity (%)	217.5	187.6	64.4	51.0	38.4
Interest cover (x)	(20.4)	26.9	64.5	19.7	19.8
ROE (%)	n.a.	26.5	76.3	14.8	13.2
Consensus net profit	-	-	12,121	5,747	6,134
UOBKH/Consensus (x)	-	-	0.60	0.75	0.67

Source: Esso Thailand, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

HOLD

(Maintained)

Share Price	Bt13.70
Target Price	Bt12.50
Upside	-8.8%

COMPANY DESCRIPTION

Esso Thailand (ESSO) is Thailand's third-largest refiner in terms of capacity. ESSO runs a 174kbd refinery (16% of Thailand's refining capacity). ESSO also commands 17% market share of oil retailing in Thailand. Exxon Mobil is a controlling shareholder with 66% stake, followed by the state-owned Vayupak Fund which holds a 7.4% stake.

STOCK DATA

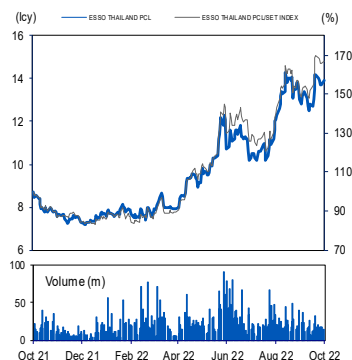
GICS sector	Energy
Bloomberg ticker:	ESSO TB
Shares issued (m):	3,460.9
Market cap (Btm):	47,413.8
Market cap (US\$m):	1,240.2
3-mth avg daily t'over (US\$m):	7.4
Price Performance (%)	
52-week high/low	Bt14.30/Bt7.20

1mth	3mth	6mth	1yr	YTD
(0.7)	29.2	73.4	59.3	86.4

Major Shareholders

	%
ExxonMobil International Holdings Inc.	66.0
NVDR	9.3
Vayupak Fund	7.4
FY22 NAV/Share (Bt)	8.10
FY22 Net Debt/Share (Bt)	5.21

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- GRM dropped sharply in 3Q22.** After hitting an all-time high in July, the Singapore gross refinery margin (GRM), which is the Asian benchmark GRM, plunged sharply to an average of US\$7.1/bbl in 3Q22 (from average of US\$21/bbl in 2Q22), resulting in sharp drops in gasoline crack spread due to the end of the summer driving season in the US, concern on a global economic downturn and a possible increase in export quota from Chinese refiners (in an attempt to help revive its economy during the lockdown). The results should hurt ESSO as 28% of its production volume is gasoline despite a higher run rate in 3Q22.
- Softening GRM to drag profit in 3Q22.** As mentioned above, we expect ESSO to post a core profit of Bt1.6b in 3Q22 based on GRM of US\$7.5/bbl and run rate of 77%. However, we see 3Q22 results being under pressure due to a 23% oil price collapse in 3Q22 with estimate net loss of Bt1.1b in 3Q22 to reflect an inventory loss of around Bt2.0b and forex loss of Bt750m, which are in line Star Petroleum Refining's (SPRC) numbers.

3Q22 RESULTS PREVIEW

	3Q22F (Btm)	3Q21 (Btm)	2Q22 (Btm)	yoy % chg	qoq % chg	9M22F (Btm)	9M21 (Btm)	yoy % chg
Sales	76,853	41,070	76,092	87	1	206,636	120,567	71
GRM	2,475	N/A	8,104	N/A	(69)	12,414	N/A	N/A
Inventory gains	(1,900)	N/A	3,133	N/A	(161)	8,054	N/A	N/A
EBITDA	(1,075)	779	11,086	(238)	(110)	18,074	6,717	169
Depre.	(724)	(711)	(724)	2	(0)	(2,166)	(2,108)	3
Net Profit	(1,100)	46	8,299	(2,474)	(113)	13,098	3,693	255
EPS	(0.32)	0.01	2.40	(2,474)	(113)	3.78	1.07	255
Core profit	1,550	N/A	5,792	N/A	(73)	7,711	N/A	N/A

* ESSO just declared market GRM since 2Q22

Source: ESSO, UOB Kay Hian

- A key beneficiary of refinery plant shutdowns in Thailand.** Like SPRC, we believe ESSO could benefit from IRPC's and PTT Global Chemical's (PTTGC) scheduled maintenance in 4Q22. We expect run rate to increase to 80% in 4Q22.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain HOLD with a rolled over target price of Bt12.50,** based on 10.0x 2023F PE, implying -1.0SD on regional peers. We believe share price upside is limited and earnings have already peaked.

SHARE PRICE CATALYST

- 3Q22: Expect a recovery in domestic demand.
- Oct 22: Hurricane season in the US.

