

# Thailand Utilities Sector

## A new PDP, a new catalyst

Sector Valuation			Current	Target	Market	Norm EPS grw		— Norm PE —		— P/BV —		Div yield	
Company	BBG Code	Rec.	price (Bt)	price (Bt)	Cap (US\$ m)	2024F (%)	2025F (%)	2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
BCPG Pcl	BCPG TB	BUY	6.70	12.00	542	11.2	16.2	21.0	18.1	0.7	0.7	3.7	3.7
B.Grimm Power Pcl	BGRIM TB	SELL	26.00	23.00	1,830	(7.1)	18.6	55.7	47.0	1.8	1.8	0.7	0.9
Banpu Power Pcl	BPP TB	BUY	14.30	18.00	1,177	(23.6)	17.9	11.5	9.7	0.8	0.8	5.6	5.6
CK Power Pcl	CKP TB	BUY	3.82	5.00	839	22.8	11.9	15.9	14.2	1.1	1.0	2.4	2.4
Energy Absolute Pcl	EA TB	BUY	31.25	45.00	3,147	11.5	5.6	14.6	13.8	2.4	2.1	1.4	1.4
Electricity Generating	EGCO TB	BUY	110.00	130.00	1,564	5.6	14.1	5.4	4.8	0.5	0.5	5.9	5.9
Global Power Synergy	GPSC TB	BUY	48.75	57.00	3,712	28.3	49.1	29.8	20.0	1.3	1.2	1.8	2.8
Gulf Energy Dev. Pcl	GULF TB	BUY	41.25	54.00	13,069	15.1	17.5	28.5	24.3	4.0	3.8	2.5	2.9
Gunkul Engineering	GUNKUL TB	HOLD	2.58	2.70	619	(6.3)	3.6	15.5	15.0	1.5	1.5	2.6	2.7
Ratchaburi Electricity	RATCH TB	BUY	28.00	33.00	1,644	44.2	36.2	9.6	7.0	0.6	0.6	5.7	6.4

Source: Thanachart estimates, Based on 25 April 2024 closing prices

**We upgrade the Thai utilities sector to OVERWEIGHT, expecting the upcoming PDP with more renewable capacity to become a catalyst. We also see a gas price restructuring shifting policy risk burden away from the power plants. GULF and GPSC are our top picks.**

### Expecting a new PDP in 2Q24F

We expect the draft of the new Power Development Plan (PDP-2024) to be released for public hearings in 2Q24F. On the positive side for the utilities sector, we project the new PDP to lift the renewable power capacity quota to 45GW in 2040F for Thailand to reach its pledged target during COP-26 to have 50% of the country's electricity generation coming from renewables. On the negative side, market liberalization through third-party access (TPA) to the national grid won't likely be promoted yet, and the Electricity Generating Authority of Thailand (EGAT) looks set to continue its role as the sole buyer and seller of electricity. We see this preventing private operators from freely growing capacity through private contracts without having to wait for PPA bids from the government.

### Huge quota for renewables

We estimate the new PDP will raise the renewable power capacity quota to 45GW in 2040F (vs. 36GW by 2037F currently). The Thai electricity grid comprised 17GW of renewable capacity as of 2023, or 32% of total generating capacity. Our expected quota hike thus implies 28GW more of renewable PPAs to be bid out, which we expect to take place over 2024-30F for the projects to commence operations over 2026-40F. However, for new renewable PPAs since 2023, Renewable Energy Credits (RECs) from the projects belong to EGAT, not operators. EGAT will distribute RECs to electricity users requiring green power certificates under the new tariff scheme, called the Utility Green Tariff (UGT).

### New gas price structure benefits SPPs

The government is in the process of lowering gas prices for power plants. The gas pool price formula has been adjusted such that PTT could charge a lower margin on natural gas sold to power plants. Wet gas users are also forced to share risks from the fluctuating price of imported gas. We see this shifting of policy risk as positive for SPPs.

### GULF and GPSC are our top picks

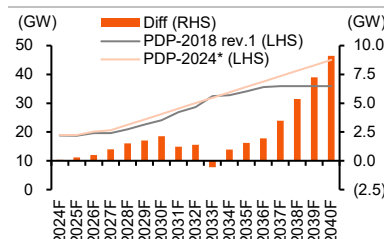
GULF is our top sector pick as the strongest contender in renewable bids and potential IPP replacements. We also like GPSC for easing SPP risks and its decent potential in upcoming renewable bids. CKP is our bottom-up play on an easing of El Nino's impact.



**NUTTAPOP PRASITSUKSANT**

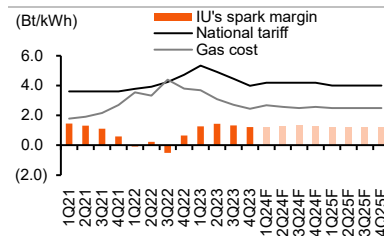
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### New PDP Lifting Renewables Quota



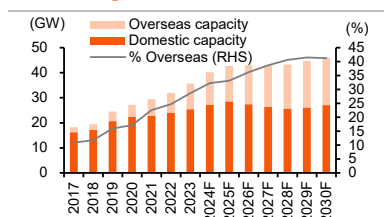
Sources: EPPO, Thanachart estimates\*

### Policy Impact On SPPs Has Eased



Sources: EPPO, Thanachart estimates

### Increasing Overseas Investments



Sources: Company data; Thanachart estimates

## Expecting new PDP in 2Q24F

*We expect the PDP draft to be released for public hearings in 2Q24F*

We expect the draft of Thailand's new Power Development Plan (PDP-2024) to be released for public hearings 2Q24F. Even though the draft is likely to be revised after the hearing and then later proposed for approval by the Energy Policy and Planning Office (EPPO) and the cabinet, we believe the revisions will be minimal so that the market can gauge potential value creation and impacts from the new PDP on the utility sector from this draft.

We foresee two major implications from the new PDP on the utility sector.

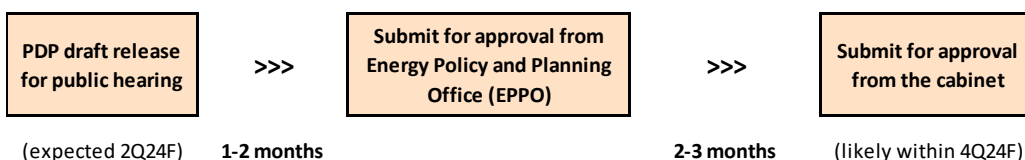
*Lifting renewable quota drives capacity growth opportunities*

On the positive side, we expect a lift in the renewable capacity quota to 45GW by 2040F in the new PDP, vs. the target of 36GW of renewable capacity by 2037F in the current PDP (2018 version, revision 1), for Thailand to reach its pledged targets made during the COP-26 meeting of: 1) carbon neutrality by 2050, 2) net-zero greenhouse gas (GHG) emissions by 2065, and 3) over 50% of the country's electricity generation coming from renewables. Our estimated target implies the government having to bid out 28GW more of renewable power purchase agreements (PPAs) over the next decade, thus offering an opportunity for private operators to secure contracts to grow capacity in this low-risk domestic market.

*TPA likely yet to come as we see UGT boosting EGAT's single seller role*

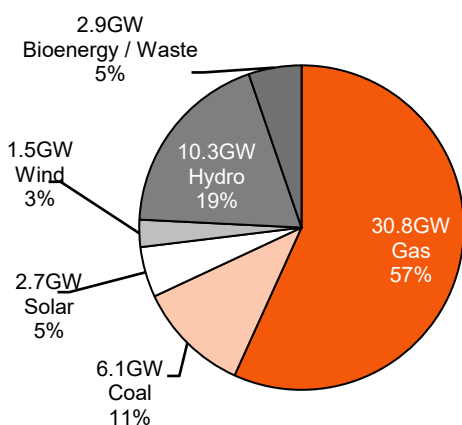
However, we see the implementation of the Utility Green Tariff scheme (UGT) as negative to the utilities sector since it strengthens the role of the Electricity Authority of Thailand (EGAT) in being the sole buyer and seller of electricity in Thailand. We, therefore, believe Third-Party Access (TPA) to the national grid will not be promoted in this PDP. This means that private operators will still have to wait for PPA biddings from the government to grow capacity in the local market, and the hope of leveraging on the TPA scheme to grow capacity through private PPA contracts is now diminished.

### Ex 1: Expected Process Timeline For The New PDP



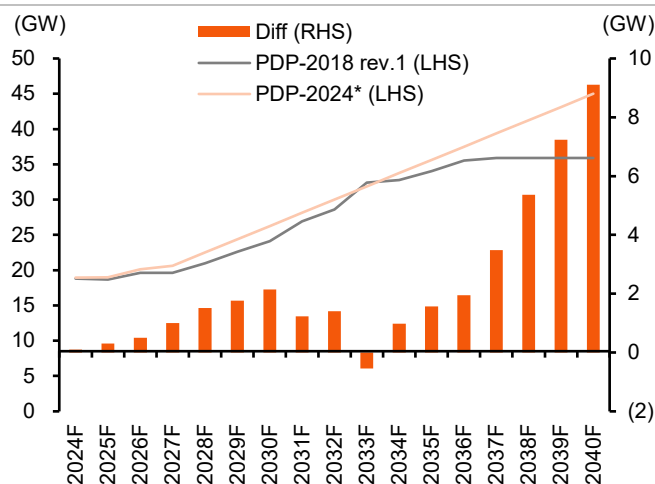
Source: Thanachart estimates

### Ex 2: Thailand's Electricity Generation Capacity



Sources: Electricity Policy and Planning Office (EPPO), EGAT  
Note: Numbers are as of end-2023

### Ex 3: Renewable Quota To Be Raised In The New PDP



Sources: EPPO, Thanachart estimates\*

Note: Renewables include solar, wind, hydro, and bio-energy projects

**GULF and GPSC are our plays in the Thai utilities sector this year**

Since we believe the new PDP will be the key investment theme for the Thai utilities sector this year, GULF and GPSC are our top picks for the sector as the major beneficiaries of the plan. We see GULF as the strongest contender in the upcoming bids for renewable PPAs and replacement projects for expiring Independent Power Producer (IPP) projects over the next decade. We like GPSC as the major operator of Small Power Producer (SPP) plants, which would enjoy lower regulatory risks due to a structurally lower domestic gas pool price under the new pool price formula and lower related infrastructure fees. GPSC is also our renewable play, supported mainly by its growing profit from renewable projects overseas, while we believe the company has decent potential to win PPAs from the local bids.

## Huge quota for renewables

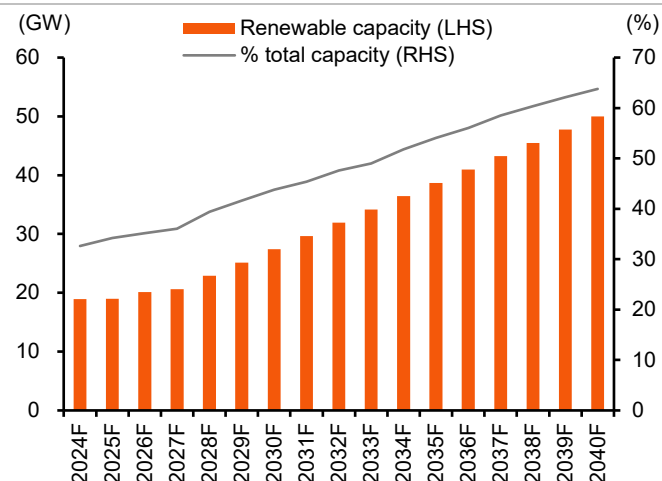
**Country's renewable quota to be significantly lifted under the new PDP**

For Thailand to reach its pledged target of having more than 50% of the country's electricity generation coming from renewable sources, we estimate that the new PDP will raise the renewable power quota (solar, wind, hydro, and bio-energy) in the national electricity supply target to 45GW in 2040F. Based on the current operating renewable capacity in the national grid at 17GW as of 2023 (32% of the country's total electricity generation capacity), we expect 28GW more power purchase agreements (PPAs) for renewable projects to be bid out by the government over the next decade.

**We estimate 28GW of renewable PPAs to be bid out over 2024-30F**

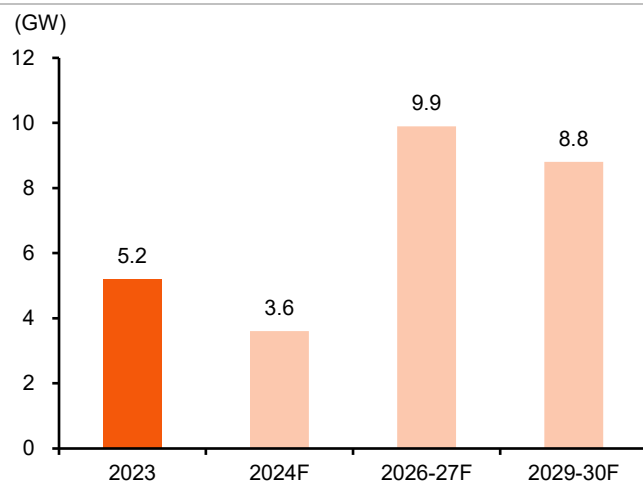
We expect it to take three to six months from the beginning of public hearings, likely in 2Q24F, for the new PDP to be officially announced in the *Royal Gazette*. We thus project the bids for the first lot of unlocking renewable quota to be held in 2H25F. This means that there will be a long series of biddings for renewable PPAs in Thailand: 1) the bid for 5.2GW of quota in the "RE Proposal Scheme" phase 1 completed in 2Q23, 2) a bid for another 3.6GW of quota from RE Proposal phase 2, likely to happen within this year, and 3) biddings for another 20GW of quota unlocked by the new PDP in tranches over 2025-30F, for the awarded projects to gradually commence operations over 2026-35F.

**Ex 4: Our Projected Renewable Quota In PDP-2024**



Source: Thanachart estimates

**Ex 5: Expected Bidding Timeline For Renewable PPAs**



Source: Thanachart estimates

**We assume PPAs will be under the same conditions as the recent bid**

We expect the upcoming PPAs to be similar to those from the "RE Proposal" scheme phase 1 bid in early 2023, i.e., a fixed feed-in-tariff (FIT) at Bt2.17/kWh for solar farms, Bt2.83 for solar farms with battery energy storage (B-ESS), and Bt3.10 for wind power plants, with 25-year contract lives. Based on the bidding results from last year, where GULF won the largest portion with a total of 1.8GW in awarded PPAs, or 35% of the 5.2GW quota, with GUNKUL coming in second with a total of 0.8GW of the capacity awarded (16%), we expect them to also win a major portion of upcoming bids, given their significant scale advantages

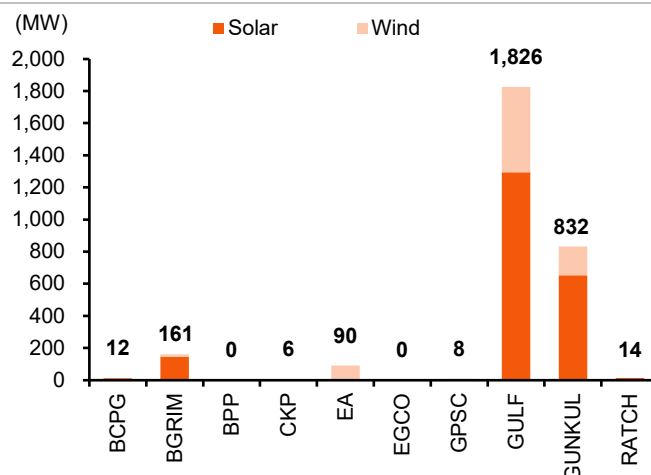
for procurement. However, since there will be a massive amount of PPAs to be bid out, we expect other listed utility companies to share in this growth opportunity.

**Ex 6: Our Key Assumptions For New Renewable PPAs**

	Investment cost (MB/MW)	Tariff prices (Bt/kWh)	Capacity factor (%)	Annual profit (Bt m)	EIRR (%)
<b>Solar</b>	35.0	2.17	20%	1.1	9.1%
<b>Solar + BESS</b>	85.0	2.83	28%	1.3	4.5%
<b>Wind</b>	70.0	3.10	30%	2.9	12.0%

Sources: EPPO, Company data, Thanachart estimates

**Ex 7: Amount Of Capacity Won From The Recent Bid**



Sources: EPPO, Company data

Note: Numbers shown are total contracted capacity won based on the equity stakes in the projects

*However, EGAT holds the rights to RECs from those projects*

We see a drawback in these sets of new PPAs in that the Renewable Energy Certificates (RECs) from the projects will be sold to EGAT together with electricity generated at specified FIT prices. This means private operators will not enjoy a green electricity premium, driven by increasing demand from large global companies to counter the implementation of carbon taxes. EGAT holds the rights to accumulate RECs from projects under these new PPAs and distribute them to those electricity consumers requiring proof of green electricity consumption through the Utility Green Tariff (UGT) scheme, which was already approved by the cabinet in 1Q24. The scheme charges a premium on top of the traditional tariff price, estimated at Bt0.2-0.3/kWh. The premium is higher for users needing to specify sources of RECs (i.e., solar and wind only, with no mix of hydro and biopower).

*We believe UGT limits the chance of TPA to be promoted this time*

Not only will private operators gain nothing from the green energy premium since the credits are sold by EGAT, but we believe the implementation of the UGT will also wipe out the hope of Third-Party Access (TPA) to the national grid being promoted on a mass scale. Utility companies expect the TPA to unlock their potential in developing renewable projects in favorable locations (i.e., strong wind or solar sources, low land prices, and less concern over environmental and regulatory risks for land usage) and sell electricity to customers in urban or major industrial areas through access to the national grid. As we see the UGT scheme strengthening EGAT's role of being the single buyer and seller of electricity in the Thai market, capacity growth for private operators looks to continue being limited by PPAs to be bid out by the government.

## New gas price structure benefits SPPs

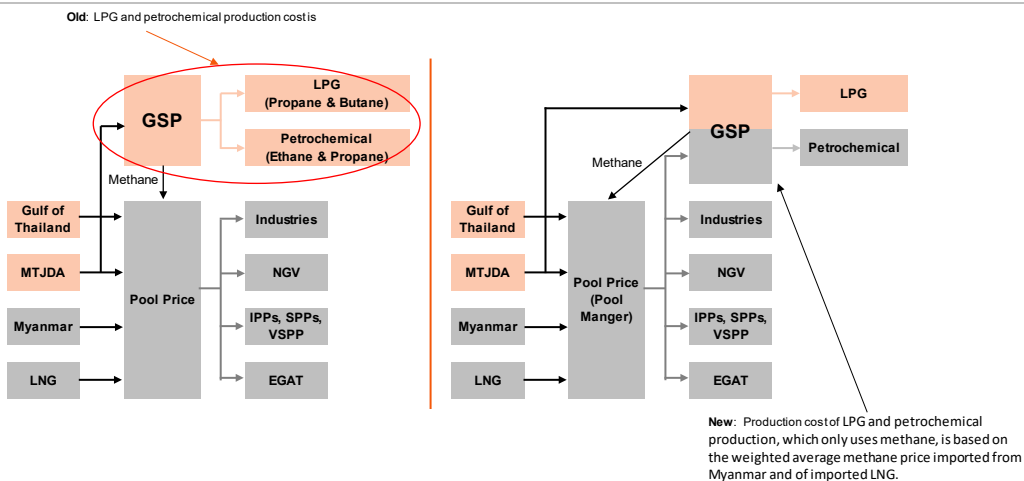
*The government is reducing gas costs for power plants*

We see a strong ambition by the new Minister of Energy to proceed, since he took the position in September 2023 to reduce, the national electricity tariff below Bt4.0/kWh. The initial approach to achieve the goal has been cutting fuel costs for power plants, especially the price of natural gas, which is consumed in over 60% of electricity generation in Thailand. Major components in the domestic gas price formula, shown in Exhibit 9, have been addressed to cut prices. *First*, wet gases (i.e., propane and butane) from domestic gas fields have been included in the pool since 1Q24 (Exhibit 8). Since wet gases are usually cheaper than dry gas (methane), which is used in power plants, their inclusion in the pool blends down the gas pool price at the expense of higher feedstock prices for the

petrochemical industry, which is a major consumer of wet gases. *Second*, the gas pipeline fee was cut in late 2023. *Third*, the government is forcing PTT Pcl (PTT TB, SELL, Bt33.75), as the sole natural gas distributor in the country, to lower supply margin charges from 2Q24.

