

23 December 2021

Energy & Petrochemicals | Oil & Gas Services

## Bangchak Corp (BCP TB)

**Buy** (from Neutral)

### Stronger GRM; Upgrade To BUY

- **Upgrade to BUY from Neutral, with new THB34.00 from THB21.30, 39% upside and c.6% FY22F yield.** Bangchak Corp is expected to see strong GRMs in 4Q21F and FY22F, in tandem with stronger demand from the transportation industry, the winter season in the Northern Hemisphere, and reopening of the global economy. We believe the company's earnings bottomed out in 3Q21, following the impact of COVID-19.
- **Better GRMs ahead.** The benchmark Singapore GRM has recovered faster than expected, hovering at USD5.00-6.00/bbl – back to pre-COVID-19 levels. This is due to increased travel activities, especially in the Asia Pacific region, gas-to-oil switching, and the start of the winter season. China is expected to consume more energy in 2022, while the Jizan refinery (450 kbpd) of Saudi Aramco may face some delays in extending its capacity.
- **BCP's GRM is expected to be strong**, at c.USD5.00-5.60/bbl in 4Q21F-2022F, supported by higher margins from gasoline and diesel fuel, on the increasing domestic trips and global transportation and travel to absorb demand from the economic recovery. For 2021F, we increase our GRM from our conservative estimate of USD3.00/bbl to USD5.50/bbl, and raise our utilisation rate from 82% to 89%. For 2022F, we increase our GRM from our conservative estimate of USD3.50/bbl to USD5.60/bbl, and raise our utilisation rate from 88% to 97%.
- **Raising FY21F-22F.** We raise FY21F-22F earnings by +48% and +42% to derive FY21F profit of THB6.1bn (from a loss in 2020) and FY22F profit of THB6.4bn (+5% YoY). It is estimated that this marks the company's return to the black, as oil prices have improved this year. 4Q21F-2022F earnings are expected to be strong, driven by higher GRMs in the range of USD5.00-6.00/bbl.
- **Assigning ESG into valuations.** BCP has successfully applied ESG principles to develop sustainable operations. Based on our in-house proprietary methodology, we derived an ESG score of 3.4. Accordingly, we apply a 4% premium to our intrinsic target 2022F P/BV of 0.8x, in line with -1SD from its 5-year mean, to arrive at our new TP of THB34.00.
- **Downside risks to our call** include weaker-than-expected economic recovery, and adverse changes in new supply entering the market.

Target Price (Return): THB34.00 (+39%)  
 Price (Market Cap): THB24.50 (USD988m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (THB/USD) 121m/3.65m

#### Analysts

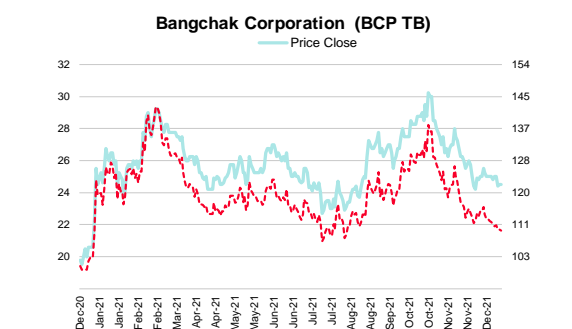
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#### Share Performance (%)

|                            | YTD  | 1m    | 3m    | 6m          | 12m  |
|----------------------------|------|-------|-------|-------------|------|
| Absolute                   | 18.9 | (3.9) | (6.7) | (3.9)       | 23.7 |
| Relative                   | 6.7  | (2.5) | (7.1) | (5.6)       | 9.5  |
| 52-wk Price low/high (THB) |      |       |       | 19.5 – 30.3 |      |



