

**BUY** (Unchanged)**TP: Bt 176.00** (From: Bt 170.00)**12 MAY 2014**

Change in Numbers

Upside : 13.2%

# PTT Exp. & Production (PTTEP TB)

## 2H14F recovery on the way

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Despite a mix of factors, we forecast PTTEP to post net positive earnings in 2014-16 with an improving operating risk profile. 1Q14F looks set to be the trough quarter but we expect a clear recovery in 2H14. Despite the sector still being in value-trap mode, we view PTTEP's 8.9x 2014F PE as inexpensive. **BUY.**

### Earnings improvement in 2H14F

We still see oil stocks as being in value-trap mode. Yet, we view PTTEP's 8.9x 2014F PE as inexpensive given a 20% discount to its 10-year trading average and a 27% discount to peers. We maintain our BUY rating on PTTEP to a 12-month DCF-based TP of Bt176.0, which has been lifted by 3.5% with the acquisition of Hess's Thai assets. Though we forecast an earnings recovery in 2Q14, expected dry well expenses of US\$30m should limit the upside (a US\$62m abnormal cost in 1Q14). Yet, we expect the full-quarter operation of Hess's Thailand assets to boost earnings from 2H14. We see the full-year contribution from Hess's assets and debut Algeria volume due in 2015 protecting our earnings growth forecast on our 5% drop in the Brent oil price assumption.

### Fine-tune earnings for 2014-16F

We fine-tune 2014-16F normalized earnings by 1-6% to reflect our new volume assumptions following PTTEP's recent guidance. We see the further 31% cut in Australia-based Montara's volume to 18kbd for 2014 having a negligible impact on our earnings forecast since the project generates tiny profit. Meanwhile, we expect Hess's assets in Thailand to replace this volume.

### Hess's assets to cover M9 delay penalty

We factor in the US\$1bn recent acquisition cost of Hess's assets. PTTEP's stake in Contract 4 is to rise to 60% (from 45% now), and in Sin Phu Hom to 55% (from 20%). Its 2P reserves should increase by 5% to 1,793m BoE from end 2013. We forecast the assets to add US\$56m and US\$86m to PTTEP's profit in 2014-15, offsetting expected US\$54m and US\$19m lower earnings from M9 from the penalty for our 4.5-month volume delivery delay assumption. PTTEP is studying options to claim compensation.

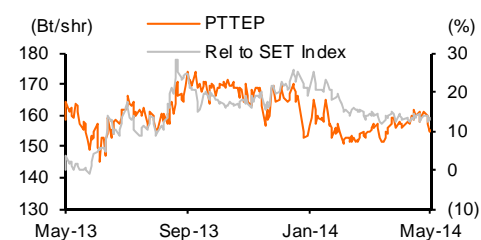
### Improving operating risk profile

We expect the Kai Kos Dehseh (KKD) oil sands project assets swap due to be completed in 2Q14 to end the losses from current fluctuations in the WCS differential. The differential should narrow when KKD's production starts up again, scheduled for 2019, as construction of major Canadian pipelines should be complete by that time, solving the logistics hiccup to the US market and the Canadian east coast. With more lower-risk and high-return Thai assets (via Hess), we forecast PTTEP's high EBITDA margin of above 70% to be sustained in 2014-16. We also see PTTEP's plan of seeking new strategic partners in Australia (Cash & Maple) further reducing risk for the company as it doesn't have much experience in processing LNG gas.

### COMPANY VALUATION

Y/E Dec (Bt m)	2013A	2014F	2015F	2016F
Sales	224,973	273,824	280,159	263,852
Net profit	56,155	68,300	71,503	68,218
Consensus NP	—	63,475	66,666	69,313
Diff frm cons (%)	—	7.6	7.3	(1.6)
Norm profit	59,238	69,030	71,503	68,218
Prev. Norm profit	—	68,332	68,428	64,407
Chg frm prev (%)	—	1.0	4.5	5.9
Norm EPS (Bt)	14.9	17.4	18.0	17.2
Norm EPS grw (%)	(16.9)	16.5	3.6	(4.6)
Norm PE (x)	10.4	8.9	8.6	9.0
EV/EBITDA (x)	4.2	3.5	3.3	3.7
P/BV (x)	1.6	1.4	1.3	1.2
Div yield (%)	3.9	4.4	4.6	4.4
ROE (%)	16.6	17.0	15.9	13.9
Net D/E (%)	14.2	13.9	12.6	16.6

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 9-May-14 (Bt)	155.50
Market cap (US\$ m)	18,934.8
Listed shares (m shares)	3,970.0
Free float (%)	34.7
Avg daily turnover (US\$ m)	21.8
12M price H/L (Bt)	174.0/143.0
Sector	Energy
Major shareholder	PTT Pcl 65.3%

