PTG Energy

A missing link

KIATNAKIN PHATRA SECURITIES

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Komsun Suksumrun
02-305-9201
komsun.Suks@kkpfg.com

Recommendation:

Underperform

Target Price: 12.50

Price (Bt)	11.70
Market Value (Bt mn)	19,539
Date Established	31 Mar 2023
Average Daily Value (Bt mn)	146.58
Free Float (%)	58.16

Marketing margin recovery remains a missing link

PTG guided that its oil marketing margin in 2Q23 remained at Bt1.7/liter, which is sequentially flat from Bt1.7/liter in 1Q23. This is a surprise given the government's relaxation of its margin control since 15 February, which was supposed to allow oil marketers to recoup some of its lost margin. We understand that PTG's marketing margin did improve from a low level in January to Bt1.9/liter in March (to give an average margin of Bt1.7/liter in 1Q23) because of this loosening grip. We think the tougher market conditions (characterized by slowing diesel demand growth at 2% YoY) in 2Q23 and PTG's oil marketing initiative which offers a discount to loyalty card members might be the reasons for the margin relapse. It seems that the average oil marketing margin of Bt1.7/liter in 1H23 will make PTG have to work harder in 2H23 if it wants to achieve its 2023 target of Bt1.8-1.9/liter.

Volume growth should be ahead of the market

While oil marketing margin remains sluggish, PTG performed well from the volume perspective, implying it gained market share, perhaps at the expense of PTT and Shell Thailand, in our view. PTG's oil retail volume was guided to increase 3%-5% QoQ against an expected market growth of 2.6% QoQ in 2Q23. According to PTG, its oil retail marketing share stood at 19.2% in 1Q23, which is an increase from 17.0% in 2020. PTG's aforementioned marketing initiative, which has been one of its focus strategies since 2H22, seems to have paid off. We think the timing was opportune as motorists might have traded down from more expensive premium fuel to regular fuel (impacting Shell's market share). The fact that Esso is exiting Thailand could result in the lack of a strong marketing push. We might have to wait and see how PTTOR will respond to gain back its lost share.

Minimum wage increase impact

Since staff costs are its largest cost item (Bt3.7bn or 153% of EBIT in 2022), the minimum wage increase should have an impact on its bottom line. PTG estimates that its cost/unit could increase between Bt0.08-0.1/liter because of this proposed wage increase. PTG sold around 5,813mn liters of petroleum products (including LPG) in 2022. We see higher risk in 2H23 when the new government is likely to be formed, therefore, new oil policies are a key uncertainty. Its recovery in the past has twisted and turned and therefore a sustainable rebound is needed particularly when the stock is trading at a high valuation of 18.3x 2023E P/E. We also need an absence of government intervention for its valuation to be re-rated.

Estimates (Dec)

(Bt)	2021A	2022A	2023E	2024E	2025E
Net Income (report - mn)	1,006	934	1,076	1,279	1,545
EPS	0.60	0.55	0.64	0.77	0.93
EPS Change (YoY)	-46.8%	-9.5%	18.2%	18.9%	20.8%
DPS	0.25	0.20	0.26	0.31	0.37

Valuation (Dec)

	2021A	2022A	2023E	2024E	2025E
P/E	19.5	21.3	18.3	15.2	12.6
Dividend Yield	2.1%	1.7%	2.2%	2.6%	3.2%
EV / EBITDA	9.7	8.6	11.2	10.3	9.1
Free Cash Flow Yield	15.1%	12.8%	-0.4%	-0.2%	3.6%

Bus Performance (Dec)	2021A	2022A	2023E	2024E	2025E
Return on Asset	2.3%	2.1%	2.4%	2.9%	3.4%
Return on Equity	12.4%	11.3%	12.4%	13.5%	14.9%
Operating Margin	1.7%	1.3%	1.3%	1.5%	2.0%
Free Cash Flow (Bt mn)	2,953	2,495	-86	-36	694

