

BUY (Unchanged)
Change in Numbers

TP: Bt 57.00
Upside : 16.9%

(From: Bt 58.00)

26 APRIL 2024

Global Power Synergy (GPSC TB)

SPP turnaround play

We maintain BUY on GPSC for its SPP turnaround story and earnings growth from overseas renewable projects. We now see GPSC as the best renewable play in the sector, with contribution from renewables rising to nearly half of its earnings in 2028F from 23% this year.



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Earnings turnaround story

This report is a part of *Thai Utilities Sector – A new PDP, A new catalyst, dated 26 April 2024*. GPSC is a BUY and our sector top pick, along with Gulf Energy Dev. Pcl (GULF TB, Bt41.25, BUY), as we forecast for a strong turnaround story with 28/49/15% EPS growth in 2024-26F driven by: 1) normalization of SPP margin on a falling gas pool price and easing electricity price subsidization, and 2) rising profits from overseas renewable projects. See our report on *GPSC – Strong turnaround, dated 16 February 2024*. Our earnings forecasts are based on secured projects, while we leave potential future projects from the new PDP as an upside to our numbers. We cut our 2024-26F earnings forecasts by 3/8/3% due to the recent spike in global energy prices. Our DCF-based SOTP-TP (2024F base year) thus falls to Bt57/share (from Bt58).

Easing policy risk for SPPs

SPPs accounted for 35% of GPSC's total capacity and 60% of its earnings in 2023. Due to the falling gas pool price from energy price normalization after the 2022 spike and a formula change to push down the domestic gas pool price, we expect the spark margin of electricity sales from its SPP plants at Bt1.2/1.2/kWh in 2024-25F vs. Bt0.4/0.9 in 2022-23. In the past, policy risk hit SPP directly when electricity tariffs were kept low despite fuel prices were surging. But since early this year, policy risk has shifted toward gas suppliers, i.e., PTT group, via a restructuring of gas price formula. We believe the government is looking for more adjustments to reduce domestic gas prices even further.

Renewables becoming sizable

We estimate renewable capacity to account for 62% of GPSC's capacity and 42% of earnings in 2028F. We expect its 149MW equity-owned capacity of offshore wind power projects in Taiwan to contribute Bt0.9/1.5bn of profits in 2024-25F after all 62 turbines become operational in 3Q24F. We estimate its 43%-owned solar power investment arm Avadaa Energy in India to reach its targeted 11GW capacity and contribute Bt2.2bn of profits in 2028F, vs. Bt0.5bn in 2024F. These renewable projects are the key earnings drivers for GPSC over the next three years.

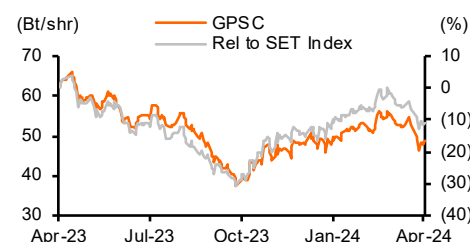
Upside from the new PDP

We expect GPSC to bid for renewable projects in Thailand. There are planned bids for 3.6GW in renewable PPAs, likely to happen in 2025F. GPSC won only 8MW of PPA from the previous 'RE Proposal' scheme bid (total of 5.2GW) in 2023. But with a much higher PPA quota in the upcoming PDP, we expect GPSC to re-bid its project proposals and win more PPAs from the upcoming bid for a renewable quota of 3.6GW this year and a 28GW quota from the new PDP. We leave this as an upside to our numbers.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	90,303	100,012	91,356	88,205
Net profit	3,694	4,613	6,877	7,896
Consensus NP	—	5,328	6,727	7,191
Diff frm cons (%)	—	(13.4)	2.2	9.8
Norm profit	3,596	4,613	6,877	7,896
Prev. Norm profit	—	4,773	7,505	8,158
Chg frm prev (%)	—	(3.4)	(8.4)	(3.2)
Norm EPS (Bt)	1.3	1.6	2.4	2.8
Norm EPS grw (%)	1,551.6	28.3	49.1	14.8
Norm PE (x)	38.2	29.8	20.0	17.4
EV/EBITDA (x)	14.9	14.5	13.3	11.8
P/BV (x)	1.3	1.3	1.2	1.2
Div yield (%)	1.5	1.8	2.8	3.2
ROE (%)	3.4	4.3	6.2	6.9
Net D/E (%)	102.8	98.5	95.8	78.3