Sources: Bloomberg, Company data, Thanachart estimates

**Thanachart Securities**

## Fine-tune earnings in 2014-16F

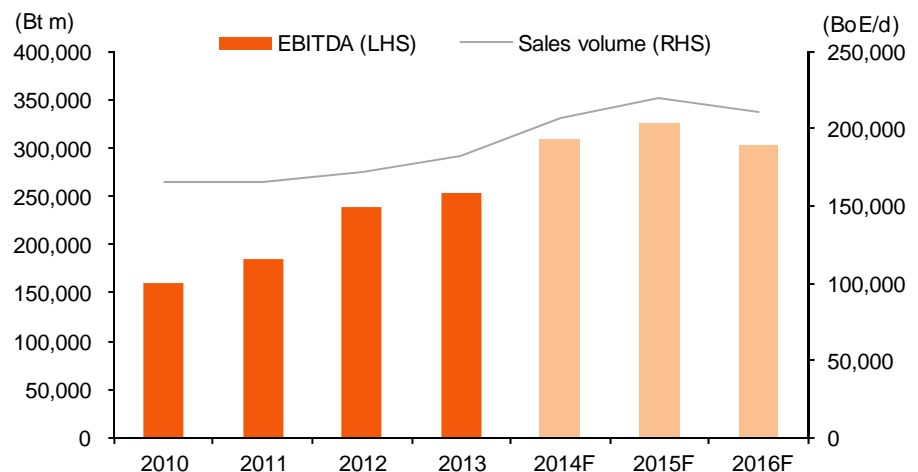
*We adjust our volume assumptions to reflect Hess M&A, Montara, M9 volumes*

We fine-tune our 2014-16 normalized earnings forecasts by 1-6% for PTT Exploration & Production (PTTEP) to reflect our new volume assumptions following management's recent guidance. The company expects its production volume in 2014 to be around 330kbd (+/-5%), after incorporating all the transactions announced over the past six months. Note that we have already included in our model the impact of the Kai Kos Dehseh (KKD) oil sands project assets swap and the acquisition of Hess's Indonesian assets in our previous notes.

In this note, we incorporate:

- 1) The recent US\$1bn acquisition of Hess's assets in Thailand.
- 2) PTTEP's new guidance for Australia-based Montara's volume at 18kbd for 2014 (due to the unsuccessful drilling at the H1 well in 1Q14), or 31% down from previously.
- 3) Our estimate of the penalty charge from the delay in Zawtika's (M9) volume delivery.

**Ex 1: PTTEP's Production Profile And Forecast EBITDA**



Sources: Company data, Thanachart estimates

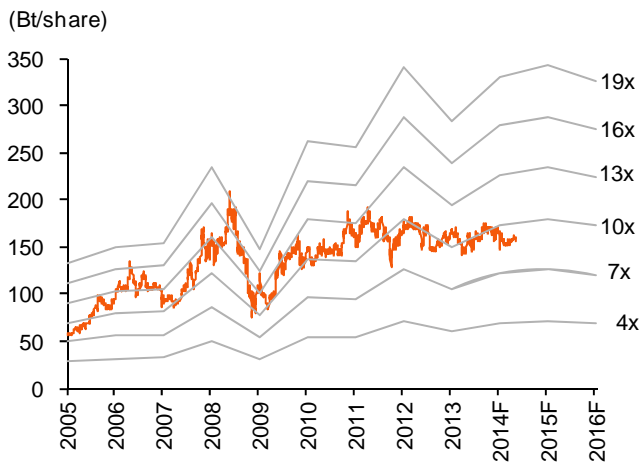
*Though we still see oil counters as being in value-trap mode ...*

The reduction in Australia-based Montara's volume only results in a negligible impact on our earnings forecasts given that the project generates just tiny profits. We may also see slightly higher depreciation expenses and unit production costs. Yet, we expect the recently acquired Hess assets in Thailand to help replace the Montara volume with fresh earnings generation more than offsetting the 4.5-month penalty for M9's volume delivery delay (see more details in the following section).

*... we believe PTTEP's 8.9x 2014F PE is inexpensive; reaffirm BUY*

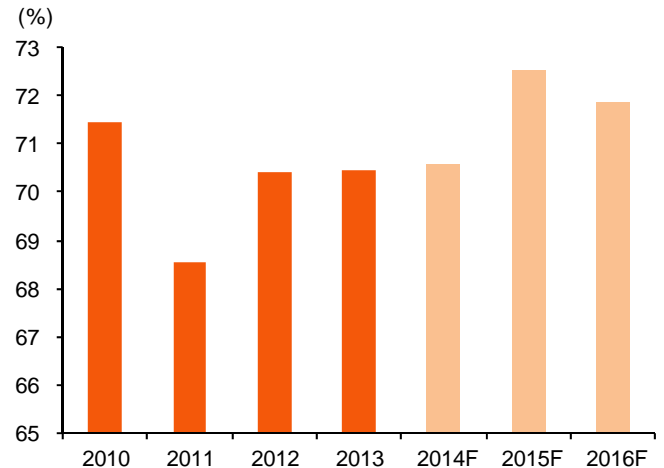
We still see oil stocks as being in value-trap mode. Yet, we regard PTTEP's 8.9x 2014F PE as inexpensive given the 20% discount to its 10-year trading average of 11.1x and regional peers' 12.2x. We maintain our BUY recommendation on PTTEP with a new DCF-based 12-month TP of Bt176.0/share.

