

Shall the gas glory come back?

- Defensive but “value trap” play
- Deteriorating earnings from core gas, refinery, retail oil station, and chemical associates worsened valuation
- Initiated with a NEUTRAL and a SoTP TP of THB35.0

Defensive share price on striking regulatory risks

PTT's share price has been in doldrums in the past few years, suppressed by the multiple and incessant regulatory risks, a series of impairments from PTT and its subsidiaries and associates, and the weak earnings from the core gas and downstream refinery and petrochemical businesses. Only the upstream PTTEP has seen earnings growth thanks to its high-sales volume growths from acquisitions.

Core gas: from crown jewel to grounded civil

Once a long-standing a crown jewel, PTT's core gas businesses – sales and marketing (S&M), the utility-like gas transmission pipeline tariff, the once-lucrative gas separation plants (GSPs), the steady LNG terminal fee – are now heading nowhere but southward due to the changes caused by regulatory forces that led to deteriorating revenues from transmission tariff, low gas sales volume, and weaker GSPs' margins. In 9M24, gas EBITDA dipped 1% y-y to THB48b, led by the plunging EBITDA from GSPs but mostly offset by the lower loss from Natural Gas for Vehicle (NGV).

GSPs: from growth engine to cash resin

GSPs, once PTT's growth engine, is now turned into a poor cash machine as a result of 1) depressed and long downcycle margins of olefins; and 2) the higher gas cost after the changing formula to a single pool gas pricing in mid-2024, leading to poor EBITDA in 9M24 from GSPs collapsed from THB16.1b in 9M23 to THB5.7b in 9M24.

Only PTTEP is a white knight to PTT

Besides the strong net profit contribution from PTT's 65% stake in the E&P upstream PTTEP (THB40.8b in 9M24), all other downstream refinery and petrochemical associates have seen their profitability going south. TOP now suffered from poor gross refining margins and CFP upgrading construction project grounded to halt (USD5.3b) while PTTGC and IRPC both witnessed depressed earnings from the olefins and aromatics businesses.

HOLD at TP THB35.00

We initiated coverage on PTT with a HOLD and a SoTP TP of THB35. We think the valuations of PTT's core gas business, downstream refinery (TOP) and retail oil station (OR) and petrochemical associates (PTTGC, IRPC) are justifiably low due to their poorer margin visibilities plus the unpredictable regulatory risks all make us turn neutral to PTT.

Analyst

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ESG Rating : AAA

CG Rating : ▲▲▲▲▲

HOLD

Target Price 12M (THB)	35.00
VS. BB Consensus TP (%)	-4.7%
Share Price (THB)	32.25
Upside/Downside	+8.5%

Share Data

Market Cap (THB m)	921,156.63
Par (THB)	1.00
Free Float (%)	48.88
Issued shares (m shares)	28,553

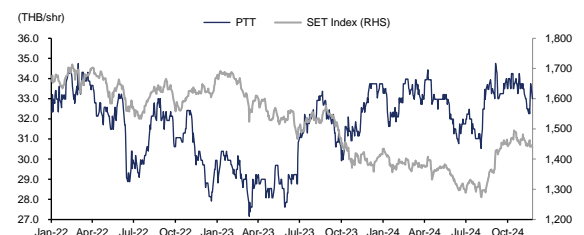
Financial forecast

YE Dec (THB m)	2023	2024E	2025E	2026E
Revenue	3,144,551	2,703,511	2,498,704	2,663,416
Net profit	112,024	108,989	105,642	106,470
Core net profit	112,548	108,989	105,642	106,470
vs Consensus (%)	-	8.1	1.1	(0.7)
Net profit growth (%)	22.9	(2.7)	(3.1)	0.8
Core net profit growth (%)	10.1	(3.2)	(3.1)	0.8
EPS (THB)	3.92	3.82	3.70	3.73
Core EPS (THB)	3.94	3.82	3.70	3.73
Chg in core EPS (%)	-	0.00	0.00	0.00
DPS (THB)	1.50	0.95	0.92	0.93
P/E (x)	9.12	8.45	8.72	8.65
P/BV (x)	0.91	0.77	0.72	0.68
ROE (%)	10.35	9.38	8.50	8.05
Dividend yield (%)	4.20	2.96	2.87	2.89