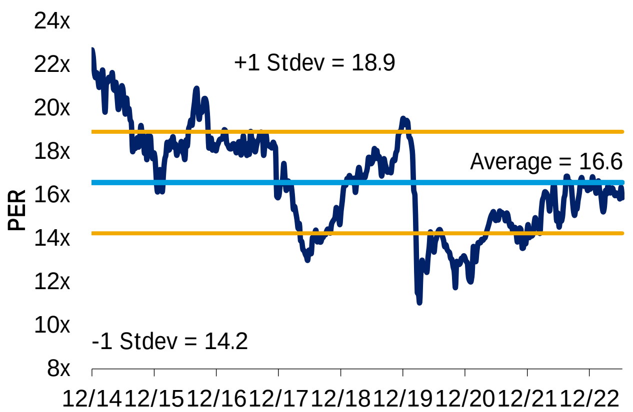
Quality of Earnings (Dec)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio (x)	5.3	5.5	2.5	2.5	2.4
Asset Replacement Ratio (x)	0.8	0.8	1.3	1.4	1.1
Net Debt-to-Equity Ratio	3.4	3.3	3.0	2.8	2.6
Interest Cover	2.1	2.2	2.2	2.4	2.7

Income Statement Data (Dec) (Bt Millions)	2021A	2022A	2023E	2024E	2025E
Sales	133,759	179,422	180,262	166,113	148,348
% Change	28.1%	34.1%	0.5%	-7.8%	-10.7%
EBIT	1,861	2,243	2,084	2,292	2,616
% Change	-33.0%	20.5%	-7.1%	10.0%	14.1%
EBITDA	4,868	5,407	4,198	4,604	5,196
% Change	-12.3%	11.1%	-22.4%	9.7%	12.9%
Net Interest & Other Income	534	187	379	441	448
Net Income (report - mn)	1,006	934	1,076	1,279	1,545
% Change	-46.8%	-7.2%	15.2%	18.9%	20.8%

Free Cash Flow Data (Dec) (Bt Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,277	1,314	1,355	1,598	1,930
Depreciation & Amortization	3,024	3,185	2,113	2,311	2,580
Change in Working Capital	1,629	719	-415	-328	-411
Capital Expenditure	-2,446	-2,577	-2,825	-3,218	-2,939
Free Cash Flow (Bt mn)	2,953	2,495	-86	-36	694
Net Debt	27,890	26,938	27,358	27,865	27,736

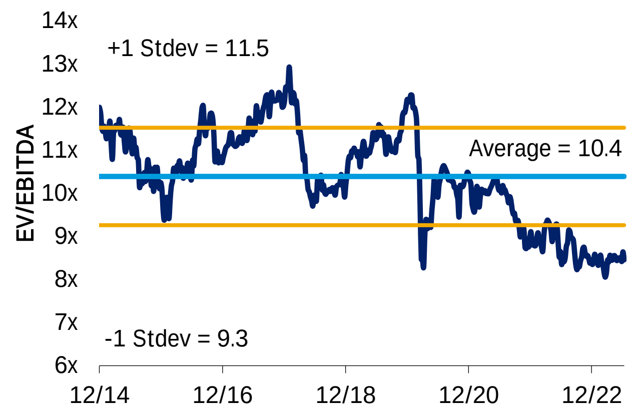
Balance Sheet Data (Dec) (Bt Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,701	2,071	500	500	500
Trade Receivables	722	899	814	750	670
Other Current Assets	2,436	2,154	2,188	1,997	1,757
Property, Plant & Equipment	11,505	12,356	13,122	14,082	14,495
Other Non-Current Assets	28,020	27,654	27,655	27,702	27,748
Total Assets	**44,384**	**45,135**	**44,280**	**45,032**	**45,171**
Short-Term Debt	2,437	2,005	-	-	-
Other Current Liabilities	10,013	11,594	7,336	6,753	6,023
Long-Term Debt	1,849	1,889	7,733	8,240	8,111
Other Non-Current Liabilities	2,493	1,876	679	679	679
Total Liabilities	**36,184**	**36,860**	**35,243**	**35,168**	**34,308**
Minority interest	0	0	0	0	0
Total Equity	**8,200**	**8,275**	**9,036**	**9,864**	**10,863**
Total Equity & Liabilities	**44,384**	**45,135**	**44,280**	**45,032**	**45,171**