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	48.75
Market Cap (US\$ m)	3,711.8
Listed Shares (m shares)	2,819.7
Free Float (%)	24.8
Avg Daily Turnover (US\$ m)	11.0
12M Price H/L (Bt)	66.00/37.50
Sector	Utilities
Major Shareholder	PTT Group 67.27%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P58

Ex 1: Our 12-month DCF-derived Valuation Plus Potential Capacity

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	Terminal value
EBITDA excl. depre from right of use	17,578	19,258	20,161	20,275	18,656	18,690	17,577	17,625	17,675	17,724	17,774	17,825	
Free cash flow	6,548	232	19,551	19,606	17,843	17,586	16,698	16,533	16,583	16,640	16,699	16,765	
PV of free cash flow	6,204	207	16,420	15,536	13,338	12,402	11,111	10,037	9,457	8,916	8,406	7,929	110,009
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.8												
WACC (%)	5.5												
Terminal growth (%)	2.0												
Enterprise value - add investments	229,971												
Net debt (2023A)	120,778												
Minority interest	11,330												
Equity value	97,863												
# of shares (m)	2,820												
Equity value / share (Bt)	34.7												

	Valuation method	WACC	Equity value	Value per share (Bt)
BIC	DCF	5.1%	1,258	0.4
TSR/SSE	DCF	6.4%	2,142	0.8
NNEG	DCF	5.0%	3,137	1.1
GRP	DCF	6.7%	1,359	0.5
NL1PC	DCF	5.0%	3,012	1.1
RPCL	DCF	4.8%	905	0.3
XPCL	DCF	5.8%	18,572	6.6
Avaada	DCF	7.1%	16,522	5.9
Taiwan wind farms	DCF	5.8%	16,054	5.7
Total				22.3

Grand total**57.0**

Source: Thanachart estimates

COMPANY DESCRIPTION

Established in January 2013, Global Power Synergy Company Ltd (GPSC) is PTT Group's flagship company in the power business. GPSC generates and distributes electricity, steam, and processed water to the national grid and industrial customers in Thailand. GPSC acquired Glow Energy, which doubled its generation capacity in March 2019. The company has a total of 7.2GW equity-owned operating capacity of power plants, both domestic and overseas, of which 47% was from renewable sources as of 2023. Its investment strategy is now geared toward expanding renewable capacity abroad.

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

- Growing along with PTT Group's business expansion.
- The strong reputation of PTT Group helps pave the way to grow its business regionally.
- Access to low financing costs as part of PTT Group.

O — Opportunity

- Expansion into electricity generation in neighbouring countries, through both greenfield developments and M&As.
- Tapping new S-curve industries of energy technology solutions, energy storage systems, and electric vehicles via investment in Li-ion battery plants with PTT Group.

W — Weakness

- No direct experience investing abroad.
- Late player in the renewable segment and Li-ion battery business.
- Limitation of gearing cap from the PTT Group

T — Threat

- Limited capacity growth potential in domestic market given Thailand's currently high reserve margin, while government's policy in bidding out renewable contracts remains slow.
- Relies on the group's policy for key investment decisions.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	58.31	57.00	-2%
Net profit 24F (Bt m)	5,328	4,613	-13%
Net profit 25F (Bt m)	6,727	6,877	2%
Consensus REC	BUY: 16	HOLD: 6	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024F earnings are 13% below the Bloomberg consensus number, likely as we assume a higher gas pool price this year. But our 2025F forecast is in line with the Street.
- Our DCF-derived SOTP-based TP is relatively in line with the market's.

