BUY (Unchanged)

Change in Numbers

TP: Bt 130.00 (From: Bt 160.00)

Upside : 18.2%

26 APRIL 2024

Electricity Generating (EGCO TB)

Bad news in the price

NUTTAPOP PRASITSUKSANT

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We reaffirm our BUY on EGCO as we believe the development delay of the Yunlin project and its cost overrun are already in its share price. At 5x PE, 0.5x P/BV, and 6% dividend yield in 2024F, with 6/14% earnings growth in 2024-25F, we see EGCO's valuations as attractive.

Thanachart Securities

Attractive valuation, in our view

This report is a part of *Utilities Sector – A new PDP, A new catalyst, dated 26 April 2024*. We reaffirm our BUY on EGCO. *First,* we believe its 29% share price fall from last year's peak has reflected the negatives from the delay, cost overrun, and value write-off at the Yunlin offshore wind power project in Taiwan. The stock now looks attractive to us at 5x PE, 0.5x P/BV, and a 6% dividend yield in 2024F. *Second,* we expect Yunlin to fully commence operation of its 640MW electricity generation capacity in 4Q24F, after half of the capacity already delivered electricity in 2023. *Third,* we forecast 6/14% earnings growth in 2024-25F from rising profit contributions from US gas power plants and Yunlin. Potential upside to our numbers are EGCO's target to acquire 1.0GW of operating power plants annually and the growth potential from a higher local renewable quota from the new PDP.

Easing concerns about Yunlin

EGCO invested in a 25% stake in the greenfield 640MW Yunlin project in 2021 and has so far injected Bt24.0bn into the project. Yunlin was originally scheduled to COD in 2022, but only half of the planned capacity was up and running in late 2023. Due to the delay and cost overrun, EGCO wrote off most of its Yunlin investment value in 2022-23. Having said that, our expectation is for the remaining capacity of the project to fully COD in 2H24F. We estimate EGCO to recognize Bt260/300m of equity income from Yunlin in 2025-26F, a robust improvement from Bt1,500/200m in losses in 2023-24F.

Expanding US portfolio

EGCO acquired 652MW in equity capacity of three gas power plants in the US (the "Compass" portfolio) early this year. This is the third and largest acquisition in the US after the 272MW Linden project in 2021 and the 298MW Risec plant in 2023. We expect Compass's profit contribution and recovering output from hydropower projects in Laos to drive 6% earnings growth for EGCO in 2024F despite a weaker performance of IPP projects. We expect Yunlin to accelerate its growth to 15% in 2025F.

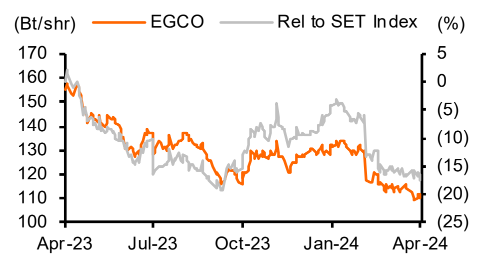
Valuation looks undemanding

We cut our DCF-derived SOTP-based TP (2024F base year) to Bt130 (from Bt160) due to the larger-than-expected impact of the delayed development of Yunlin. We believe the worst is over for Yunlin since its capacity is gradually coming online. The current share price offers 18% potential upside to our new TP, while its valuations look attractive to us at only 5x PE and 0.5x P/BV in 2024F with a sustainable 6% dividend yield. We maintain BUY.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	49,627	46,173	42,998	36,379
Net profit	(8,384)	10,664	12,169	10,662
Consensus NP	—	8,506	8,753	7,913
Diff frm cons (%)	—	*25.4*	*39.0*	*34.7*
Norm profit	10,098	10,664	12,169	10,662
Prev. Norm profit	—	9,775	10,479	9,492
Chg frm prev (%)	—	*9.1*	*16.1*	*12.3*
Norm EPS (Bt)	19.2	20.3	23.1	20.3
Norm EPS grw (%)	(20.3)	5.6	14.1	(12.4)
Norm PE (x)	5.7	5.4	4.8	5.4
EV/EBITDA (x)	18.2	17.6	15.5	19.2
P/BV (x)	0.6	0.5	0.5	0.5
Div yield (%)	5.9	5.9	5.9	5.9
ROE (%)	9.0	9.8	10.4	8.6
Net D/E (%)	87.1	74.3	58.9	46.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 25-Apr-24 (Bt)	110.00
Market Cap (US$ m)	1,563.7
Listed Shares (m shares)	526.5
Free Float (%)	44.7
Avg Daily Turnover (US$ m)	4.2
12M Price H/L (Bt)	157.50/109.50
Sector	Utilities
Major Shareholder	EGAT 25.41%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P51

