

13 July 2021

Energy & Petrochemicals | Downstream Products

PTT Global Chemical (PTTGC TB)

Buy (Maintained)

Paying For Growth And Diversification; Still BUY

Target Price (Return): THB76.00 (38.7%)
 Price: THB54.80
 Market Cap: USD7,517m
 Avg Daily Turnover (THB/USD) 1,270m/40.3m

- **Keep BUY and THB76.00 TP, 39% upside.** PTT Global Chemical has agreed to acquire German coating resins producer Allnex from Advent International (Advent) for a total transaction value of EUR4bn (c.TH155bn). The deal represents the group's move to further diversify its business exposure into specialty chemicals, although valuations at 12.2x trailing EV/EBITDA are not exactly cheap. We make no changes to our estimates at this juncture, pending details from management on the cash transaction, which is targeted for completion at end 2021.
- **A major industrial coating resins producer.** PTTGC announced on Monday an agreement with private equity firm Advent to acquire 100% of Allnex's shares for EUR3,576m and existing shareholder loans of EUR426m, culminating in a total transaction value of EUR4,002m, or c.TH155bn at prevailing FX rates. The deal represents PTTGC's intention to diversify further into specialty chemicals and grow its earnings contributions from the high-value business or HVB segment. Allnex's coating resins and additives products are used in architectural, industrial, automotive, and other sectors globally.
- **Valued at 12.2x trailing EV/EBITDA.** According to Bloomberg, the deal amounts to one of the largest overseas acquisitions by a Thai company in recent years, valued at 12.2x EV/EBITDA based on 1Q21's last 12 months financials. This lies between the global specialty chemicals sector's current multiple of 13x and its 5-year historical average of 11x. According to vendor Advent, Allnex's revenue has grown two-fold over a span of eight years while earnings have risen at a quicker pace, with EBITDA margins of 17%.
- **Earnings estimates maintained.** Barring extenuating circumstances, the cash transaction is expected to be completed at end 2021. It is still subject to anti-trust approvals in 10 jurisdictions. PTTGC does not intend to undertake an equity cash call, with the deal expected to be funded by internally generated funds alongside debt financing. The group has also entered into a loan agreement with major shareholder PTT Group (PTT TB, BUY, TP: THB51.50) for up to THB74bn – at a maximum interest rate of 2.5% pa – to help finance the deal. Net gearing is seen to remain manageable at <0.65x in 2022.
- **Maintain BUY and THB76.00 TP based on 1.1x 2022F P/BV.** Management is expected to shed more details on the deal, as well as its financial and strategic rationale, in the coming days. We continue to like the stock for its bumper earnings momentum in 1H21F and relatively more stable cost base against a backdrop of rising crude oil prices. Key downside risks to our call include slower-than-anticipated easing of the pandemic spread that impacts downstream demand and higher-than-expected industry capacity additions that pressure margins and utilisation rates.

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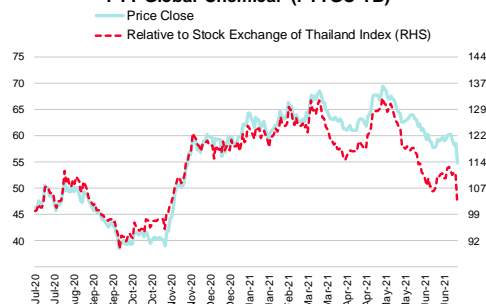
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.4)	(10.6)	(10.3)	(14.8)	19.0
Relative	(13.3)	(5.3)	(10.9)	(15.4)	4.2
52-wk Price low/high (THB)	38.5 – 69.5				

PTT Global Chemical (PTTGC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	412,810	329,291	428,815	439,687	452,170
Recurring net profit (THBm)	8,541	7,356	22,027	21,331	23,459
Recurring net profit growth (%)	(79.9)	(13.9)	199.5	(3.2)	10.0
Recurring P/E (x)	28.89	33.39	11.15	11.52	10.47
P/B (x)	0.9	0.9	0.8	0.8	0.8
P/CF (x)	14.91	106.04	8.86	6.70	6.37
Dividend Yield (%)	3.7	1.8	5.6	3.9	4.3
EV/EBITDA (x)	10.33	15.42	5.96	5.77	5.09
Return on average equity (%)	4.0	0.1	10.5	7.0	7.4
Net debt to equity (%)	27.8	36.0	21.6	15.7	9.1