Ex 2: PTTEP's PE Band Chart



Sources: Bloomberg, Thanachart estimates

Ex 3: PTTEP's EBITDA Margin Should Stay At Above 70%



Sources: Company data, Thanachart estimates

## Earnings improvement from 2H14F

*We expect 1Q14 results to be the worst quarter of this year ...*

*.. and we forecast strong earnings in 2H14*

We expect 1Q14 to be the worst quarter of 2014. PTTEP reported 1Q14 normalized earnings of Bt12.8bn, down 32% y-y but up 53% q-q. Increased depreciation costs mainly from Montara and higher-than-expected operating expenses with an abnormal cost of US\$62m from an unsuccessful development well (H5) of Montara ate up profit.

We expect to see some earnings improvement in 2Q14 as Hess's Thailand assets are scheduled to be consolidated next month with the weak baht helping protect against softening oil prices as a result of China's economic slowdown. Neither should there be any abnormal operating costs from Montara. However, PTTEP expects some US\$30m in dry well write-off expenses from Nok Kaew (part of Nang Naul) and Kenya to be booked in 2Q14. Apart from that, PTTEP anticipates a small impairment from the KKD assets swap.

We expect to see a clear earnings improvement in 2H14 boosted by the full-quarter operation of Hess's Thailand assets. This is despite us incorporating a penalty for M9's delivery delay.

We see the full-year contribution from Hess's assets and the debut Algeria volume due in in 2015 helping protect our earnings growth forecast in the wake of our in-house assumption for a 5% fall in the Brent oil price in 2015.

Ex 4: Earnings Revisions

	2014F	2015F	2016F
<b>Normalized profit (Bt m)</b>			
New	69,030	71,503	68,218
Old	68,332	68,428	64,407
Change (%)	1.0	4.5	5.9
<b>Normalized EPS (Bt)</b>			
New	17.39	18.01	17.18
Old	17.21	17.24	16.22
Change (%)	1.0	4.5	5.9

Source: Thanachart estimates

## Zawtika's (M9) COD delayed to mid-August

*M9 volume sold to Thailand likely delayed from original target by 4.5 months*

Zawtika's (M9) gas sales portion to Myanmar (60mmcf/d of the total of 300mmcf/d) commenced in February as planned. However, the gas portion sold to Thailand (240mmcf/d) hasn't yet been delivered as targeted because of a delay in connecting up the pipeline in a mountainous region. PTTEP expects commercial production of the gas to be postponed into 3Q14 from its original target of April 1.

*We forecast the penalty to cut M9's 2014-15 earnings by US\$43m and US\$19m*

We now assume the COD of M9's gas sales to Thailand to start in mid-August from our previous assumption of July while we have just learned that PTTEP will have to sell the gas at a 25% discount for a period equal to the volume delivery delay from PTTEP's COD contract from 1 April.

We forecast Zawtika's profit to drop by US\$43m and US\$19m in 2014-15 based on our US\$0.4m/day penalty assumption. Since PTTEP is studying options for claiming compensation, we leave claims as upside to PTTEP's profit and cash flow in 2015.

## Hess's assets to offset M9 penalty

*Hess's assets should add profit of US\$54m and US\$86m in 2014-15F*

We see the recent US\$1bn acquisition price of Hess's assets in Thailand as fair. The acquisition would bring PTTEP's stake in Contract 4 up to 60% (from 45% now), and in Sin Phu Hom to 55% (from 20%). PTTEP's 2P reserves would increase by 5% to 1,793m BoE from the end of 2013. We expect Hess's Thai assets to add 11.4k b/d to PTTEP's production in 2014 and 19.4k b/d p.a. in 2015-16.

We estimate the assets would add US\$54m and US\$86m to PTTEP's profit in 2014-15, offsetting our forecasts for US\$43m and US\$19m lower earnings from M9 caused by the penalty charges on the estimated 4.5-month volume delivery delay.

### Ex 5: Post Acquisition Of Hess's Thai Assets

	Total	Old	New	Increase
<b>Contract 4</b>	<b>100%</b>	<b>45%</b>	<b>60%</b>	<b>15%</b>
- Natural gas	64,500	28,738	38,700	9,962
- Condensate	17,528	7,810	10,517	2,707
<b>Sum</b>	<b>82,028</b>	<b>36,548</b>	<b>49,217</b>	<b>12,669</b>
<b>Sin Phu Hom</b>	<b>100%</b>	<b>20%</b>	<b>55%</b>	<b>35%</b>
- Natural gas	18,833	3,767	10,358	6,592
- Condensate	496	99	273	174
<b>Sum</b>	<b>19,329</b>	<b>3,866</b>	<b>10,631</b>	<b>6,765</b>
<b>Total</b>				
- Natural gas	83,333	32,505	49,058	16,554
- Condensate	18,024	7,909	10,790	2,881
<b>Sum</b>	<b>101,357</b>	<b>40,413</b>	<b>59,848</b>	<b>19,434</b>

