



PTG Energy PCL

PTG TB Neutral

Target Price Bt 11.50

Price (12/07/2023) Bt 10.40

Upside % 10.57

Valuation SOTP

Sector Energy & Utilities

Market Cap Btm 17,368

30-day avg turnover Btm 77.51

No. of shares on issue m 1,670

CG Scoring (IOD-Y2022) Excellent

Anti-Corruption Indicator Certified

Investment fundamentals

Year end Dec 31 2022A 2023E 2024E 2025E

Company Financials

Revenue (Btmn) 179,422 184,536 191,180 204,525

Core profit (Btmn) 927 952 1,326 1,605

Net profit (Btmn) 934 952 1,326 1,605

Net EPS (Bt) 0.56 0.57 0.79 0.96

DPS (Bt) 0.40 0.40 0.40 0.40

BVPS (Bt) 4.88 5.05 5.44 6.01

Net EPS growth (%) -7.18 1.92 39.26 21.10

ROA (%) 2.11 1.93 2.65 3.66

ROE (%) 11.46 11.29 14.58 16.01

Net D/E (x) 3.25 3.50 3.08 2.59

Valuation

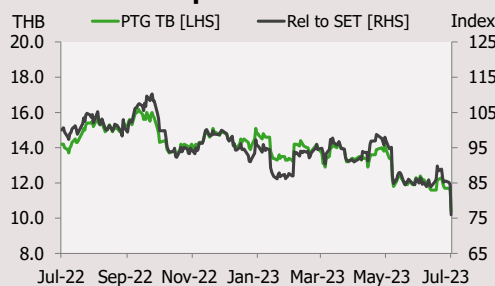
P/E (x) 18.59 18.24 13.10 10.82

P/BV (x) 2.13 2.06 1.91 1.73

EV/EBITDA (x) 7.93 8.10 7.07 6.36

Dividend yield (%) 3.85 3.85 3.85 3.85

PTG TB rel SET performance



Source: Bloomberg (All figures in THB unless noted.)

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Analyst

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13 July 2023

Kasikorn Securities Public Company Limited

Disappointment amid unfavorable backdrop

- **Downgrade to Neutral and lower TP to Bt11.5**, due to potential poor 2Q23 earnings and unfavorable industry backdrop over next 6-9 months.
- **Expect 2Q23 NP of Bt130mn**, down YoY and QoQ, as retail oil margin flipped to Bt0.1/liter lower QoQ compared to EPP0's Bt0.4/liter increase.
- **Expect higher prices of crude oil and gas oil to pressure retail oil margin.** Higher excise tax also narrowing room for domestic oil price adjustment.

Investment Highlights

- **Cut 2023-25 earnings by 25-44%.** We cut our 2023/24/25 earnings forecasts by 44%/31%/25% to Bt952mn/Bt1.33bn/Bt1.61bn to reflect: 1) lower retail oil marketing margin assumptions by Bt0.10-Bt0.20/liter to Bt1.7/liter in each year following our recent crude oil price upgrade, 2) a slower expansion assumption of Panthai Coffee in 2023-24 from 600 outlets to 400 outlets per year, 3) lower GPM at Panthai Coffee by 10 ppts and 4) our fine-tuning of SG&A/liter by -1% to +2%. Our new earnings forecasts imply a CAGR of 23%.
- **Expect 2Q23 earnings to disappoint the market.** We estimate PTG's 2Q23 net profit at Bt130mn (EPS: Bt0.08), down 78% YoY and 53% QoQ, due to falling GPM/liter, despite the company achieving record high sale volumes. Such earnings are expected to disappoint the market as the lower GPM/liter by about Bt0.1/liter QoQ marks a divergence from the movement of the EPP0 retail oil marketing margin, which increased by Bt0.4/liter. Meanwhile, its sale volumes continued to increase 12% YoY and 4% QoQ to 1,533mn liters, a new high for the third consecutive quarter. Given this, 1H23 net profit should come in at Bt408mn, down 46% YoY and representing 43% of our full-year forecast.
- **Impacts from end of excise tax reduction.** We foresee 3 possible scenarios for financing the discontinuation of the excise tax reduction by using excess oil fuel fund collection and/or a retail diesel price hike and/or lower retail oil marketing margin. We believe that the most likely scenario is to turn oil fuel fund collection into a subsidy and fix the retail oil price and margin at almost unchanged because the deficit of the oil fuel fund (only oil account) has declined significantly this year to Bt6.6bn. If we assume the new government allows the deficit to return to the level at the beginning year of Bt77.2bn by YE2023, there would be a Bt6.5/liter room for subsidy without any effect on other related parties.