Ex 1: 12-month SOTP-derived DCF-based TP Calculation Using A Base Year Of 2024F

Projects	Valuation method	WACC	Value (Bt/share)
TH Conventional - IPP			**56.2**
- BLCP	DCF	0.0%	13.3
- GPG	DCF	7.3%	19.1
- KEGCO	DCF	4.7%	23.8
TH Conventional - SPP			**9.1**
- EGCO Cogen	DCF	6.7%	0.2
- BPU	DCF	6.7%	6.8
- KLU	DCF	6.7%	2.2
TH Renewables			**21.4**
- Roi-et Green	DCF	4.6%	0.1
- GYG	DCF	4.6%	1.1
- NED	DCF	4.9%	2.7
- SPP 2-5	DCF	4.6%	1.6
- GPS	DCF	7.2%	2.2
- Solarco	DCF	4.3%	5.8
- CWF	DCF	4.8%	6.7
- TWF	DCF	5.1%	1.2
Overseas power plants			**201.1**
- Laos hydro	DCF	5.6%	46.4
- Australia wind	DCF	6.3%	8.1
- Philippines coal	DCF	9.4%	22.1
- Korea gas	DCF	5.4%	58.7
- Taiwan wind	DCF	5.4%	3.1
- US gas	DCF	5.9%	62.7
Subtotal - existing projects			**287.8**
Other businesses & net debts			**(157.9)**
Grand total			**130.0**

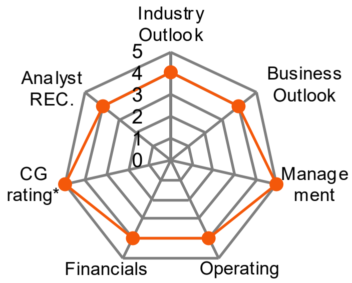
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Electricity Generating Pcl (EGCO) operates and invests in power plants globally with diversified fuel types, i.e., natural gas, coal, solar, wind, and hydropower. Its total equity-owned power capacity stands at 6.8GW, as of 2023F, with targeted capacity growth of 1.0GW per year. EGCO is also providing operation and maintenance (O&M) and engineering construction services to power and oil & gas industries. The company is also setting up energy technology businesses with one of its major shareholders, the Electricity Generating Authority of Thailand (EGAT), to enhance the country's electricity grid efficiency.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Operationally defensive. Predetermined tariffs over power plants' lives in PPAs generate fixed revenues and returns.
- Access to cheap financing sources due to low business risk and trustworthy and well-known shareholders.

W — Weakness

- Increased competition from new power plants may affect dispatched capacities and increase O&M costs.
- Lower tariffs from new projects given the global trend.
- Slow decision making process with state-owned enterprise being one of its major shareholders.

O — Opportunity

- Large power-expansion projects in Asian countries, both conventional and renewable power capacities.
- Diversification opportunities for LNG imports in ASEAN.

T — Threat

- Regulatory risks and stricter environmental requirements, especially increased expansion overseas.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	147.38	130.00	-12%
Net profit 24F (Bt m)	8,506	10,664	25%
Net profit 25F (Bt m)	8,753	12,169	39%
Consensus REC	**BUY: 6**	**HOLD: 4**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings estimates are 25/39% higher than the Bloomberg consensus numbers, which we believe is due to our more aggressive assumptions for profit contributions from the Yunlin offshore wind project.
- However, our TP is 12% lower, which we attribute to us being more conservative than the market on EGCO's ability to secure new projects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Weaker-than-expected electricity demand in the countries where EGCO's major power plants are located, i.e., the US, the Philippines, and South Korea, and thus lower profitability from the plants, is a downside risk to our earnings forecasts.
- Fuel price spikes may lead to a margin contraction at some of its projects, which is another downside risk to our numbers.
- A faster- or larger-than-expected rise in global interest rates would likely pressure returns from EGCO's future investments and therefore pose another downside risk to our valuations.

Source: Thanachart

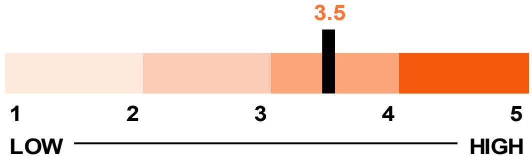
EGCO

Electricity Generating Pcl.