Sources: Company data, Thanachart estimates

### Ex 6: PTTEP's Production Profile (BoE/day)

	2014F	2015F	2016F
Old	335,205	331,770	318,338
Increase (+)/Decrease (-)			
- Hess's Thailand assets	11,337	19,434	19,434
- Montara	(8,000)	0	0
<b>New</b>	<b>338,542</b>	<b>351,204</b>	<b>337,772</b>
<i>Change (%)</i>	<i>1.0</i>	<i>5.9</i>	<i>6.1</i>

Sources: Company data, Thanachart estimates

## Summary of Hess's assets in Thailand

*Total acquisition cost for Hess's assets in Thailand is approximately US\$1bn*

PTTEP's wholly owned subsidiaries, Offshore Investment and PTTEP International Limited, signed share purchase agreements (SPAs) to acquire 100% of the shares outstanding in Hess Corporation's subsidiaries (HTH which holds a 15% interest in the Contract 4 project and HETCL which holds a 35% interest in the Sin Phu Hom project). The total acquisition cost comes to approximately US\$1bn. The HTH transaction was already closed last month

on 22 April while the HETCL transaction completion is subject to customary closing conditions as prescribed in the SPA with PTTEP expecting the closing date to be in May.

### Ex 7: Pre- And Post Transactions

**Sinphuhorm Project (Block EU-1 and Block ES North)**

	Pre Transaction	Post Transaction
PTTEP	20%	55% (Operator)
Hess	35% (Operator)	0%
Apico	35%	35%
Exxon Mobil	10%	10%

**Contract 4 Project (Block 12/27 and Block G7/50)**

	Pre Transaction	Post Transaction
PTTEP	45%	60%
Hess	15%	0%
Chevron	35% (Operator)	35% (Operator)
MOECO	5%	5%

Sources: Company data, Thanachart estimates

**The Contract 4 project** comprises concession blocks 12/27 and G7/50. Block 12/27 has been producing since 1999 and includes the Pailin, Morakot and Ubon petroleum fields. Block G7/50 is in the exploration phase. Both concession blocks are located in the Gulf of Thailand, offshore from Songkhla province, and cover a total area of 3,118 sq km.

The current gross production rate of Contract 4 is approximately 387 million cubic feet per day (mmcf/d) of natural gas and 17,528 barrels per day (bpd) of condensates, with total proved and probable reserves (2P reserves) of 461m barrels of oil equivalent (mmBoE). Natural gas and the majority of condensates produced from the Contract 4 Project are sold to PTT Pcl (PTT TB, Bt304.0, HOLD) under long-term gas and condensate sales agreements, respectively. At the transaction close, PTTEP would hold a 60% interest in the Contract 4 project with the other partners being Chevron and MOECO each with 35% and 5%, respectively. Chevron would continue to be the project operator.

**The Sin Phu Hom project** consists of concession blocks E5-North and EU-1 which are located in Udon Thani and Khon Kaen provinces in the Northeast of Thailand, and cover an area of approximately 231.6 sq km. The project's current production rate is approximately 113mmcf/d of natural gas and 496bpd of condensates, with 2P reserves of 45mmBoE. Natural gas and the majority of condensates produced from Sin Phu Hom are sold to PTT under long-term gas and condensate sales agreements, respectively. Post transaction, PTTEP would hold a 55% interest in the project and take over its operation from Hess. The other partners in the project are Apico with a 35% interest and ExxonMobil with 10%.

### Funding and Investment Plans

The additional capex requirements as a result of this acquisition are currently estimated by PTTEP at approximately US\$670m over the next five years to maintain production and development potential prospects. The company says the capex commitment for the projects should be adequately covered by the projects' operating cash flows.

#### Ex 8: 12-month DCF-based TP Calculation

(Bt m)		2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	Terminal Value
EBITDA		193,242	203,269	189,620	179,966	206,244	283,383	294,147	316,703	346,161	333,399	364,395	
Free cash flow		(23,630)	13,142	16,175	28,393	22,363	31,245	54,015	72,768	73,331	101,809	115,985	9,598,980
PV of free cash flow		(23,565)	10,747	11,956	18,975	13,513	17,071	26,675	32,492	29,605	37,163	38,280	517,026
Risk-free rate (%)	4.5												
Market risk premium (%)	8.0												
Beta	1.00												
WACC (%)	10.6												
Terminal growth (%)	2.0												
Enterprise value - add investments	753,505												
Net debt (end-2013)	54,666												
Minority interest	-												
Equity value	698,839												
# of shares	3,970												
<b>Equity value/share (Bt)</b>	<b>176.00</b>												