Valuation and Recommendation

- **Downgrade to Neutral with a lower mid-2024 TP of Bt11.5.** To reflect our earnings downgrade and potential derating from the unfavorable industry environment in the short term, we reduce our mid-2024 SOTP-based target price for PTG from Bt16.2 to a conservative level of Bt11.5, implying 2x 2024-25 PBV. With our expectation of gradually higher prices of crude oil and Gas Oil 10 ppm as El Nino may create fresh demand for low sulfur diesel in the power generation segment, as well as the potential impact of the discontinuation of the excise tax reduction, we expect retail oil operators will have to deal with another round of margin pressure over the next 6-9 months. Therefore, we downgrade our recommendation on PTG from Outperform to Neutral in the short term. We think that the current share price does not warrant cutting losses, as the lowest PBV ratio during the pandemic and in late 2018 was 2x, which corresponds to a share price of about Bt10.0 for PTG. Key upside is any change in new government policy regarding a wage rate hike, oil margin intervention and an excise tax reduction policy.



Investment highlights

Cut 2023-25 earnings by 25-44%

We cut our 2023/24/25 earnings forecasts by 44%/31%/25% from Bt1.69bn/Bt1.93bn/Bt2.13bn to Bt952mn/Bt1.33bn/Bt1.61bn to reflect: 1) lower retail oil marketing margin assumptions by Bt0.10-Bt0.20/liter to Bt1.7/liter in each year (lower end of management's guidance of Bt1.70-Bt1.80/liter) following our recent crude oil price upgrade and the possible impact of the end of the excise tax reduction, 2) slower planned expansion of Panthai Coffee in 2023-24 from 600 outlets to 400 outlets each year, 3) lower GPM of Panthai Coffee by 10 ppts to 60% as a result of price discounts under a loyalty program, and 4) our fine-tuning of SG&A/liter by increasing it by 2% to Bt1.65/liter in 2023 but slightly lowering it by 1% in 2024-25. We make no change to our sales volume assumptions as we have already reflected the benefit of the loyalty program in our forecasts. Given this, our new earnings forecast implies a CAGR of 23%.

Fig 1 Key assumptions and earnings revisions

	2023E			2024E			2025E		
	New	Previous	% change	New	Previous	% change	New	Previous	% change
Financials									
Sales (Btmn)	184,536	185,074	(0.3)	191,180	191,387	(0.1)	204,525	204,374	0.1
Costs of sales (Btmn)	171,907	171,731	0.1	177,441	176,833	0.3	189,469	188,539	0.5
SG&A (Btmn)	10,820	10,613	2.0	11,622	11,679	(0.5)	12,906	13,025	(0.9)
Net Profit (Btmn)	952	1,689	(43.6)	1,326	1,932	(31.4)	1,605	2,134	(24.8)
Core Profit (Btmn)	952	1,689	(43.6)	1,326	1,932	(31.4)	1,605	2,134	(24.8)
EPS (Bt)	0.57	1.01	(43.6)	0.79	1.16	(31.4)	0.96	1.28	(24.8)
Core EPS (Bt)	0.57	1.01	(43.6)	0.79	1.16	(31.4)	0.96	1.28	(24.8)
Performance Drivers									
Total stations (stations)	2,471	2,471	0.0	2,561	2,561	0.0	2,651	2,651	0.0
Oil & LPG sales volume (ML)	6,542	6,542	0.0	6,949	6,949	0.0	7,375	7,375	0.0
Incremental Panthai (outlets)	400	600	(33.3)	400	600	(33.3)	400	400	0.0
Marketing margin (Bt/liter)	1.70	1.80	(5.6)	1.70	1.85	(8.1)	1.70	1.90	(10.5)
Gross profit per liter (Bt/liter)	1.95	2.06	(5.3)	2.00	2.12	(5.5)	2.06	2.17	(4.9)
SG&A per liter (Bt/liter)	1.65	1.62	2.0	1.67	1.68	(0.5)	1.75	1.77	(0.9)
Key assumptions & ratios (%)									
			Change			Change			Change
Sales growth (%)	2.8	3.1	(0.3)	3.6	3.4	0.2	7.0	6.8	0.2
Gross profits margin (%)	6.8	7.2	(0.4)	7.2	7.6	(0.4)	7.4	7.7	(0.4)
Net profits growth (%)	1.9	80.8	(78.9)	39.3	14.4	24.9	21.1	10.5	10.6
Net profits margin (%)	0.5	0.9	(0.4)	0.7	1.0	(0.3)	0.8	1.0	(0.3)
ROE (%)	11.3	18.4	(7.1)	14.6	18.5	(3.9)	16.0	17.9	(1.9)
Core EPS growth (%)	2.7	82.2	(79.52)	39.3	14.4	24.9	21.1	10.5	10.6