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	1.90	1.64	4.91	4.75	5.23
Energy & Petrochemicals	DPS	2.00	1.00	3.05	2.14	2.35
PTT Global Chemical	BVPS	63.43	62.64	66.36	68.97	71.85
PTTGC TB	Return on average equity (%)	4.0	0.1	10.5	7.0	7.4
Buy						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
For the Thai refineries/petrochemicals, we use P/BV as a valuation basis. This is due to the high volatility in the earnings as a result of stock gain/losses. We believe DCF valuation is not appropriate, as share price and earnings are highly seasonal.	Recurring P/E (x)	28.89	33.39	11.15	11.52	10.47
	P/B (x)	0.9	0.9	0.8	0.8	0.8
	FCF Yield (%)	(9.8)	(9.3)	4.4	8.6	10.6
	Dividend Yield (%)	3.7	1.8	5.6	3.9	4.3
	EV/EBITDA (x)	10.33	15.42	5.96	5.77	5.09
	EV/EBIT (x)	45.57	na	11.05	10.77	8.96
Key drivers	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Crude oil prices, as it is the main feedstock;	Total turnover	412,810	329,291	428,815	439,687	452,170
ii. Gross refining margins are seasonally dependent on the demand and supply of the refined product;	Gross profit	22,191	12,198	43,339	43,038	46,176
iii. Stock gains/losses as a result of crude oil price volatility;	EBITDA	25,235	17,895	44,396	43,258	45,298
iv. THB/USD rate, where product and feedstock costs are priced in USD.	Depreciation and amortisation	(19,513)	(20,578)	(20,436)	(20,090)	(19,556)
	Operating profit	5,722	(2,683)	23,960	23,168	25,742
	Net interest	(2,119)	(3,166)	(3,857)	(2,863)	(2,543)
	Pre-tax profit	12,999	543	35,604	25,065	27,599
	Taxation	(649)	109	(3,792)	(2,732)	(3,036)
	Reported net profit	11,682	200	30,387	21,331	23,459
	Recurring net profit	8,541	7,356	22,027	21,331	23,459
Key risks	Cash flow (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key downside risks to our call include:	Change in working capital	(5,921)	(12,521)	(9,027)	(996)	(1,134)
i. Slower-than-anticipated easing of the pandemic spread, which impacts downstream demand;	Cash flow from operations	16,546	2,316	27,721	36,668	38,585
ii. Higher-than-expected industry capacity additions that pressure margins and utilisation rates.	Capex	(40,817)	(25,059)	(16,928)	(15,593)	(12,617)
	Cash flow from investing activities	(40,817)	(25,059)	(16,928)	(15,593)	(12,617)
	Cash flow from financing activities	(11,717)	36,194	(13,674)	(9,599)	(10,557)
	Cash at beginning of period	53,562	25,560	44,313	72,800	89,365
	Net change in cash	(35,988)	13,451	(2,881)	11,476	15,412
	Ending balance cash	17,574	39,012	41,432	84,276	104,776
Company Profile	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
PTTGC has total petrochemicals capacity of c.12mtpa. With 280,000bpd of refining capacity. It was listed on the SET on Oct 2011 as a result of the amalgamation of PTT Chemical and PTT Aromatics & Refining.	Total cash and equivalents	25,560	44,313	72,800	89,365	109,550
	Tangible fixed assets	264,564	269,177	265,668	261,171	254,232
	Total investments	75,236	81,703	56,703	56,703	56,703
	Total assets	452,514	489,383	505,423	519,635	534,977
	Short-term debt	10,170	22,036	12,904	13,232	13,606
	Total long-term debt	96,918	126,261	126,261	126,261	126,261
	Total liabilities	158,919	200,389	198,292	199,769	201,105
	Total equity	293,595	288,994	307,131	319,865	333,872
	Total liabilities & equity	452,514	489,383	505,423	519,635	534,977
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(20.4)	(20.2)	30.2	2.5	2.8
	Recurrent EPS growth (%)	(79.9)	(13.5)	199.5	(3.2)	10.0
	Gross margin (%)	5.4	3.7	10.1	9.8	10.2
	Operating EBITDA margin (%)	6.1	5.4	10.4	9.8	10.0
	Net profit margin (%)	2.8	0.1	7.1	4.9	5.2
	Dividend payout ratio (%)	77.1	2247.7	45.0	45.0	45.0
	Capex/sales (%)	9.9	7.6	3.9	3.5	2.8
	Interest cover (x)	1.83	(0.76)	5.05	5.36	5.94

Source: Company data, RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-13	Buy	76	67
2021-02-16	Neutral	63	66
2020-11-10	Neutral	51	49
2020-08-09	Neutral	52	50
2020-06-25	Buy	52	46
2020-05-10	Buy	51	39
2020-03-19	Buy	33	24
2020-01-27	Buy	59	49
2019-11-08	Buy	63	56
2019-08-16	Sell	46	53
2019-08-08	Sell	50	54

Source: RHB, Bloomberg

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-	-

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