Sources: Company data, Thanachart estimates

## Valuation Comparison

## Ex 9: Comparison With Regional Peers

Company	Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div. yield		— ROE —	
			14F (%)	15F (%)	14F (x)	15F (x)	14F (x)	15F (x)	14F (x)	15F (x)	14F (%)	15F (%)	14F (%)	15F (%)
<b>Refining &amp; Marketing</b>														
Caltex Australia	CTX AU	Australia	(25.6)	9.8	15.4	14.0	2.1	1.9	8.1	7.3	1.7	3.0	14.7	14.0
BPCL	BPCL IN	India	11.7	10.1	16.8	15.3	1.9	1.8	9.0	8.7	2.2	2.2	12.2	12.5
HPCL	HPCL IN	India	83.5	35.9	13.4	9.8	0.9	0.8	10.9	9.8	2.2	2.6	6.6	9.0
IOCL	IOCL IN	India	30.1	17.7	12.0	10.2	1.0	1.0	8.6	7.6	2.4	2.8	8.7	9.7
Reliance Industries	RIL IN	India	(6.5)	15.6	14.0	12.1	1.6	1.4	10.9	9.3	1.0	1.1	11.8	12.3
SK Energy	096770 KS	S.Korea	na	na	na	4.8	na	na	na	na	2.9	3.0	9.2	na
S-OIL	010950 KS	S.Korea	62.5	13.4	14.6	12.9	1.2	1.1	10.3	7.9	3.1	3.9	10.6	8.7
Petron	PCOR PM	Philippines	45.6	93.9	19.0	9.8	1.7	1.5	9.9	7.0	0.6	0.8	8.8	15.3
Formosa Petrochemical	6505 TT	Taiwan	8.5	9.9	24.8	22.6	3.0	2.9	17.0	16.6	3.4	3.7	10.4	11.1
Bangchak *	BCP TB	Thailand	8.3	10.6	9.5	8.6	1.1	1.0	6.8	6.0	4.2	4.7	12.0	12.4
ESSO (Thailand) *	ESSO TB	Thailand	na	221.9	36.9	11.5	0.9	0.9	16.1	10.5	1.4	4.4	2.5	7.7
IRPC Pcl *	IRPC TB	Thailand	na	491.1	121.6	20.6	1.0	0.9	20.2	13.6	0.5	2.9	0.8	4.6
PTT Global Chemicals *	PTTGC TB	Thailand	6.1	3.9	8.6	8.2	1.2	1.1	6.7	6.2	5.3	5.5	14.7	14.0
Thai Oil *	TOP TB	Thailand	(23.3)	16.6	10.6	9.1	1.1	1.0	8.5	7.3	4.2	4.9	10.5	11.5
<b>Average</b>			<b>25.9</b>	<b>84.1</b>	<b>26.2</b>	<b>11.9</b>	<b>1.4</b>	<b>1.3</b>	<b>11.3</b>	<b>9.2</b>	<b>2.7</b>	<b>3.5</b>	<b>8.9</b>	<b>10.6</b>
<b>Integrated oil</b>														
PetroChina	857 HK	China	1.7	5.8	12.4	11.7	1.3	1.2	5.2	4.9	3.6	3.8	10.8	10.8
Sinopec	386 HK	China	10.4	8.9	10.8	9.9	1.3	1.2	4.7	4.3	3.6	3.9	12.2	12.0
Total	FP FP	France	25.5	5.3	11.2	10.6	1.5	1.4	4.7	4.4	4.6	4.8	14.3	14.1
Eni	ENI IM	Italy	(6.5)	16.4	14.3	12.3	1.2	1.1	3.9	3.6	5.9	6.0	8.0	9.1
RD/Shell A	RDSA NA	Netherlands	37.9	2.5	8.1	7.9	1.0	0.9	5.0	4.8	6.5	6.6	12.1	12.0
Repsol	REP SM	Spain	818.0	9.9	14.3	13.1	0.9	0.9	6.7	6.0	5.1	5.1	7.0	7.2
Chevron Texaco	CVX US	USA	(3.8)	2.7	11.6	11.3	1.5	1.4	4.7	4.6	3.3	3.5	13.4	13.0
Exxon Mobil	XOM US	USA	4.7	(1.6)	13.3	13.5	2.4	2.2	6.1	6.1	2.6	2.8	18.1	16.9
Conoco Philips	COP US	USA	(16.0)	(1.7)	12.3	12.5	1.7	1.6	4.7	4.5	3.6	3.7	13.2	13.8
PTT Pcl *	PTT TB	Thailand	(18.2)	2.4	9.2	9.0	1.2	1.1	5.3	5.3	3.8	3.9	13.2	12.4
<b>Average</b>			<b>85.4</b>	<b>5.1</b>	<b>11.8</b>	<b>11.2</b>	<b>1.4</b>	<b>1.3</b>	<b>5.1</b>	<b>4.8</b>	<b>4.3</b>	<b>4.4</b>	<b>12.2</b>	<b>12.1</b>
<b>Exploration and Production</b>														
Santos	STO AU	Australia	19.1	52.4	22.4	14.7	1.3	1.2	8.9	6.1	2.5	3.2	5.9	8.8
Woodside	WPL AU	Australia	32.2	(3.0)	14.7	15.1	2.1	2.1	6.8	6.9	5.5	5.3	14.7	14.0
Suncor Energy	SU US	Canada	na	(2.1)	9.8	10.0	1.3	1.2	5.1	5.0	2.4	2.6	12.8	11.8
CNOOC	883 HK	Hong Kong	1.2	5.8	10.1	9.5	1.5	1.4	3.6	3.3	3.0	3.2	15.5	14.9
ONGC	ONGC IN	India	9.6	22.1	11.3	9.2	1.8	1.6	5.2	4.3	2.9	3.5	16.6	18.2
RIL	RIL IN	India	(6.5)	15.6	14.0	12.1	1.6	1.4	10.9	9.3	1.0	1.1	11.8	12.3
Cairn India	CAIR IN	India	(2.7)	(12.1)	5.3	6.0	1.1	1.0	3.2	3.6	3.7	3.3	22.7	17.1
Apache	APA US	USA	22.6	0.1	13.0	13.0	0.9	0.9	4.3	4.2	1.1	1.1	7.7	8.1
Devon Energy	DVN US	USA	na	11.3	12.2	11.0	1.2	1.0	6.8	5.9	1.3	1.3	11.0	12.2
PTTEP *	PTTEP TB	Thailand	16.5	3.6	8.9	8.6	1.4	1.3	3.5	3.3	4.4	4.6	17.0	15.9
<b>Average</b>			<b>11.5</b>	<b>9.4</b>	<b>12.2</b>	<b>10.9</b>	<b>1.4</b>	<b>1.3</b>	<b>5.8</b>	<b>5.2</b>	<b>2.8</b>	<b>2.9</b>	<b>13.6</b>	<b>13.3</b>

