

13 Jul 2023

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Recommendation:

Underperform

Target Price: 12.50

Price (Bt)	10.10
Market Value (Bt mn)	16,867
Date Established	31 Mar 2023
Average Daily Value (Bt mn)	141.38
Free Float (%)	58.16

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2Q23 results preview – another twist and turn

PTG guided that its 2Q oil marketing margin should be shy of its expectation (Bt1.7/liter for 2QE and Bt1.8-1.9 for '23E) and should come in at Bt1.6. We understand that the marketing margin, which was weak at Bt1.7/liter in 1Q, did rebound to Bt1.9 in March on the relaxation of the government's margin control. Unfortunately, the rebound did not last long and it made a sharp turn in May to give a 2Q average of Bt1.7. A steady decline in retail diesel/gasoline prices was partially to blame while we think the other culprit was the government's margin control. With average oil marketing margin of Bt1.65/liter in 1H, PTG's target (Bt1.8-1.9 for '23) is becoming more difficult to achieve. Given the political turmoil in Thailand, the recent oil marketing margin traction has not improved yet, according to PTG. Oil retail volume was guided to increase 3-5% QoQ against an expected market growth of 2.6% QoQ in 2Q. PTG expects non-oil business gross profit contribution (including the LNG unit) to increase 8-12% QoQ. However, non-oil units account for just 21% of total gross profit. PTG stated that the palm oil complex performance weakened QoQ alongside a slide in domestic palm oil prices, but it is still making a profit. With this backdrop, we project core 2Q NPAT to come in at Bt198mn (Bt278mn in 1Q), bringing core 1H NPAT to Bt476mn, which represents 44%/32% of our earnings estimate/consensus forecast. We believe that earnings downside risk has increased.

Political uncertainty = oil marketing margin uncertainty

After a series of temporary oil excise exemption of Bt3-5/liter since 18 February 2022, the last exemption of the oil excise tax (Bt5/liter) for two months will expire on 20 July. This means the retail diesel oil price (currently at Bt31.94/liter) will have to go up to Bt36.94/liter unless the Energy Ministry decides to lower the Oil Fund contribution rate (currently at Bt1.34/liter) to offset the excise tax increase in order to keep the diesel price below Bt35/liter (which is the government's policy). While the Oil Fund's position has significantly improved from a negative of Bt128.7bn in October 2022 to a negative of Bt55bn in July (of which around Bt10bn is from the oil subsidy and the rest is from the LPG subsidy), cutting the oil fund intake will worsen its net position going forward. Oil retailers believe this scenario should be the base case and the oil marketing margin should not be impacted. We think oil marketing margin risk remains in the case that the Oil Fund does not fully absorb an increase in the excise tax, hurting the oil marketing margin in the process. Therefore, we maintain Underperform on significant margin risk.

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)

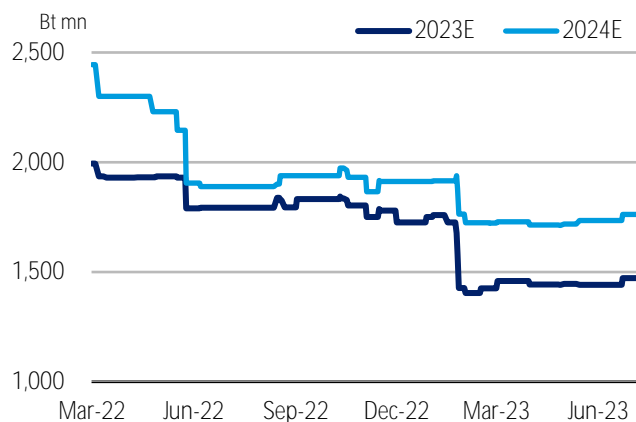
	2021A	2022A	2023E	2024E	2025E
P/E	16.8	18.4	15.8	13.1	10.9
Dividend Yield	2.5%	2.0%	2.6%	3.1%	3.7%
EV / EBITDA	9.2	8.1	10.5	9.7	8.6
Free Cash Flow Yield	17.5%	14.8%	-0.5%	-0.2%	4.1%

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

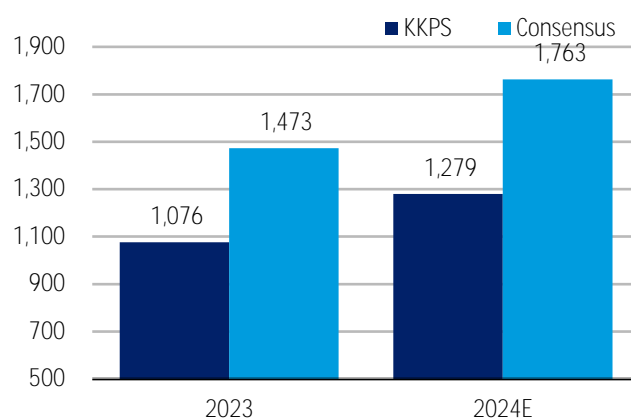
Figure 1: PTG's quarterly results

Year to Dec (Bt mn)	2Q22	3Q22	4Q22	1Q23	2Q23E
Total gross profit (Bt mn)	3,430	3,124	2,879	3,167	3,126
Retail	2,844	2,511	2,205	2,478	2,404
Wholesale	38	31	23	32	32
LPG	261	284	276	298	335
Non-oil (CVS) + service income	202	147	236	187	192
F&B	86	150	138	152	163
Oil retail volume sales	1,315	1,231	1,378	1,432	1,475
Oil retail margin (Bt/liter)	2.16	2.04	1.60	1.73	1.63
SG&A (Bt/liter)	1.63	1.82	1.67	1.63	1.61