Source: KS Research



Expect 2Q23 earnings to disappoint the market

We estimate PTG's 2Q23 net profit at Bt130mn (EPS: Bt0.08), down 78% YoY and 53% QoQ, due to falling GPM/liter, despite the company achieving record high sale volumes. Such earnings are expected to disappoint the market as the lower GPM/liter by about Bt0.1/liter QoQ marks a divergence from the movement of the EPPO retail oil marketing margin, which increased by Bt0.4/liter. Meanwhile, its sale volumes continued to increase 12% YoY and 4% QoQ to 1,533mn liters, a new high for the third consecutive quarter. Given this, 1H23 net profit should come in at Bt408mn, down 46% YoY and representing 43% of our full-year forecast

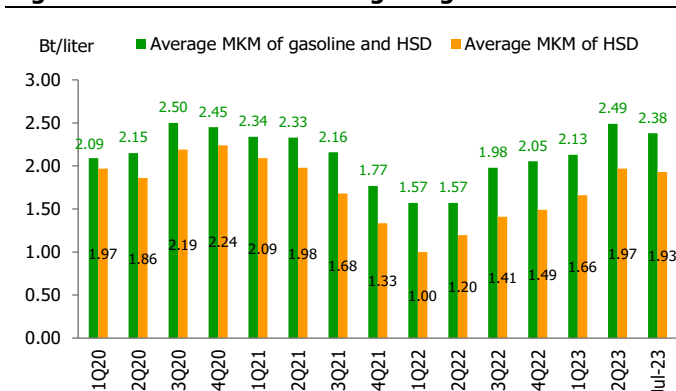
Note that the disappointing margin was mainly due to a lower price difference between Gas Oil 10 ppm. and 500 ppm by USD2.4/bbl, or Bt0.5/liter QoQ in 2Q23. EPPO uses the price of Gas Oil 10 ppm to calculate the ex-refinery price for diesel, while the refiners apply Gas Oil 500 ppm with some quality adjustments to determine the actual ex-refinery price. Therefore, the 2Q23 spread between Gas Oil 10 ppm and 500 ppm tells us that the actual diesel margin of retail oil operators will fall by Bt0.10/liter QoQ, which was in line with aforementioned guidance.

Fig 2 PTG 2Q23 earnings preview

	2Q22	3Q22	4Q22	1Q23	2Q23	%YoY	%QoQ	%YTD2023E	2023E
Financials									
Sales (Btmn)	46,307	45,171	48,975	50,936	52,973	14.4	4.0	56.3	184,536
EBITDA (Btmn)	1,806	1,431	1,173	1,367	1,188	-34.2	-13.1	43.6	5,857
Operating profit (Btmn)	1,048	590	351	549	358	-65.9	-34.9	45.3	2,004
Core profit (Btmn)	595	181	-16	284	130	-78.2	-54.2	43.4	952
Net profit (Btmn)	601	177	-4	278	130	-78.4	-53.2	42.8	952
Net EPS (Bt)	0.36	0.11	-0.00	0.17	0.08	-78.4	-53.2	42.8	0.57
Performance Drivers									
Sales volume (ML)	1,367	1,278	1,407	1,474	1,533	12.1	4.0	51.2	5,869
EPPO Marketing margin (Bt/liter)	1.58	1.98	2.05	2.13	2.49	57.6	16.9	135.9	1.70
Gross profit per liter (Bt/liter)	2.31	2.22	1.86	1.95	1.83	-20.5	-6.0	96.8	1.95
SG&A per liter (Bt/liter)	1.63	1.82	1.67	1.63	1.64	0.6	0.5	98.9	1.65
Ratios									
						Change	Avg YTD	2023E	
Gross margin (%)	7.4	6.9	5.9	6.2	5.8	-1.6	-0.4	6.0	6.8
EBITDA margin (%)	3.9	3.2	2.4	2.7	2.2	-1.7	-0.4	2.5	3.2
Optg. margin (%)	2.3	1.3	0.7	1.1	0.7	-1.6	-0.4	0.9	1.1
ROE (%)	28.5	8.2	-0.2	13.1	6.1	-22.3	-7.0	9.6	11.3