Source: Bloomberg

Note: \* Thanachart estimates, using normalized EPS

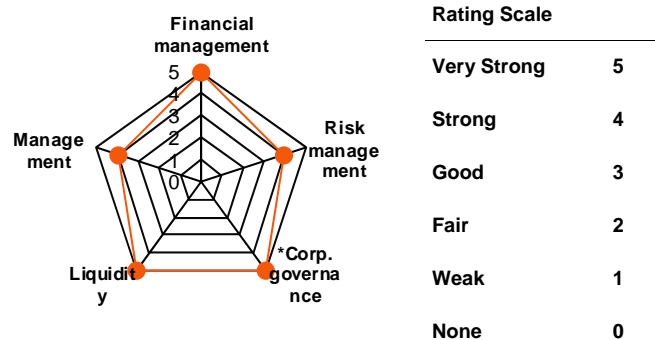
Based on 9 May 2014 closing prices

## COMPANY DESCRIPTION

PTT Exploration and Production (PTTEP) is a pure upstream exploration and production (E&P) company with proved reserves of over 1bn barrels of oil equivalent (BoE). PTTEP is the upstream arm of the Petroleum Authority of Thailand (PTT), which owns 65% of PTTEP. PTTEP's proved reserves roughly comprise 80% gas and 20% oil. It operates 45 projects worldwide including 21 under production and 20 under exploration. PTTEP acquired a 40% stake in the KKD oil sands project in Canada for US\$2.3bn in 2010 and recently gas assets in Cove Energy in Mozambique.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \*CG Awards

## THANACHART'S SWOT ANALYSIS

### S — Strength

- The parent company PTT is the country's largest gas buyer and PTTEP's biggest client.
- Petroleum products are sold at market prices unlike most E&P companies in Asia where governments can easily intervene in pricing.

### O — Opportunity

- Participating in PTT's upstream projects i.e. FLNG project in Australia.
- Potential acquisitions overseas including in the Gulf of Thailand and Myanmar.

### W — Weakness

- Reserves in the Gulf of Thailand are depleting with 9 remaining years of P1 reserves.
- Not so much experience and a lack of technical skills in running overseas operations compared with international peers.

### T — Threat

- Lower oil and/or gas prices.
- Competition from international peers for projects abroad.
- Political risk i.e. the Thai government may ask PTTEP to invest in overseas projects with low economic returns.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	182.00	176.00	-3%
Net profit 14F (Bt m)	63,475	68,300	8%
Net profit 15F (Bt m)	66,666	71,503	7%
Consensus REC	BUY: 27	HOLD: 6	SELL: 2

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our DCF-based TP is lower than the Street's as we may assume higher capex to maintain plateau volume with no difference in our long-term oil price assumptions.
- Our 2014-15 earnings forecasts are above the consensus as we expect better margin from the recently acquired Hess assets in Thailand.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- Lower oil and/or gas prices.
- Higher-than-expected operating expenses and other costs.