Source: Financial Statement and Globlex securities

Share Price Performance (%)

	1M	3M	6M	YTD
Stock	(5.84)	(3.01)	(2.27)	(9.79)
Market	(4.19)	(7.24)	(6.74)	(10.56)
12M High/Low (THB)				36.25 / 31.25



Major Shareholders (%) as of 29 Aug 2024

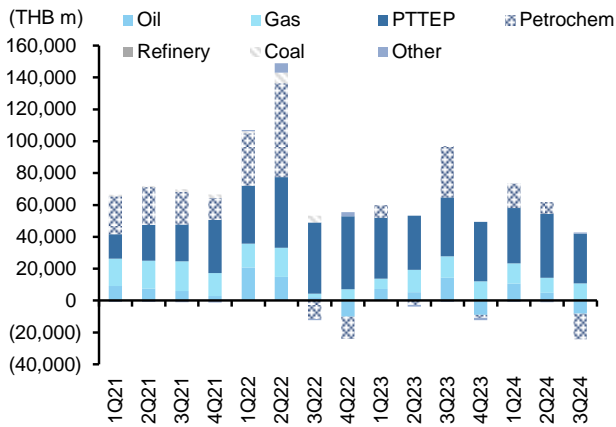
Ministry of Finance	51.11
Vayupak Fund 1 by MFC Asset management	6.08
Vayupak Fund 1 by Krungthai Asset management	6.08

Company Profile

The Company's operated businesses consist of natural gas, gas transmission, international trading, new business and infrastructure business; the rest are invested through subsidiaries joint arrangements and associates, and PTT Group, namely exploration and production, liquefied natural gas, petrochemical and refining, oil and retail, power and utilities, coal and service businesses.