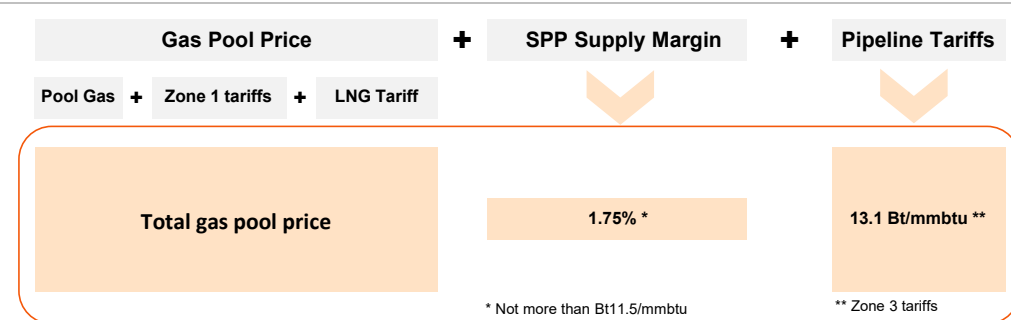
The objective of this gas price restructuring is clear of lowering gas costs for power plants in order to keep the national electricity price as low as possible. We, therefore, see a shift of impacts from policy risks toward the PTT Group, as a national service for the state-owned enterprise, as a strong positive for Small Power Producer (SPP) plants.

### Ex 8: Including Wet Gases In The Mix



Sources: Company data, Thanachart estimates

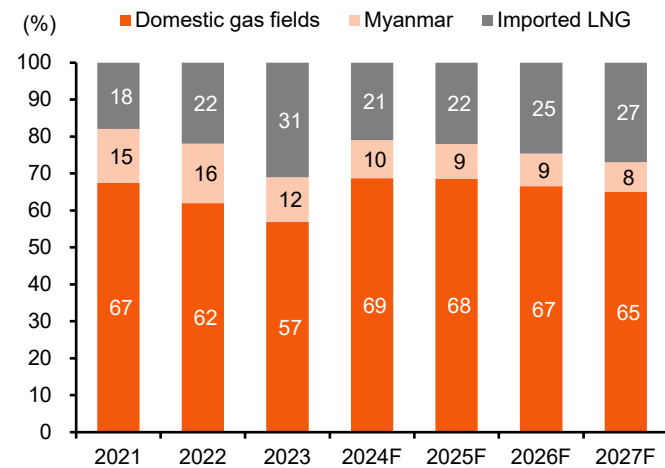
### Ex 9: SPP Gas Price Structure



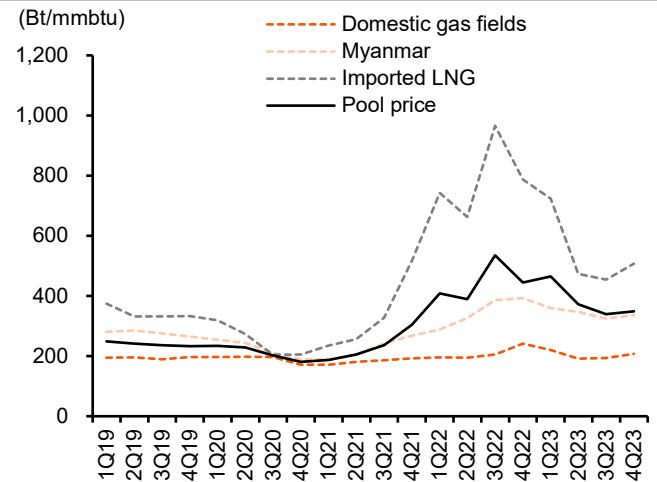
Sources: PTT Group, Thanachart's compilation

**We expect more LNG import quota to be awarded to private firms**

We believe the new PDP will also include a National Gas Plan to manage natural gas supply for the country better. Thailand is facing a structural issue of depleting domestic gas fields, and the country suffered severely from the surge of global LNG prices during 2021-22 when it failed to secure sufficient long-term LNG contracts, thus needed to import LNG at spot prices amid the exceptionally tight demand-supply market. Impacts were huge such that the government had to subsidize, through EGAT, electricity prices to the tune of over Bt150bn during the period. We expect the new gas plan to increase the quota of LNG import licenses to be granted to private firms, after some were already awarded during 2021-22, to accelerate the procurement of LNG imports for the country at competitive prices. This would create business opportunities for utility firms. Longer-term, we expect pro-renewable policies to reduce the country's dependency on high-priced imported gas.

**Ex 10: More Favorable Mix In New Gas Price Structure**

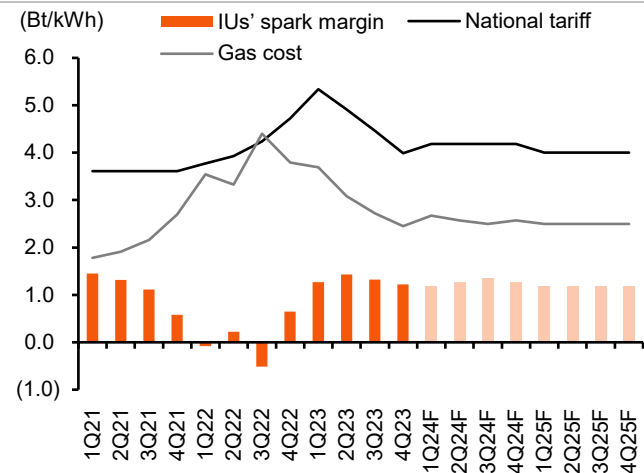
Sources: EPPO, Thanachart estimates

**Ex 11: Historical Gas Pool Price Dynamic**

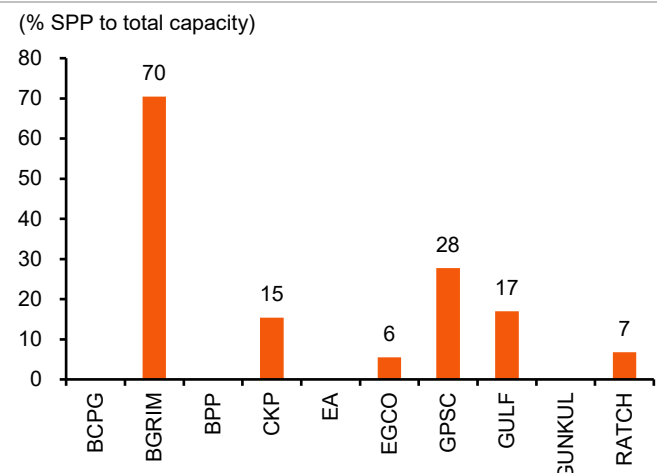
Source: EPPO

**Lower gas costs also mean lower impact from policy risk on the SPPs**

We see SPP operators as the biggest beneficiaries of the new gas plan. Even though we don't expect a lower gas cost to directly result in a higher spark margin for SPPs, since it would be compensated by lower tariff prices, we foresee an indirect benefit to SPPs in the form of a lower potential impact from regulatory risks. Under a structurally lower domestic gas price, the chance of electricity production costs rising significantly above the Bt4.0/kWh level would be much lower. Therefore, electricity price subsidization would become less likely to happen, in our view, or it would be at a lower magnitude compared to during the global energy price crisis in 2021-22.

**Ex 12: SPPs' Margin Has Normalized**

Sources: EPPO, Thanachart estimates

**Ex 13: SPP As % Of Total Capacity Per Company**

Sources: Company data, Thanachart estimates

## Some bottom-up stories

**We estimate the sector's earnings to grow 13% p.a. over 2024-26F**

**1) Increasing contribution from overseas investments**

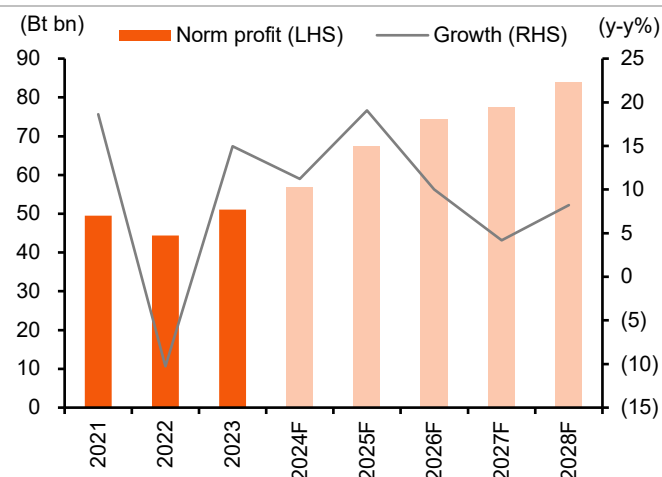
Apart from the sector's medium-term growth opportunities being unlocked by the new PDP and longer-term growth from liberalization of the natural gas market, we estimate near-term earnings growth for the sector at 11/19/10% in 2024-26F, based on accumulated earnings from the ten utilities stocks under our coverage, driven by three factors:

*First*, given the limited capacity growth potential in the local market over the past five years, Thai utility companies have been reinvesting their hefty cash flows from domestic power plants in foreign markets. Investment in renewable projects in ASEAN was the key focus



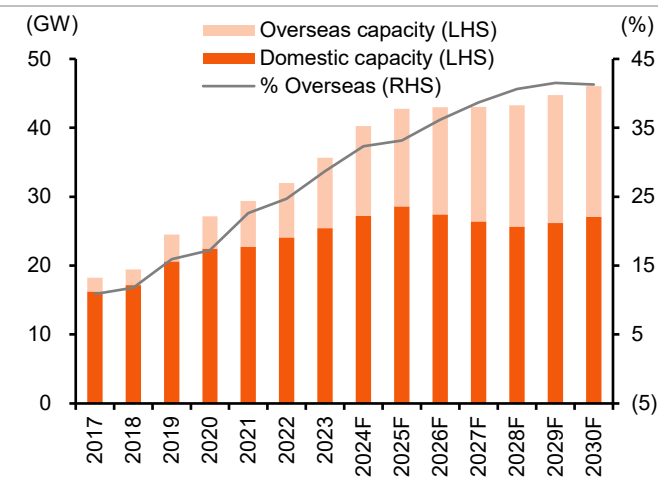
during 2020-22, and we see the investments now widening to North Asia (i.e., Taiwan and South Korea) and India. Thai utility firms are now being more active in acquiring gas-fired power projects in the US after many fossil-based power plants became available for sale at attractive prices as global conglomerates are being forced to reduce exposure to carbon-intensive assets. Increasing profit contributions from overseas capacity expansion is, therefore, one of the key near-term earnings growth drivers for the sector.

**Ex 14: Sector's Earnings Are Still Growing**



Sources: Company data, Thanachart estimates

**Ex 15: Overseas Capacity Expansion One Of The Drivers**



Sources: Company data, Thanachart estimates

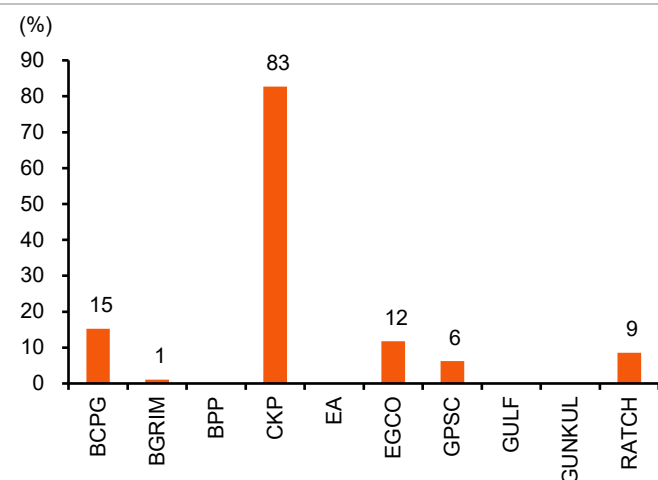
## 2) SPPs' turnaround story continues

*Second*, we expect a normalization of SPPs' spark margin this year, given three supporting factors. 1) We project the domestic gas pool price to decline after a fall in related global energy prices (i.e., Brent oil and Asian spot LNG) and a more favorable gas pool price mechanism. 2) A recovery in domestic gas production also lowers the mix of high-priced imported LNG in the pool. 3) We believe the government will continue to delay a national tariff price cut to repay debts for EGAT gradually.

## 3) Stronger hydropower output on easing El Nino impacts

*Third*, we expect a transition from El Nino conditions last year toward La Nina in 2H24F to drive a strong recovery of electricity output for hydropower projects in the Indochina region. Based on our estimates that hydropower projects comprise 15% of combined earnings from the ten utility stocks under our coverage, this more favorable natural conditions of water availability should be another important earnings driver for the sector in 2024-25F.

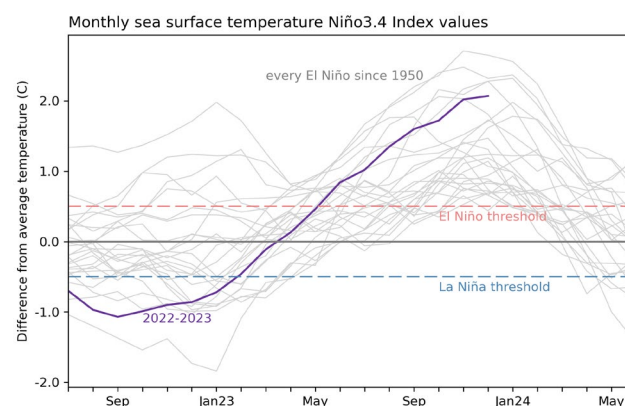
**Ex 16: Stocks With Sizable Exposure To Hydropower**



Source: Company data

Note: Shown as % total operating capacity

**Ex 17: This El Nino Cycle Looks To Have Peaked**



Source: The US National Oceanic and Atmospheric Administration (NOAA)

We highlight some specific bottom-up stories of utility stocks under our coverage below.

**GPSC benefits from both renewable policy and lower SPP risks**

**GPSC** is one of our top sector picks since it not only benefits from the new PDP release as one of the major contenders in renewable biddings and benefits from the new gas pool price structure, but it also has high exposure to two of the sector's near-term growth drivers. Some 55% of GPSC's earnings are from gas- and coal-fired power plants under the SPP scheme. More than half of the electricity output from its SPP plants is sold to industrial users, and this is prone to impacts from the regulatory risk of electricity price subsidization. GPSC is, therefore, one of the major beneficiaries of SPPs' margin turnaround outlook over 2023-25F. GPSC also has sizable exposure to hydropower at 10-15% of annual profit and will thus likely enjoy the transition of natural conditions toward La Nina.

**We like CKP the most, among mid-cap utility stocks**

**CKP** benefits the most from the transition of natural conditions toward the La Nina phenomenon. We estimate its earnings to recover to 22/12% growth in 2024-25F, after a 38% drop in the El Nino-induced drought year in 2023, from higher electricity output from hydropower projects in expected wet years. CKP also enjoys the reversal of interest rates to a declining trend, given that half of its total debt exposure was on floating rates as of 2023. We like CKP the most among mid-cap utility stocks for its earnings turnaround story and attractive valuation. CKP also has a strong long-term growth outlook as its Luang Prabang hydropower project is set to commence operation and double its earnings base in 2030F.

#### Ex 18: GPSC - BUY, Price Bt48.75, TP Bt57.00

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
Norm profit	3,596	4,613	6,877	7,896
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

Sources: Company data, Thanachart estimates

#### Ex 19: CKP - BUY, Price Bt3.82, TP Bt5.00

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	10,286	9,812	9,833	9,844
Net profit	1,462	1,951	2,183	2,475
Norm profit	1,589	1,951	2,183	2,475
Norm EPS (Bt)	0.2	0.2	0.3	0.3
Norm EPS grw (%)	(37.6)	22.8	11.9	13.3
Norm PE (x)	19.5	15.9	14.2	12.5
EV/EBITDA (x)	16.6	14.6	13.7	12.7
P/BV (x)	1.1	1.1	1.0	1.0
Div yield (%)	2.2	2.4	2.4	2.4
ROE (%)	5.9	7.0	7.5	8.0
Net D/E (%)	54.0	45.8	41.6	36.6

Sources: Company data, Thanachart estimates

**We see BGRIM's asset monetization plan as a share price overhang**

**BGRIM** has announced the most aggressive investment plan in overseas markets with a Bt250bn budget to invest in 4.0GW of equity capacity in power projects abroad over 2024-30F, where renewables would be its key focus. As part of this mega investment scheme, BGRIM has committed to invest in six offshore wind power plants in South Korea with a total equity capacity of 970MW. The projects are scheduled to commence operations over 2026-30F. However, we believe BGRIM needs an unconventional capital-raising scheme to fund the investments, i.e., divesting assets into an infrastructure fund or a public listing and perpetual bond issuances. Any of those (or a combination of them) would reduce its earnings base before profit contribution from the new projects comes later from 2026F.

**Improving ESG story for BPP**

**BPP** is leveraging on the strong business footprint of its parent company, Banpu Pcl (BANPU TB, SELL, Bt5.40), in the US to invest Bt15.2bn for a 50% stake in the total 1.5GW of installed capacity of the Temple I and Temple II gas-fired power plants in Texas, in which another 50% stake is held by BANPU. BPP targets to invest in a further 1.2GW of equity capacity of gas power plants in the US to bring down the portion of capacity from coal power (which has been the company's core business unit since it was initiated) in its portfolio. This could draw in more fund flows to BPP as an improving ESG company.



**Ex 20: Many Thai Utility Firms Are Investing In US Gas Power**

Company	Project	Equity capacity (MW)	Purchase price (Bt m)	Acquisition date
<b>BCPG</b>	AP-BCPG CCE	340.9	6,634	Feb-23
	AP-BCPG SFE	90.1	2,370	Feb-23
	Liberty	212.0	4,433	Jul-23
	Patriot	214.3	4,480	Jul-23
<b>EGCO</b>	Linden	272.2	6,262	Jun-21
	Risec	298.4	7,303	Mar-23
	Marcus Hook	456.0	10,650*	Jan-24
	Milford Power	102.5	2,308*	Jan-24
	Dighton Power	93.5	2,130*	Jan-24
<b>GULF</b>	Jackson	588.0	14,131	Feb-23
<b>BPP</b>	Temple 1	384.0	7,149	Nov-21
	Temple 2	377.5	8,030	Jul-23

Source: Company data, Thanachart estimates\*

**BCPG is going through a major business transition**

**BCPG** is another company with sizable investments in US gas power projects. It invested Bt17.9bn in 2023 for 857MW in equity capacity of four gas-fired power plants in the US. US gas power has surged to 70% of its operating capacity and 44% of its earnings base in 2024F, according to our estimates. However, in contrast to BPP, its share price looks to have been punished by this investment strategy since it reinvests cash flow from subsidized solar projects into these higher carbon-intensive projects, which goes against ESG and sustainability investment trends.

