

COMPANY UPDATE

PTT Exploration & Production (PTTEP TB)

Arthit CCS Off To A Good Start

We are positive on PTTEP's Arthit project, a significant gas production field. Additionally, we will gather information on the CCSaaS project, which marks the start to achieving net-zero GHG emissions by 2065. In the short term, there is still support from the expected core profit in 2Q24 that is forecast to grow both qoq and yoy on the back of increases in ASP and sales volume. PTTEP is our top pick in the oil and gas sector. **Maintain BUY. Target price: Bt200.00.**

WHAT'S NEW

- **Information from PTT Exploration & Production's (PTTEP) site visit in Arthit field.**
- **CCSaaS Project and net-zero 2065 target.** The Carbon Capture and Storage as a Service (CCSaaS) project is part of PTTEP's sustainability and environmental management strategy. The company aims to reduce greenhouse gas (GHG) emissions by 40% by 2030 (from the baseline of 2020) and achieve net-zero GHG emissions by 2065.
- **A good start from Arthit.** The CCSaaS project is one of PTTEP's new businesses in decarbonisation (capex US\$300m-400m from 2024-33). It is an initiative aimed at reducing carbon dioxide (CO2) emissions from the natural gas production operations of Arthit in the Gulf of Thailand. The CCSaaS project will transport and store the captured CO2 in the rock layer. PTTEP will use the north of the Gulf of Thailand as a CO2 storage area to prevent it from entering the atmosphere and causing climate change. The gas production process of the Arthit project emits 1.0m tons of CO2 per year.
- **Thailand considered one of the areas with high potential for developing CCSaaS projects.** Asia Pacific is one of the three areas in the world with a large number of CCSaaS projects, after North America and Europe, because it is an area with high potential for project development. Currently, there are many successful projects such as Sleipner of Norway and Hynet of England. Meanwhile, PTTEP plans to develop the north of the Gulf of Thailand as a storage area for CO2 from the Arthit project and CO2 from the production process of PTT Group, with factories in the Eastern Economic Corridor (EEC) area, including the possibility of expanding the CCSaaS project to receive CO2 from countries with high CO2 emissions but no potential for storage, such as Japan, South Korea and Taiwan, which will be a long-term extension of PTTEP's CCSaaS project.

KEY FINANCIALS

| Year to 31 Dec (Btm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 331,350 | 300,694 | 319,617 | 345,503 | 352,148 |
| EBITDA | 253,734 | 232,446 | 251,346 | 273,102 | 281,601 |
| Operating profit | 170,566 | 151,124 | 142,122 | 150,888 | 150,097 |
| Net profit (rep./act.) | 70,901 | 76,705 | 79,400 | 84,167 | 83,747 |
| Net profit (adj.) | 90,721 | 78,654 | 79,400 | 84,167 | 83,747 |
| EPS (Bt) | 22.9 | 19.8 | 20.0 | 21.2 | 21.1 |
| PE (x) | 6.6 | 7.6 | 7.5 | 7.1 | 7.1 |
| P/B (x) | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 |
| EV/EBITDA (x) | 2.5 | 2.8 | 2.6 | 2.4 | 2.3 |
| Dividend yield (%) | 6.1 | 6.3 | 6.6 | 7.3 | 7.3 |
| Net margin (%) | 21.4 | 25.5 | 24.8 | 24.4 | 23.8 |
| Net debt/(cash) to equity (%) | 2.3 | (1.6) | 9.0 | 11.8 | 11.2 |
| Interest cover (x) | 30.9 | 22.7 | 25.1 | 25.2 | 26.0 |
| ROE (%) | 16.7 | 16.6 | 15.8 | 15.5 | 14.2 |
| Consensus net profit | - | - | 74,666 | 69,824 | 65,629 |
| UOBKH/Consensus (x) | - | - | 1.06 | 1.21 | 1.28 |

Source: PTT Exploration & Production, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|----------|
| Share Price | Bt152.00 |
| Target Price | Bt200.00 |
| Upside | +31.6% |

COMPANY DESCRIPTION

PTTEP explores for crude oil and natural gas, develops fields for production.

STOCK DATA

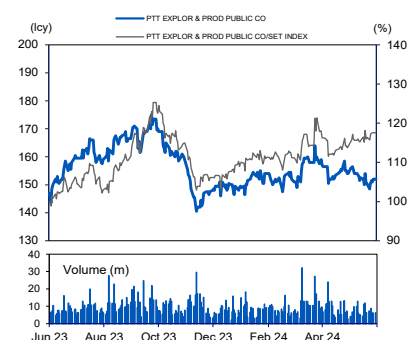
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|---------------------------------|-------------------|
| GICS sector | Energy |
| Bloomberg ticker: | PTTEP TB |
| Shares issued (m): | 3,970.0 |
| Market cap (Btm): | 597,482.8 |
| Market cap (US\$m): | 16,225.8 |
| 3-mth avg daily t'over (US\$m): | 37.6 |
| Price Performance (%) | |
| 52-week high/low | Bt175.00/Bt140.50 |

