

SECTOR UPDATE

Utilities – Thailand

Key Takeaways From Public Hearing For New PDP2024

Although our stance regarding the recent public hearing held last week remains neutral, we expect the utilities sector's share prices to rebound after 2.5 years of experiencing a sharp contraction, driven by potential interest rate cuts and a gradual decrease in gas costs. We expect the Thai power sector's earnings to grow strongly yoy and qoq in 2Q24 and 3Q24. We maintain an OVERWEIGHT rating on the sector, with GULF as our top pick.

WHAT'S NEW

- New PDP2024 public hearing kicks off.** Last week (12-13 June), the Energy Policy and Planning Office (EPPO) held public hearing forums on the draft Thailand Power Development Plan 202437 (PDP2024) and the draft Natural Gas Management Plan (Gas Plan 2024) for public and state enterprise sectors, as well as for the private sector in Bangkok and the surrounding areas. Following this, EPPO will collect opinions online from the Central and Northeastern regions on 17 June and from the Northern and Southern regions on 19 June. The draft of PDP2024 is expected to be submitted to the cabinet during its Sep 24 meeting and scheduled to be finalised within 2024 before being enforced in 2025.
- Higher renewable power plants with slightly higher tariff rate.** The new PDP2024 aims to support Thailand's carbon neutrality plan 2050. There are several issue from the new PDP2024: a) introducing the Loss of Load Expectation (LOLE), which allows for an electricity shortage of up to 0.7 days/year, to replace the reserve margin policy; b) increasing the capacity for renewable power plants to 51% of total capacity by 2037 (up from 36% in PDP 2018) while reducing the proportion of fossil fuel power plants (both gas and coal-fired) to 47% (from 64% in PDP 2018); c) addressing the rising electricity demand from electric vehicles (EVs), high-speed trains, mass transit expansion plans, and the Eastern Economic Corridor (EEC), as well as incorporating changes in energy peak load patterns to nighttime, d) introducing hydrogen into the mix for gas-fired power plants, and e) to build a 600MW small nuclear power plant in 2037. Overall, EPPO expects electricity rate to be Bt3.804/unit, up from Bt3.6369/unit in PDP2018.
- New round of renewable bidding next year, but IPP bidding may be delayed.** With the announcement of a new PDP2024 next year, we expect the bidding of 3.7GW of clean energy to take place in 2025. The 3.7GW capacity will come from solar floating power plant of 2.7GW and on-ground solar farms with 800MW. However, under the new PDP, the first new large-scale Independent Power Producers (IPPs) are expected to begin commercial operation in 2033. We expect the bidding for new large scale power plants will be take place in 2027 at the earliest.

PEER COMPARISON

Company	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit		PE		Net EPS Growth 2024F (%)	P/B 2024F (x)	Yield 2024F (%)	ROE 2024F (%)
						2024F (Btm)	2025F (Bt m)	2024F (x)	2025F (x)				
BCPG TB*	BUY	6.05	11.00	81.8	503	3,754	1,967	4.7	8.9	240.1	0.6	5.8	12.3
BGRIM TB*	BUY	22.70	38.00	67.4	1,642	2,510	2,640	23.6	22.4	33.2	2.2	0.9	5.5
BPP TB*	BUY	12.60	18.20	44.4	1,066	5,218	5,332	7.4	7.2	(1.9)	0.7	6.3	9.0
EGCO TB	BUY	103.00	150.00	45.6	1,505	8,392	9,170	6.5	5.9	200.1	0.5	6.6	7.8
GPSC TB*	BUY	42.50	70.00	64.7	3,326	5,631	6,304	21.3	19.0	52.4	1.1	4.2	4.8
GULF TB*	BUY	40.25	63.00	56.5	13,107	17,541	19,461	26.9	24.3	18.1	3.5	2.5	11.5
RATCH TB	BUY	27.00	40.00	48.1	1,630	8,113	8,525	7.2	6.9	57.0	0.6	6.3	7.5
Sector					22,780	51,159	53,400	21.7	19.8	42.9	2.5	3.4	9.5

Source: UOB Kay Hian, \* Coverage on our retail platform

OVERWEIGHT

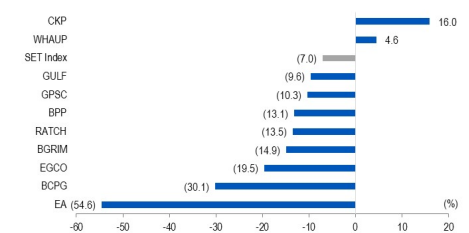
(Maintained)