**EGCO has been most active in investing in the US power market**

**EGCO** was the pioneer among Thai utility companies in overseas investments. As of 2023, it owned a total of 3.6GW in equity capacity of power plants overseas, mostly conventional power plants (coal and natural gas) in Asia, which comprises 54% of its total capacity. EGCO has committed to acquiring five gas-fired power plant units in the US with a total equity capacity of 1.2GW over 2021-23 (17% of its total capacity) and a combined investment cost of Bt28.6bn, the largest investment in the US among its peers. EGCO also has an investment in Apex Clean Energy Holdings, a major renewable power developer in the US market, which has an ambitious plan to develop over 50GW of solar and wind power projects in the US.

## Ex 21: Sector Valuation Comparison

		BCPG	BGRIM	BPP	CKP	EA	EGCO	GPSC	GULF	GUNKUL	RATCH	Industry
Rating		BUY	SELL	BUY	BUY	BUY	BUY	BUY	BUY	HOLD	BUY	
Target price (Bt)	Thanachart	12.00	23.00	18.00	5.00	45.00	130.00	57.00	54.00	2.70	33.00	
	Consensus	10.35	31.64	16.77	4.65	48.07	147.38	58.31	54.83	4.30	34.20	
Consensus rec.	BUY	6	12	2	8	4	6	16	16	5	4	
	HOLD	3	7	2	1	4	4	6	2	1	4	
	SELL	0	2	0	0	0	1	0	0	0	2	
Sales (Bt m)	2023	5,031	57,115	30,443	10,286	30,074	49,627	90,303	114,054	7,596	43,675	438,205
	2024F	4,060	56,418	49,006	9,812	38,138	46,173	100,012	145,316	7,785	50,110	506,830
	2025F	4,641	55,876	50,013	9,833	44,563	42,998	91,356	161,336	8,043	47,579	516,238
	2026F	6,174	57,080	51,074	9,844	55,594	36,379	88,205	163,940	8,807	37,439	514,536
Norm profits (Bt m)	2023	831	2,057	4,968	1,589	7,169	10,098	3,596	14,759	1,576	4,406	51,049
	2024F	924	2,077	3,796	1,951	7,991	10,664	4,613	16,981	1,477	6,355	56,830
	2025F	1,074	2,303	4,475	2,183	8,439	12,169	6,877	19,949	1,530	8,653	67,653
	2026F	1,720	3,320	4,965	2,475	10,296	10,662	7,896	21,891	1,525	9,673	74,423
Sales growth (%)	2023	(6.9)	(8.5)	24.3	(5.7)	18.6	(16.8)	(27.0)	21.1	10.2	(41.6)	(3.2)
	2024F	(19.3)	(1.2)	61.0	(4.6)	26.8	(7.0)	10.8	27.4	2.5	14.7	11.1
	2025F	14.3	(1.0)	2.1	0.2	16.8	(6.9)	(8.7)	11.0	3.3	(5.0)	2.6
	2026F	33.0	2.2	2.1	0.1	24.8	(15.4)	(3.4)	1.6	9.5	(21.3)	3.3
Norm EPS growth (%)	2023	(59.3)	na	86.9	(37.6)	24.5	(20.3)	1,551.6	28.0	26.9	(29.3)	2.5
	2024F	11.2	(7.1)	(23.6)	22.8	11.5	5.6	28.3	15.1	(6.3)	44.2	10.2
	2025F	16.2	18.6	17.9	11.9	5.6	14.1	49.1	17.5	3.6	36.2	19.1
	2026F	60.1	64.9	11.0	13.3	22.0	(12.4)	14.8	9.7	(0.3)	11.8	19.5
Operating margin (%)	2023	37.4	13.8	15.8	15.2	29.9	10.4	8.6	15.9	32.1	7.1	18.6
	2024F	33.5	14.9	7.9	18.3	28.5	10.6	8.1	14.1	29.0	6.0	17.1
	2025F	31.5	15.4	9.8	19.7	25.1	12.2	9.7	14.3	28.9	9.6	17.6
	2026F	33.2	15.1	9.0	21.4	23.6	8.4	10.4	15.3	30.2	14.1	18.1
ROE (%)	2023	2.8	6.1	10.1	5.9	17.8	9.0	3.4	13.0	11.3	4.5	8.4
	2024F	3.1	5.4	7.5	7.0	17.8	9.8	4.3	14.3	10.3	6.4	8.6
	2025F	3.7	6.0	8.5	7.5	16.3	10.4	6.2	16.0	10.0	8.4	9.3
	2026F	5.7	8.4	9.1	8.0	17.4	8.6	6.9	16.7	9.4	8.9	9.9
Dividend yield (%)	2023	3.7	1.4	5.6	2.2	1.0	5.9	1.5	2.1	2.3	5.7	3.1
	2024F	3.7	0.7	5.6	2.4	1.4	5.9	1.8	2.5	2.6	5.7	3.2
	2025F	3.7	0.9	5.6	2.4	1.4	5.9	2.8	2.9	2.7	6.4	3.5
	2026F	3.7	1.4	5.6	2.4	2.6	5.9	3.2	3.2	2.7	7.1	3.8
P/BV (x)	2023	0.7	1.8	0.9	1.1	2.8	0.6	1.3	4.2	1.6	0.6	1.5
	2024F	0.7	1.8	0.8	1.1	2.4	0.5	1.3	4.0	1.5	0.6	1.5
	2025F	0.7	1.8	0.8	1.0	2.1	0.5	1.2	3.8	1.5	0.6	1.4
	2026F	0.6	1.7	0.8	1.0	1.8	0.5	1.2	3.6	1.4	0.5	1.3
Norm PE (x)	2023	23.3	51.8	8.8	19.5	16.3	5.7	38.2	32.8	14.5	13.8	22.5
	2024F	21.0	55.7	11.5	15.9	14.6	5.4	29.8	28.5	15.5	9.6	20.7
	2025F	18.1	47.0	9.7	14.2	13.8	4.8	20.0	24.3	15.0	7.0	17.4
	2026F	11.3	28.5	8.8	12.5	11.3	5.4	17.4	22.1	15.0	6.3	13.9
EV/EBITDA (x)	2023	13.5	11.1	10.5	16.6	13.8	18.2	14.9	32.6	15.4	16.4	16.3
	2024F	16.5	10.1	11.0	14.6	12.0	17.6	14.5	28.6	15.1	20.3	16.0
	2025F	17.6	9.8	10.1	13.7	11.3	15.5	13.3	25.4	15.5	16.2	14.8
	2026F	14.1	10.4	10.9	12.7	9.5	19.2	11.8	23.7	13.9	14.7	14.1
Net D/E (x)	2023	1.0	1.6	0.4	0.5	1.4	0.9	1.0	1.7	0.9	0.5	1.0
	2024F	1.0	1.4	0.4	0.5	1.1	0.7	1.0	1.7	0.8	0.7	0.9
	2025F	1.1	1.3	0.4	0.4	0.9	0.6	1.0	1.6	0.8	0.6	0.9
	2026F	1.3	1.4	0.4	0.4	0.7	0.5	0.8	1.6	0.9	0.6	0.8

Sources: Company data; Thanachart estimates

## Valuation Comparison

### Ex 22: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		—EV/EBITDA—		— Div yield —	
			24F	25F	24F	25F	24F	25F	24F	25F	24F	25F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Cheung Kong Infrastructure	1038 HK	Hong Kong	7.5	6.8	13.4	12.6	0.9	0.8	46.9	45.0	5.8	5.9
China Power Int'l	2380 HK	Hong Kong	31.2	22.5	8.2	6.7	0.8	0.7	9.7	8.3	5.9	7.1
China Resources Power	836 HK	Hong Kong	18.5	14.6	6.6	5.7	1.0	0.9	6.5	5.7	6.1	7.1
CLP Holdings	2 HK	Hong Kong	33.2	2.5	12.7	12.4	1.4	1.4	8.4	8.2	5.1	5.3
Hongkong Electric Holdings	6 HK	Hong Kong	7.0	2.1	15.4	15.1	1.1	1.1	na	na	6.2	6.2
Huaneng Power	902 HK	Hong Kong	(2.6)	14.0	6.9	6.1	0.7	0.7	9.5	8.7	6.5	7.3
Tata Power	TPWR IN	India	0.7	17.2	38.3	32.7	4.4	3.9	16.7	14.5	0.5	0.5
Tenaga Nasional	TNB MK	Malaysia	8.4	12.0	16.7	14.9	1.1	1.1	7.5	7.2	3.7	4.1
YTL Corp	YTL MK	Malaysia	132.9	11.8	16.3	14.6	1.9	1.8	8.0	6.9	2.5	2.8
YTL Power	YTLP MK	Malaysia	123.1	(2.7)	10.9	11.2	1.8	1.6	8.7	8.1	1.9	1.9
Manila Electric	MER PM	Philippines	(6.2)	3.0	11.8	11.5	2.8	2.5	8.6	8.2	6.0	6.2
BCPG Pcl *	BCPG TB	Thailand	11.2	16.2	21.0	18.1	0.7	0.7	16.5	17.6	3.7	3.7
B.Grimm Power Pcl *	BGRIM TB	Thailand	(7.1)	18.6	55.7	47.0	1.8	1.8	10.1	9.8	0.7	0.9
Banpu Power Pcl *	BPP TB	Thailand	(23.6)	17.9	11.5	9.7	0.8	0.8	11.0	10.1	5.6	5.6
CK Power Pcl *	CKP TB	Thailand	22.8	11.9	15.9	14.2	1.1	1.0	14.6	13.7	2.4	2.4
EA Pcl*	EA TB	Thailand	11.5	5.6	14.6	13.8	2.4	2.1	12.0	11.3	1.4	1.4
Electricity Generating *	EGCO TB	Thailand	5.6	14.1	5.4	4.8	0.5	0.5	17.6	15.5	5.9	5.9
Global Power Synergy *	GPSC TB	Thailand	28.3	49.1	29.8	20.0	1.3	1.2	14.5	13.3	1.8	2.8
Gulf Energy Dev. Pcl *	GULF TB	Thailand	15.1	17.5	28.5	24.3	4.0	3.8	28.6	25.4	2.5	2.9
Gunkul Engineering *	GUNKUL TB	Thailand	(6.3)	3.6	15.5	15.0	1.5	1.5	15.1	15.5	2.6	2.7
RATCH Group *	RATCH TB	Thailand	44.2	36.2	9.6	7.0	0.6	0.6	20.3	16.2	5.7	6.4
Average			21.4	12.3	16.7	14.9	1.6	1.5	14.5	13.5	4.0	4.3

Sources: Bloomberg, \* Thanachart estimates

Based on 25 April 2024 closing prices

## STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
<b>SET INDEX</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>(11.6)</b>	<b>(3.6)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Utilities Sector</b>	<b>(5.4)</b>	<b>(8.7)</b>	<b>(24.2)</b>	<b>(8.2)</b>	<b>(4.5)</b>	<b>(8.5)</b>	<b>(12.6)</b>	<b>(4.5)</b>
BCPG	0.8	(18.8)	(32.0)	(23.9)	1.7	(18.5)	(20.3)	(20.2)
BGRIM	(5.5)	(5.5)	(30.7)	(4.6)	(4.5)	(5.2)	(19.0)	(0.9)
BPP	(4.0)	0.0	3.6	(1.4)	(3.1)	0.3	15.3	2.3
CKP	(7.3)	(0.5)	0.5	17.2	(6.3)	(0.2)	12.2	20.8
EA	(10.7)	(19.4)	(55.2)	(29.4)	(9.8)	(19.1)	(43.6)	(25.7)
EGCO	(3.9)	(16.3)	(29.3)	(14.1)	(3.0)	(16.1)	(17.6)	(10.4)
GPSC	(9.3)	(2.0)	(22.3)	0.5	(8.4)	(1.7)	(10.7)	4.2
GULF	(6.8)	(5.2)	(18.7)	(7.3)	(5.8)	(4.9)	(7.1)	(3.7)
GUNKUL	(7.2)	(11.6)	(32.5)	(7.9)	(6.3)	(11.4)	(20.8)	(4.2)
RATCH	0.0	(8.2)	(25.8)	(11.1)	0.9	(7.9)	(14.2)	(7.5)

Source: Bloomberg

## SECTOR - SWOT ANALYSIS

**S — Strength**

- Defensive as agreed revenues on PPAs are predetermined.
- Changes in fuel prices are passed via PPAs for IPPs and mostly by formulae adjustments for SPPs.

**O — Opportunity**

- Huge investment potential in neighboring countries.
- Government supports and subsidizes renewable energy.

**W — Weakness**

- Most IPPs set their tariff as front-end loaded, so tariffs for ageing plants, especially ones approaching expiry, are set to fall drastically.
- There is sometimes intervention in the Ft adjustment.

**T — Threat**

- Local communities may protest against new projects.
- Increased regulatory risk on environmental concerns.

## REGIONAL COMPARISON

Name	—EPS growth—		— PE —		— P/BV —		— EV/EBITDA —		— Div. Yield —	
	24F	25F	24F	25F	24F	25F	24F	25F	24F	25F
	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Hong Kong	15.8	10.4	10.5	9.7	1.0	0.9	16.2	15.2	5.9	6.5
India	0.7	17.2	38.3	32.7	4.4	3.9	16.7	14.5	0.5	0.5
Malaysia	88.1	7.0	14.6	13.6	1.6	1.5	8.0	7.4	2.7	2.9
Philippines	(6.2)	3.0	11.8	11.5	2.8	2.5	8.6	8.2	6.0	6.2
Thailand	10.2	19.1	20.7	17.4	1.5	1.4	16.0	14.8	3.2	3.5
<b>Average</b>	<b>21.7</b>	<b>11.3</b>	<b>19.2</b>	<b>17.0</b>	<b>2.2</b>	<b>2.1</b>	<b>13.1</b>	<b>12.0</b>	<b>3.7</b>	<b>3.9</b>

Sources: Bloomberg Consensus

Note: \* Thanachart estimate – using normalized EPS

**BUY** (Unchanged)

Change in Numbers

**TP: Bt 12.00**

Upside : 79.1%

(From: Bt 18.00)

**26 APRIL 2024**

Small Cap Research

# BCPG Pcl (BCPG TB)

## Bad news looks priced in

We cut BCPG's earnings due to higher interest cost assumptions and a delay in developing solar farms in Taiwan. However, we believe the worst is over and expect 11/16/60% growth in 2024-26F, driven by US gas power plants and renewable projects in Asia. Maintain BUY.


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### Sharp earnings cuts

We cut our earnings estimates for BCPG by 52/56/40% in 2024-26F due to three factors. 1) Interest expenses on US dollar loans used to fund the acquisitions of four gas-fired power plants in the US last year have been far higher than we'd expected. 2) We factor in BCPG's plan to divest 117MW of solar farms in Japan, so there would be no more profit contribution from those projects beyond 2Q24F. 3) We expect a delay in the development of solar farms in Taiwan from its initial plant, and now assume the projects to commence operations in 2Q25F (from 4Q24F). Due to our sharp earnings cuts and changes in our assumed timelines for its projects under development, we lower our DCF-derived SOTP-based TP (2024F base year) to Bt12/share (from Bt18).

### US gas plants drive nearer-term growth

We believe BCPG's earnings already hit a bottom last year and project 11/16/60% EPS growth in 2024-26F. The key driver in 2024F is the full-year profit contribution from the 857MW equity capacity of gas-fired power plants in the US acquired in 2023. We estimate Bt400m profit from the projects in 2024F vs. Bt160m in 2023. We then expect the margin from the plants to improve with normalizing gas prices and growing power demand in the US to drive earnings growth in 2025-26F. Interest expenses also look set to fall after the Fed reverses its policy interest rate trend later. Those two positives should drive higher profit from the US gas plants to more than offset the weaker performance from Thai solar farms, which will see a lower Ft and their adders expiring.

### Two major project CODs in 2025F

BCPG's accelerating earnings growth in 2025-26F is also driven by the CODs of its two major renewable projects in Asia. *First*, we expect its 290MW equity-capacity Monsoon project, a wind farm in Laos but with an electricity sale agreement to Vietnam's grid, to meet its scheduled COD in 4Q25F. *Second*, despite some delays in the development timeline, we project its 469MW fishery solar power projects (solar farms above fish ponds) in Taiwan to ramp up its generation over 2025-27F. These imply BCPG's operating capacity will increase to 2.0GW in 2027F from 0.8GW in 2023.

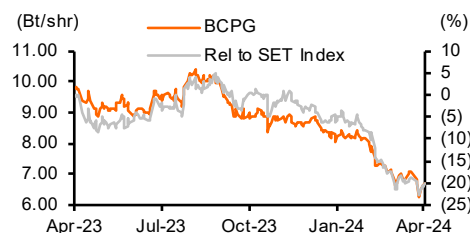
### Still a BUY

We maintain our BUY recommendation on BCPG as we believe the bad news of falling earnings over the past three years is already reflected in its share price. We see its 21x 2024F PE as attractive against a 30% EPS CAGR over 2024-26F. We leave potential new capacity from upcoming renewable power biddings from the new PDP as an upside to our numbers.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	5,031	4,060	4,641	6,174
Net profit	1,104	924	1,074	1,720
Consensus NP	—	2,651	1,623	1,493
Diff frm cons (%)	—	(65.1)	(33.8)	15.2
Norm profit	831	924	1,074	1,720
Prev. Norm profit	—	1,927	2,447	2,850
Chg frm prev (%)	—	(52.0)	(56.1)	(39.7)
Norm EPS (Bt)	0.3	0.3	0.4	0.6
Norm EPS grw (%)	(59.3)	11.2	16.2	60.1
Norm PE (x)	23.3	21.0	18.1	11.3
EV/EBITDA (x)	13.5	16.5	17.6	14.1
P/BV (x)	0.7	0.7	0.7	0.6
Div yield (%)	3.7	3.7	3.7	3.7
ROE (%)	2.8	3.1	3.7	5.7
Net D/E (%)	102.3	95.8	113.1	130.2

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	6.70
Market Cap (US\$ m)	542.0
Listed Shares (m shares)	2,995.8
Free Float (%)	42.7
Avg Daily Turnover (US\$ m)	0.8
12M Price H/L (Bt)	10.40/6.25
Sector	Utilities
Major Shareholder	Bangchak Corp. Pcl 57.81%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report ..... P16

**Ex 1: Our DCF-derived Sum-Of-The-Parts (SOTP) 12-month TP Calculation**

	Valuation method	WACC (%)	Value per BCPG's share (Bt)
Thailand solar (w/ adder)	DCF	8.8%	1.8
Thailand solar (no adders)	DCF	5.2%	0.7
Thailand wind	DCF	5.4%	0.0
Philippines wind	DCF	6.6%	0.2
Laos hydro	DCF	5.6%	2.5
Laos wind	DCF	6.9%	0.8
Taiwan solar	DCF	6.0%	2.1
Oil terminal	DCF	7.5%	1.3
US gas power plants	DCF	8.0%	6.3
<b>Existing projects</b>			<b>15.9</b>
- Net debt			(3.9)
<b>Total</b>			<b>12.0</b>

Source: Thanachart estimates

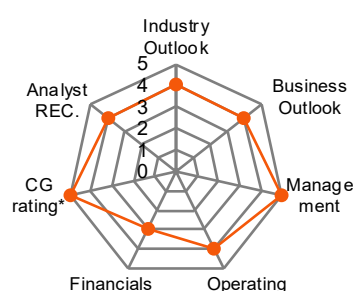


## COMPANY DESCRIPTION

Established in 2015, BCPG, a 70%-owned subsidiary of Bangchak Pcl (BCP), is a pure green power company. BCPG now operates various renewable plants in five markets in Asia (Thailand, Laos, Indonesia, the Philippines, and Japan) and is expanding to Taiwan and the US. To prepare for upcoming disruption in the electricity business, BCPG has formed partnerships with regional players to develop peer-to-peer (P2P) blockchain technology for electricity trading, Vanadium batteries for energy storage systems in smart grids and renewable plants, and a carbon credit trading platform.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Well-diversified business with different types of renewable energy in various renewable-promoting countries.
- Secured partnerships with regional power players to invest in more power plants overseas and digital technology for the electricity market.