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|-------|------|-------|-----|
| (2.9) | (2.3) | 2.0 | (1.6) | 0.7 |

Major Shareholders

| | % |
|--------------------------|--------|
| PTT | 64.8 |
| NVDR | 6.2 |
| Social Security Office | 2.0 |
| FY24 NAV/Share (Bt) | 131.52 |
| FY24 Net Debt/Share (Bt) | 11.83 |

PRICE CHART



Source: Bloomberg

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- **There are still challenges in developing the CCSaaS project.** However, the development of CCSaaS projects still has challenges from: a) regulations and government support measures must be clear. Currently, there are many countries in ASEAN, especially Indonesia, which have made the most progress in regulations and government support measures, while Thailand is still unclear on this issue, and b) exploring potential target areas for sequestration, as reaching the goal of net-zero GHG emissions by 2065 requires 40m tons of carbon sequestration, and the northern Gulf of Thailand is still insufficient.
- **The project is starting with the collaboration of the PTT Group and G2G.** The CCSaaS project has initiated study and development for the first time in Thailand at the Arthit field since 2021, with plans to start utilising CCSaaS technology at the Arthit natural gas field by 2027. Concurrently, the CCSaaS project in the northern Gulf of Thailand is the start to the feasibility study of both the Eastern CCS Hub in partnership with the PTT Group and a joint study with INPEX Corporation, Japan's largest petroleum exploration and production company, under the government to government collaboration project. This initiative involves the Thai Ministry of Energy and Japan's Ministry of Economy, Trade and Industry. Additionally, PTTEP is also in the process of studying and developing the CCSaaS project at the Lang Lebah as part of the Malaysia SK 410B project.

STOCK IMPACT

- **Expect 2Q24 core profit to increase both qoq and yoy.** The positive factors supporting PTTEP's core profit growth in 2Q24 include: a) increased sales volume, with petroleum sales volume projected at 514KBD, up 9% qoq and 16% yoy, driven by higher output from the Erawan and B8/32 projects; and b) higher ASPs, which should increase qoq and yoy, in line with crude oil price trends, while gas prices should remain stable at US\$5.90/MMBTU. These factors will offset higher production costs, expected at US\$28-29/bbl (vs US\$28.96/bbl in 1Q24 and US\$26.41/bbl in 2Q23).

EARNINGS REVISION/RISK

- **Earnings revision:** None.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of Bt200.00,** based on average five-year regional forward PE of 10x. PTTEP will continue to benefit from strong crude oil prices and 2Q24 core profit expectations that will grow both qoq and yoy. Our top picks in the oil and gas sector are PTT Exploration and Production (PTTEP TB/BUY/Target: Bt200.00), Bangchak Corporation (BCP TB/BUY/Target: Bt52.00), and Bangchak Sriracha (BSRC TB/BUY/Target: Bt15.00).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

| |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CG Report: 5 |
| SET ESG Rating: AAA |
| <ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Carbon Capture and Storage (CCS): PTTEP is leading Thailand's first carbon capture project, set for completion by 2026. This project is key to PTTEP's plan to reach carbon neutrality by 2050 and net-zero emissions by 2065, focusing on reducing oil production emissions with potential for broader industry applications. - Renewable Energy Investments: PTTEP has invested in a 25.5% stake in Scotland's Seagreen Offshore Wind Farm. This investment is part of its strategy to shift to cleaner energy, aiming to cut its carbon footprint and diversify its energy sources. • Social <ul style="list-style-type: none"> - Community Engagement: PTTEP invests in education, healthcare, and infrastructure in its operating regions to improve quality of life and support sustainable development. - Employee Welfare: PTTEP prioritises fair labour, safety, and continuous training to ensure a safe and supportive work environment for its employees. • Governance <ul style="list-style-type: none"> - Supplier ESG Assessment: PTTEP requires suppliers to meet strict ESG criteria, including business ethics, safety, and environmental impacts, to ensure sustainable and ethical procurement. - ESG Risk Management: PTTEP maintains a strong ESG risk management framework with regular assessments to comply with international standards and address operational risks, as reflected in its Sustainability ESG rating. |

GLOBAL CCS STATUS



Source: PTTEP and UOB Kay Hian

THAILAND'S DECARBONISATION GOAL



Source: PTTEP and UOB Kay Hian

PTTEP'S COMMITMENT TO HELP THE COUNTRY

Arthit Upstream CCS as National pilot project (Thailand's NDC flagship)



Source: PTTEP and UOB Kay Hian

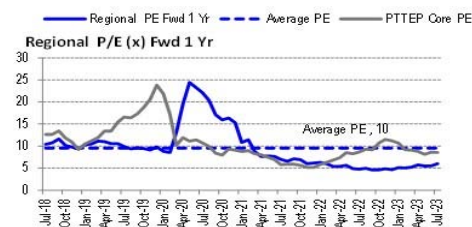
FUTURE PROJECT

Looking into the future: As NDC, PTT Group is leading the development of Thailand's national CCS hub