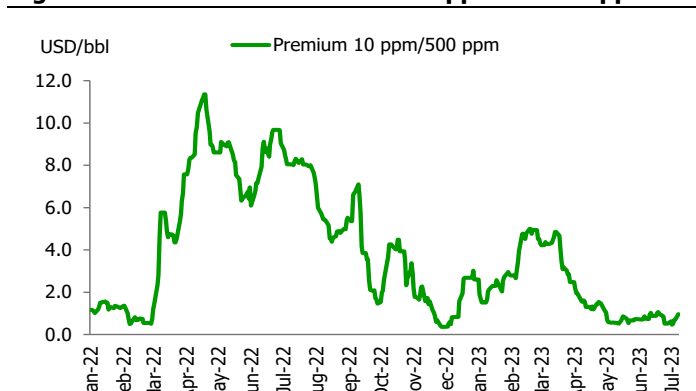
Source: KS Research

Fig 3 EPPO retail oil marketing margins



Source: EPPO

Fig 4 Difference between Gasoil 10 ppm. vs 500 ppm.



Source: ThaiOil PCL.

Impacts from discontinuation of excise tax reduction

To finance the end of the excise tax cut, we see 3 potential scenarios: using surplus collected oil fuel fund revenue and/or raising retail diesel prices, or reducing the retail oil marketing margin. We assume the excise tax for diesel will increase from Bt1.34/liter to Bt6.0/liter. The alternatives for financing the deficit are as follows:

- 1) **Oil Fuel Fund bears the downside.** Collection for the Oil Fuel Fund will swing from Bt3.82/liter to requiring a subsidy of Bt0.84/liter.
- 2) **Consumer bears the downside.** Lower oil fuel fund collection by Bt3.82/liter and increase the retail oil price for diesel by Bt0.84/liter to Bt33/liter level.
- 3) **Retail oil operator bears the downside.** Lower oil fuel fund collection by Bt3.82/liter and lower the retail oil marketing margin to Bt1.40/liter and raise the retail oil price for diesel by Bt0.30/liter.

We believe that the most likely scenario is the first as the Oil Fuel Fund deficit (only oil account) has fallen significantly to Bt6.6bn from Bt77.2bn at the beginning of this year. However, it cannot be denied that the room for a retail oil price adjustment will be narrower due to higher wholesale costs. If we assume the new government returns to the deficit status at the beginning year of Bt77.2bn by YE2023, it implies a Bt6.5/liter room for subsidy without any effect on other related parties.

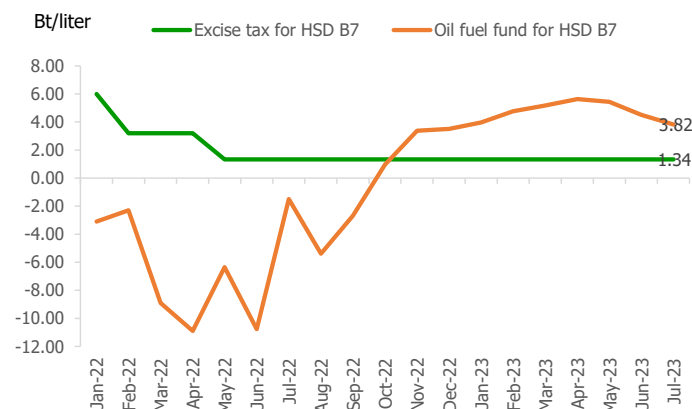
Fig 5 Domestic retail oil price structure