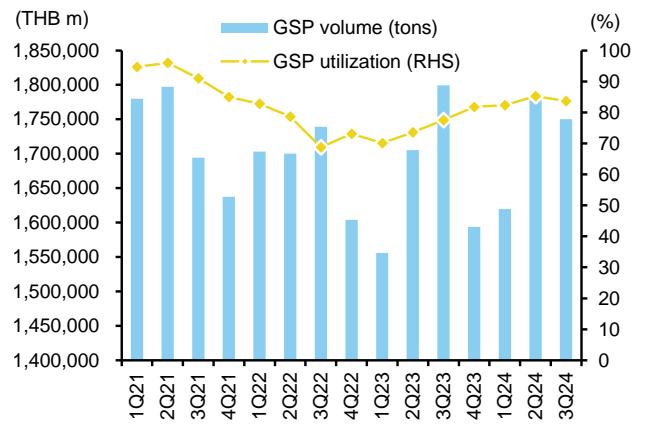
Source: SETSMART, SET

Exhibit 1: PTT's EBIT breakdown



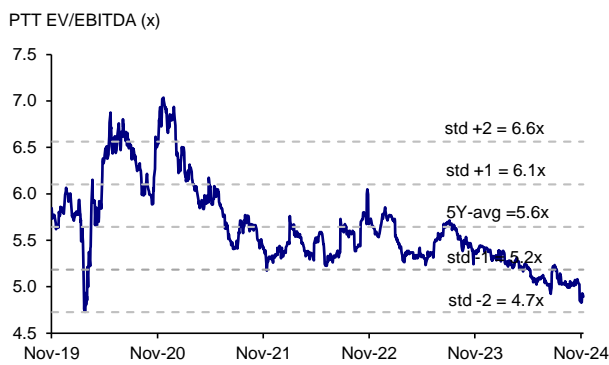
Sources: PTT, Globlex Research

Exhibit 2: PTT's GSP volume vs GSP utilisation rate



Sources: PTT, Globlex Research

Exhibit 3: Prospective EV/EBITDA band



Sources: Bloomberg, Globlex Research

Exhibit 4: Prospective P/BV band



Sources: Bloomberg, Globlex Research

Exhibit 5: PTT's SoTP valuation

# share outstanding	28,190	m shares	
PTT valuation - Fair price	THB m	THB/shr	Comments
PTT core gas and oil trading	651,766	23.1	DCF @ 10.4%
Net debt	(140,066)	(5.0)	2025E net debt
Net core gas and trading business	511,700	18.2	
PTTEP	301,326	10.7	At target price of THB140/shr
TOP	41,067	1.5	At target price of THB41/shr
PTTGC	59,614	2.1	At market price of THB27/shr
IRPC	10,950	0.7	At market price of THB1.5/shr
OR	104,324	3.7	At market price of THB14/shr
Other LT investments	194,348	6.9	
Total non-core value	711,629	25.5	
Equity value	1,223,329	43.7	
Discount	20%	8.7	
Target price		35.0	

Sources: PTT; Globlex Research

Balance sheet (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Current assets					
Cash & ST investment	341,273	418,353	587,885	853,173	1,062,996
Account receivable	219,054	259,813	223,373	206,451	220,060
Inventories	271,854	263,499	226,542	209,380	223,182
Others	395,374	334,075	364,711	339,812	384,533
Non-current assets					
Net fixed assets	402,308	330,588	249,659	159,523	60,179
Others	1,785,768	1,854,135	1,730,776	1,730,776	1,730,775
Total Assets	3,415,632	3,460,462	3,382,945	3,499,116	3,681,725
Current liabilities					
Account payable	318,688	323,482	278,112	257,043	273,987
ST borrowing	114,763	122,748	130,733	138,718	146,703
Others	159,089	142,480	142,480	142,480	142,480
Long-term liabilities					
Long-term debts	924,943	863,303	858,303	853,303	848,303
Others	364,456	383,474	300,355	320,152	366,348
Total liabilities	1,881,940	1,835,486	1,709,982	1,711,696	1,777,821
Paid-up capital	28,563	28,563	28,563	28,563	28,563
Retained earnings	994,817	1,063,424	1,145,165	1,224,396	1,304,249
Others	29,211	29,211	29,211	29,211	29,211
Minority interest	481,102	503,778	470,024	505,249	541,881
Shareholders' equity	1,533,693	1,624,975	1,672,963	1,787,419	1,903,904

Key ratios					
Year ending Dec	2022	2023	2024E	2025E	2026E
Growth (%YoY)					
Sales	49.1	(6.6)	(14.0)	(7.6)	6.6
Operating profit	20.3	(12.9)	2.1	1.0	2.5
EBITDA	20.3	(12.9)	2.1	1.0	2.5
Net profit	(15.9)	22.9	(2.7)	(3.1)	0.8
Core net profit	14.5	10.1	(3.2)	(3.1)	0.8
EPS	(15.9)	22.9	(2.7)	(3.1)	0.8
Core EPS	14.5	10.1	(3.2)	(3.1)	0.8
Profitability (%)					
Gross margin	18.0	17.3	20.6	21.0	18.4
Operation margin	14.0	13.1	15.6	17.0	16.4
EBITDA margin	14.0	13.1	15.6	17.0	16.4
Net margin	2.7	3.6	4.0	4.2	4.0
ROE	9.9	10.4	9.4	8.5	8.1
ROA	4.7	5.0	5.0	4.9	4.8
Stability					
Interest bearing debt/equity (x)	0.7	0.6	0.6	0.6	0.5
Net debt/equity (x)	0.5	0.3	0.2	0.1	n.a.
Interest coverage (x)	8.1	5.1	5.2	5.2	5.2
Interest & ST debt coverage (x)	2.0	1.4	1.3	1.2	1.2
Cash flow interest coverage (x)	0.1	0.1	0.2	0.2	0.2
Current ratio (x)	2.1	2.2	2.5	3.0	3.4
Quick ratio (x)	0.9	1.2	1.5	2.0	2.3
Net debt (THB m)	698,433	567,698	401,151	138,847	(67,990)
Activity					
Asset turnover (X)	1.0	0.9	0.8	0.7	0.7
Days receivables	22.5	27.8	32.6	31.4	29.2
Days inventory	31.9	37.6	41.6	40.3	36.3
Days payable	42.0	45.1	51.1	49.5	44.6
Cash cycle days	12.4	20.3	23.1	22.2	21.0