### O — Opportunity

- Expansion potential given the high need for green power in both the domestic and international markets.
- Plenty of room for expansion in the IPS solar rooftop business.

### W — Weakness

- Rising net gearing to support new investments to offset declining adder revenues.
- Difficulty in finding high-return investments to replace the expiring solar adders for plants in Thailand.

### T — Threat

- Its Thai solar farms' adders expire over 2022-24.
- Regulatory risk as the Thai government wants to buy power from the private sector at the lowest possible prices.
- Regulatory risk with overseas investments.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	10.35	12.00	16%
<b>Net profit 24F (Bt m)</b>	2,651	924	-65%
<b>Net profit 25F (Bt m)</b>	1,623	1,074	-34%
<b>Consensus REC</b>	<b>BUY: 6</b>	<b>HOLD: 3</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings estimates are significantly lower than the Bloomberg consensus numbers, which we attribute to us having a more bearish view on profit contributions from its recently acquired US gas power plants.
- However, our TP is 16% higher than the Street, likely since we have factored the value from all its projects under development into our valuation.

## RISKS TO OUR INVESTMENT CASE

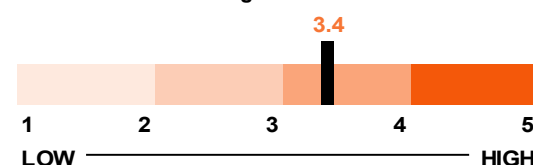
- A lower-than-expected rate of return and a slower-than-expected pace of new investments than our expectations are the key downside risks to our valuation.
- Less favorable natural conditions for its renewable plants vs. our current assumptions would be a secondary downside risk to our earnings forecasts.
- Adverse changes in regulations and policies, especially to tariffs in markets where BCPG is exposed, would pose another secondary downside risk to our numbers.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

BCPG operated 392MW of renewable power plants in Thailand and overseas as of 2022. However, we see its GHG emissions rising, given its major investments in gas power projects in early 2023. We assign a relatively high ESG score of 3.4 since renewables will remain a major portion of its total capacity, while we like its strength in social and governance 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)
BCPG	YES	AA	-	A	54.21	58.51	31.00	-	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 "term of use" in the following back page.

## Factors

## Our Comments

## ENVIRONMENT

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

- BCPG's environmental score weakened this year after its major investments in gas-fired power plants in the US and an oil terminal facility. The company is, therefore, no longer the pure renewable company that it has been for the past decade. As of 1Q23, BCPG's electricity generation portfolio comprised 66% renewables and 34% gas power plants.
- Having said that, BCPG is still committed to a net-zero carbon target by 2030.
- BCPG participates in and supports the development of GHG emission standards and the carbon credit trading market in Thailand. It is one of the founders of the Carbon Markets Club, which is one of the carbon credit trading markets in Thailand currently.
- BCPG implements Circular Economy principles throughout its business operations, trying to reduce resource consumption and waste generation.

## SOCIAL

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

- BCPG's human rights and safety policies cover not only its employees but also the people in communities surrounding its power plant areas. The key point of its policies emphasizes acceptance of versatility and diversity within society, both in terms of gender and race.
- BCPG provided an average of 34 training hours per employee in 2022, which is relatively high among peers. It also reported zero work-related injuries among its staff last year.
- We regard BCPG's social activity programs as very strong thanks to its collaboration with its parent company and members of Bangchak Group. It provides educational services, health, and hygiene support and encourages cultural and traditional activities for the communities around its power plants and in remote areas of Thailand.

GOVERNANCE &  
SUSTAINABILITY

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

- BCPG's board of directors (BOD) comprises 11 members, which we see as appropriate in size for its business scope. Seven of them are independent directors, which implies a very high portion of 64% of its board members. The only downside to us is that there are no female members on its BOD.
- We like BCPG's independence in running its business despite its parent being another major listed company in Thailand. It operates in a complete standalone manner as it does not need backing from its parent, especially in financial matters.
- However, we don't like BCPG's business sustainability since it is now acting more like an investor (shopping around for project acquisitions) rather than as a power plant developer. This leads to high execution and acquisition risks, in our view.
- We also think BCPG lacks innovation. Its core business continues to stick with traditional solar, wind, and gas-fired power projects. Its expansion into the digital energy business and energy storage systems looks to be in the very early stages.

Sources: Thanachart, Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	5,405	5,031	4,060	4,641	6,174
Cost of sales	1,978	2,558	2,226	2,615	3,380
<b>Gross profit</b>	<b>3,427</b>	<b>2,473</b>	<b>1,834</b>	<b>2,026</b>	<b>2,794</b>
% gross margin	63.4%	49.2%	45.2%	43.6%	45.3%
Selling & administration expenses	637	590	472	565	742
<b>Operating profit</b>	<b>2,790</b>	<b>1,883</b>	<b>1,362</b>	<b>1,461</b>	<b>2,052</b>
% operating margin	51.6%	37.4%	33.5%	31.5%	33.2%
Depreciation & amortization	1,504	1,808	1,513	1,539	2,156
<b>EBITDA</b>	<b>4,294</b>	<b>3,691</b>	<b>2,875</b>	<b>3,000</b>	<b>4,208</b>
% EBITDA margin	79.4%	73.4%	70.8%	64.6%	68.2%
Non-operating income	153	302	109	73	81
Non-operating expenses	0	0	0	0	0
Interest expense	(882)	(1,268)	(1,424)	(1,472)	(1,759)
<b>Pre-tax profit</b>	<b>2,061</b>	<b>917</b>	<b>47</b>	<b>63</b>	<b>373</b>
Income tax	145	336	5	6	37
<b>After-tax profit</b>	<b>1,916</b>	<b>581</b>	<b>42</b>	<b>56</b>	<b>336</b>
% net margin	35.4%	11.6%	1.0%	1.2%	5.4%
Shares in affiliates' Earnings	130	252	882	1,018	1,384
Minority interests	(2)	(2)	0	0	0
Extraordinary items	586	273	0	0	0
<b>NET PROFIT</b>	<b>2,630</b>	<b>1,104</b>	<b>924</b>	<b>1,074</b>	<b>1,720</b>
<b>Normalized profit</b>	<b>2,044</b>	<b>831</b>	<b>924</b>	<b>1,074</b>	<b>1,720</b>
EPS (Bt)	0.9	0.4	0.3	0.4	0.6
Normalized EPS (Bt)	0.7	0.3	0.3	0.4	0.6

*We believe earnings hit a bottom last year*

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	22,878	12,335	6,891	7,098	10,119
Cash & cash equivalent	20,333	9,790	5,000	5,000	7,500
Account receivables	1,762	2,006	1,335	1,526	2,030
Inventories	0	0	0	0	0
Others	783	539	556	572	589
Investments & loans	1,342	22,295	23,423	24,873	24,873
Net fixed assets	17,014	23,011	19,196	24,069	32,076
Other assets	14,926	16,599	16,344	16,089	15,834
<b>Total assets</b>	<b>56,160</b>	<b>74,240</b>	<b>65,853</b>	<b>72,129</b>	<b>82,901</b>
<b>LIABILITIES:</b>					
Current liabilities:	3,462	11,812	4,987	7,965	9,017
Account payables	701	1,708	1,098	1,290	1,667
Bank overdraft & ST loans	0	5,000	1,654	1,927	2,370
Current LT debt	2,538	4,646	1,948	4,372	4,531
Others current liabilities	222	457	287	377	449
<b>Total LT debt</b>	<b>21,880</b>	<b>30,423</b>	<b>29,470</b>	<b>32,234</b>	<b>40,502</b>
Others LT liabilities	1,542	2,393	2,092	2,276	2,732
<b>Total liabilities</b>	<b>26,884</b>	<b>44,628</b>	<b>36,549</b>	<b>42,475</b>	<b>52,251</b>
Minority interest	51	53	53	53	53
Preferreds shares	0	0	0	0	0
Paid-up capital	14,538	14,979	14,470	14,470	14,470
Share premium	7,791	8,054	8,054	8,054	8,054
Warrants	31	35	35	35	35
Surplus	249	(473)	(473)	(473)	(473)
<b>Retained earnings</b>	<b>6,615</b>	<b>6,963</b>	<b>7,163</b>	<b>7,514</b>	<b>8,510</b>
Shareholders' equity	29,225	29,558	29,251	29,601	30,597
<b>Liabilities &amp; equity</b>	<b>56,160</b>	<b>74,240</b>	<b>65,853</b>	<b>72,129</b>	<b>82,901</b>

*Still sizable room to increase gearing for more investments*

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	2,061	917	47	63	373
Tax paid	(20)	(320)	(55)	22	18
Depreciation & amortization	1,504	1,808	1,513	1,539	2,156
Chg In working capital	368	764	60	1	(127)
Chg In other CA & CL / minorities	(454)	722	746	1,062	1,384
<b>Cash flow from operations</b>	<b>3,459</b>	<b>3,890</b>	<b>2,310</b>	<b>2,687</b>	<b>3,805</b>
Capex	(1,146)	(7,805)	2,303	(6,412)	(10,162)
Right of use	(371)	(159)	(20)	(20)	(20)
ST loans & investments	0	0	0	0	0
LT loans & investments	12,144	(20,953)	(1,128)	(1,450)	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	479	(463)	(26)	458	730
<b>Cash flow from investments</b>	<b>11,105</b>	<b>(29,379)</b>	<b>1,129</b>	<b>(7,424)</b>	<b>(9,452)</b>
Debt financing	(4,894)	15,717	(6,997)	5,461	8,871
Capital increase	107	704	(508)	0	0
Dividends paid	(1,071)	(756)	(724)	(724)	(724)
Warrants & other surplus	399	(718)	(0)	(0)	(0)
<b>Cash flow from financing</b>	<b>(5,459)</b>	<b>14,946</b>	<b>(8,229)</b>	<b>4,737</b>	<b>8,147</b>
<b>Free cash flow</b>	<b>2,312</b>	<b>(3,915)</b>	<b>4,614</b>	<b>(3,725)</b>	<b>(6,357)</b>

*Future investments are  
mainly in renewables*

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	9.5	23.3	21.0	18.1	11.3
Normalized PE - at target price (x)	17.0	41.8	37.6	32.3	20.2
PE (x)	7.4	17.6	21.0	18.1	11.3
PE - at target price (x)	13.2	31.5	37.6	32.3	20.2
EV/EBITDA (x)	5.5	13.5	16.5	17.6	14.1
EV/EBITDA - at target price (x)	9.0	17.6	21.8	22.8	17.7
P/BV (x)	0.7	0.7	0.7	0.7	0.6
P/BV - at target price (x)	1.2	1.2	1.2	1.2	1.1
P/CFO (x)	5.6	5.0	8.4	7.2	5.1
Price/sales (x)	3.7	4.0	4.9	4.3	3.3
Dividend yield (%)	5.4	3.7	3.7	3.7	3.7
FCF Yield (%)	11.9	(20.2)	23.8	(19.2)	(32.8)
<b>(Bt)</b>					
Normalized EPS	0.7	0.3	0.3	0.4	0.6
EPS	0.9	0.4	0.3	0.4	0.6
DPS	0.4	0.3	0.3	0.3	0.3
BV/share	10.1	10.2	10.1	10.2	10.6
CFO/share	1.2	1.3	0.8	0.9	1.3
FCF/share	0.8	(1.4)	1.6	(1.3)	(2.2)

Sources: Company data, Thanachart estimates

*Valuation looks attractive to  
us amid BCPG's earnings  
turnaround outlook*

## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	15.8	(6.9)	(19.3)	14.3	33.0
Net profit (%)	30.8	(58.0)	(16.3)	16.2	60.1
EPS (%)	30.8	(58.0)	(16.3)	16.2	60.1
Normalized profit (%)	(9.5)	(59.3)	11.2	16.2	60.1
Normalized EPS (%)	(9.5)	(59.3)	11.2	16.2	60.1
Dividend payout ratio (%)	39.6	65.5	78.3	67.4	42.1
<b>Operating performance</b>					
Gross margin (%)	63.4	49.2	45.2	43.6	45.3
Operating margin (%)	51.6	37.4	33.5	31.5	33.2
EBITDA margin (%)	79.4	73.4	70.8	64.6	68.2
Net margin (%)	35.4	11.6	1.0	1.2	5.4
D/E (incl. minor) (x)	0.8	1.4	1.1	1.3	1.5
Net D/E (incl. minor) (x)	0.1	1.0	1.0	1.1	1.3
Interest coverage - EBIT (x)	3.2	1.5	1.0	1.0	1.2
Interest coverage - EBITDA (x)	4.9	2.9	2.0	2.0	2.4
ROA - using norm profit (%)	3.6	1.3	1.3	1.6	2.2
ROE - using norm profit (%)	7.2	2.8	3.1	3.7	5.7
<b>DuPont</b>					
ROE - using after tax profit (%)	6.8	2.0	0.1	0.2	1.1
- asset turnover (x)	0.1	0.1	0.1	0.1	0.1
- operating margin (%)	54.4	43.4	36.2	33.1	34.5
- leverage (x)	2.0	2.2	2.4	2.3	2.6
- interest burden (%)	70.0	42.0	3.2	4.1	17.5
- tax burden (%)	93.0	63.4	90.0	90.0	90.0
WACC (%)	6.6	6.6	6.6	7.0	7.0
ROIC (%)	5.8	3.6	2.0	2.3	2.9
NOPAT (Bt m)	2,594	1,194	1,226	1,315	1,846
invested capital (Bt m)	33,311	59,838	57,322	63,133	70,500

Sources: Company data, Thanachart estimates

*Improving ROA and ROE on the gradual COD of projects under development*

**SELL** (Unchanged)

Change in Numbers

TP: Bt 23.00

(From: Bt 24.00)

26 APRIL 2024

Downside : 11.5%

**B.Grimm Power Pcl** (BGRIM TB)**High valuation**

We reaffirm SELL on BGRIM due to its high valuation. The stock looks expensive to us at 56/47/29x PE vs. -7/+19/+65% EPS growth in 2024-26F. There is also a risk of a lower earnings base from asset sales to finance future capex and the impact of energy price spikes on SPPs.

**NUTTAPOL PRASITSUKSANT**

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**Still looks expensive to us**

This is a part of *Utilities Sector – A new PDP, A new catalyst, dated 26 April 2024*. We reaffirm SELL on BGRIM. *First*, despite lifting our earnings by 19% in 2024F on a faster-than-expected SPP margin recovery, we project -7/+19% EPS growth for BGRIM in 2024-25F as higher interest costs and dilution impact from perpetual bonds weigh down its SPP turnaround story. *Second*, even with 65% EPS growth in 2026F, driven by CODs of offshore wind projects in South Korea, BGRIM still looks expensive to us at 29x PE in 2026F, on our numbers. *Third*, we have yet to factor in the company's plan to divest some operating assets, which will result in a drop in its earnings base, to finance its goal of growing renewable capacity to 4.0GW by 2030F (from 0.7GW now). We trim our DCF-derived SOTP-based TP (2024F base year) to Bt23 (from Bt24) to reflect the prolonged high interest rate outlook and recent global energy price spikes.

**SPP turnaround not news**

We estimate BGRIM's spark margin of SPP electricity sales to industrial users to stay at Bt1.2/kWh in 2024-25F (from Bt0.2/1.2 in 2022-23). This is based on our assumptions of: 1) a stable electricity tariff at Bt4.18/kWh throughout 2024F before falling to Bt4.0 in 2025F, and 2) a declining gas pool price outlook to Bt320/310/mmbtu in 2024-25F (from Bt381 in 2023). The sharp drop in the gas pool price is due to a change in the domestic gas pool price structure since 1Q24, fallen Asian spot LNG prices, and recovering production from the Erawan gas field.

**Ambitious renewable target**

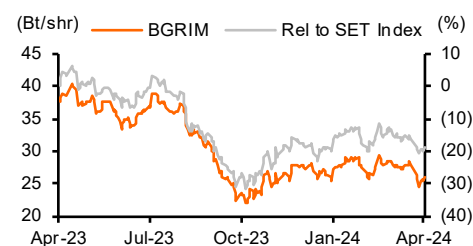
BGRIM has an ambitious investment plan of Bt250bn to increase its operating capacity to 8.0GW in 2030F from 2.6GW in 2023. It aims for 50% of the targeted capacity to be renewables vs. a 29% mix of its current operating capacity of 2.6GW. Our valuation factors in only its secured projects, mainly from rights to develop 970MW wind farms in South Korea, with an estimated total investment cost of Bt110bn, which are scheduled for COD over 2026-30F. We forecast them to contribute Bt0.9/1.6/2.0bn of equity income for BGRIM in 2026-28F.

**Pain before gain**

To finance its abovementioned ambitious investment plan, debt alone wouldn't be enough. We suspect the financing would also include perpetual bond issuances and asset monetization (i.e., asset sales to infrastructure funds or asset spin-offs for public listing). Asset sales could reduce its earnings base for some years before the new investments start contributing profits. We have yet to factor in asset sales and their impact in our numbers.