Sector: Resources | Energy & Utilities

EGCO is a power plant operator with a total 6.8GW of capacity as of 2023F, of which 63% is gas-based, 20% coal, and 17% renewables. Only 46% of the capacity is domestic projects, while another 54% is overseas (Laos, Philippines, Korea, US, etc.). We assign an ESG score of 3.5 to reflect its clear targets and focus on innovative energy technology to reduce emissions from gas-fired power plants, sizable exposure to coal power, and its intensive social responsibility activities.

Thanachart ESG Rating



	SET ESG Index	SET ESG (BBB-AAA)	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
EGCO	YES	AA	YES	BB	49.34	67.73	85.00	-	5.0

Sources: SETTRADE, SET ESG Index, SET ESG Rating, The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)
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Factors	Our Comments
ENVIRONMENT – **Environmental Policies & Guidelines** – **Energy Management** – **Carbon Management** – **Water Management** – **Waste Management**	▪ EGCO has set clear targets for environmental aspects. It aims to have 30% of its power generated from renewable energy (18% as of 2022) by 2030, which should reduce its carbon emission intensity by 10% from 2022's baseline. Long term, it aims to achieve carbon neutrality by 2050 and net-zero carbon emissions by 2065. ▪ EGCO emitted 0.49 tonnes of CO2 equivalent per MWh of electricity generation in 2022, which was stable from the previous year but beat its target of 0.503 tonnes. ▪ EGCO implements the "3Rs" principle (reduce, reuse, and recycle) to preserve water supplies for its own operations and prevent unfavorable impacts on the surrounding environment. These same procedures extend to its fuel-management approach to ensure sufficient fuel supplies for its electricity generation.
SOCIAL – **Human Rights** – **Staff Management** – **Health & Safety** – **Product Safety & Quality** – **Social Responsibility**	▪ EGCO is committed to the UN Guiding Principles (UNGP) on human rights to protect its employees from discrimination and harassment, especially child labor and human trafficking. The policies extend to its suppliers and all stakeholders. ▪ EGCO has formed a solid long-term target for its employee management scheme. It plans a 100% employee succession planning program to ensure operational sustainability. It also aims to add more female employees to make up 30% of its total employees by 2025. ▪ EGCO is 25% owned by the state-owned enterprise, Electricity Generating Authority of Thailand (EGAT). It thus works closely with its parent to minimize the effects of its operations on the community. It has set up initiatives to support local employment, develop skills, educate children in the community, and improve the quality of life of local residents.
GOVERNANCE & SUSTAINABILITY – **Board** – **Ethics & Transparency** – **Business Sustainability** – **Risk Management** – **Innovation**	▪ EGCO's board of directors comprises 15 members, which looks too large in our view. Moreover, most of them are representatives from its major shareholders, leaving room for only six independent directors. ▪ EGCO communicates its investment plans clearly to the public. However, it is difficult to closely track each project's performance from its financial report as it uses off-balance sheet accounting for most of them. ▪ We like EGCO's well-diversified power generation portfolio, both in terms of fuel type and generating technology and its geographical diversification across developed and developing countries. ▪ We also like its initiative to leverage on its healthy balance sheet with resilient generating cash flow from operating power plants to invest in innovative energy solutions technology for its long-term business sustainability. It is now strongly committed to introducing hydrogen fuel into the power generation industry to help cut Thailand carbon emissions.