Sources: Bloomberg consensus, Thanachart estimates

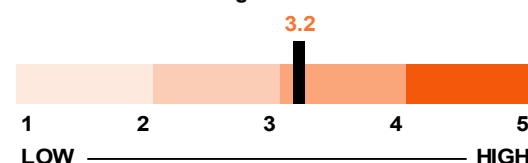
RISKS TO OUR INVESTMENT CASE

- A slower-than-expected recovery of SPP margin, either from a gas price rise or national tariff price subsidization, is the key downside risk to our earnings forecasts and valuation.
- Lower-than-expected profit contribution from developing renewable projects overseas, mainly Avaada and CFXD, either from slow capacity expansion or weak project returns, is another major downside risk to our numbers.
- Lower-than-expected returns from future investments, either in the power generation industry or other related businesses, is a long-term sustainability risk for GPSC.

Source: Thanachart

GPSC is the utilities investment arm of the PTT Group. It ran 6.1GW of power generating capacity in 2022; 52% gas, 17% coal, and 31% renewables. Its ESG policy is relatively strong since it needs to align its performance with the PTT Group. We thus rate its ESG score at 3.2. But we see some negatives for its business sustainability and innovation aspects.

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)
GPSC	YES	AA	YES	B	62.22	56.78	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)

Note: Please see third party on "terms of use" toward the back of this report.

Factors

Our Comments

ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- GPSC shares the same targets as PTT Group in achieving carbon neutrality by 2050 and net-zero emissions by 2060, slightly ahead of the country's goals. Its nearer-term plan is to increase its renewable mix to 45% of its equity capacity by 2025 (from 35% in 2022) and reduce its carbon emission intensity by 35% within 2030, from 2020's base.
- GPSC allocates an annual budget to investment emission reduction businesses and innovative technology for lowering emissions from its power plants, based on its internal carbon pricing policy to minimize air and water pollution from its operations.
- The 3Rs approach (Reduce, Reuse, and Recycle) is implemented to reduce waste creation from all its business activities.
- GPSC saved 2.17MWh of electricity consumption in 2022 (from 1.78MWh of savings in 2021) through efficiency improvements and solar rooftop adoption. It emitted 0.45 tonnes CO2 equivalent of greenhouse gas (GHG) per MWh of electricity generated in 2022, slightly higher than the 0.44 tonnes in 2021.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- GPSC adheres to the UN Guiding Principles (UNGP) in developing its human rights policies to protect the rights of its direct staff and all stakeholders along its supply chain.
- GPSC provides a self-development platform and a clear career path for its staff. This is based on the company's belief that its business success relies heavily on 1) an internal succession plan, 2) preparation to keep its staff up-to-date with industry dynamics, 3) ensuring morale/unity among staff, and 4) enjoying good employer branding.
- GPSC collaboratively provides support donations to communities around its power plants and facilities with other business entities under the PTT Group; thus, it has significant impacts in boosting the local economy and quality of life.

GOVERNANCE &
SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- GPSC's board of directors comprises 14 members, which looks slightly too large in our view, with only six of them (less than half) independent directors. Three members of its board of directors are female.
- We see GPSC's corporate governance (including transparency) as very strong, in line with the protocols from the PTT Group.
- We are slightly concerned over GPSC's business sustainability as power purchase contracts for some big power plants are expiring, and it now looks difficult amid the current market situation to find investment opportunities to acquire new plants to offset the gap.
- GPSC had a good initiative via an investment in 24M's Li-ion battery technology in 2017. However, it has been delayed in reaching the commercialized stage despite already having launched various product prototypes with the support of the PTT Group.