Source: Bloomberg

| Forecasts and Valuation         | Dec-19  | Dec-20  | Dec-21F | Dec-22F | Dec-23F |
|---------------------------------|---------|---------|---------|---------|---------|
| Total turnover (THBm)           | 190,489 | 136,450 | 167,536 | 180,630 | 194,534 |
| Recurring net profit (THBm)     | 1,253   | (3,786) | 6,109   | 6,419   | 6,804   |
| Recurring net profit growth (%) | (43.7)  | (402.1) | -       | 5.1     | 6.0     |
| Recurring P/E (x)               | 26.92   | na      | 5.52    | 5.26    | 4.96    |
| P/B (x)                         | 0.8     | 0.7     | 0.6     | 0.6     | 0.5     |
| P/CF (x)                        | na      | na      | na      | na      | na      |
| Dividend Yield (%)              | 8.0     | 5.3     | 5.4     | 5.7     | na      |
| EV/EBITDA (x)                   | na      | na      | 25.39   | 25.67   | 26.43   |
| Return on average equity (%)    | 2.9     | (8.3)   | 12.1    | 11.6    | 11.4    |
| Net debt to equity (%)          | 60.0    | 62.5    | 47.1    | 18.7    | 24.6    |

Source: Company data, RHB

#### Overall ESG Score: 3.4 (out of 4)

##### E: GOOD

The country's leading oil refiner has committed to construct several green projects, which uplift its operations' environmental standing.

##### S: EXCELLENT

BCP is aligned with its well-established social responsibility policies on key matters, such as labour rights and the safety of its people, in addition to promoting the development of its human capital and CSR footprint.

##### G: EXCELLENT

Good levels of transparency afforded by its annual reporting framework alongside regular management briefings with the market, backed by a diverse board composition comprising industry experts, and independent directors chairing its committees.