Profit & loss (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Revenue	3,367,203	3,144,551	2,703,511	2,498,704	2,663,416
Cost of goods sold	(2,761,223)	(2,600,875)	(2,147,579)	(1,973,690)	(2,174,381)
Gross profit	605,979	543,676	555,931	525,014	489,035
Operating expenses	(133,191)	(131,769)	(135,176)	(99,948)	(53,268)
Operating profit	472,788	411,907	420,756	425,066	435,767
EBIT	299,781	229,692	229,333	224,435	225,928
Depreciation	(173,007)	(182,215)	(191,423)	(200,631)	(209,838)
EBITDA	472,788	411,907	420,756	425,066	435,767
Non-operating income	(5,484)	21,761	0	0	0
Other incomes	0	0	0	0	0
Other non-op income	(5,484)	21,761	0	0	0
Non-operating expense	(87,585)	(17,873)	(14,960)	(13,449)	(11,899)
Interest expense	(37,091)	(45,383)	(43,692)	(43,438)	(43,185)
Other non-op expense	(50,494)	27,511	28,732	29,990	31,285
Equity income/(loss)	5,849	3,013	3,314	3,645	4,010
Pre-tax Profit	212,562	236,593	217,687	214,632	218,039
Extraordinary items					
Current taxation	(90,462)	(81,313)	(74,815)	(73,765)	(74,936)
Minorities	(30,925)	(43,256)	(33,883)	(35,225)	(36,632)
Net Profit	91,175	112,024	108,989	105,642	106,470
Core net profit	102,211	112,548	108,989	105,642	106,470
EPS (THB)	3.19	3.92	3.82	3.70	3.73
Core EPS (THB)	3.58	3.94	3.82	3.70	3.73

Cash flow (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Operating cash flow	250,528	272,180	303,356	305,548	317,352
Net profit	91,175	112,024	108,989	105,642	106,470
Depre. & amortization	173,007	182,215	191,423	200,631	209,838
Change in working capital	(13,654)	(22,059)	2,944	(725)	1,044
Others	0	0	0	0	0
Investment cash flow	(130,794)	(130,332)	(200,867)	(183,263)	(176,063)
Net CAPEX	(131,633)	(131,633)	(203,000)	(185,100)	(177,900)
Change in LT investment	0	0	0	0	0
Change in other assets	838	1,301	2,133	1,837	1,837
Free cash flow	119,733	141,848	102,489	122,285	141,289
Financing cash flow	(82,937)	(126,630)	(165,862)	(108,304)	(112,536)
Change in share capital	0	0	0	0	0
Net change in debt	14,354	(1,775)	(20,320)	0	0
Dividend paid	(20,000)	(20,842)	(23,598)	(22,952)	(23,249)
Others	(77,291)	(104,013)	(121,944)	(85,352)	(89,288)
Net cash flow	36,796	15,218	(63,373)	13,980	28,753

Per share (THB)					
EPS	3.19	3.92	3.82	3.70	3.73
Core EPS	3.58	3.94	3.82	3.70	3.73
CFPS	10.33	11.82	11.70	11.96	12.36
BVPS	36.85	39.25	42.12	44.89	47.68
Sales/share	117.89	110.09	94.65	87.48	93.25
EBITDA/share	16.55	14.42	14.73	14.88	15.26
DPS	2.00	1.50	0.95	0.92	0.93
Valuation					
P/E (x)	10.4	9.1	8.5	8.7	8.7
P/BV (x)	0.90	0.91	0.77	0.72	0.68
Dividend yield (%)	6.02	4.20	2.96	2.87	2.89
Dividend payout ratio (%)	62.66	38.25	25.00	25.00	25.00

GENERAL DISCLAIMER

Analyst Certification

Siriluck Pinthusoonthorn, Register No. 119539, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

- BUY:** Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.