Sources: Company data, Thanachart

Earnings base is likely to remain stable

Strong balance sheet with a hefty amount of cash on hand

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	59,632	49,627	46,173	42,998	36,379
Cost of sales	50,512	40,916	38,290	34,894	30,639
Gross profit	**9,120**	**8,711**	**7,883**	**8,105**	**5,740**
% gross margin	15.3%	17.6%	17.1%	18.8%	15.8%
Selling & administration expenses	2,754	3,537	2,978	2,857	2,697
Operating profit	**6,366**	**5,174**	**4,905**	**5,248**	**3,043**
% operating margin	10.7%	10.4%	10.6%	12.2%	8.4%
Depreciation & amortization	3,285	3,040	3,114	3,114	3,115
EBITDA	**9,651**	**8,213**	**8,019**	**8,362**	**6,158**
% EBITDA margin	16.2%	16.5%	17.4%	19.4%	16.9%
Non-operating income	2,093	3,657	1,101	1,142	1,160
Non-operating expenses	0	0	0	0	0
Interest expense	(4,019)	(4,829)	(5,188)	(4,878)	(4,464)
Pre-tax profit	**4,440**	**4,001**	**818**	**1,512**	**(261)**
Income tax	1,120	1,029	204	378	0
After-tax profit	**3,320**	**2,972**	**613**	**1,134**	**(261)**
% net margin	5.6%	6.0%	1.3%	2.6%	-0.7%
Shares in affiliates' Earnings	9,300	7,123	10,060	11,044	10,932
Minority interests	57	2	(10)	(9)	(8)
Extraordinary items	(9,994)	(18,482)	0	0	0
NET PROFIT	**2,683**	**(8,384)**	**10,664**	**12,169**	**10,662**
Normalized profit	**12,677**	**10,098**	**10,664**	**12,169**	**10,662**
EPS (Bt)	5.1	(15.9)	20.3	23.1	20.3
Normalized EPS (Bt)	24.1	19.2	20.3	23.1	20.3

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	61,649	54,710	61,871	66,391	70,352
Cash & cash equivalent	37,458	28,862	35,000	40,000	45,000
Account receivables	10,123	6,523	6,325	5,890	4,983
Inventories	4,180	4,150	4,196	3,824	3,358
Others	9,888	15,175	16,350	16,677	17,011
Investments & loans	113,899	115,835	116,911	116,911	116,911
Net fixed assets	48,160	46,936	45,325	42,713	40,102
Other assets	30,335	25,751	25,231	24,752	24,310
Total assets	**254,043**	**243,233**	**249,339**	**250,767**	**251,675**
LIABILITIES:					
Current liabilities:	31,373	22,873	27,258	25,858	24,517
Account payables	6,322	4,115	4,721	4,302	3,777
Bank overdraft & ST loans	56	0	0	0	0
Current LT debt	20,528	14,096	17,785	16,702	15,783
Others current liabilities	4,467	4,662	4,753	4,854	4,956
Total LT debt	**94,026**	**106,465**	**100,780**	**94,646**	**89,437**
Others LT liabilities	7,847	8,669	8,823	9,029	9,239
Total liabilities	**133,246**	**138,007**	**136,861**	**129,533**	**123,193**
Minority interest	303	299	309	318	326
Preferreds shares	0	0	0	0	0
Paid-up capital	5,265	5,265	5,265	5,265	5,265
Share premium	8,601	8,601	8,601	8,601	8,601
Warrants	0	0	0	0	0
Surplus	4,038	277	277	277	277
Retained earnings	**102,590**	**90,784**	**98,026**	**106,773**	**114,014**
Shareholders' equity	120,494	104,927	112,169	120,916	128,156
Liabilities & equity	**254,043**	**243,233**	**249,339**	**250,767**	**251,675**

Sources: Company data, Thanachart estimates

Cash generation from existing power plants remains resilient

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	4,440	4,001	818	1,512	(261)
Tax paid	(1,120)	(1,029)	(204)	(378)	0
Depreciation & amortization	3,285	3,040	3,114	3,114	3,115
Chg In working capital	(2,355)	1,423	757	388	849
Chg In other CA & CL / minorities	9,473	1,878	9,300	10,845	10,728
Cash flow from operations	**13,723**	**9,313**	**13,785**	**15,482**	**14,430**
Capex	(1,847)	(1,816)	(1,500)	(500)	(500)
Right of use	40	29	(50)	(50)	(50)
ST loans & investments	1,779	154	(325)	(27)	(28)
LT loans & investments	10,563	(1,937)	(1,076)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(12,457)	(11,915)	721	733	698
Cash flow from investments	**(1,922)**	**(15,483)**	**(2,230)**	**156**	**120**
Debt financing	3,390	4,757	(1,996)	(7,216)	(6,128)
Capital increase	0	0	0	0	0
Dividends paid	(3,422)	(3,424)	(3,422)	(3,422)	(3,422)
Warrants & other surplus	7,793	(3,760)	0	0	0
Cash flow from financing	**7,760**	**(2,426)**	**(5,418)**	**(10,638)**	**(9,550)**
Free cash flow	**11,875**	**7,498**	**12,285**	**14,982**	**13,930**