Source: Thanachart



## INCOME STATEMENT

*With expected improved operations ...*

*... our 2014-16 EBITDA margin forecasts stay at above the 70% level*

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
Sales	212,537	224,973	273,824	280,159	263,852
Cost of sales	95,711	106,270	143,045	144,461	134,199
<b>Gross profit</b>	<b>116,826</b>	<b>118,703</b>	<b>130,779</b>	<b>135,697</b>	<b>129,654</b>
% gross margin	55.0%	52.8%	47.8%	48.4%	49.1%
Selling & administration expenses	9,827	10,537	12,788	13,329	12,396
<b>Operating profit</b>	<b>106,999</b>	<b>108,166</b>	<b>117,991</b>	<b>122,369</b>	<b>117,258</b>
% operating margin	50.3%	48.1%	43.1%	43.7%	44.4%
Depreciation & amortization	42,692	50,351	75,251	80,900	72,362
<b>EBITDA</b>	<b>149,691</b>	<b>158,517</b>	<b>193,242</b>	<b>203,269</b>	<b>189,620</b>
% EBITDA margin	70.4%	70.5%	70.6%	72.6%	71.9%
Non-operating income	4,503	3,768	3,687	3,864	3,766
Non-operating expenses	0	0	0	0	0
Interest expense	(5,812)	(6,175)	(6,995)	(7,426)	(7,693)
<b>Pre-tax profit</b>	<b>105,689</b>	<b>105,759</b>	<b>114,684</b>	<b>118,806</b>	<b>113,331</b>
Income tax	44,679	46,712	45,873	47,522	45,332
<b>After-tax profit</b>	<b>61,010</b>	<b>59,048</b>	<b>68,810</b>	<b>71,283</b>	<b>67,998</b>
% net margin	28.7%	26.2%	25.1%	25.4%	25.8%
Shares in affiliates' Earnings	145	190	220	220	220
Minority interests	0	0	0	0	0
Extraordinary items	(3,839)	(3,083)	(730)	0	0
<b>NET PROFIT</b>	<b>57,316</b>	<b>56,155</b>	<b>68,300</b>	<b>71,503</b>	<b>68,218</b>
<b>Normalized profit</b>	<b>61,155</b>	<b>59,238</b>	<b>69,030</b>	<b>71,503</b>	<b>68,218</b>
EPS (Bt)	16.8	14.1	17.2	18.0	17.2
Normalized EPS (Bt)	18.0	14.9	17.4	18.0	17.2

## BALANCE SHEET

*Other assets jumped in 2012 due to intangible assets and goodwill from the acquisition of Cove*

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
<b>ASSETS:</b>					
Current assets:	123,483	134,719	152,479	155,188	151,248
Cash & cash equivalent	70,205	77,343	88,540	90,000	90,000
Account receivables	36,985	39,016	47,263	48,356	45,542
Inventories	9,916	12,246	15,676	15,831	14,707
Others	6,378	6,114	1,000	1,000	1,000
Investments & loans	1,574	1,843	1,843	1,843	1,843
Net fixed assets	336,058	415,809	487,082	533,951	592,804
Other assets	140,398	155,496	165,896	167,245	163,773
<b>Total assets</b>	<b>601,513</b>	<b>707,867</b>	<b>807,301</b>	<b>858,227</b>	<b>909,669</b>
<b>LIABILITIES:</b>					
Current liabilities:	72,749	86,383	118,441	121,328	120,383
Account payables	3,498	4,329	5,879	5,937	5,515
Bank overdraft & ST loans	0	0	14,777	14,928	17,465
Current LT debt	5,010	11,699	13,300	13,435	15,718
Others current liabilities	64,242	70,356	84,485	87,027	81,685
<b>Total LT debt</b>	<b>110,562</b>	<b>120,310</b>	<b>119,697</b>	<b>120,919</b>	<b>141,463</b>
Others LT liabilities	90,098	116,319	141,578	144,853	136,422
<b>Total liabilities</b>	<b>273,409</b>	<b>323,012</b>	<b>379,716</b>	<b>387,099</b>	<b>398,268</b>
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	3,970	3,970	3,970	3,970	3,970
Share premium	105,412	105,418	105,418	105,418	105,418
Warrants	0	0	0	0	0
Surplus	(16,642)	8,088	8,088	8,088	8,088
<b>Retained earnings</b>	<b>235,364</b>	<b>267,379</b>	<b>310,109</b>	<b>353,651</b>	<b>393,925</b>
Shareholders' equity	328,104	384,855	427,585	471,127	511,401
<b>Liabilities &amp; equity</b>	<b>601,513</b>	<b>707,867</b>	<b>807,301</b>	<b>858,227</b>	<b>909,669</b>

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

*2014 capex hikes due to the acquisition of Hess's assets in Indonesia and Thailand.*