Figure 1: Global P/E trading range



Source: Bloomberg, KKPS estimates

Figure 2: Global EV/EBITDA trading range



Source: Bloomberg, KKPS estimates

Figure 3: Oil retail valuation comparison

	Bloomberg	Mkt. Cap	P/E (x)			EV/EBITDA (x)			Yield		P/B (x)		ROE	
	Ticker	(US$mn)	22A	23E	24E	22A	23E	24E	23E	24E	23E	24E	23E	24E
Vibra Energia SA	VBBR3 BZ	4,359	13.7	6.8	5.2	4.4	4.3	3.6	12.9%	13.7%	1.3	1.2	21%	24%
Ampol Ltd	ALD AU	4,749	9.4	12.1	11.7	6.0	7.3	7.0	5.4%	5.6%	2.1	2.0	17%	18%
Viva Energy	VEA AU	3,094	7.8	12.7	11.8	4.2	5.8	5.0	4.7%	5.6%	1.9	1.7	99%	93%
ADNOC	ADNOCDIS UH	13,272	21.6	19.4	16.9	15.3	15.7	14.5	5.3%	4.4%	14.4	12.2	74%	78%
Cosan SA	CSAN3 BZ	6,938	27.5	NM	21.8	22.3	19.7	12.9	2.4%	2.4%	1.5	1.4	-4%	7%
Ultrapar Pa-ADR	UGP US	4,367	18.9	14.0	11.3	9.1	9.2	8.2	3.3%	4.4%	2.1	1.9	16%	18%
PTT Oil and Retail	OR TB	7,201	24.5	17.9	14.9	12.7	11.4	9.8	2.2%	2.7%	2.3	2.1	13%	14%
PTG Energy	PTG TB	557	21.3	18.3	15.2	8.6	11.2	10.3	2.2%	2.6%	2.2	2.0	12%	14%
Alimentation Couche	ATD CN	48,484	21.6	21.6	21.0	10.0	10.0	10.6	1.1%	1.0%	5.2	4.2	25%	22%
Average			**17.5**	**14.9**	**14.0**	**9.8**	**10.3**	**8.9**	**4.5%**	**4.9%**	**3.5**	**3.1**	**29%**	**30%**

Source: BofA Global Research estimates, Bloomberg, Kiatnakin Phatra Securities estimates

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Figure 4: Earnings

(Bt mn) Year to Dec	2021	2022	2023E	2024E	2025E
Revenues	**133,759**	**179,422**	**180,262**	**166,113**	**148,348**
Cost of sales and services	**(128,891)**	**(174,016)**	**(176,064)**	**(161,509)**	**(143,152)**
Cost of sales	(123,627)	(167,414)	(167,808)	(152,750)	(133,876)
SG&A	(5,264)	(6,601)	(8,256)	(8,759)	(9,276)
EBITDA	**4,868**	**5,407**	**4,198**	**4,604**	**5,196**
Depreciation	**(3,024)**	**(3,185)**	**(3,416)**	**(3,647)**	**(3,945)**
Amortization	(1,183)	(1,245)	(1,280)	(1,311)	(1,341)
Depreciation	(1,824)	(1,918)	(2,113)	(2,311)	(2,580)
Operating profit	**1,861**	**2,243**	**2,084**	**2,292**	**2,616**
Other income	**534**	**187**	**379**	**441**	**448**
EBIT	**2,395**	**2,430**	**2,463**	**2,733**	**3,064**
Interest expense	(1,118)	(1,123)	(1,108)	(1,135)	(1,133)
Earnings from operation	**1,277**	**1,307**	**1,355**	**1,598**	**1,930**
Exceptional items	0	7	0	0	0
Pretax profit	**1,277**	**1,314**	**1,355**	**1,598**	**1,930**
Taxation	(261)	(361)	(260)	(300)	(366)
Net profit before M.I.	**1,017**	**953**	**1,095**	**1,298**	**1,564**
M.I.	(10)	(19)	(19)	(19)	(19)
Net profit	**1,006**	**934**	**1,076**	**1,279**	**1,545**