EGCO's valuations look attractive, in our view

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	4.6	5.7	5.4	4.8	5.4
Normalized PE - at target price (x)	5.4	6.8	6.4	5.6	6.4
PE (x)	21.6	na	5.4	4.8	5.4
PE - at target price (x)	25.5	na	6.4	5.6	6.4
EV/EBITDA (x)	14.0	18.2	17.6	15.5	19.2
EV/EBITDA - at target price (x)	15.1	19.5	19.0	16.7	20.9
P/BV (x)	0.5	0.6	0.5	0.5	0.5
P/BV - at target price (x)	0.6	0.7	0.6	0.6	0.5
P/CFO (x)	4.2	6.2	4.2	3.7	4.0
Price/sales (x)	1.0	1.2	1.3	1.3	1.6
Dividend yield (%)	5.9	5.9	5.9	5.9	5.9
FCF Yield (%)	20.5	12.9	21.2	25.9	24.1
(Bt)					
Normalized EPS	24.1	19.2	20.3	23.1	20.3
EPS	5.1	(15.9)	20.3	23.1	20.3
DPS	6.5	6.5	6.5	6.5	6.5
BV/share	228.9	199.3	213.1	229.7	243.4
CFO/share	26.1	17.7	26.2	29.4	27.4
FCF/share	22.6	14.2	23.3	28.5	26.5

Sources: Company data, Thanachart estimates

ROE appears stable at a decent level

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	66.1	(16.8)	(7.0)	(6.9)	(15.4)
Net profit (%)	(34.6)	na	na	14.1	(12.4)
EPS (%)	(34.6)	na	na	14.1	(12.4)
Normalized profit (%)	23.6	(20.3)	5.6	14.1	(12.4)
Normalized EPS (%)	23.6	(20.3)	5.6	14.1	(12.4)
Dividend payout ratio (%)	127.5	(40.8)	32.1	28.1	32.1
Operating performance					
Gross margin (%)	15.3	17.6	17.1	18.8	15.8
Operating margin (%)	10.7	10.4	10.6	12.2	8.4
EBITDA margin (%)	16.2	16.5	17.4	19.4	16.9
Net margin (%)	5.6	6.0	1.3	2.6	(0.7)
D/E (incl. minor) (x)	0.9	1.1	1.1	0.9	0.8
Net D/E (incl. minor) (x)	0.6	0.9	0.7	0.6	0.5
Interest coverage - EBIT (x)	1.6	1.1	0.9	1.1	0.7
Interest coverage - EBITDA (x)	2.4	1.7	1.5	1.7	1.4
ROA - using norm profit (%)	5.1	4.1	4.3	4.9	4.2
ROE - using norm profit (%)	10.8	9.0	9.8	10.4	8.6
DuPont					
ROE - using after tax profit (%)	2.8	2.6	0.6	1.0	na
- asset turnover (x)	0.2	0.2	0.2	0.2	0.1
- operating margin (%)	14.2	17.8	13.0	14.9	na
- leverage (x)	2.1	2.2	2.3	2.1	2.0
- interest burden (%)	52.5	45.3	13.6	23.7	(6.2)
- tax burden (%)	74.8	74.3	75.0	75.0	na
WACC (%)	7.2	7.2	7.2	7.7	7.7
ROIC (%)	2.3	1.9	1.9	2.0	1.2
NOPAT (Bt m)	4,760	3,843	3,679	3,936	2,282
invested capital (Bt m)	197,645	196,625	195,734	192,264	188,377

Sources: Company data, Thanachart estimates

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Currently, long-term investment guidelines abroad are beginning to focus on investing in companies that have sustainable business practices. which considers environmental, social and governance factors (Environmental, Social and Governance or ESG) of the company in making investment decisions along with analyzing the company's financial data.

Stock Exchange Has prepared the results of evaluating sustainable stocks which are stocks of listed companies (SETESG Rating) as an alternative for investors who want to invest in stocks of listed companies that are outstanding in ESG, including to support listed companies with operations. sustainable business Taking into account all stakeholders in both social and environmental aspects. There is a management process to create sustainability for the organization, such as risk management. Supply chain management and innovation development. Therefore, the SETESG index was created to be an index that reflects the price movement of a group of securities. of companies with sustainable business operations that meet the required size and liquidity criteria

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Score range	Description
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BB - BBB - A	**AVERAGE :** A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	**LEADER:** A company leading its industry in managing the most significant ESG risks and opportunities

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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90-100	△△△△△	Excellent
80-89	△△△△	Very Good
70-79	△△△	Good
60-69	△△	Satisfactory
50-59	△	Pass
Below		N/A

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