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
Earnings before tax	105,689	105,759	114,684	118,806	113,331
Tax paid	(41,894)	(43,026)	(40,184)	(46,019)	(47,906)
Depreciation & amortization	42,692	50,351	75,251	80,900	72,362
Chg In working capital	(10,072)	(3,530)	(10,127)	(1,190)	3,517
Chg In other CA & CL / minorities	(1,639)	3,016	13,775	1,259	(2,953)
<b>Cash flow from operations</b>	<b>94,776</b>	<b>112,570</b>	<b>153,398</b>	<b>153,755</b>	<b>138,351</b>
Capex	(83,993)	(130,102)	(146,524)	(127,769)	(131,215)
ST loans & investments	0	0	0	0	0
LT loans & investments	(135)	(270)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(46,397)	10,799	14,378	1,927	(4,554)
<b>Cash flow from investments</b>	<b>(130,525)</b>	<b>(119,572)</b>	<b>(132,147)</b>	<b>(125,843)</b>	<b>(135,769)</b>
Debt financing	(7,610)	13,544	15,516	1,508	25,363
Capital increase	91,651	5	0	0	0
Dividends paid	(18,265)	(24,067)	(25,570)	(27,961)	(27,944)
Warrants & other surplus	(2,621)	24,658	0	0	0
<b>Cash flow from financing</b>	<b>63,154</b>	<b>14,139</b>	<b>(10,054)</b>	<b>(26,452)</b>	<b>(2,582)</b>
<b>Free cash flow</b>	<b>10,783</b>	<b>(17,531)</b>	<b>6,873</b>	<b>25,986</b>	<b>7,136</b>

## VALUATION

*Valuation looks inexpensive on 8.9x 2014F PE but forecast ROE of 17% versus peers' 14%*

FY ending Dec	2012A	2013A	2014F	2015F	2016F
Normalized PE (x)	8.7	10.4	8.9	8.6	9.0
Normalized PE - at target price (x)	9.8	11.8	10.1	9.8	10.2
PE (x)	9.2	11.0	9.0	8.6	9.0
PE - at target price (x)	10.5	12.4	10.2	9.8	10.2
EV/EBITDA (x)	3.8	4.2	3.5	3.3	3.7
EV/EBITDA - at target price (x)	4.3	4.8	3.9	3.7	4.1
P/BV (x)	1.9	1.6	1.4	1.3	1.2
P/BV - at target price (x)	2.1	1.8	1.6	1.5	1.4
P/CFO (x)	5.6	5.5	4.0	4.0	4.5
Price/sales (x)	2.9	2.7	2.3	2.2	2.3
Dividend yield (%)	3.7	3.9	4.4	4.6	4.4
FCF Yield (%)	2.0	(2.8)	1.1	4.2	1.2
<b>(Bt)</b>					
Normalized EPS	18.0	14.9	17.4	18.0	17.2
EPS	16.8	14.1	17.2	18.0	17.2
DPS	5.8	6.0	6.9	7.2	6.9
BV/share	82.6	96.9	107.7	118.7	128.8
CFO/share	27.8	28.4	38.6	38.7	34.8
FCF/share	3.2	(4.4)	1.7	6.5	1.8

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2012A	2013A	2014F	2015F	2016F
<b>Growth Rate</b>					
Sales (%)	25.3	5.9	21.7	2.3	(5.8)
Net profit (%)	28.1	(2.0)	21.6	4.7	(4.6)
EPS (%)	27.4	(16.0)	21.6	4.7	(4.6)
Normalized profit (%)	34.8	(3.1)	16.5	3.6	(4.6)
Normalized EPS (%)	34.0	(16.9)	16.5	3.6	(4.6)
Dividend payout ratio (%)	40.2	42.4	40.0	40.0	40.0
<b>Operating performance</b>					
Gross margin (%)	55.0	52.8	47.8	48.4	49.1
Operating margin (%)	50.3	48.1	43.1	43.7	44.4
EBITDA margin (%)	70.4	70.5	70.6	72.6	71.9
Net margin (%)	28.7	26.2	25.1	25.4	25.8
D/E (incl. minor) (x)	0.4	0.3	0.3	0.3	0.3
Net D/E (incl. minor) (x)	0.1	0.1	0.1	0.1	0.2
Interest coverage - EBIT (x)	18.4	17.5	16.9	16.5	15.2
Interest coverage - EBITDA (x)	25.8	25.7	27.6	27.4	24.6
ROA - using norm profit (%)	11.7	9.0	9.1	8.6	7.7
ROE - using norm profit (%)	23.2	16.6	17.0	15.9	13.9
<b>DuPont</b>					
ROE - using after tax profit (%)	23.1	16.6	16.9	15.9	13.8
- asset turnover (x)	0.4	0.3	0.4	0.3	0.3
- operating margin (%)	52.5	49.8	44.4	45.1	45.9
- leverage (x)	2.0	1.8	1.9	1.9	1.8
- interest burden (%)	94.8	94.5	94.3	94.1	93.6
- tax burden (%)	57.7	55.8	60.0	60.0	60.0
WACC (%)	10.6	10.6	10.6	10.6	10.6
ROIC (%)	22.1	16.2	16.1	15.1	13.3
NOPAT (Bt m)	61,766	60,391	70,795	73,421	70,355

Sources: Company data, Thanachart estimates

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