Source: PTTEP and UOB Kay Hian

FIVE-YEAR REGIONAL FORWARD PE BAND



Source: PTTEP, Bloomberg, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Btm) | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|----------|----------|----------|----------|
| Net turnover | 300,694 | 319,617 | 345,503 | 352,148 |
| EBITDA | 232,446 | 251,346 | 273,102 | 281,601 |
| Deprec. & amort. | 81,322 | 109,224 | 122,214 | 131,505 |
| EBIT | 151,124 | 142,122 | 150,888 | 150,097 |
| Associate contributions | 1,477 | 1,550 | 1,628 | 1,709 |
| Net interest income/(expense) | (10,243) | (10,002) | (10,820) | (10,820) |
| Pre-tax profit | 140,408 | 133,670 | 141,696 | 140,986 |
| Tax | (63,704) | (54,271) | (57,529) | (57,241) |
| Minorities | 0 | 0 | 0 | 2 |
| Net profit | 76,705 | 79,400 | 84,167 | 83,747 |
| Net profit (adj.) | 78,654 | 79,400 | 84,167 | 83,747 |

CASH FLOW

| Year to 31 Dec (Btm) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|----------|-----------|-----------|-----------|
| Operating | 151,851 | 135,580 | 200,678 | 213,254 |
| Pre-tax profit | 140,408 | 133,670 | 141,696 | 140,986 |
| Tax | (63,704) | (54,271) | (57,529) | (57,241) |
| Deprec. & amort. | 81,322 | 109,224 | 122,214 | 131,505 |
| Working capital changes | (22,089) | (53,043) | (5,702) | (1,996) |
| Other operating cashflows | 15,914 | 0 | 0 | 0 |
| Investing | (82,447) | (152,533) | (181,565) | (173,032) |
| Investments | (76,751) | (151,060) | (179,550) | (172,515) |
| Others | (5,696) | (1,473) | (2,015) | (517) |
| Financing | (51,416) | (47,327) | (39,040) | (41,384) |
| Dividend payments | (36,720) | (37,715) | (39,040) | (41,384) |
| Proceeds from borrowings | (14,696) | (9,612) | 0 | 0 |
| Net cash inflow (outflow) | 17,988 | (64,279) | (19,927) | (1,162) |
| Beginning cash & cash equivalent | 122,324 | 137,542 | 73,262 | 53,336 |
| Changes due to forex impact | (2,770) | 0 | 0 | 0 |
| Ending cash & cash equivalent | 137,542 | 73,262 | 53,336 | 52,174 |

BALANCE SHEET

| Year to 31 Dec (Btm) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|----------------|----------------|----------------|------------------|
| Fixed assets | 440,271 | 482,107 | 539,443 | 580,454 |
| Other LT assets | 227,750 | 241,467 | 260,231 | 265,048 |
| Cash/ST investment | 137,542 | 73,262 | 53,336 | 52,174 |
| Other current assets | 97,259 | 106,129 | 115,176 | 117,998 |
| Total assets | 902,821 | 902,966 | 968,186 | 1,015,673 |
| ST debt | 9,612 | 0 | 0 | 0 |
| Other current liabilities | 78,978 | 34,806 | 38,150 | 38,976 |
| LT debt | 120,225 | 120,225 | 120,225 | 120,225 |
| Other LT liabilities | 194,563 | 206,807 | 223,557 | 227,856 |
| Shareholders' equity | 480,462 | 522,147 | 567,274 | 609,633 |
| Total liabilities & equity | 902,821 | 902,966 | 968,186 | 1,015,673 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|--------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 77.3 | 78.6 | 79.0 | 80.0 |
| Pre-tax margin | 46.7 | 41.8 | 41.0 | 40.0 |
| Net margin | 25.5 | 24.8 | 24.4 | 23.8 |
| ROA | 8.7 | 8.8 | 9.0 | 8.4 |
| ROE | 16.6 | 15.8 | 15.5 | 14.2 |
| Growth | | | | |
| Turnover | (9.3) | 6.3 | 8.1 | 1.9 |
| EBITDA | (8.4) | 8.1 | 8.7 | 3.1 |
| Pre-tax profit | (1.9) | (4.8) | 6.0 | (0.5) |
| Net profit | 8.2 | 3.5 | 6.0 | (0.5) |
| Net profit (adj.) | (13.3) | 0.9 | 6.0 | (0.5) |
| EPS | (13.3) | 0.9 | 6.0 | (0.5) |
| Leverage | | | | |
| Debt to total capital | 20.6 | 18.2 | 17.0 | 16.1 |
| Debt to equity | 27.0 | 23.0 | 21.2 | 19.7 |
| Net debt/(cash) to equity | (1.6) | 9.0 | 11.8 | 11.2 |
| Interest cover (x) | 22.7 | 25.1 | 25.2 | 26.0 |

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