## Financial Exhibits

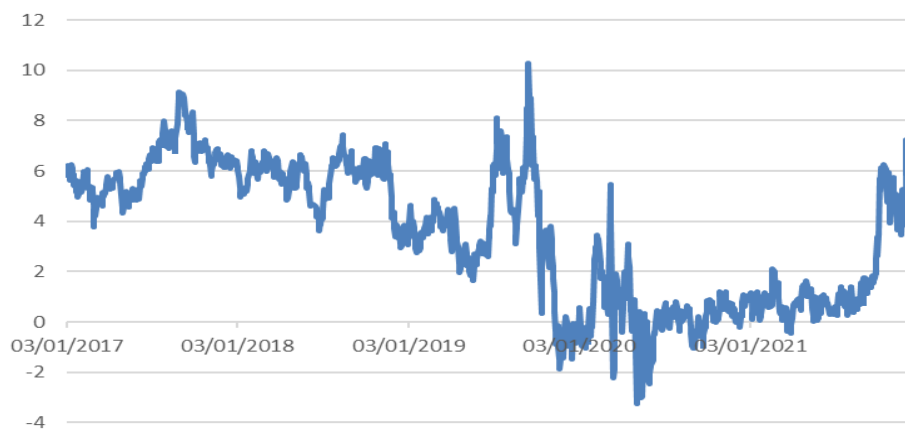
|  |                                     |               |               |                |                |                |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>  | <b>Financial summary (THB)</b>      | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
| Thailand   | Recurring EPS                       | 0.91          | (2.75)        | 4.44           | 4.66           | 4.94           |
| Energy & Petrochemicals  | DPS                                 | 1.95          | 1.30          | 1.33           | 1.40           | -              |
| <b>Bangchak Corp</b>   | BVPS                                | 30.92         | 35.23         | 38.36          | 41.71          | 45.30          |
| BCP TB   | Return on average equity (%)        | 2.9           | (8.3)         | 12.1           | 11.6           | 11.4           |
| Buy  |                                     |               |               |                |                |                |
| <b>Valuation basis</b>   | <b>Valuation metrics</b>            | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
| For the Thai refineries/petrochemicals, we use P/BV as a valuation basis. This is due to the high volatility in earnings as a result of stock gains/losses. We believe that the DCF valuation is not appropriate as the share price and earnings are highly subject to seasonal factors. | Recurring P/E (x)                   | 26.92         | na            | 5.52           | 5.26           | 4.96           |
|  | P/B (x)                             | 0.8           | 0.7           | 0.6            | 0.6            | 0.5            |
|  | FCF Yield (%)                       | (46.4)        | (44.2)        | (71.7)         | (36.4)         | (54.0)         |
|  | Dividend Yield (%)                  | 8.0           | 5.3           | 5.4            | 5.7            | -              |
|  | EV/EBITDA (x)                       | na            | na            | 25.39          | 25.67          | 26.43          |
|  | EV/EBIT (x)                         | 21.05         | na            | 6.56           | 6.31           | 6.57           |
| <b>Key drivers</b>   | <b>Income statement (THBm)</b>      | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
| i. Crude oil prices as it is the main feedstock;   | Total turnover                      | 190,489       | 136,450       | 167,536        | 180,630        | 194,534        |
| ii. GRMs, which fluctuate depending on seasonal demand;  | Gross profit                        | 10,232        | 4,328         | 16,597         | 17,358         | 18,644         |
| iii. Stock gains/losses on crude oil price volatilities;   | EBITDA                              | (2,414)       | (9,634)       | 2,253          | 2,226          | 2,360          |
| iv. THB/USD rate where product and feedstock costs are valued in USD.  | Depreciation and amortisation       | 5,032         | 6,821         | 6,469          | 6,822          | 7,140          |
|  | Operating profit                    | 2,617         | (2,813)       | 8,722          | 9,049          | 9,501          |
|  | Net interest                        | (1,701)       | (1,969)       | (2,041)        | (2,036)        | (2,072)        |
|  | Pre-tax profit                      | 1,321         | (5,374)       | 7,033          | 7,392          | 7,838          |
|  | Taxation                            | (68)          | 1,589         | (924)          | (974)          | (1,034)        |
|  | Reported net profit                 | 1,253         | (3,786)       | 6,109          | 6,419          | 6,804          |
|  | Recurring net profit                | 1,253         | (3,786)       | 6,109          | 6,419          | 6,804          |
| <b>Key risks</b>   | <b>Cash flow (THBm)</b>             | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
| i. Crude oil prices;   | Change in working capital           | (2,741)       | 3,907         | (13,478)       | (1,503)        | (7,456)        |
| ii. THB/USD rate fluctuations;   | Cash flow from operations           | (6,924)       | (6,108)       | (14,190)       | (2,286)        | (8,201)        |
| iii. Demand and supply for products  | Capex                               | (8,739)       | (8,804)       | (10,000)       | (10,000)       | (10,000)       |
|  | Cash flow from investing activities | (5,022)       | (11,879)      | (10,718)       | 6,915          | (10,000)       |
|  | Dividends paid                      | (2,823)       | (2,685)       | (1,790)        | (1,828)        | (1,933)        |
|  | Cash flow from financing activities | 7,698         | 32,074        | 32,878         | 13,431         | 13,784         |
|  | Cash at beginning of period         | 11,813        | 7,564         | 21,651         | 29,621         | 47,681         |
|  | Net change in cash                  | (4,248)       | 14,087        | 7,970          | 18,059         | (4,418)        |
|  | Ending balance cash                 | 7,564         | 21,651        | 29,621         | 47,681         | 43,263         |
| <b>Company Profile</b>   | <b>Balance sheet (THBm)</b>         | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
| Bangchak Corp has a diversified portfolio. The 120kbpd refinery makes up 50% of its EBITDA, with power plant business, retail marketing and bio-based products accounting for 36%, 11% and 3%.   | Total cash and equivalents          | 7,564         | 21,651        | 29,621         | 47,681         | 43,263         |
|  | Tangible fixed assets               | 52,711        | 54,694        | 58,225         | 61,402         | 64,262         |
|  | Total investments                   | 21,142        | 17,282        | 18,000         | 1,085          | 1,085          |
|  | Total assets                        | 127,787       | 148,323       | 141,028        | 148,101        | 149,463        |
|  | Short-term debt                     | 5,051         | 3,975         | 3,900          | 4,000          | 4,000          |
|  | Total long-term debt                | 37,792        | 54,095        | 55,246         | 56,223         | 57,042         |
|  | Total liabilities                   | 68,972        | 90,006        | 78,408         | 80,864         | 77,285         |
|  | Total equity                        | 58,815        | 58,316        | 62,620         | 67,237         | 72,178         |
|  | Total liabilities & equity          | 127,787       | 148,323       | 141,028        | 148,101        | 149,463        |
|  | <b>Key metrics</b>                  | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21F</b> | <b>Dec-22F</b> | <b>Dec-23F</b> |
|  | Revenue growth (%)                  | (0.8)         | (28.4)        | 22.8           | 7.8            | 7.7            |
|  | Recurrent EPS growth (%)            | (43.7)        | (402.1)       | 0.0            | 5.1            | 6.0            |
|  | Gross margin (%)                    | 5.4           | 3.2           | 9.9            | 9.6            | 9.6            |
|  | Operating EBITDA margin (%)         | (1.3)         | (7.1)         | 1.3            | 1.2            | 1.2            |
|  | Net profit margin (%)               | 0.7           | (2.8)         | 3.6            | 3.6            | 3.5            |
|  | Dividend payout ratio (%)           | 214.3         | (47.3)        | 29.9           | 30.1           | 0.0            |
|  | Capex/sales (%)                     | 4.6           | 6.5           | 6.0            | 5.5            | 5.1            |
|  | Interest cover (x)                  | 1.54          | (1.43)        | 4.27           | 4.44           | 4.59           |