**COMPANY VALUATION**

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	57,115	56,418	55,876	57,080
Net profit	1,885	2,077	2,303	3,320
Consensus NP	—	2,481	2,869	3,011
Diff frm cons (%)	—	(16.3)	(19.7)	10.3
Norm profit	2,057	2,077	2,303	3,320
Prev. Norm profit	—	1,746	2,489	4,118
Chg frm prev (%)	—	19.0	(7.5)	(19.4)
Norm EPS (Bt)	0.5	0.5	0.6	0.9
Norm EPS grw (%)	na	(7.1)	18.6	64.9
Norm PE (x)	51.8	55.7	47.0	28.5
EV/EBITDA (x)	11.1	10.1	9.8	10.4
P/BV (x)	1.8	1.8	1.8	1.7
Div yield (%)	1.4	0.7	0.9	1.4
ROE (%)	6.1	5.4	6.0	8.4
Net D/E (%)	155.1	139.9	126.5	135.8

**PRICE PERFORMANCE****COMPANY INFORMATION**

Price as of 25-Apr-24 (Bt)	26.00
Market Cap (US\$ m)	1,830.2
Listed Shares (m shares)	2,606.9
Free Float (%)	31.6
Avg Daily Turnover (US\$ m)	11.8
12M Price H/L (Bt)	40.25/22.10
Sector	Utilities
Major Shareholder	B.Grimm Group 18.29%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report ..... P23





**Ex 1: Our DCF-derived Sum-Of-The-Parts (SOTP)-Based 12-month TP Calculation**

	Valuation method	WACC (%)	Value per BGRIM share (Bt)
<b>Operating gas-fired SPP plants</b> (ABP, ABPR, BPLC, BPWHA, BIP, BPAM, BGPAT, UVBGP, BGPR)	DCF	5.2 - 6.4%	21.8
<b>Developing projects</b> (U-Tapao airport)	DCF	5.5 - 6.5%	2.1
<b>Renewable projects</b>			13.6
Solar - Thailand	DCF	5.8%	1.2
Solar - Vietnam	DCF	6.7%	1.1
Solar - Malaysia	DCF	6.6%	1.0
Solar - Cambodia	DCF	7.1%	0.7
Wind - Thailand	DCF	5.1%	0.5
Hydro - Laos	DCF	7.6%	1.0
Renewables - South Korea	DCF	6.8%	4.7
Other renewables oversea	DCF	6.0-7.2%	3.4
<b>Net debt &amp; others</b>			(14.5)
<b>Grand total</b>			23.0

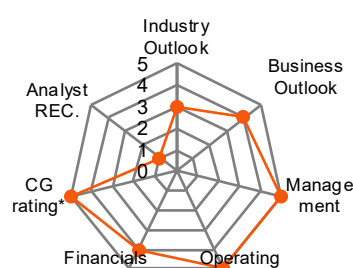
Source: Thanachart estimates

## COMPANY DESCRIPTION

Established in 1993, BGRIM, the investment arm of B.Grimm Group for utilities and power generation projects, is one of the largest power producers in Thailand under Small Power Producer (SPP) contracts. BGRIM provides electricity and steam for the national power grid as well as nearly 200 industrial manufacturers and has also expanded its power business into Vietnam and Laos. The company has a target to expand its total installed capacity to 10GW by 2030, from 3.3GW as of 2022, in which renewable power capacity is its new key focus.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Good engineering team with strong expertise in developing and operating gas-fired power plants for over 20 years.
- Benefits from relationships with B.Grimm Group and other key strategic partners.

### O — Opportunity

- Expansion of the power business in neighboring countries and the rest of Asia.
- Increasing power industry liberalization opens room for new business areas, i.e., smart grid and peer-to-peer trading.

### W — Weakness

- Financial gearing looks a bit high compared with peers, but it is still well below its targeted threshold after the issuance of its second tranche of perpetual bonds in early 2023.

### T — Threat

- Relies on government policy in balancing between the fuel cost pass-on for power plants and its potential inflationary impact on the economy.
- Regulatory risk with business overseas.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	31.64	23.00	-27%
<b>Net profit 24F (Bt m)</b>	2,481	2,077	-16%
<b>Net profit 25F (Bt m)</b>	2,869	2,303	-20%
<b>Consensus REC</b>	<b>BUY: 12</b>	<b>HOLD: 7</b>	<b>SELL: 2</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings forecasts are 16-20% lower than the Bloomberg consensus numbers, which we attribute to us being more conservative with our gas pool price assumptions.
- Our TP is 27% lower than the Street's, likely since we also assume a lower long-term spark margin from its SPP plants than the market's expectations.

## RISKS TO OUR INVESTMENT CASE

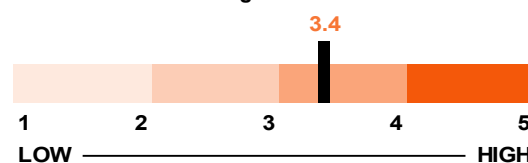
- Lower-than-expected gas pool prices vs. our assumptions are the key upside risk to our near-term earnings forecasts.
- Less aggressive national electricity tariff cuts by the government, especially if they take place faster than the actual fall in fuel prices, is another key upside risk to our numbers.
- Faster-than-expected capacity growth, either from greenfield development or M&As, would represent a secondary upside risk to our earnings forecasts and valuation.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

BGRIM is one of the major gas-fired power plant operators in Thailand. Of its 2.2GW of operating capacity, 67% is from gas power plants in Thailand, and another 33% from renewable plants across ASEAN. We rate its ESG score at 3.4 on its policy to lift its green energy mix, various social activity initiatives, and its large dedicated team to boost ESG 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)
BGRIM	YES	AAA	-	BBB	48.74	59.12	83.00	-	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 "term of use" in the following back page.

## Factors

## Our Comments

## ENVIRONMENT

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

- BGRIM provides detailed sets of data on the company's environmental reporting, including energy consumption, pollution emissions, and waste-management aspects.
- BGRIM targets net-zero carbon emissions by 2050 via an increase of the renewable mix in its total generation capacity to over 50% in 2030, from 25% as of 2022. BGRIM also plans to invest in carbon capture units to reduce its carbon footprint further.
- BGRIM emitted 0.38 tonnes of CO2 equivalent per MWh of electricity generation in 2022. The company targets to reduce its carbon emission intensity to below 0.28 tonnes per MWh in 2030F, implying an emission reduction rate of 4% p.a. vs. (7% p.a. in 2018-22).
- BGRIM is one of the few Thai companies with a biodiversity policy. We like this initiative for helping to preserve the global environment apart from the global warming issue.

## SOCIAL

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

- BGRIM's human rights policy is in line with the UN Guiding Principles (UNGP) to protect, respect, and remedy staff and all stakeholders. The company has not reported any human rights or staff violations for the past five years.
- BGRIM has developed a strong platform for its employees to self-develop their competencies under the name "B.Grimm Academy". The courses are formed based on BGRIM's core cultures of "positivity, partnership, pioneering, and professionalism".
- It also shares academic support to help develop human resources for Thais with 232 schools and over 100 students under its care.
- Since its core fossil-based power plant business leads to the risk of accidents and health issues in surrounding communities, BGRIM is committed to high standards and protocols to prevent unexpected chemical leaks and to ensure a swift emergency response.

GOVERNANCE &  
SUSTAINABILITY

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

- BGRIM's board of directors comprises 10 members. Six of them are independent directors, while half are female.
- We see BGRIM as one of the leading companies in providing clear and detailed data on both its operations and (recently) ESG issues. It has developed a dedicated team to ensure high ESG standards, including business transparency.
- BGRIM has high business sustainability supported by long-term contracts for all of its power plants, while the company continuously looks for more investments to deliver business growth to its shareholders.
- BGRIM still lacks an innovative business plan, in our view. It may need to accelerate the exploration of new technology to complement its traditional power business, especially the carbon capture, utilization, and storage (CCUS) trend, to mitigate the risk to its business from global emission regulations being implemented.

Sources: Thanachart, Company note

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	62,395	57,115	56,418	55,876	57,080
Cost of sales	56,067	46,926	45,853	45,125	46,211
<b>Gross profit</b>	<b>6,329</b>	<b>10,189</b>	<b>10,565</b>	<b>10,750</b>	<b>10,869</b>
% gross margin	10.1%	17.8%	18.7%	19.2%	19.0%
Selling & administration expenses	1,857	2,285	2,180	2,164	2,222
<b>Operating profit</b>	<b>4,472</b>	<b>7,904</b>	<b>8,384</b>	<b>8,587</b>	<b>8,647</b>
% operating margin	7.2%	13.8%	14.9%	15.4%	15.1%
Depreciation & amortization	5,221	5,587	5,823	5,632	5,573
<b>EBITDA</b>	<b>9,693</b>	<b>13,490</b>	<b>14,207</b>	<b>14,219</b>	<b>14,220</b>
% EBITDA margin	15.5%	23.6%	25.2%	25.4%	24.9%
Non-operating income	291	660	621	559	571
Non-operating expenses	0	0	0	0	0
Interest expense	(4,055)	(4,970)	(5,353)	(5,221)	(5,180)
<b>Pre-tax profit</b>	<b>708</b>	<b>3,593</b>	<b>3,652</b>	<b>3,925</b>	<b>4,037</b>
Income tax	(156)	288	346	393	674
<b>After-tax profit</b>	<b>864</b>	<b>3,305</b>	<b>3,306</b>	<b>3,532</b>	<b>3,364</b>
% net margin	1.4%	5.8%	5.9%	6.3%	5.9%
Shares in affiliates' Earnings	(172)	93	315	450	1,594
Minority interests	(317)	(1,341)	(1,544)	(1,678)	(1,638)
Extraordinary items	(1,619)	(173)	0	0	0
<b>NET PROFIT</b>	<b>(1,244)</b>	<b>1,885</b>	<b>2,077</b>	<b>2,303</b>	<b>3,320</b>
<b>Normalized profit</b>	<b>375</b>	<b>2,057</b>	<b>2,077</b>	<b>2,303</b>	<b>3,320</b>
EPS (Bt)	(0.6)	0.4	0.5	0.6	0.9
Normalized EPS (Bt)	(0.0)	0.5	0.5	0.6	0.9

Higher interest costs look set to offset its earnings turnaround story

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	48,803	53,727	49,847	49,712	44,998
Cash & cash equivalent	28,907	28,439	25,000	25,000	20,000
Account receivables	9,254	10,009	9,274	9,185	9,383
Inventories	833	929	1,256	1,236	1,266
Others	9,810	14,350	14,317	14,291	14,349
Investments & loans	4,492	5,285	5,385	6,777	22,449
Net fixed assets	94,071	93,909	89,043	85,021	80,957
Other assets	23,284	24,115	24,570	25,017	25,409
<b>Total assets</b>	<b>170,651</b>	<b>177,036</b>	<b>168,845</b>	<b>166,528</b>	<b>173,813</b>
<b>LIABILITIES:</b>					
Current liabilities:	19,624	17,483	16,722	16,297	16,819
Account payables	8,005	8,048	7,537	7,418	7,596
Bank overdraft & ST loans	414	304	505	482	503
Current LT debt	10,616	8,541	8,033	7,680	8,015
Others current liabilities	589	590	647	717	705
<b>Total LT debt</b>	<b>103,424</b>	<b>101,313</b>	<b>92,377</b>	<b>88,318</b>	<b>92,172</b>
Others LT liabilities	5,436	5,537	5,475	5,397	5,414
<b>Total liabilities</b>	<b>128,483</b>	<b>124,334</b>	<b>114,575</b>	<b>110,012</b>	<b>114,404</b>
Minority interest	12,440	14,575	16,118	17,796	19,434
Preferreds shares	0	0	0	0	0
Paid-up capital	5,214	5,214	5,214	5,214	5,214
Share premium	9,644	9,644	9,644	9,644	9,644
Warrants	0	0	0	0	0
Surplus	9,497	17,206	17,206	17,206	17,206
<b>Retained earnings</b>	<b>5,373</b>	<b>6,064</b>	<b>6,088</b>	<b>6,655</b>	<b>7,910</b>
Shareholders' equity	29,728	38,128	38,152	38,719	39,974
<b>Liabilities &amp; equity</b>	<b>170,651</b>	<b>177,036</b>	<b>168,845</b>	<b>166,528</b>	<b>173,813</b>

BGRIM issues perpetual bonds and may spin off assets to fund capex

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	708	3,593	3,652	3,925	4,037
Tax paid	156	(288)	(346)	(393)	(674)
Depreciation & amortization	5,221	5,587	5,823	5,632	5,573
Chg In working capital	2,182	(808)	(103)	(11)	(49)
Chg In other CA & CL / minorities	681	3,443	406	545	1,523
<b>Cash flow from operations</b>	<b>8,948</b>	<b>11,527</b>	<b>9,431</b>	<b>9,699</b>	<b>10,411</b>
Capex	(14,254)	(5,162)	(677)	(1,315)	(1,198)
Right of use	(702)	(313)	(200)	(200)	(150)
ST loans & investments	(3,894)	(5,490)	0	0	0
LT loans & investments	(1,368)	(793)	(100)	(1,392)	(15,672)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(5,828)	(2,497)	(596)	(622)	(536)
<b>Cash flow from investments</b>	<b>(26,047)</b>	<b>(14,255)</b>	<b>(1,573)</b>	<b>(3,528)</b>	<b>(17,556)</b>
Debt financing	18,798	(4,255)	(9,244)	(4,434)	4,210
Capital increase	0	0	0	0	0
Dividends paid	(1,182)	(1,308)	(2,053)	(1,736)	(2,065)
Warrants & other surplus	2,683	7,824	0	0	0
<b>Cash flow from financing</b>	<b>20,299</b>	<b>2,261</b>	<b>(11,298)</b>	<b>(6,171)</b>	<b>2,145</b>
<b>Free cash flow</b>	<b>(5,306)</b>	<b>6,365</b>	<b>8,755</b>	<b>8,384</b>	<b>9,213</b>

Entering a heavy capex cycle to grow renewable capacity

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	na	51.8	55.7	47.0	28.5
Normalized PE - at target price (x)	na	45.8	49.3	41.5	25.2
PE (x)	na	59.6	55.7	47.0	28.5
PE - at target price (x)	na	52.7	49.3	41.5	25.2
EV/EBITDA (x)	15.8	11.1	10.1	9.8	10.4
EV/EBITDA - at target price (x)	15.0	10.5	9.6	9.2	9.9
P/BV (x)	2.3	1.8	1.8	1.8	1.7
P/BV - at target price (x)	2.0	1.6	1.6	1.5	1.5
P/CFO (x)	7.6	5.9	7.2	7.0	6.5
Price/sales (x)	1.1	1.2	1.2	1.2	1.2
Dividend yield (%)	0.3	1.4	0.7	0.9	1.4
FCF Yield (%)	(7.8)	9.4	12.9	12.4	13.6
<b>(Bt)</b>					
Normalized EPS	(0.0)	0.5	0.5	0.6	0.9
EPS	(0.6)	0.4	0.5	0.6	0.9
DPS	0.1	0.4	0.2	0.2	0.4
BV/share	11.4	14.6	14.6	14.9	15.3
CFO/share	3.4	4.4	3.6	3.7	4.0
FCF/share	(2.0)	2.4	3.4	3.2	3.5

Sources: Company data, Thanachart estimates

BGRIM looks expensive to us at 29x PE in 2026F

## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	33.8	(8.5)	(1.2)	(1.0)	2.2
Net profit (%)	na	na	10.2	10.9	44.1
EPS (%)	na	na	7.1	18.6	64.9
Normalized profit (%)	(82.0)	448.6	1.0	10.9	44.1
Normalized EPS (%)	na	na	(7.1)	18.6	64.9
Dividend payout ratio (%)	(10.3)	82.6	40.0	40.0	40.0
<b>Operating performance</b>					
Gross margin (%)	10.1	17.8	18.7	19.2	19.0
Operating margin (%)	7.2	13.8	14.9	15.4	15.1
EBITDA margin (%)	15.5	23.6	25.2	25.4	24.9
Net margin (%)	1.4	5.8	5.9	6.3	5.9
D/E (incl. minor) (x)	2.7	2.1	1.9	1.7	1.7
Net D/E (incl. minor) (x)	2.0	1.6	1.4	1.3	1.4
Interest coverage - EBIT (x)	1.1	1.6	1.6	1.6	1.7
Interest coverage - EBITDA (x)	2.4	2.7	2.7	2.7	2.7
ROA - using norm profit (%)	0.2	1.2	1.2	1.4	2.0
ROE - using norm profit (%)	1.3	6.1	5.4	6.0	8.4
<b>DuPont</b>					
ROE - using after tax profit (%)	2.9	9.7	8.7	9.2	8.5
- asset turnover (x)	0.4	0.3	0.3	0.3	0.3
- operating margin (%)	7.6	15.0	16.0	16.4	16.1
- leverage (x)	5.4	5.1	4.5	4.4	4.3
- interest burden (%)	14.9	42.0	40.6	42.9	43.8
- tax burden (%)	122.1	92.0	90.5	90.0	83.3
WACC (%)	5.1	5.1	5.1	5.6	5.6
ROIC (%)	5.5	6.3	6.3	6.8	6.5
NOPAT (Bt m)	5,459	7,270	7,589	7,727	7,204
invested capital (Bt m)	115,274	119,848	114,066	110,199	120,664

Sources: Company data, Thanachart estimates



**BUY** (Unchanged)  
Change in Numbers

**TP: Bt 18.00** (From: Bt 20.00)  
**Upside : 25.9%**

**26 APRIL 2024**

# Banpu Power Pcl (BPP TB)

## Expanding in the US

We reaffirm **BUY** on BPP for its growing exposure in the US power market. Falling coal prices are also positive for BPP's legacy plants. We are not concerned about its 24% earnings drop in 2024F, given the high base last year, while we still see its valuation as attractive.



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### Reaffirming BUY

We reaffirm our **BUY** on BPP. *First*, though we expect a 24% earnings drop in 2024F from the extraordinarily high base last year, we still see BPP as attractive at 12x PE with a 6% dividend yield in 2024F. *Second*, we foresee its earnings turning around to 18/11% growth in 2025-26F, assuming BPP acquires 1.2GW of gas-fired power projects in the US during the period to meet its capacity growth target. *Third*, BPP should benefit from the falling interest rate trend in the US. *Lastly*, since its new investments are gearing toward gas and renewable projects, its ESG outlook sets to improve with higher renewable mix and lower coal power exposure in its power plant portfolio. We cut our DCF-derived SOTP-based TP (2024F base year) to Bt18/share (from Bt20) as we factor in a higher discount rate for its coal power projects to reflect the intensifying green investment trend.

### Growing through acquisitions

BPP acquired the "Temple" gas power project in Texas in 2021-23. It holds a 50% stake in the project with 1.5GW of installed capacity. Another 50% is held by its parent, Banpu Pcl (BANPU TB, SELL, Bt5.40). Leveraging on BANPU's footprint in the US market, we believe BPP could acquire another 1.2GW in equity capacity of gas power projects there to reach its capacity growth target. Based on our acquisition assumptions of 600MW in 2H25F and another 600MW in 2H26F, we expect the acquired projects to generate Bt0.2/0.7/1.0bn of profits to BPP in 2025-27F.

### Earnings turnaround in 2025F

We don't see BPP's 24% earnings drop in 2024F as negative since the weakness is mainly due to the extraordinarily high base of electricity sales margin and power demand at the Temple project, given the unexpected heat wave in 3Q23. Our estimated 17/9% earnings growth for BPP in 2025-26F is driven by 1) the acquisition of 0.6GW of equity capacity in gas-fired power plants in the US in 2H25F and another 0.6GW in 2H26F, 2) falling coal prices in China amid less tight supply, and 3) the anticipated fall in US interest rates over the next few years.