Sources: Thanachart, Company note

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	123,685	90,303	100,012	91,356	88,205
Cost of sales	120,324	80,258	89,588	80,111	76,579
Gross profit	3,361	10,045	10,424	11,246	11,627
% gross margin	2.7%	11.1%	10.4%	12.3%	13.2%
Selling & administration expenses	1,817	2,250	2,295	2,410	2,458
Operating profit	1,544	7,795	8,129	8,836	9,169
% operating margin	1.2%	8.6%	8.1%	9.7%	10.4%
Depreciation & amortization	9,293	9,483	9,568	10,544	11,116
EBITDA	10,837	17,278	17,697	19,379	20,285
% EBITDA margin	8.8%	19.1%	17.7%	21.2%	23.0%
Non-operating income	1,076	1,238	1,204	1,122	1,094
Non-operating expenses	0	0	0	0	0
Interest expense	(4,299)	(5,297)	(5,654)	(5,164)	(4,591)
Pre-tax profit	(1,679)	3,736	3,679	4,794	5,671
Income tax	(746)	405	441	719	851
After-tax profit	(932)	3,331	3,238	4,075	4,821
% net margin	-0.8%	3.7%	3.2%	4.5%	5.5%
Shares in affiliates' Earnings	1,716	1,202	2,286	3,948	4,431
Minority interests	(566)	(937)	(910)	(1,146)	(1,355)
Extraordinary items	674	98	0	0	0
NET PROFIT	891	3,694	4,613	6,877	7,896
Normalized profit	218	3,596	4,613	6,877	7,896
EPS (Bt)	0.3	1.3	1.6	2.4	2.8
Normalized EPS (Bt)	0.1	1.3	1.6	2.4	2.8

Strong turnaround from
SPP margin recovery and
rising renewable capacity

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	52,822	41,823	39,249	32,327	36,660
Cash & cash equivalent	14,236	13,197	10,000	5,000	10,000
Account receivables	20,178	10,886	10,960	10,012	9,666
Inventories	11,915	11,431	9,818	8,779	8,392
Others	6,494	6,310	8,471	8,536	8,602
Investments & loans	54,135	61,788	71,637	71,820	71,820
Net fixed assets	92,647	92,799	85,865	95,368	85,175
Other assets	89,206	85,293	83,225	81,158	79,094
Total assets	288,810	281,703	279,976	280,673	272,750
LIABILITIES:					
Current liabilities:	32,193	38,667	32,197	30,970	28,695
Account payables	10,887	7,060	6,627	5,926	5,665
Bank overdraft & ST loans	3,371	111	1,290	1,254	1,124
Current LT debt	11,457	26,960	19,154	18,618	16,688
Others current liabilities	6,478	4,537	5,127	5,172	5,218
Total LT debt	123,033	106,904	108,538	105,502	94,567
Others LT liabilities	18,483	18,607	18,504	18,602	18,700
Total liabilities	173,710	164,178	159,240	155,075	141,962
Minority interest	10,370	11,330	12,240	13,386	14,741
Preferreds shares	0	0	0	0	0
Paid-up capital	28,197	28,197	28,197	28,197	28,197
Share premium	70,176	70,176	70,176	70,176	70,176
Warrants	0	0	0	0	0
Surplus	(16,441)	(17,185)	(17,185)	(17,185)	(17,185)
Retained earnings	22,798	25,007	27,308	31,025	34,859
Shareholders' equity	104,730	106,195	108,496	112,213	116,047
Liabilities & equity	288,810	281,703	279,976	280,673	272,750

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	(1,679)	3,736	3,679	4,794	5,671
Tax paid	746	(405)	(441)	(719)	(851)
Depreciation & amortization	9,293	9,483	9,568	10,544	11,116
Chg In working capital	(7,232)	5,948	1,106	1,286	471
Chg In other CA & CL / minorities	4,787	(76)	714	3,928	4,269
Cash flow from operations	5,915	18,685	14,625	19,833	20,677
Capex	(6,179)	(9,460)	(2,515)	(19,925)	(800)
Right of use	116	(134)	(50)	(50)	(50)
ST loans & investments	1,060	(449)	0	0	0
LT loans & investments	(16,475)	(7,653)	(9,849)	(183)	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	2,282	4,492	1,897	2,093	2,230
Cash flow from investments	(19,195)	(13,205)	(10,517)	(18,065)	1,380
Debt financing	18,220	(4,291)	(4,993)	(3,608)	(12,995)
Capital increase	0	0	0	0	0
Dividends paid	(3,384)	(1,692)	(2,312)	(3,160)	(4,063)
Warrants & other surplus	(1,112)	(537)	0	0	0
Cash flow from financing	13,724	(6,520)	(7,305)	(6,768)	(17,057)
Free cash flow	(264)	9,225	12,110	(92)	19,877