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	21.2405	6.5000	0.6500	9.3800	0.0500	37.8205	2.6474	40.4679	3.1515	0.2206	43.84
GASOHOL95 E10	21.1077	5.8500	0.5850	2.8000	0.0500	30.3927	2.1275	32.5202	3.2989	0.2309	36.05
GASOHOL91	20.6744	5.8500	0.5850	2.8000	0.0500	29.9594	2.0972	32.0566	3.4798	0.2436	35.78
GASOHOL95 E20	21.6003	5.2000	0.5200	0.8100	0.0500	28.1803	1.9726	30.1529	3.3524	0.2347	33.74
GASOHOL95 E85	26.7853	0.9750	0.0975	0.8100	0.0500	28.7178	2.0102	30.7280	3.2355	0.2265	34.19
H-DIESEL B7	22.5502	1.3400	0.1340	3.8200	0.0500	27.8942	1.9526	29.8468	1.9563	0.1369	31.94
LPG (BAHT/KILOGRAM)	17.8604	2.1700	0.2170	0.6705	0.0000	20.9179	1.4643	22.3822	3.2566	0.2280	25.87

UNIT: BAHT/LITRE	2021	2022	2023	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	1-12 Jul 23
AVERAGE MARKETING MARGIN OF GASOLINE, GASOHOL, AND DIESEL (BANGKOK)	2.14	1.78	2.32	2.02	2.02	2.12	2.26	2.40	2.67	2.41	2.38
AVERAGE MARKETING MARGIN OF DIESEL (BANGKOK)	1.86	1.27	1.83	1.41	1.47	1.66	1.86	1.90	2.06	1.96	1.93

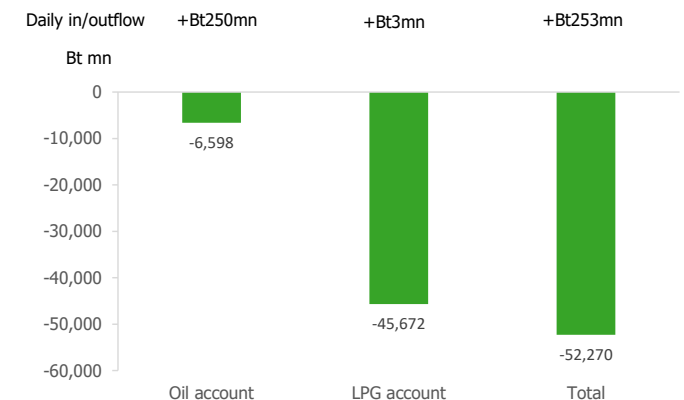
Source: EPPO

Fig 6 Oil Fuel Fund collection and excise tax



Source: EPPO

Fig 7 Oil Fuel Fund status (as of 9 July 2023)



Source: EPPO



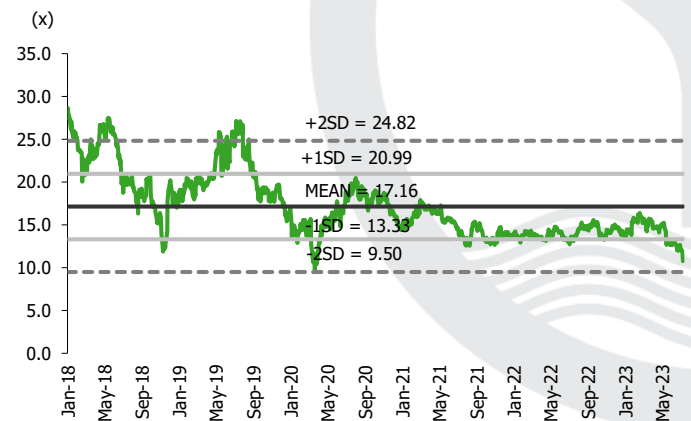
Recommendation and valuation

Downgrade to Neutral with a lower mid-2024 TP of Bt11.5.

To reflect our earnings downgrade and potential derating from the unfavorable industry environment in the short term, we reduce our mid-2024 SOTP-based target price for PTG from Bt16.2 to a conservative level of Bt11.5, implying 2x 2024-25 PBV. We lower our PER multiple for the retail oil business from 8.5x to 7.0x in our SOTP methodology, while leaving the valuation techniques for other businesses unchanged.