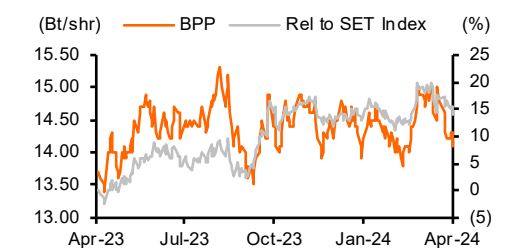
### Improving ESG outlook

BPP targets to grow its power capacity to 5.3GW, of which 15% (0.8GW) is from renewable projects. 11% (0.4GW) of its current 3.6GW of operating capacity is renewable. The goal implies that BPP will invest more in 1.2GW of conventional power plants and 0.4GW of renewable projects over the next few years. We see this as positive from an ESG aspect since the investment plans would raise its renewable mix, while diluting the coal exposure of its portfolio to 47% in 2027F (from 71% in 2023). BPP is also cutting down carbon emissions from its coal power plants by investing in hydrogen co-firing and carbon capture technologies.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	30,443	49,006	50,013	51,074
Net profit	5,319	3,796	4,475	4,965
Consensus NP	—	3,891	4,275	na
Diff frm cons (%)	—	(2.4)	4.7	na
Norm profit	4,968	3,796	4,475	4,965
Prev. Norm profit	—	3,780	4,158	4,400
Chg frm prev (%)	—	0.4	7.6	12.9
Norm EPS (Bt)	1.6	1.2	1.5	1.6
Norm EPS grw (%)	86.9	(23.6)	17.9	11.0
Norm PE (x)	8.8	11.5	9.7	8.8
EV/EBITDA (x)	10.5	11.0	10.1	10.9
P/BV (x)	0.9	0.8	0.8	0.8
Div yield (%)	5.6	5.6	5.6	5.6
ROE (%)	10.1	7.5	8.5	9.1
Net D/E (%)	42.8	36.4	40.8	40.7

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	14.30
Market Cap (US\$ m)	1,176.8
Listed Shares (m shares)	3,047.7
Free Float (%)	21.2
Avg Daily Turnover (US\$ m)	0.2
12M Price H/L (Bt)	15.30/13.40
Sector	Utilities
Major Shareholder	Banpu Pcl. 78.66%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report ..... P30

**Ex 1: 12-month DCF-derived SOTP-based TP Calculation**

	Valuation method	WACC (%)	Value per BPP's share (Bt)
China CHP	DCF	7.9%	1.67
BLCP	DCF	7.3%	2.30
HPC	DCF	7.8%	7.45
SLG	DCF	5.8%	0.76
Nakoso	DCF	6.7%	0.82
Temple 1&2	DCF	5.9%	2.92
Banpu NEXT	DCF	6-10%	2.67
Parents - HQ & Cash	DCF	10.0%	(1.95)
+ Potential US gas plant acquisition	DCF	10.0%	1.36
<b>Total</b>			<b>18.0</b>

Source: Thanachart estimates

COMPANY DESCRIPTION

Banpu Power Pcl (BPP), the power arm of Banpu Pcl (BANPU), has a well-diversified power portfolio in growing markets in the Asia-Pacific region, including China, Thailand, Laos, and, lately, in the US market. BPP has started to invest in renewable power projects to grow in line with the global trend, starting with diversification into solar power projects in China and Japan. US gas power plants have become its latest focus, following the stronger footprint from BANPU in the US gas industry. BPP aims to grow its capacity to 5.3GW by 2025, from 3.2GW currently, with 800MW of that being renewable projects.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Experienced management and a good track record with power investments.
- Advantages from BANPU's relationships in penetrating new power markets.

O — Opportunity

- High demand for power in the Asia-Pacific region.
- Growing trend of renewable power capacity creating new areas for expansion.
- Following Banpu Group into the US gas market.

CONSENSUS COMPARISON

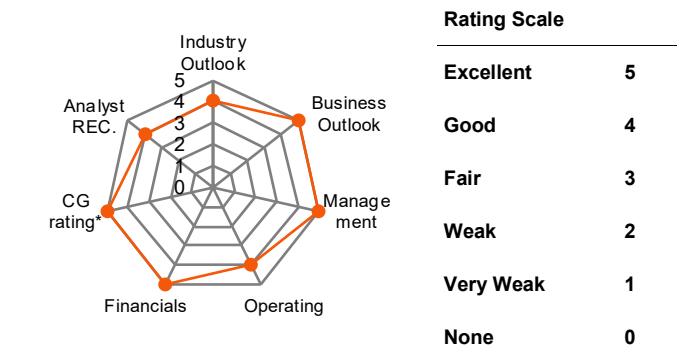
	Consensus	Thanachart	Diff
Target price (Bt)	16.77	18.00	7%
Net profit 24F (Bt m)	3,891	3,796	-2%
Net profit 25F (Bt m)	4,275	4,475	5%
Consensus REC	BUY: 2	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings estimates are relatively in line with the Bloomberg consensus numbers.
- However, our SOTP-based TP is 7% higher, likely since we are more bullish on the value from its potential M&As.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; \*CG Rating

W — Weakness

- A bit late in tendering for Thailand's early renewable power contracts, which obtained high returns.
- More risk of forex translation losses given its diversified portfolio.

T — Threat

- Regulatory risks regarding power tariffs as many countries are looking to lower investors' returns.

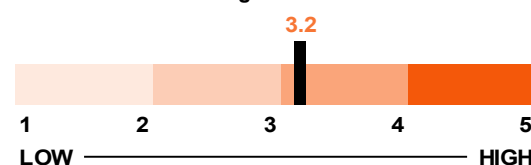
RISKS TO OUR INVESTMENT CASE

- A slower-than-expected decline in global coal prices, and especially China coal prices, is the key downside risk to our numbers.
- Weaker-than-expected electricity demand in the US market represents another downside risk to our numbers.
- Slower-than-expected finalization or smaller-than-expected sizes of upcoming M&A deals, especially gas-fired power plants in the US, represents a secondary downside risk to our earnings projections and valuation.

Source: Thanachart

BPP is one of the major power plant operators in Thailand with coal-fired exposure at 80% of its current 3.1GW of operating capacity. Despite its heavy exposure to coal, our ESG score for BPP of 3.2 is in line with the sector average since we see BPP, along with its parent company Banpu Pcl (BANPU), as having one of the best sets of ESG policies with the most detailed ESG performance reports in Thailand.

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)
BPP	YES	AAA	-	BBB	64.50	66.16	70.00	-	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 "term of use" in the following back page.

## Factors

## Our Comments

## ENVIRONMENT

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

- Our key concern regarding BPP's environmental issues is its high exposure to coal. Coal-fired power plants make up 80% of its total operating capacity. However, we see BPP bringing down its coal portion at a decent pace to below 50% of its capacity, likely within 2027F.
- BPP is maintaining its target to raise the portion of renewable projects to 15% (800MW) of its power generation portfolio by 2025 from 8% (254MW) in 2022.
- BPP had greenhouse gas (GHG) emission intensity of 0.609 tonnes of CO2 equivalent per MWh in 2022, slightly higher than the 0.607 tonnes in 2021, but still 10% below its target.
- BPP reported lower water consumption intensity from its consolidated coal power plants in China to 0.82m<sup>3</sup>/MWh in 2022, down 7% y-y, exceeding its target of 0.87m<sup>3</sup>.
- BPP remains strongly committed to a "Greener and Smarter" policy to grow capacity with its "High Efficiency, Low Emission" (HELE) concept, i.e., Integrated Gasification Combined Cycle (IGCC) coal plants, efficiency improvements, and emission capture systems.

## SOCIAL

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

- BPP ensures rights protection and prevents discrimination and harassment of its staff through communication channels which allow them to voice workplace issues. Its 2021 employee engagement survey participation stood at 69% in Thailand and 93% in China.
- BPP shares the "Banpu Heart" corporate culture with its group, mainly a smarter and faster work environment to achieve business success for the Banpu Group, while the group provides equal training for all staff to enhance their skills and opportunities.
- Health and safety protocols are the core standard at all BPP's power plants.
- BPP serves local communities by improving their quality of life, i.e., job opportunities, compensation, and support for potential harm from power plants (including emissions), and educational and training group workshops for local residents.

GOVERNANCE &  
SUSTAINABILITY

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

- BPP has 10 members on its board of directors (BOD), five of whom are independent directors and two females.
- BPP has an internal control system to monitor and evaluate its own (and stakeholders in its supply and value chains) transparency and corporate governance, including channels for staff to report suspicious issues.
- For business sustainability, BPP has made strong attempts to lower the proportion of coal in its portfolio and increase the proportion of gas-based and renewable power projects.
- BPP invests, through its 50%-owned subsidiary Banpu NEXT, in smart energy solutions, energy storage platforms, and smart electricity trading platforms to capture potential growth from these innovative business opportunities.

Sources: Thanachart , Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	24,501	30,443	49,006	50,013	51,074
Cost of sales	22,933	23,364	43,109	43,039	44,348
<b>Gross profit</b>	<b>1,568</b>	<b>7,079</b>	<b>5,897</b>	<b>6,974</b>	<b>6,726</b>
% gross margin	6.4%	23.3%	12.0%	13.9%	13.2%
Selling & administration expenses	1,887	2,254	2,029	2,070	2,111
<b>Operating profit</b>	<b>(318)</b>	<b>4,825</b>	<b>3,868</b>	<b>4,905</b>	<b>4,615</b>
% operating margin	-1.3%	15.8%	7.9%	9.8%	9.0%
Depreciation & amortization	1,246	1,582	2,003	1,965	1,938
<b>EBITDA</b>	<b>928</b>	<b>6,407</b>	<b>5,871</b>	<b>6,870</b>	<b>6,553</b>
% EBITDA margin	3.8%	21.0%	12.0%	13.7%	12.8%
Non-operating income	905	709	758	698	634
Non-operating expenses	0	0	0	0	0
Interest expense	(897)	(2,054)	(2,039)	(1,842)	(1,578)
<b>Pre-tax profit</b>	<b>(310)</b>	<b>3,480</b>	<b>2,587</b>	<b>3,761</b>	<b>3,671</b>
Income tax	108	204	259	376	367
<b>After-tax profit</b>	<b>(418)</b>	<b>3,277</b>	<b>2,328</b>	<b>3,385</b>	<b>3,304</b>
% net margin	-1.7%	10.8%	4.8%	6.8%	6.5%
Shares in affiliates' Earnings	3,341	3,715	3,548	3,852	4,389
Minority interests	(265)	(2,024)	(2,080)	(2,762)	(2,728)
Extraordinary items	3,081	352	0	0	0
<b>NET PROFIT</b>	<b>5,739</b>	<b>5,319</b>	<b>3,796</b>	<b>4,475</b>	<b>4,965</b>
<b>Normalized profit</b>	<b>2,658</b>	<b>4,968</b>	<b>3,796</b>	<b>4,475</b>	<b>4,965</b>
EPS (Bt)	1.9	1.7	1.2	1.5	1.6
Normalized EPS (Bt)	0.9	1.6	1.2	1.5	1.6

Earnings decline in 2024F  
is due to the high base  
last year

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	11,670	13,843	15,062	12,154	10,326
Cash & cash equivalent	4,105	9,352	8,050	5,050	3,050
Account receivables	1,754	2,086	3,357	3,426	3,498
Inventories	1,101	1,274	2,362	2,358	2,430
Others	4,710	1,131	1,293	1,320	1,348
Investments & loans	41,157	45,866	46,757	57,649	66,540
Net fixed assets	22,876	37,450	36,074	34,608	33,095
Other assets	1,962	1,744	1,936	2,021	2,101
<b>Total assets</b>	<b>77,665</b>	<b>98,903</b>	<b>99,829</b>	<b>106,431</b>	<b>112,062</b>
<b>LIABILITIES:</b>					
Current liabilities:	9,385	9,888	10,857	11,264	11,430
Account payables	220	212	354	354	365
Bank overdraft & ST loans	242	2,394	1,461	1,535	1,540
Current LT debt	5,617	1,659	2,776	2,917	2,926
Others current liabilities	3,307	5,623	6,266	6,458	6,601
<b>Total LT debt</b>	<b>9,860</b>	<b>28,719</b>	<b>24,987</b>	<b>26,253</b>	<b>26,330</b>
Others LT liabilities	5,628	5,619	5,888	6,017	6,148
<b>Total liabilities</b>	<b>24,873</b>	<b>44,226</b>	<b>41,733</b>	<b>43,535</b>	<b>43,909</b>
Minority interest	4,310	4,492	6,573	9,334	12,062
Preferreds shares	0	0	0	0	0
Paid-up capital	30,477	30,477	30,457	30,457	30,457
Share premium	7,231	7,231	7,231	7,231	7,231
Warrants	0	0	0	0	0
Surplus	(4,955)	(6,689)	(6,689)	(6,689)	(6,689)
<b>Retained earnings</b>	<b>15,727</b>	<b>19,165</b>	<b>20,525</b>	<b>22,563</b>	<b>25,092</b>
Shareholders' equity	48,481	50,185	51,524	53,562	56,091
<b>Liabilities &amp; equity</b>	<b>77,665</b>	<b>98,903</b>	<b>99,829</b>	<b>106,431</b>	<b>112,062</b>

Sources: Company data, Thanachart estimates

Piled up cash for further  
investment in the US  
power market

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	(310)	3,480	2,587	3,761	3,671
Tax paid	(80)	(117)	(252)	(341)	(380)
Depreciation & amortization	1,246	1,582	2,003	1,965	1,938
Chg In working capital	(469)	(512)	(2,217)	(66)	(134)
Chg In other CA & CL / minorities	3,448	5,321	3,694	3,983	4,517
<b>Cash flow from operations</b>	<b>3,835</b>	<b>9,754</b>	<b>5,815</b>	<b>9,302</b>	<b>9,612</b>
Capex	(310)	(16,156)	(595)	(460)	(380)
Right of use	64	22	(200)	(100)	(100)
ST loans & investments	542	2,363	328	0	0
LT loans & investments	(1,912)	(4,709)	(891)	(10,891)	(8,891)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	8,100	2,186	245	105	105
<b>Cash flow from investments</b>	<b>6,485</b>	<b>(16,294)</b>	<b>(1,113)</b>	<b>(11,347)</b>	<b>(9,266)</b>
Debt financing	(6,082)	15,403	(3,547)	1,481	90
Capital increase	0	0	(20)	0	0
Dividends paid	(2,286)	(2,133)	(2,437)	(2,437)	(2,437)
Warrants & other surplus	(607)	(1,482)	0	0	0
<b>Cash flow from financing</b>	<b>(8,975)</b>	<b>11,787</b>	<b>(6,003)</b>	<b>(955)</b>	<b>(2,346)</b>
<b>Free cash flow</b>	<b>3,525</b>	<b>(6,402)</b>	<b>5,220</b>	<b>8,842</b>	<b>9,232</b>

*Resilient cash flows from  
IPP plants the key source  
for its investment budget*

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	16.4	8.8	11.5	9.7	8.8
Normalized PE - at target price (x)	20.6	11.0	14.4	12.3	11.0
PE (x)	7.6	8.2	11.5	9.7	8.8
PE - at target price (x)	9.6	10.3	14.4	12.3	11.0
EV/EBITDA (x)	59.5	10.5	11.0	10.1	10.9
EV/EBITDA - at target price (x)	71.6	12.2	12.9	11.7	12.6
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/BV - at target price (x)	1.1	1.1	1.1	1.0	1.0
P/CFO (x)	11.4	4.5	7.5	4.7	4.5
Price/sales (x)	1.8	1.4	0.9	0.9	0.9
Dividend yield (%)	4.9	5.6	5.6	5.6	5.6
FCF Yield (%)	8.1	(14.7)	12.0	20.3	21.2
<b>(Bt)</b>					
Normalized EPS	0.9	1.6	1.2	1.5	1.6
EPS	1.9	1.7	1.2	1.5	1.6
DPS	0.7	0.8	0.8	0.8	0.8
BV/share	15.9	16.5	16.9	17.6	18.4
CFO/share	1.3	3.2	1.9	3.1	3.2
FCF/share	1.2	(2.1)	1.7	2.9	3.0

Sources: Company data, Thanachart estimates

*Attractive valuation among  
utility peers, in our view*



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	261.1	24.3	61.0	2.1	2.1
Net profit (%)	83.5	(7.3)	(28.6)	17.9	11.0
EPS (%)	83.5	(7.3)	(28.6)	17.9	11.0
Normalized profit (%)	(0.8)	86.9	(23.6)	17.9	11.0
Normalized EPS (%)	(0.8)	86.9	(23.6)	17.9	11.0
Dividend payout ratio (%)	37.2	45.8	64.2	54.4	49.1
<b>Operating performance</b>					
Gross margin (%)	6.4	23.3	12.0	13.9	13.2
Operating margin (%)	(1.3)	15.8	7.9	9.8	9.0
EBITDA margin (%)	3.8	21.0	12.0	13.7	12.8
Net margin (%)	(1.7)	10.8	4.8	6.8	6.5
D/E (incl. minor) (x)	0.3	0.6	0.5	0.5	0.5
Net D/E (incl. minor) (x)	0.2	0.4	0.4	0.4	0.4
Interest coverage - EBIT (x)	na	2.3	1.9	2.7	2.9
Interest coverage - EBITDA (x)	1.0	3.1	2.9	3.7	4.2
ROA - using norm profit (%)	3.5	5.6	3.8	4.3	4.5
ROE - using norm profit (%)	5.6	10.1	7.5	8.5	9.1
<b>DuPont</b>					
ROE - using after tax profit (%)	na	6.6	4.6	6.4	6.0
- asset turnover (x)	0.3	0.3	0.5	0.5	0.5
- operating margin (%)	na	18.2	9.4	11.2	10.3
- leverage (x)	1.6	1.8	2.0	2.0	2.0
- interest burden (%)	(52.7)	62.9	55.9	67.1	69.9
- tax burden (%)	na	94.2	90.0	90.0	90.0
WACC (%)	5.2	5.2	5.2	5.6	5.6
ROIC (%)	(0.5)	7.6	4.7	6.1	5.2
NOPAT (Bt m)	(318)	4,543	3,481	4,414	4,153
invested capital (Bt m)	60,095	73,604	72,698	79,218	83,837

Sources: Company data, Thanachart estimates

*Gearing room ready for  
more aggressive  
acquisition plans*

**BUY** (Unchanged)  
Change in Numbers

**TP: Bt 5.00**  
Upside : 30.9%

(Unchanged)  
**26 APRIL 2024**

Small Cap Research

# CK Power Pcl (CKP TB)

## Easing El Nino impact

We expect CKP's earnings to turn around by 23/12/13% in 2024-26F, supported by an easing drought impact from El Nino and falling interest costs. CKP is also receiving a windfall from an improving SPP margin. We maintain our BUY with an unchanged TP of Bt5.0/share.



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### Earnings turning around

We maintain our BUY on CKP for its earnings turnaround story of 23/12/13% in 2024-26F. *First*, we expect 4/3% higher electricity output from its two hydropower plants over 2024-25F. While the drought impact from El Nino is easing, the cyclical nature of atmospheric conditions is expected to turn toward La Nina from 2H24F, which normally leads to a wet year for Indochina. *Second*, CKP is a beneficiary of the falling interest rate trend via its 43%-owned Xayaburi hydropower project (XPCL). Our DCF-derived SOTP-based TP (2024F base year) stays at Bt5.0/share.

### Recovering hydropower output

We expect the capacity factor at CKP's two hydropower plants to increase to 63/65/65% for XPCL (from 61% during El Nino last year and 71% in the last wet year in 2022) and 32/34/34% for Nam Ngum 2 (from 31% and 31%). Together with benefits from the falling rate trend, we project for a strong earnings turnaround for CKP in 2024-26F, after a 38% drop in 2023 when hydropower output was weak during the El Nino-induced drought year.