STOCK PICKS

Company	Rec	Share Price (Bt)	Target Price (Bt)
GULF	BUY	39.75	63.0

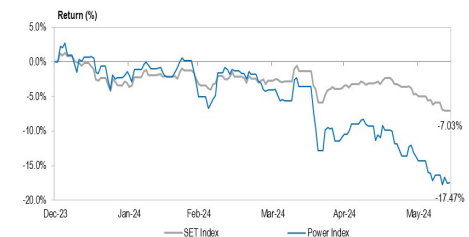
Note: Coverage on our retail platform  
Source: UOB Kay Hian

YTD SHARE PRICE PERFORMANCE (%)



Source: UOB Kay Hian

POWER INDEX (%)



Source: UOB Kay Hian

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**ACTION**

- **Maintain OVERWEIGHT.** Concerns about a prolonged high interest rate period and delay of announcement of new PDP have caused a 17% fall ytd in the sector's prices, which have significantly underperformed the SET index. We believe the share price correction is overdone. The utilities sector has the potential to make an impressive earnings recovery in 2Q24 on seasonal demand and provide impressive dividend outlook. In addition, the market is expecting the Fed to signal one interest rate cut this year, four in 2025, and four in 2026. We think this would be a boon to the utilities sector as it benefits from lower borrowing rates, and it also provides impressive dividend yields compared with bonds after the recent share price correction.
- **GULF is our top pick.** We like Gulf Energy (GULF) for its healthy core profit in 2024, on the back of: a) a full-year contribution from its Gulf Pluak Daeng power plant which is in the pipeline, b) contribution from Hin kong power plant (COD in Mar 24 and Mar 25), and c) potential M&As.

**ASSUMPTION CHANGES**

- We maintain our core profit forecasts for all power companies under our coverage.
- **Interest rate sensitivity.** Based on our sensitivity analysis, we have identified a negative correlation of 62% between the US 10-year yield and the performance of Thai utilities share prices over the past two years. However, after analysing the impact of interest rate changes on the Thai power companies in our universe, we find that Global Power Synergy (GPSC) and Banpu Power (BPP) are the most affected by interest rate fluctuations. We also foresee limited impact from interest rate adjustments on Thai power companies, with only a 1.0-4.0% impact on core profits, as many Thai power companies have low debt levels (~1.0x D/E) with 33-95% of outstanding loans having fixed interest rates.
- **Ft and gas cost sensitivity.** We also ran a sensitivity analysis on the earnings impact of fluctuations in gas costs and fuel charges (Ft) on the SPPs under our coverage. Overall, a positive impact from lower gas costs will likely outweigh the negative impact from lower Ft charges. We conclude that B.Grimm Power (BGRIM) and GPSC are the most affected by fluctuations in gas costs and Ft charges. Every Bt0.01/unit change in Ft charges would impact their earnings by around 0.8% (impact on GULF: ~0.2%) while every Bt1.0/MMBTU change in gas prices would impact BGRIM's and GPSC's earnings by around 0.7% and 0.4% respectively (impact on GULF: ~ 0.1%).

**SECTOR CATALYSTS**

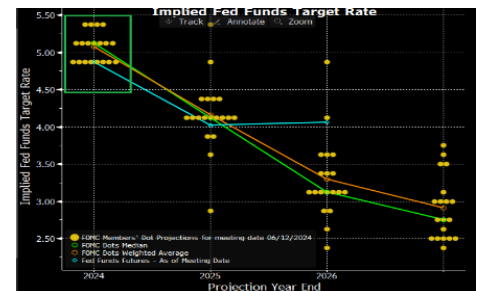
- 2Q24: Seasonal demand for IPPs with higher margin outlook for SPP.
- 2H24: Announcement of a new PDP.

**PROPORTION OF ELECTRICITY SALES FOR INDUSTRIAL USERS**



Source: UOB Kay Hian

**EXPECTED FED RATE CUTS IN 2024-26**



Source: UOB Kay Hian, EPPO

**FEED-IN-TARIFF OF RENEWABLE**

	FIT (Baht/kWhr)
Biogas (wastewater/waste)	2.0724
Ground-mounted solar power	2.1679
Ground-mounted solar + battery storage	2.8331
Wind power	3.1014

Source: EPPO, WFW

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