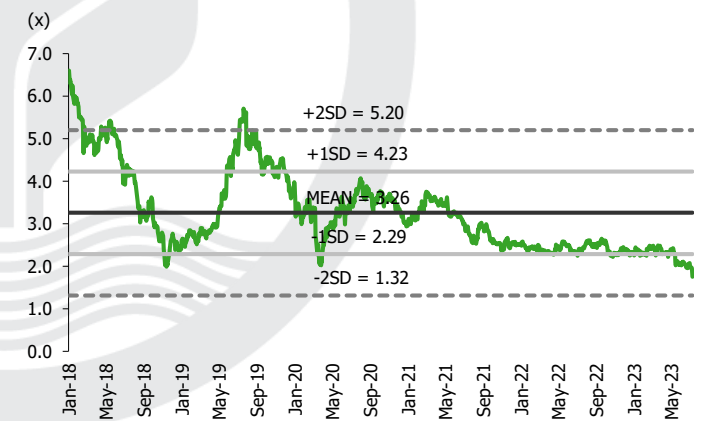
With our expectation of gradually higher prices of crude oil and Gas Oil 10 ppm as El Nino may create fresh demand for low sulfur diesel in the power generation segment, as well as the potential impact of the discontinuation of the excise tax reduction, we expect the retail oil operators will have to deal with another round of margin pressure over the next 6-9 months. Therefore, we downgrade our recommendation on PTG from Outperform to Neutral in the short term. We think that the current share price does not warrant cutting losses, as the lowest PBV ratio during the pandemic and in late 2018 was 2x, which corresponds to a share price of about Bt10.0 for PTG. Key upside is any change in policy by the new government regarding the wage rate hike, oil margin intervention and excise tax reduction policy.

Fig 8 PTG 12-months forward PER



Source: Bloomberg

Fig 9 PTG 12-months forward PBV



Source: Bloomberg

Fig 10 Our SOTP-based target price for PTG

Business	Stake	YE2023 fair value (Bt)	YE2024 fair value (Bt)	Valuation method	Remark
Integrated retail oil service stations	100%	7.5	8.8	PER	Lower target PER from 8.5x to 7.0x
AMA Marine PCL (AMA)	24%	0.7	0.7	PER	Target PER of 14.3x
Palm refinery complex	40%	1.5	1.5	DCF	Based on WACC of 5.9%
WTE power plant	51%	0.3	0.3	DCF	Based on WACC of 6.0%
Fuel Pipeline Transportation Limited (FPT)	10%	0.9	0.9	DCF	Based on WACC of 5.9%
Total		10.8	12.2		
mid-2024 TP			11.5		

Source: KS Research



Year-end 31 Dec

Income Statement (Btmn)	2021A	2022A	2023E	2024E	2025E
Revenue	133,759	179,422	184,536	191,180	204,525
Cost of sales and services	-123,627	-167,414	-171,907	-177,441	-189,469
Gross Profit	10,132	12,008	12,629	13,739	15,055
SG&A	-8,271	-9,765	-10,820	-11,622	-12,906
Other income	180	173	195	203	212
EBIT	2,395	2,437	2,400	2,823	2,838
EBITDA	5,065	5,602	5,857	6,488	6,878
Interest expense	-1,118	-1,123	-1,066	-1,047	-705
Equity earnings	205	-177	199	298	264
EBT	1,277	1,314	1,334	1,776	2,133
Income tax	-261	-361	-382	-450	-528
NPAT	1,017	953	952	1,326	1,605
Minority Interest	-10	-19	0	0	0
Core Profit	1,006	927	952	1,326	1,605
Extraordinary items	0	-24	0	0	0
FX gain (loss)	0	31	0	0	0
Reported net profit	1,006	934	952	1,326	1,605
Balance Sheet (Btmn)	2021A	2022A	2023E	2024E	2025E
Cash & equivalents	1,701	2,071	-758	480	-5,253
Accounts receivable	722	899	1,517	1,572	1,683
Inventories	2,239	2,154	2,355	2,431	2,595
Total current assets	4,859	5,125	3,124	4,493	-964
Investment in subs & others	2,768	2,513	2,513	2,513	2,513
Fixed assets-net	35,780	36,088	41,393	40,843	40,267
Total assets	44,384	45,135	49,273	50,017	43,909
Short-term debt	6,351	6,424	2,166	2,174	729
Accounts payable	6,000	6,961	10,622	10,964	11,709
Total current liabilities	12,450	13,599	13,070	13,443	12,776
Long-term debt	23,215	22,561	27,019	26,713	20,302
Total liabilities	36,184	36,860	40,714	40,800	33,755
Paid-up capital	1,670	1,670	1,670	1,670	1,670
Share premium	1,185	1,185	1,185	1,185	1,185
Retained earnings	5,081	5,263	5,547	6,204	7,142
Minority interests	105	124	124	124	124
Total shareholders' equity	8,200	8,275	8,559	9,217	10,154
Total equity & liabilities	44,384	45,135	49,273	50,017	43,909
Key Assumptions					
Total no. of stations (branches)	2,167	2,380	2,471	2,561	2,651
Sales volume (ML)	5,324	5,814	6,542	6,949	7,375
Dubai crude price (USD/bbl)	69.0	96.0	80.0	75.0	75.0
Per liter assumptions					
Average oil selling price (Bt/liter)	27.5	34.6	30.9	29.8	29.8
Marketing margin (Bt/liter)	1.65	1.77	1.70	1.70	1.70
Gross profit per liter (Bt/liter)	1.91	2.04	1.95	2.00	2.06
SG&A per liter (Bt/liter)	1.56	1.59	1.65	1.67	1.75