### Beneficiary of falling interest rates

CKP is a falling interest rate beneficiary via equity income from its 43% stake in the 1,285MW capacity of XPCL hydropower project. XPCL has Bt89bn of debt outstanding, of which Bt67bn is on floating rates. We estimate every 0.25% fall in Thai and US interest rates to reduce XPCL's interest expenses and thus boost CKP's equity income by Bt50m and Bt15m p.a. Our earnings forecasts factor in our house view of a 0.50% Thai policy rate cut this year and the consensus forecast of 1.0% reduction in the US Fed funds rate this year and another 0.5% reduction in 2025F.

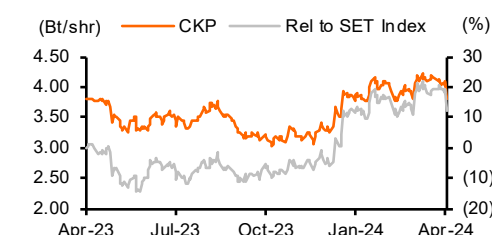
### LPCL construction progress

CKP's long-term growth outlook looks secured by its 50%-owned Luang Prabang project (LPCL), which has a 35-year PPA signed with the Electricity Generating Authority of Thailand (EGAT). LPCL is a hydropower plant with 1,480MW of installed capacity. It is under construction, and its commercial operating date is scheduled for 2030. LPCL's construction was ahead of plan at over 25% completion during our visit in March. At full operation, we expect the project to contribute Bt2.0bn of profit p.a. to CKP. LPCL accounts for Bt0.5/share in our SOTP valuation. With strong ESG initiatives being carried over from XPCL, we foresee low ESG-related risks from LPCL.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	10,286	9,812	9,833	9,844
Net profit	1,462	1,951	2,183	2,475
Consensus NP	—	1,867	2,106	2,323
Diff frm cons (%)	—	4.5	3.7	6.6
Norm profit	1,589	1,951	2,183	2,475
Prev. Norm profit	—	1,925	2,159	2,454
Chg frm prev (%)	—	1.4	1.1	0.8
Norm EPS (Bt)	0.2	0.2	0.3	0.3
Norm EPS grw (%)	(37.6)	22.8	11.9	13.3
Norm PE (x)	19.5	15.9	14.2	12.5
EV/EBITDA (x)	16.6	14.6	13.7	12.7
P/BV (x)	1.1	1.1	1.0	1.0
Div yield (%)	2.2	2.4	2.4	2.4
ROE (%)	5.9	7.0	7.5	8.0
Net D/E (%)	54.0	45.8	41.6	36.6

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	3.82
Market Cap (US\$ m)	838.5
Listed Shares (m shares)	8,129.4
Free Float (%)	25.5
Avg Daily Turnover (US\$ m)	0.6
12M Price H/L (Bt)	4.22/3.02
Sector	Utilities
Major Shareholder	CK Group 71.8%

Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: Our DCF-based Sum-Of-The-Parts (SOTP) 12-month TP Calculation**

	Valuation method	WACC (%)	Value per CKP share (Bt)
Xayaburi (XPCL)	DCF	5.7%	3.97
Nam Ngum 2 (NN2)	DCF	5.4%	0.89
Bangpa-in Cogen (BIC)	DCF	5.3%	0.41
Solar farms/rooftop	DCF	6-10%	0.10
<b>Total - existing capacity</b>			<b>5.36</b>
<b>Net debt</b>			<b>(0.84)</b>
<b>Plus: Developing project(s)</b>			
Luang Prabang (LPCL)	DCF	6.8%	0.48
<b>Total</b>			<b>5.00</b>

Source: Thanachart estimates

COMPANY DESCRIPTION

CK Power (CKP) is 73.5%-owned by CH. Karnchang Group as its utility investment arm. Therefore, most of CKP's investments are in hydropower projects where its parent company has strong expertise in project construction, i.e., the 546MW equity-owned capacity of Xayaburi (XPCL) and 283MW Nam Ngum 2 (NN2) hydropower plants. CKP also operates a gas-fired power plant (BIC), which sells most of its generated power to the Electricity Generating Authority of Thailand (EGAT). It also caters to some electricity demand from the industrial sector. CKP is developing a mega-sized 1.5GW installed capacity hydropower project, Luang Prabang (LPCL, 50% owned by CKP).

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Project bidding advantages as it has CK Group, one of Thailand's biggest contractors, as a shareholder.
- Strong expertise in operating hydropower plants.
- Experience and good relationships could help the company find new projects in neighboring countries,

O — Opportunity

- Hydropower remains the cheapest reliable electricity source for Thailand, offering a good incentive for the government to promote investments in new hydropower projects.
- Sizable renewable PPAs from the new Power Development Plan (PDP) offer capacity growth potential for CKP to bid for.

CONSENSUS COMPARISON

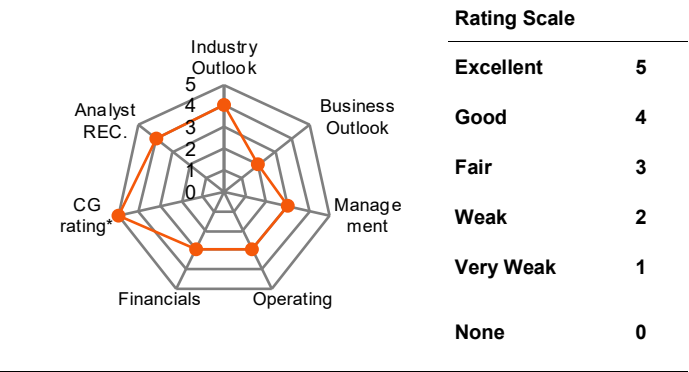
	Consensus	Thanachart	Diff
Target price (Bt)	4.65	5.00	8%
Net profit 24F (Bt m)	1,867	1,951	5%
Net profit 25F (Bt m)	2,106	2,183	4%
Consensus REC	BUY: 8	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings estimates are 4-5% higher than the Bloomberg consensus figures, which we attribute to us being more bullish about a recovery of its hydropower output.
- Our TP is, therefore, 8% higher than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; \* CG rating

W — Weakness

- CKP is keen to invest in hydropower projects which have long investment lead times before cash flows are generated.
- CKP is highly exposed to interest rate risk since it always carries sizable debt, which is used to fund hefty investments for hydropower plants.
- CKP has a high concentration risk in hydropower, which are highly sensitive to cyclical changes in the water situation.

T — Threat

- Increased competition may lead to lower returns for new projects.

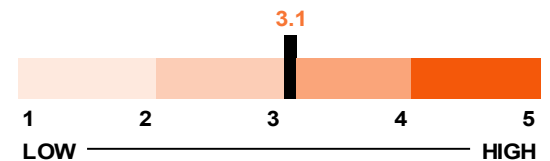
RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be from a lower-than-expected amount of water availability in the Nam Ngum and Mekong rivers, which would negatively impact electricity output from NN2 and XPCL.
- Interest rates rising above our current projections would be a secondary downside risk.
- Later-than-expected commercialization and a lower rate of return from the Luang Prabang project (LPCL) would present another downside risk to our TP.

Source: Thanachart

CKP operates two major hydropower plants which contribute 83% of its operating capacity. Another major power project is a gas-fired power plant under an SPP contract in Thailand and a few solar projects. CKP provides support to local villages to make up for impacts from the construction of its hydro projects. We like its strong independence despite CK Group owning a sizable stake. We rate its ESG score at 3.1.

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)
CKP	YES	AAA	-	BBB	66.21	71.67	54.00	-	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 "term of use" in the following back page.

## Factors

## Our Comments

## ENVIRONMENT

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

- CKP's vision is "Renewable electricity towards a low-carbon society" to achieve its long-term goal of net-zero greenhouse gas emissions by 2050. Nearer term, it is committed to lifting renewable capacity to 95% of its portfolio by 2024 (from 89% in 2022).
- CKP reduced its GHG emissions by 0.24% y-y in 2022. A big part of its success has been its ability to convert electricity consumption within the organization to 92% from renewables, with a target to increase the portion to 95% by 2026. We are impressed with CKP's detailed reported numbers for its energy and emission-related performances.
- To compensate for significant impacts from its construction of mega-hydropower projects, CKP is strongly committed to various biodiversity improvement targets, especially aquatic biodiversity (i.e., fish species preservation and water quality) in the Mekong River.

## SOCIAL

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

- CKP has set a target of zero cases of human rights violations across its business value chain. The company continuously develops activities to raise awareness of human rights among its employees. It bolsters its commitment with established remedial measures for any company-related human rights violations.
- CKP provides new accommodation to people who live in the development areas of its hydropower projects. The company also follows up with various social activities to ensure their quality of life, i.e., education, job creation, and renewable energy resources).
- CKP spent a total of Bt27m on 84 CSR activities in 2022. Free renewable energy generators for villages, sports activities for communities, and public infrastructure construction were the major areas of its spending.

GOVERNANCE &  
SUSTAINABILITY

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

- CKP's board of directors (BOD) comprises 11 members. All of them are male, with four independent directors. We believe the size of its BOD is a little large for its business scale.
- We like CKP's initiative of implementing modern hydrological forecast systems to better predict water inflow volume at its hydropower projects to better manage electricity production while minimizing the impact on the surrounding ecology and communities.
- We, however, don't like the concentration of its business risk in hydropower. We agree that the business is a good cash flow generator in the long run, but the lengthy upfront investment during construction and huge revenue volatility are the major shortfalls.
- Likely also due to the long development periods and huge investments required for hydropower plants, CKP has only a few projects in its portfolio, which may be hard to replace over the long run.

Sources: Thanachart, Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	10,904	10,286	9,812	9,833	9,844
Cost of sales	9,077	8,161	7,455	7,331	7,167
<b>Gross profit</b>	<b>1,828</b>	<b>2,125</b>	<b>2,357</b>	<b>2,503</b>	<b>2,677</b>
% gross margin	16.8%	20.7%	24.0%	25.5%	27.2%
Selling & administration expenses	526	563	565	569	573
<b>Operating profit</b>	<b>1,302</b>	<b>1,562</b>	<b>1,792</b>	<b>1,934</b>	<b>2,104</b>
% operating margin	11.9%	15.2%	18.3%	19.7%	21.4%
Depreciation & amortization	1,572	1,567	1,612	1,622	1,632
<b>EBITDA</b>	<b>2,874</b>	<b>3,130</b>	<b>3,404</b>	<b>3,556</b>	<b>3,737</b>
% EBITDA margin	26.4%	30.4%	34.7%	36.2%	38.0%
Non-operating income	514	655	502	486	457
Non-operating expenses	0	0	0	0	0
Interest expense	(1,075)	(1,065)	(1,203)	(1,121)	(1,019)
<b>Pre-tax profit</b>	<b>741</b>	<b>1,153</b>	<b>1,091</b>	<b>1,298</b>	<b>1,542</b>
Income tax	47	89	95	223	254
<b>After-tax profit</b>	<b>694</b>	<b>1,064</b>	<b>996</b>	<b>1,075</b>	<b>1,287</b>
% net margin	6.4%	10.3%	10.2%	10.9%	13.1%
Shares in affiliates' Earnings	2,261	991	1,435	1,670	1,730
Minority interests	(410)	(466)	(480)	(562)	(543)
Extraordinary items	(108)	(127)	0	0	0
<b>NET PROFIT</b>	<b>2,436</b>	<b>1,462</b>	<b>1,951</b>	<b>2,183</b>	<b>2,475</b>
<b>Normalized profit</b>	<b>2,545</b>	<b>1,589</b>	<b>1,951</b>	<b>2,183</b>	<b>2,475</b>
EPS (Bt)	0.3	0.2	0.2	0.3	0.3
Normalized EPS (Bt)	0.3	0.2	0.2	0.3	0.3

We expect an earnings turnaround on an easing of the El Nino effect

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	10,617	10,102	10,416	9,920	9,420
Cash & cash equivalent	7,271	6,959	7,378	6,878	6,378
Account receivables	2,099	2,026	1,933	1,937	1,939
Inventories	66	72	66	65	63
Others	1,180	1,045	1,039	1,039	1,040
Investments & loans	27,096	28,231	30,306	33,994	37,682
Net fixed assets	8,050	7,670	7,323	6,972	6,615
Other assets	24,294	22,762	20,476	18,185	15,889
<b>Total assets</b>	<b>70,056</b>	<b>68,765</b>	<b>68,521</b>	<b>69,070</b>	<b>69,607</b>
<b>LIABILITIES:</b>					
Current liabilities:	4,842	6,015	5,800	5,054	4,805
Account payables	950	1,233	1,126	1,107	1,082
Bank overdraft & ST loans	0	1,000	520	0	0
Current LT debt	3,362	3,603	3,819	3,691	3,426
Others current liabilities	529	179	336	255	296
<b>Total LT debt</b>	<b>26,799</b>	<b>23,362</b>	<b>21,640</b>	<b>20,918</b>	<b>19,417</b>
Others LT liabilities	476	470	443	448	448
<b>Total liabilities</b>	<b>32,116</b>	<b>29,847</b>	<b>27,884</b>	<b>26,419</b>	<b>24,670</b>
Minority interest	11,390	11,653	12,133	12,695	13,238
Preferreds shares	0	0	0	0	0
Paid-up capital	8,129	8,129	8,129	8,129	8,129
Share premium	13,319	13,319	13,319	13,319	13,319
Warrants	0	0	0	0	0
Surplus	(532)	(590)	(590)	(590)	(590)
<b>Retained earnings</b>	<b>5,633</b>	<b>6,406</b>	<b>7,646</b>	<b>9,098</b>	<b>10,841</b>
Shareholders' equity	26,550	27,264	28,505	29,956	31,699
<b>Liabilities &amp; equity</b>	<b>70,056</b>	<b>68,765</b>	<b>68,521</b>	<b>69,070</b>	<b>69,607</b>

Sources: Company data, Thanachart estimates

Balance sheet strong enough to support development of LPCL

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	741	1,153	1,091	1,298	1,542
Tax paid	(43)	(72)	(95)	(223)	(254)
Depreciation & amortization	1,572	1,567	1,612	1,622	1,632
Chg In working capital	(516)	349	(7)	(22)	(25)
Chg In other CA & CL / minorities	2,656	1,150	1,597	1,589	1,771
<b>Cash flow from operations</b>	<b>4,410</b>	<b>4,147</b>	<b>4,199</b>	<b>4,265</b>	<b>4,666</b>
Capex	(65)	(121)	(200)	(200)	(200)
Right of use	(10)	(33)	(50)	(50)	(50)
ST loans & investments	(130)	(242)	0	0	0
LT loans & investments	(2,195)	(1,135)	(2,075)	(3,688)	(3,688)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	23	10	1,243	1,275	1,270
<b>Cash flow from investments</b>	<b>(2,377)</b>	<b>(1,522)</b>	<b>(1,082)</b>	<b>(2,663)</b>	<b>(2,668)</b>
Debt financing	(1,125)	(2,190)	(1,986)	(1,370)	(1,766)
Capital increase	0	0	0	0	0
Dividends paid	(967)	(691)	(711)	(732)	(732)
Warrants & other surplus	247	(56)	0	0	0
<b>Cash flow from financing</b>	<b>(1,845)</b>	<b>(2,938)</b>	<b>(2,697)</b>	<b>(2,101)</b>	<b>(2,498)</b>
<b>Free cash flow</b>	<b>4,345</b>	<b>4,026</b>	<b>3,999</b>	<b>4,065</b>	<b>4,466</b>

*Investment in LPCL set to last until 2029*

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	12.2	19.5	15.9	14.2	12.5
Normalized PE - at target price (x)	16.0	25.6	20.8	18.6	16.4
PE (x)	12.7	21.2	15.9	14.2	12.5
PE - at target price (x)	16.7	27.8	20.8	18.6	16.4
EV/EBITDA (x)	18.8	16.6	14.6	13.7	12.7
EV/EBITDA - at target price (x)	22.1	19.7	17.4	16.4	15.3
P/BV (x)	1.2	1.1	1.1	1.0	1.0
P/BV - at target price (x)	1.5	1.5	1.4	1.4	1.3
P/CFO (x)	7.0	7.5	7.4	7.3	6.7
Price/sales (x)	2.8	3.0	3.2	3.2	3.2
Dividend yield (%)	2.2	2.2	2.4	2.4	2.4
FCF Yield (%)	14.0	13.0	12.9	13.1	14.4
<b>(Bt)</b>					
Normalized EPS	0.3	0.2	0.2	0.3	0.3
EPS	0.3	0.2	0.2	0.3	0.3
DPS	0.1	0.1	0.1	0.1	0.1
BV/share	3.3	3.4	3.5	3.7	3.9
CFO/share	0.5	0.5	0.5	0.5	0.6
FCF/share	0.5	0.5	0.5	0.5	0.5

Sources: Company data, Thanachart estimates

*Multiples look attractive against its strong turnaround outlook*



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	23.9	(5.7)	(4.6)	0.2	0.1
Net profit (%)	11.8	(40.0)	33.5	11.9	13.3
EPS (%)	11.8	(40.0)	33.5	11.9	13.3
Normalized profit (%)	24.8	(37.6)	22.8	11.9	13.3
Normalized EPS (%)	24.8	(37.6)	22.8	11.9	13.3
Dividend payout ratio (%)	28.4	47.3	37.5	33.5	29.6
<b>Operating performance</b>					
Gross margin (%)	16.8	20.7	24.0	25.5	27.2
Operating margin (%)	11.9	15.2	18.3	19.7	21.4
EBITDA margin (%)	26.4	30.4	34.7	36.2	38.0
Net margin (%)	6.4	10.3	10.2	10.9	13.1
D/E (incl. minor) (x)	0.8	0.7	0.6	0.6	0.5
Net D/E (incl. minor) (x)	0.6	0.5	0.5	0.4	0.4
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	3.7	2.3	2.8	3.2	3.6
ROE - using norm profit (%)	9.9	5.9	7.0	7.5	8.0
<b>DuPont</b>					
ROE - using after tax profit (%)	2.7	4.0	3.6	3.7	4.2
- asset turnover (x)	0.2	0.1	0.1	0.1	0.1
- operating margin (%)	16.7	21.6	23.4	24.6	26.0
- leverage (x)	2.7	2.6	2.5	2.4	2.2
- interest burden (%)	40.8	52.0	47.6	53.7	60.2
- tax burden (%)	93.6	92.3	91.3	82.8	83.5
WACC (%)	9.2	9.2	9.2	9.6	9.6
ROIC (%)	2.5	2.9	3.4	3.4	3.7
NOPAT (Bt m)	1,218	1,442	1,636	1,601	1,757
invested capital (Bt m)	49,440	48,271	47,105	47,687	48,164

Sources: Company data, Thanachart estimates

**BUY** (Unchanged)  
Company Update

TP: Bt 45.00  
Upside : 44.0%

(Unchanged)

26 APRIL 2024

# Energy Absolute Pcl (EA TB)

## Major transition phase

We reaffirm our BUY on EA, expecting contributions from emerging CEV and battery businesses to more than offset expiring renewable power subsidies. Amid an accelerating CEV demand, EA is forming partnerships with regional players to penetrate new segments.