Source: PTG, KKPS estimates

Figure 5: Cash flow

(Bt mn) Year to Dec	2021	2022	2023E	2024E	2025E
Net profit before tax	1,277	1,314	1,355	1,598	1,930
Depreciation & amor.	3,024	3,185	2,113	2,311	2,580
Finance income/expense	1,096	1,109	(1,108)	(975)	(974)
Non-cash items	(1,690)	(1,205)	793	575	508
Gross operating CF	**3,707**	**4,403**	**3,153**	**3,510**	**4,044**
Change in working capital	1,629	719	(415)	(328)	(411)
CF from operations	**5,336**	**5,121**	**2,739**	**3,182**	**3,633**
Capex	(2,444)	(2,577)	(2,825)	(3,218)	(2,939)
Investment	(83)	(204)	(55)	(100)	(100)
Others	144	155	0	0	0
CF to investments	**(2,384)**	**(2,627)**	**(2,880)**	**(3,318)**	**(3,039)**
Borrowings	(1,356)	(1,374)	(1,096)	607	(29)
Dividends paid	(835)	(752)	(334)	(471)	(565)
New shares issued	0	0	0	0	0
Others/dividend payable	(2)	(0)	0	0	0
CF from financing	**(2,193)**	**(2,125)**	**(1,430)**	**136**	**(594)**
Net cash flow	760	370	(1,571)	0	0
Beginning cash	942	1,701	2,071	500	500
Forex translation adj.	0	0	0	0	0
Ending cash	1,701	2,071	500	500	500
Free cash flow	**2,953**	**2,495**	**(86)**	**(36)**	**694**
Cash flow per share (Bt)	3.20	3.07	1.64	1.91	2.18

Source: PTG, KKPS estimates

Figure 6: Key assumptions

Year to Dec	2021	2022	2023E	2024E	2025E
Oil retail business					
Oil service station	2,087	2,149	2,206	2,256	2,306
Oil retail volume sales (mn liters)	4,806	5,120	5,439	5,720	5,942
Growth (%)	1.4%	6.5%	6.2%	5.2%	3.9%
Gross profit margin (Bt/liter)	**1.77**	**1.89**	**1.80**	**1.80**	**1.85**
Growth (%)	-9.2%	6.6%	-4.7%	0.0%	2.8%
Brent oi price (US$/bbl)	70.8	104.4	100.0	85.0	70.0
Dubai oil price (US$/bbl)	69.4	103.4	99.0	84.0	69.0
Effective tax rate (%)	24.3%	24.2%	20.0%	20.0%	20.0%
Foreign exchange rate (Bt/US$)	32.0	35.0	34.4	32.5	32.5

Source: PTG, KKPS estimates

Figure 7: Key ratios

Year to Dec	2021	2022	2023E	2024E	2025E
Profitability					
ROAE (%)	12.4	11.3	12.4	13.5	14.9
Financial performance					
Interest coverage ratio (x)	2.1	2.2	2.2	2.4	2.7
EBITDA/interest (x)	4.4	4.8	3.8	4.1	4.6
Net debt/equity (x)	3.4	3.3	3.0	2.8	2.6
D/D+E (x)	0.8	0.8	0.7	0.7	0.7