Multiple investment
pipelines to grow
capacity during 2024-26F

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	631.3	38.2	29.8	20.0	17.4
Normalized PE - at target price (x)	738.2	44.7	34.8	23.4	20.4
PE (x)	154.2	37.2	29.8	20.0	17.4
PE - at target price (x)	180.3	43.5	34.8	23.4	20.4
EV/EBITDA (x)	24.1	14.9	14.5	13.3	11.8
EV/EBITDA - at target price (x)	26.2	16.3	15.8	14.5	13.0
P/BV (x)	1.3	1.3	1.3	1.2	1.2
P/BV - at target price (x)	1.5	1.5	1.5	1.4	1.4
P/CFO (x)	23.2	7.4	9.4	6.9	6.6
Price/sales (x)	1.1	1.5	1.4	1.5	1.6
Dividend yield (%)	1.0	1.5	1.8	2.8	3.2
FCF Yield (%)	(0.2)	6.7	8.8	(0.1)	14.5
(Bt)					
Normalized EPS	0.1	1.3	1.6	2.4	2.8
EPS	0.3	1.3	1.6	2.4	2.8
DPS	0.5	0.7	0.9	1.3	1.5
BV/share	37.1	37.7	38.5	39.8	41.2
CFO/share	2.1	6.6	5.2	7.0	7.3
FCF/share	(0.1)	3.3	4.3	(0.0)	7.0

Sources: Company data, Thanachart estimates

Rich valuation of 30x PE in
2024F looks justified given
its earnings turnaround

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	65.2	(27.0)	10.8	(8.7)	(3.4)
Net profit (%)	(87.8)	314.4	24.9	49.1	14.8
EPS (%)	(87.8)	314.4	24.9	49.1	14.8
Normalized profit (%)	(96.8)	1,551.6	28.3	49.1	14.8
Normalized EPS (%)	(96.8)	1,551.6	28.3	49.1	14.8
Dividend payout ratio (%)	158.2	56.5	55.0	55.0	55.0
Operating performance					
Gross margin (%)	2.7	11.1	10.4	12.3	13.2
Operating margin (%)	1.2	8.6	8.1	9.7	10.4
EBITDA margin (%)	8.8	19.1	17.7	21.2	23.0
Net margin (%)	(0.8)	3.7	3.2	4.5	5.5
D/E (incl. minor) (x)	1.2	1.1	1.1	1.0	0.9
Net D/E (incl. minor) (x)	1.1	1.0	1.0	1.0	0.8
Interest coverage - EBIT (x)	0.4	1.5	1.4	1.7	2.0
Interest coverage - EBITDA (x)	2.5	3.3	3.1	3.8	4.4
ROA - using norm profit (%)	0.1	1.3	1.6	2.5	2.9
ROE - using norm profit (%)	0.2	3.4	4.3	6.2	6.9
DuPont					
ROE - using after tax profit (%)	na	3.2	3.0	3.7	4.2
- asset turnover (x)	0.4	0.3	0.4	0.3	0.3
- operating margin (%)	na	10.0	9.3	10.9	11.6
- leverage (x)	2.6	2.7	2.6	2.5	2.4
- interest burden (%)	(64.1)	41.4	39.4	48.1	55.3
- tax burden (%)	na	89.2	88.0	85.0	85.0
WACC (%)	5.5	5.5	5.5	6.0	6.0
ROIC (%)	0.7	3.0	3.2	3.3	3.4
NOPAT (Bt m)	1,544	6,950	7,154	7,510	7,793
invested capital (Bt m)	228,355	226,973	227,478	232,587	218,426

Sources: Company data, Thanachart estimates

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5. Moody's ESG Solutions (0-100)
6. SET ESG Rating (BBB-AAA)

SETESG Index (SETESG)

The SETESG Index reflects the price movement of stock of companies that have sustainable business practices which consider environmental, social and governance (ESG) aspect.

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SET ESG Index (SET ESG)

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
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
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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