Source: Company data, RHB

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Energy &amp; Petrochemicals | Oil &amp; Gas Services

Figure 1: Stronger GRM trend back to pre-COVID-19 levels



Source: Company data

Figure 2: GRM and production recovery trend

|                      | 2017 | 2018 | 2019 | 2020 | 2021F | 2022F | 2023F |
|----------------------|------|------|------|------|-------|-------|-------|
| Capacity (kbd)       | 120  | 120  | 120  | 120  | 120   | 120   | 120   |
| Utilisation rate (%) | 93%  | 85%  | 94%  | 81%  | 89%   | 97%   | 98%   |
| Market GRM (USD/bbl) | 6.4  | 7.1  | 5.4  | -0.7 | 5.5   | 5.6   | 5.9   |
| Oil Price (USD/bbl)  | 53.2 | 67.4 | 70   | 43   | 71    | 69    | 60    |

Source: Company data, RHB

## Recommendation Chart

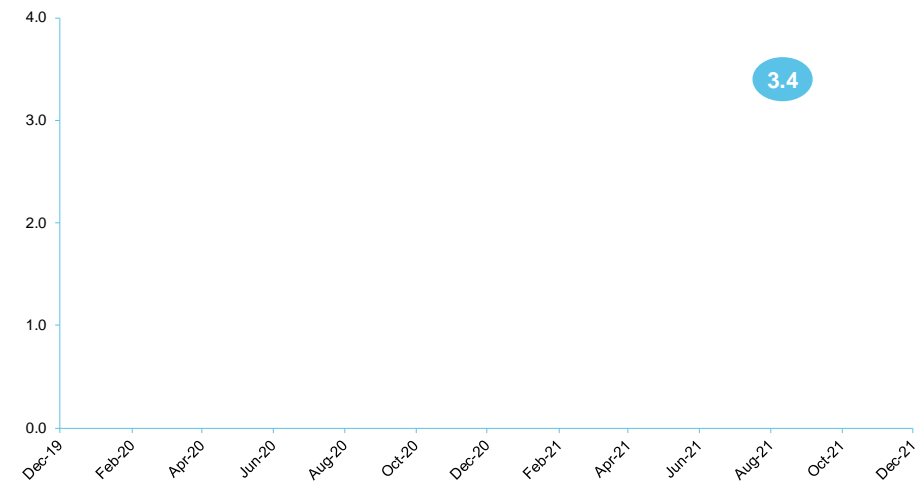


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2020-06-14 | Neutral        | 21.3         | 21.4  |
| 2020-03-18 | Neutral        | 14.5         | 14.5  |
| 2020-03-05 | Neutral        | 25.3         | 23.7  |
| 2019-08-13 | Neutral        | 30.0         | 27.0  |
| 2019-07-30 | Neutral        | 33.0         | 30.5  |
| 2019-02-22 | Buy            | 40.0         | 33.3  |
| 2018-11-09 | Buy            | 41.0         | 33.0  |
| 2018-05-14 | Buy            | na           | 35.5  |
| 2018-05-13 | Buy            | 41.0         | 36.0  |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
| <b>Sell:</b>        | Share price may fall by more than 10% over the next 12 months                                    |
| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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