OPERATING STATISTICS

	3Q22	3Q21	2022
GRM (US\$/bbl)	7.5	N/A	19.4
Inventory gain	(4.4)	N/A	7.5
Run rate (KBD)	3.1	4.0	26.9

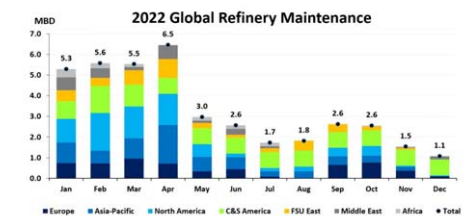
Source: UOB Kay Hian

SINGAPORE GRM



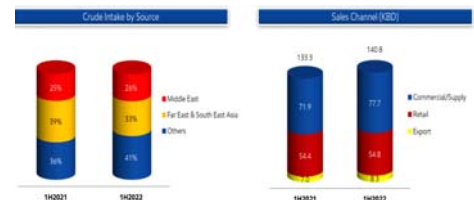
Source: UOB Kay Hian

GLOBAL REFINERY MAINTENANCE



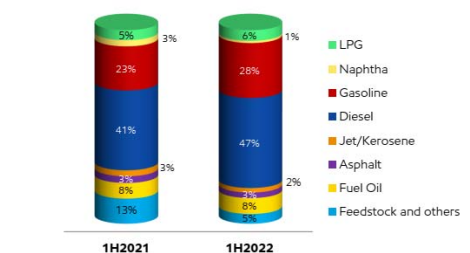
Source: TOP

CRUDE SOURCE AND SALES CHANNELS



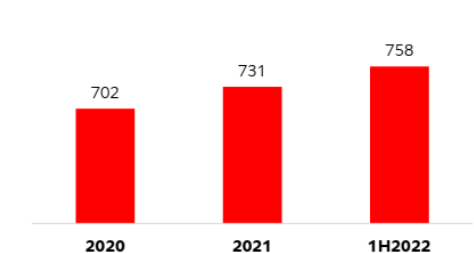
Source: ESSO

PRODUCTION YIELD



Source: ESSO

NO. OF SERVICE STATIONS



Source: ESSO

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	172,878	183,915	200,434	197,600
EBITDA	8,375	25,141	7,881	7,766
Deprec. & amort.	2,825	2,800	2,800	2,800
EBIT	5,550	22,341	5,081	4,966
Total other non-operating income	29	180	180	180
Associate contributions	227	400	547	400
Net interest income/(expense)	(311)	(390)	(400)	(392)
Pre-tax profit	5,495	22,531	5,408	5,154
Tax	(1,051)	(4,506)	(1,082)	(1,031)
Minorities	(1)	(2)	(2)	(2)
Net profit	4,443	18,023	4,325	4,121
Net profit (adj.)	4,443	7,260	4,325	4,121

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	1,191	21,783	6,027	8,273
Pre-tax profit	5,495	22,531	5,408	5,154
Tax	(1,051)	(4,506)	(1,082)	(1,031)
Deprec. & amort.	2,825	2,800	2,800	2,800
Working capital changes	(5,364)	(106)	(1,049)	1,351
Non-cash items	(1)	(2)	(2)	(2)
Other operating cashflows	(714)	1,066	(49)	1
Investing	(1,786)	(1,755)	(1,220)	(1,201)
Capex (growth)	(1,780)	(1,500)	(1,200)	(1,201)
Investments	(34)	(58)	0	0
Others	29	(197)	(20)	0
Financing	1,135	(13,013)	(3,360)	(7,728)
Dividend payments	0	(9,011)	(2,162)	(2,060)
Issue of shares	n.a.	n.a.	n.a.	n.a.
Proceeds from borrowings	1,135	(4,001)	(1,198)	(5,667)
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	540	7,015	1,446	(656)
Beginning cash & cash equivalent	262	802	7,817	9,263
Ending cash & cash equivalent	802	7,817	9,263	8,608

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	23,706	22,406	20,806	19,207
Other LT assets	12,565	9,200	9,270	9,270
Cash/ST investment	802	7,817	9,263	8,608
Other current assets	32,983	25,800	27,350	28,000
Total assets	70,055	65,223	66,689	65,084
ST debt	35,579	24,616	23,418	21,000
Other current liabilities	6,429	6,102	6,603	6,604
LT debt	1,249	1,249	1,249	0
Other LT liabilities	7,589	5,202	5,203	5,204
Shareholders' equity	19,201	28,046	30,208	32,269
Minority interest	7	7	7	7
Total liabilities & equity	70,055	65,223	66,689	65,084

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	4.8	13.7	3.9	3.9
Pre-tax margin	3.2	12.3	2.7	2.6
Net margin	2.6	9.8	2.2	2.1
ROA	6.8	26.6	6.6	6.3
ROE	26.5	76.3	14.8	13.2
Growth				
Turnover	36.5	6.4	9.0	(1.4)
EBITDA	n.a.	200.2	(68.7)	(1.5)
Pre-tax profit	n.a.	310.0	(76.0)	(4.7)
Net profit	n.a.	305.6	(76.0)	(4.7)
Net profit (adj.)	n.a.	63.4	(40.4)	(4.7)
EPS	n.a.	63.4	(40.4)	(4.7)
Leverage				
Debt to total capital	65.7	48.0	44.9	39.4
Debt to equity	191.8	92.2	81.7	65.1
Net debt/(cash) to equity	187.6	64.4	51.0	38.4
Interest cover (x)	26.9	64.5	19.7	19.8

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