Source: Company data, Kiatnakin Phatra Securities estimates

Figure 2: PTG's consensus estimate movement

Source: Bloomberg, KKPS estimates

Figure 3: PTG's NPAT forecast comparison

Source: Bloomberg, KKPS estimates

Figure 4: Price structure of petroleum products in Bangkok (7 July 2023)

UNIT: BAHT/LITRE	EX-REFIN.	EXCISE TAX	M. TAX	OIL FUND	CONSV. FUND	WHOLESALE (ws)	VAT (WS)	WS&VAT	MARKETING MARGIN	VAT (MM)	RETAIL
ULG95	20.4711	6.5000	0.6500	9.5800	0.0500	37.2511	2.6076	39.8587	2.8797	0.2016	42.94
GASOHOL95 E10	20.3637	5.8500	0.5850	3.0000	0.0500	29.8487	2.0894	31.9381	3.0018	0.2101	35.15
GASOHOL91	19.9280	5.8500	0.5850	3.0000	0.0500	29.4130	2.0589	31.4719	3.1851	0.2230	34.88
GASOHOL95 E20	20.9359	5.2000	0.5200	1.0100	0.0500	27.7159	1.9401	29.6560	2.9757	0.2083	32.84
GASOHOL95 E85	26.5802	0.9750	0.0975	1.0100	0.0500	28.7127	2.0099	30.7226	2.3994	0.1680	33.29
H-DIESEL B7	21.9512	1.3400	0.1340	5.0200	0.0500	28.4952	1.9947	30.4899	1.3552	0.0949	31.94
H-DIESEL	21.9512	1.3400	0.1340	5.0200	0.0500	28.4952	1.9947	30.4899	1.3552	0.0949	31.94
H-DIESEL B20	21.9512	1.3400	0.1340	5.0200	0.0500	28.4952	1.9947	30.4899	1.3552	0.0949	31.94
FO 600 (1) 2%S	16.8319	0.6400	0.0640	0.0600	0.0500	17.6459	1.2352	18.8811			
FO 1500 (2) 2%S	16.0626	0.6400	0.0640	0.0600	0.0500	16.8766	1.1814	18.0580			
LPG (BAHT/KILOGRAM)	17.9256	2.1700	0.2170	0.6053	0.0000	20.9179	1.4643	22.3822	3.2566	0.2280	25.87

Source: EPPO

Figure 5: Oil retail valuation comparison

	Bloomberg Ticker	Mkt. Cap (US\$mn)	P/E (x)			EV/EBITDA (x)			Yield		P/B (x)		ROE	
			22A	23E	24E	22A	23E	24E	23E	24E	23E	24E	23E	24E
Vibra Energia SA	VBBR3 BZ	4,287	13.4	6.7	5.1	4.3	4.2	3.6	13.1%	14.0%	1.3	1.1	21%	24%
Ampol Ltd	ALD AU	4,778	9.2	12.0	11.5	5.9	7.3	7.0	5.4%	5.7%	2.1	2.0	17%	18%
Viva Energy	VEA AU	3,094	7.6	12.5	11.6	4.1	5.7	4.9	4.8%	5.7%	1.8	1.7	99%	93%
ADNOC	ADNOCDIS UH	13,613	22.1	19.9	17.3	15.7	16.1	14.8	5.1%	4.3%	14.8	12.5	74%	78%
Cosan SA	CSAN3 BZ	7,461	29.4	NM	23.3	23.1	20.5	13.4	2.2%	2.2%	1.6	1.5	-4%	7%
Ultrapar Pa-ADR	UGP US	4,470	12.1	17.5	14.1	5.4	6.7	6.4	8.3%	5.7%	1.9	1.8	10%	13%
PTT Oil and Retail	OR TB	7,101	23.7	17.3	14.4	12.3	11.0	9.5	2.3%	2.8%	2.2	2.0	13%	14%
PTG Energy	PTG TB	495	18.9	16.3	13.5	8.2	10.7	9.8	2.5%	3.0%	1.9	1.8	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%
Viva Energy	VEA AU	2,992	8.8	11.1	10.5	5.4	8.2	7.5	6.0%	6.3%	2.0	2.0	16%	18%
Average			16.7	15.0	14.2	9.4	10.0	8.7	5.1%	5.1%	3.5	3.1	28%	30%

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

Financials

Figure 6: 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 7: 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 8: 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 9: 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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