Source: PTG, KKPS estimates

Price objective basis and risk

Our PO is based on an average of P/E, EV/EBITDA, and DCF. Target EV/EBITDA is 8.2x and target P/E is 10.6x (both are the low end of the global oil retail historical trading range). DCF is based on a WACC of 12.1% with zero terminal growth rate. Our long-term average oil retailing margin and LPG's retailing margin are at Bt1.92/liter and Bt1.79/liter with average sales volume of 6,447mn liters for oil retail marketing and 1,052mn liters for LPG distribution. The effective tax rate is assumed at 20%. We think these target multiples make sense given its limited exposure to the non-oil business, similar to global peers. We believe higher target multiples should be ascribed to oil retailers which are highly exposed to non-oil businesses. A potential re-rating is possible if PTG can further expand its coffee and convenience store businesses.

The risks are oil marketing margin fluctuations, potential government intervention, its lack of business diversification, and its high gearing.

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Corporate Governance Report of Thai Listed Companies 2022

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ANAN	AOT	AP	AWC	BANPU	BBL	BDMS	BGRIM	CENTEL	CPALL	CPF	CPN	CRC	DOHOME	DTAC	EGCO
EPG	GFPT	GLOBAL	GPSC	HMPRO	INTUCH	IRPC	IVL	KBANK	KTB	LPN	MAJOR	MAKRO	MINT	MTC	OR
ORI	OSP	PLANB	PR9	PSH	PTG	PTT	PTTEP	PTTGC	QH	RATCH	SC	SCB	SCC	SCCC	SCGP
SIRI	SPALI	SPRC	TISCO	TOA	TOP	TRUE	TTB	TU	VGI	WICE					

Companies with Very Good CG Scoring

ADD	ADVANC	AS	BCH	BEC	BH	BJC	CBG	CHG	ERW	ESSO	JMT	LH	M	MEGA
SAWAD	SINGER	SPA	TFG	TIDLOR										

Companies with Good CG Scoring

AU	HL						

N/A - Companies without survey result available								
CPNREIT	DIF	LPF	TFFIF	THBEV	TLI			

* By alphabetical order under KKPS's Coverage

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BGRIM	BH	BTS	BYD	CBG	CENTEL	CHG	CK	CKP	COM7	CPALL	CPF	CPN
CRC	DELTA	DOHOME	EA	ESSO	FORTH	GLOBAL	GPSC	GULF	GUNKUL	HANA	HMPRO	INTUCH
IRPC	IVL	JMART	JMT	KBANK	KCE	KEX	KTB	KTC	MEGA	MINT	MTC	NEX
OR	OSP	PLANB	PSL	PTG	PTT	PTTEP	PTTGC	RBF	RCL	SABUY	SAWAD	SCB
SCC	SCGP	SINGER	SIRI	SJWD	SPALI	SPRC	STA	STEC	TIDLOR	TOP	TRUE	TTA
TTB	TU	VGI	WHA									

Anti-Corruption Progress Indicator of Thai Listed Companies

Disclosure

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Certified															
ADVANC	AP	AS	AWC	BANPU	BBL	BCH	BEC	BGRIM	CENTEL	CPALL	CPF	CPN	CRC	DTAC	EGCO
EPG	ERW	GFPT	GPSC	HMPRO	INTUCH	IRPC	IVL	KBANK	KTB	LH	LPN	M	MAJOR	MAKRO	MINT
MTC	ORI	PLANB	PR9	PSH	PTG	PTT	PTTEP	PTTGC	QH	RATCH	SC	SCB	SCC	SCCC	SCGP
SINGER	SIRI	SPALI	SPRC	TFG	TIDLOR	TISCO	TOP	TRUE	TTB	TU	VGI	WICE			
Declared															
CHG	DOHOME	GLOBAL	JMT	MEGA	OR										
N/A															
ADD	ANAN	AOT	AU	BDMS	BH	BJC	CBG	CPNREIT	DIF	ESSO	HL	LPF	ONEE	OSP	SAWAD
SPA	TFFIF	THBEV	TLI	TOA											