Cashflow (Btmn)	2021A	2022A	2023E	2024E	2025E
Net profit	1,017	953	952	1,326	1,605
Depreciation & amortization	3,024	3,185	3,853	4,168	4,516
Change in working capital	1,458	732	2,018	321	603
Others	-215	158	-199	-298	-264
CF from operation activities	5,283	5,028	6,624	5,517	6,460
Capital expenditure	-3,851	-3,494	-9,158	-3,617	-3,940
Investment in subs and affiliates	76	-228	0	0	0
Others	28	502	189	297	263
CF from investing activities	-3,747	-3,219	-8,969	-3,320	-3,677
Cash dividend	-334	-417	-666	-665	-664
Net proceeds from debt	10	-581	185	-292	-7,849
Capital raising	0	0	0	0	0
Others	43	-106	0	0	0
CF from financing activities	-282	-1,103	-481	-957	-8,513
Net change in cash	1,255	706	-2,827	1,240	-5,730
Key Statistics & Ratios					
Per share (Bt)					
Reported EPS	0.60	0.56	0.57	0.79	0.96
Core EPS	0.60	0.56	0.57	0.79	0.96
DPS	0.25	0.40	0.40	0.40	0.40
BV	4.85	4.88	5.05	5.44	6.01
EV	27.15	26.59	28.40	27.48	26.21
Free Cash Flow	0.86	0.92	-1.52	1.14	1.51
Valuation analysis					
Reported P/E (x)	17.26	18.59	18.24	13.10	10.82
Core P/E (x)	17.26	18.74	18.24	13.10	10.82
P/BV (x)	2.15	2.13	2.06	1.91	1.73
EV/EBITDA (x)	8.95	7.93	8.10	7.07	6.36
Price/Cash flow (x)	3.29	3.45	2.62	3.15	2.69
Dividend yield (%)	2.40	3.85	3.85	3.85	3.85
Profitability ratios					
Gross margin (%)	7.57	6.69	6.84	7.19	7.36
EBITDA margin (%)	3.79	3.12	3.17	3.39	3.36
EBIT margin (%)	1.79	1.36	1.30	1.48	1.39
Net profit margin (%)	0.76	0.53	0.52	0.69	0.78
ROA (%)	2.29	2.11	1.93	2.65	3.66
ROE (%)	12.43	11.46	11.29	14.58	16.01
Liquidity ratios					
Current ratio (x)	0.39	0.38	0.24	0.33	-0.08
Quick ratio (x)	0.19	0.22	0.06	0.15	-0.28
Leverage Ratios					
D/E ratio (x)	4.41	4.45	4.76	4.43	3.32
Net debt/EBITDA (x)	5.50	4.80	5.11	4.38	3.82
Net debt/equity (x)	3.40	3.25	3.50	3.08	2.59
Int. coverage ratio (x)	2.14	2.17	2.25	2.70	4.03
Growth					
Revenue (%)	28.09	34.14	2.85	3.60	6.98
EBITDA (%)	-11.70	10.60	4.56	10.77	6.01
Reported net profit (%)	-46.87	-7.18	1.92	39.26	21.10
Reported EPS (%)	-46.87	-7.18	1.92	39.26	21.10
Core profit (%)	-45.82	-7.89	2.71	39.26	21.10
Core EPS (%)	-45.82	-7.89	2.71	39.26	21.10

Source: Company, KS estimates



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Neutral: Expected total return between -10% and 10% within a 12-month period

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