**NUTTAPOL PRASITSUKSANT**  
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### Reaffirming BUY

This report is a part of *Utilities Sector – A new PDP, A new catalyst, dated 26 April 2024*. We reaffirm our BUY on EA. *First*, we project earnings from growing commercial EV (CEV) sales of 3,500/4,500/5,500 units in 2024-26F (from 2,264 units in 2022) to more than offset the negative impact from the expiry of subsidies at its 270MW solar farms during the same period. *Second*, we see partnerships with leading regional players in the Li-ion battery and EV industries helping to secure demand from new segments. *Third*, EA's 30% share price fall over the past six months looks overdone as the current stock price only reflects its existing businesses of a biodiesel refinery, 664MW of renewable power plants, a 2GWh Li-ion battery factory, and a CEV manufacturing plant with 6,000 units of annual production capacity, with very limited growth prospects for its battery and EV businesses. Our SOTP-based TP (2024F base year) is Bt45. See *EA – Time for a relook, dated 16 April 2024* for our stock valuation reconstruction.

### E-truck sales lead near-term growth

Having sold mainly E-buses for the last two years, we foresee E-trucks to be EA's new product champion with 3,000/3,500/4,000 units sales in 2024-26F. EA has started to get orders from large corporates following emerging of ESG and green energy trends in Thailand. Unlike the past two years, when the majority of E-bus sales came from related companies, most E-truck orders are from non-captive external customers. We estimate 500/1,000/1,500 units of E-bus sales by EA in 2024-26F. These CEV sales imply 1.2/1.5/1.9GWh in battery demand during those years.

### New demand segment from partnerships

EA is forming two partnerships this year. Its investment arm in the CEV production business, 40%-owned Nex Point Pcl (NEX TB, BUY, Bt9.15) has signed an MOU with Toyota Tsusho and Denso to co-develop a production base for hydrogen-fueled vehicles in Thailand. EA also expects to finalize its JV plan with EVE Energy (EVE), the third-largest Chinese battery producer, in 2Q24 to build a 6GWh battery factory in Thailand. With EVE's strong Chinese EV customer base and expertise in producing batteries for energy storage systems (ESS), we see the partnership as a big step for EA to penetrate new battery market segments.

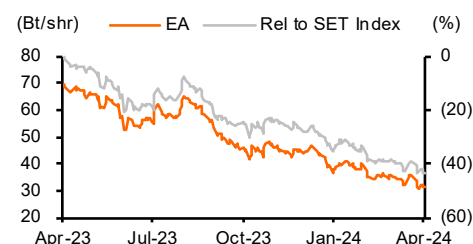
### Still participating in renewable bids

EA won a 90MW power purchase agreement (PPA) for a wind power project in a bid held last year. We believe it will also participate in upcoming bids for a greater renewable quota from the new PDP. Having a strong track record in operating solar and wind projects for nearly a decade with robust financial health, we expect EA to win some PPAs from future biddings, though we still leave these as potential upsides.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	30,074	38,138	44,563	55,594
Net profit	7,606	7,991	8,439	10,296
Consensus NP	—	7,792	8,477	7,790
Diff frm cons (%)	—	2.6	(0.4)	32.2
Norm profit	7,169	7,991	8,439	10,296
Prev. Norm profit	—	7,991	8,439	10,296
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	1.9	2.1	2.3	2.8
Norm EPS grw (%)	24.5	11.5	5.6	22.0
Norm PE (x)	16.3	14.6	13.8	11.3
EV/EBITDA (x)	13.8	12.0	11.3	9.5
P/BV (x)	2.8	2.4	2.1	1.8
Div yield (%)	1.0	1.4	1.4	2.6
ROE (%)	17.8	17.8	16.3	17.4
Net D/E (%)	136.9	111.6	91.8	72.6

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	31.25
Market Cap (US\$ m)	3,147.4
Listed Shares (m shares)	3,730.0
Free Float (%)	39.9
Avg Daily Turnover (US\$ m)	13.1
12M Price H/L (Bt)	69.75/30.25
Sector	Utilities
Major Shareholder	SPBL Holding Co. 25.1%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report ..... P44

**Ex 1: Sum-Of-The-Parts Valuation (2024F base year)**

Renewables & Green energy	Value (Bt/Share)
Biodiesel	2.7
Solar farms	6.1
Wind farms	5.2
<b>Subtotal</b>	<b>14.1</b>
<b>Battery production</b>	
Amita 2GWh capacity	5.9
Amita expansion to 4GWh	6.2
JV on 6GWh plant	11.8
<b>Subtotal</b>	<b>23.9</b>
<b>EV solutions</b>	
CEV production (AAB, NEX, Mine Mobility)	13.4
EV charging station (EA Anywhere)	2.3
<b>Subtotal</b>	<b>15.7</b>
+ Net debt, HQ, and others	(8.7)
<b>Grand total</b>	<b>45.0</b>

Sources: Thanachart estimates

**Valuation Comparison****Ex 2: Comparison With Regional Peers**

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
			24F	25F	24F	25F	24F	25F	24F	25F	24F	25F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
China Longyuan	916 HK	Hong Kong	8.7	15.1	6.0	5.2	0.6	0.6	8.7	7.7	4.2	4.8
China Suntien Green Energy	956 HK	Hong Kong	15.7	17.9	5.4	4.6	0.6	0.5	8.6	7.5	7.1	8.4
China Resources Power	836 HK	Hong Kong	18.5	14.6	6.6	5.7	1.0	0.9	6.5	5.7	6.1	7.1
Geely Automobile Holdings	175 HK	Hong Kong	39.0	29.5	13.0	10.1	1.1	1.0	4.6	3.9	2.7	3.4
Great Wall Motor	2333 HK	Hong Kong	45.3	20.4	10.3	8.5	1.3	1.2	12.4	10.8	3.9	4.5
BYD	1211 HK	Hong Kong	10.4	21.4	17.4	14.3	3.5	2.8	6.0	5.0	1.6	2.0
Panasonic	6752 JP	Japan	116.0	(21.0)	6.9	8.8	0.8	0.7	4.9	4.4	2.8	3.0
NIO Inc.	NIO US	USA	21.4	32.5	na	na	0.5	1.0	na	na	0.0	0.0
Tesla Inc.	TSLA US	USA	(15.6)	32.5	65.6	49.5	8.0	6.9	34.7	26.1	0.0	0.0
BCPG Pcl *	BCPG TB	Thailand	11.2	16.2	21.0	18.1	0.7	0.7	16.5	17.6	3.7	3.7
B.Grimm Power Pcl *	BGRIM TB *	Thailand	(7.1)	18.6	55.7	47.0	1.8	1.8	10.1	9.8	0.7	0.9
Banpu Power Pcl *	BPP TB *	Thailand	(23.6)	17.9	11.5	9.7	0.8	0.8	11.0	10.1	5.6	5.6
CK Power Pcl *	CKP TB	Thailand	22.8	11.9	15.9	14.2	1.1	1.0	14.6	13.7	2.4	2.4
Energy Absolute Pcl *	EA TB	Thailand	11.5	5.6	14.6	13.8	2.4	2.1	12.0	11.3	1.4	1.4
Electricity Generating *	EGCO TB	Thailand	5.6	14.1	5.4	4.8	0.5	0.5	17.6	15.5	5.9	5.9
Global Power Synergy *	GPSC TB	Thailand	28.3	49.1	29.8	20.0	1.3	1.2	14.5	13.3	1.8	2.8
Gulf Energy Dev. Pcl *	GULF TB	Thailand	15.1	17.5	28.5	24.3	4.0	3.8	28.6	25.4	2.5	2.9
Gunkul Engineering *	GUNKUL TB	Thailand	(6.3)	3.6	15.5	15.0	1.5	1.5	15.1	15.5	2.6	2.7
RATCH Group Pcl *	RATCH TB	Thailand	44.2	36.2	9.6	7.0	0.6	0.6	20.3	16.2	5.7	6.4
<b>Average</b>			<b>19.0</b>	<b>18.6</b>	<b>18.8</b>	<b>15.6</b>	<b>1.7</b>	<b>1.6</b>	<b>13.7</b>	<b>12.2</b>	<b>3.2</b>	<b>3.6</b>

Sources: Bloomberg, \* Thanachart estimates

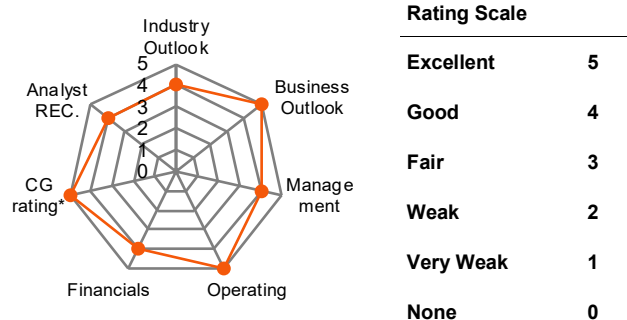
Based on 25 April 2024 closing prices

## COMPANY DESCRIPTION

Established in 2006 as a biodiesel business operator, Energy Absolute Pcl (EA) has become one of Thailand's major renewable plant operators with an installed capacity of 784MW of subsidized solar and wind projects. EA started investing in the Li-ion battery production business by acquiring Amita Technologies in 2016 with a plan to build up to 50GWh Li-ion battery factory in Thailand to serve battery demand from electric vehicle (EV) and energy storage system (ESS) markets.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Management has a strong financial background with what we regard as well-thought-out plans for expansion.
- Being the first mover in battery and CEV production industries in Thailand.

### O — Opportunity

- Electricity industry is gearing towards renewable energy.
- EV industry is still in an early stage so there is plenty of room for EV battery demand to grow.
- Energy storage could be mandatory for the national grid and private off-the-grid power system in the future.

### W — Weakness

- In a heavy capex cycle due to scheduled new capacity expansion, but gearing is still below its threshold.
- Still high uncertainties in its emerging Li-ion battery and CEV production, i.e. changes in technology and regulations.

### T — Threat

- New capacity tendered through power purchase contracts by the government will likely see lower returns.
- Regulations from both domestic and overseas power markets on both electricity generation and EV businesses.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	48.07	45.00	-6%
Net profit 24F (Bt m)	7,792	7,991	3%
Net profit 25F (Bt m)	8,477	8,439	0%
Consensus REC	BUY: 4	HOLD: 4	SELL: 0

## HOW ARE WE DIFFERENT FROM THE STREET?

- We see our earnings estimates in 2024-25F as relatively in line with the Bloomberg consensus numbers.
- However, our SOTP-based TP is 6% lower, likely because we assume slightly lower long-term margins for EA's battery production business.

## RISKS TO OUR INVESTMENT CASE

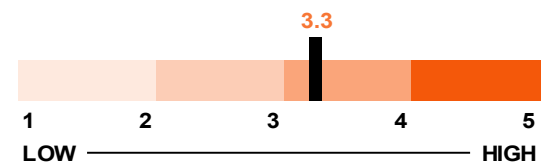
- If investment costs required for its new S-curve businesses are higher than we presently anticipate, this would represent a downside risk to our valuation for EA.
- If EA cannot secure enough orders for either battery or CEV sales, to match our expectations, that would present another major downside risk to our numbers.
- Less favorable natural conditions for electricity generation from its renewable power plants represent the key downside risk to our near-term earnings forecasts.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

EA runs three major business units: a biodiesel refinery, renewable power plants, and a Li-ion battery factory. Despite it already being a net-negative carbon emissions company, it targets to cut emissions further. We like its strong commitment to social aspects, especially its contributions to surrounding communities. We assign an ESG score of 3.3.

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)
EA	YES	AA	-	A	59.34	43.76	74.00	-	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

- EA emitted 66,831 tonnes of CO2 equivalent of greenhouse gas (scope 1 and scope 2) in 2022, beating its target by 4%. The emissions increased 26% from last year due to the start-up of its battery and commercial EV manufacturing plants.
- EA implements reuse, reduce, and recycle (3R) principles to reduce water consumption (mainly in its biodiesel business) and achieved a water consumption reduction of over 5% in 2022 compared to the previous year.
- EA has set up a battery recycling business and laid out hazardous waste protocols for the start of its new S-curve businesses (battery and EV), which produce much more waste than its legacy business of renewable power plants.
- EA is providing strong support to build a low-carbon society community and helping set up carbon credit trading standards for Thailand to speed the country up in reaching its carbon neutrality and net-zero targets.

## SOCIAL

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

- EA is committed to global human rights standards and guidelines. It has also implemented a PDPA protocol in its normal operations and working procedures among its stakeholders.
- EA's staff turnover rate was 21% in 2022, improving from 26% in 2021. The company said its change of business focus may not have suited some of its staff. We will track this issue since the turnover still looks high to us.
- EA has reported no major accidents causing severe injuries or business disruptions over the past five years. It also received no complaints from its customers about product quality.
- EA provides strong support to communities surrounding its battery plant and CEV factory in Chachoengsao province, i.e., educational support, professional training, and local hiring, and quality of life improvement through infrastructure and utility facilities development.

GOVERNANCE &  
SUSTAINABILITY

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

- EA's board of directors comprises 11 members. Six of the board members are independent directors. However, all of them are male, which may raise flags over gender diversity and equality at the company.
- EA has faced negative news related to stock trading and internal auditing over the past few years, but we are satisfied with management's swift response to clear up these issues.
- We like EA's business strategy to fully take care of the supply chain in its new S-curve business to ensure smooth operations and strong procurement. It supplements its battery production plant with an in-house commercial EV factory and downstream investment in public transport. It also plans to invest upstream more in the battery business.
- EA has invested heavily in R&D for product innovations ranging from its acquisition of a Li-ion battery research team from Amita Group to the development of an ultra-fast charging platform and the self-development of commercial EV products.

Sources: Thanachart, Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	25,355	30,074	38,138	44,563	55,594
Cost of sales	17,394	19,695	25,842	31,807	40,640
<b>Gross profit</b>	<b>7,961</b>	<b>10,380</b>	<b>12,296</b>	<b>12,755</b>	<b>14,954</b>
% gross margin	31.4%	34.5%	32.2%	28.6%	26.9%
Selling & administration expenses	1,427	1,387	1,423	1,573	1,853
<b>Operating profit</b>	<b>6,534</b>	<b>8,993</b>	<b>10,873</b>	<b>11,182</b>	<b>13,101</b>
% operating margin	25.8%	29.9%	28.5%	25.1%	23.6%
Depreciation & amortization	3,767	3,778	3,611	3,944	4,366
<b>EBITDA</b>	<b>10,301</b>	<b>12,771</b>	<b>14,484</b>	<b>15,126</b>	<b>17,467</b>
% EBITDA margin	40.6%	42.5%	38.0%	33.9%	31.4%
Non-operating income	365	334	381	446	556
Non-operating expenses	0	0	0	0	0
Interest expense	(1,413)	(2,287)	(2,486)	(2,427)	(2,318)
<b>Pre-tax profit</b>	<b>5,486</b>	<b>7,039</b>	<b>8,769</b>	<b>9,201</b>	<b>11,340</b>
Income tax	145	236	438	460	567
<b>After-tax profit</b>	<b>5,341</b>	<b>6,803</b>	<b>8,330</b>	<b>8,741</b>	<b>10,773</b>
% net margin	21.1%	22.6%	21.8%	19.6%	19.4%
Shares in affiliates' Earnings	218	260	94	571	833
Minority interests	198	106	(433)	(873)	(1,310)
Extraordinary items	1,848	437	0	0	0
<b>NET PROFIT</b>	<b>7,604</b>	<b>7,606</b>	<b>7,991</b>	<b>8,439</b>	<b>10,296</b>
<b>Normalized profit</b>	<b>5,756</b>	<b>7,169</b>	<b>7,991</b>	<b>8,439</b>	<b>10,296</b>
EPS (Bt)	2.0	2.0	2.1	2.3	2.8
Normalized EPS (Bt)	1.5	1.9	2.1	2.3	2.8

Emerging CEV business  
is the key earnings driver  
for 2024-26F

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	22,527	24,441	27,478	30,287	34,700
Cash & cash equivalent	3,272	2,475	2,511	3,011	3,511
Account receivables	6,330	8,800	9,404	9,767	10,662
Inventories	5,516	7,412	8,496	9,586	11,134
Others	7,410	5,754	7,067	7,923	9,393
Investments & loans	0	0	0	0	0
Net fixed assets	54,221	58,675	61,895	63,656	63,791
Other assets	26,616	31,113	31,445	31,983	32,532
<b>Total assets</b>	<b>103,364</b>	<b>114,229</b>	<b>120,817</b>	<b>125,926</b>	<b>131,024</b>
<b>LIABILITIES:</b>					
Current liabilities:	26,475	24,387	27,518	26,585	25,026
Account payables	4,801	708	3,540	3,486	3,340
Bank overdraft & ST loans	11,225	8,727	11,898	11,384	10,572
Current LT debt	8,320	12,426	9,518	9,107	8,457
Others current liabilities	2,129	2,524	2,562	2,609	2,656
<b>Total LT debt</b>	<b>31,417</b>	<b>41,592</b>	<b>38,074</b>	<b>36,427</b>	<b>33,830</b>
Others LT liabilities	4,168	4,241	4,150	4,169	4,206
<b>Total liabilities</b>	<b>62,060</b>	<b>70,220</b>	<b>69,742</b>	<b>67,181</b>	<b>63,061</b>
Minority interest	2,375	2,310	2,744	3,616	4,926
Preferreds shares	0	0	0	0	0
Paid-up capital	373	373	373	373	373
Share premium	3,681	3,681	3,681	3,681	3,681
Warrants	0	0	0	0	0
Surplus	(777)	(4,494)	(4,494)	(4,494)	(4,494)
<b>Retained earnings</b>	<b>35,653</b>	<b>42,140</b>	<b>48,772</b>	<b>55,569</b>	<b>63,477</b>
Shareholders' equity	38,929	41,699	48,332	55,128	63,036
<b>Liabilities &amp; equity</b>	<b>103,364</b>	<b>114,229</b>	<b>120,817</b>	<b>125,926</b>	<b>131,024</b>

Healthy balance sheet  
despite being in an  
investment cycle

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Earnings before tax	5,486	7,039	8,769	9,201	11,340
Tax paid	(145)	(236)	(438)	(460)	(567)
Depreciation & amortization	3,767	3,778	3,611	3,944	4,366
Chg In working capital	(2,230)	(8,459)	1,144	(1,507)	(2,589)
Chg In other CA & CL / minorities	(3,647)	3,485	(1,181)	(238)	(589)
<b>Cash flow from operations</b>	<b>3,231</b>	<b>5,608</b>	<b>11,904</b>	<b>10,939</b>	<b>11,961</b>
Capex	552	(8,132)	(6,750)	(5,623)	(4,418)
Right of use	4	5	(20)	(20)	(20)
ST loans & investments	(852)	(1,133)	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(9,179)	(4,010)	(484)	(581)	(575)
<b>Cash flow from investments</b>	<b>(9,476)</b>	<b>(13,270)</b>	<b>(7,254)</b>	<b>(6,224)</b>	<b>(5,014)</b>
Debt financing	7,749	11,701	(3,256)	(2,572)	(4,059)
Capital increase	0	0	0	0	0
Dividends paid	(1,119)	(1,119)	(1,359)	(1,643)	(2,388)
Warrants & other surplus	(58)	(3,717)	0	0	0
<b>Cash flow from financing</b>	<b>6,572</b>	<b>6,865</b>	<b>(4,615)</b>	<b>(4,215)</b>	<b>(6,447)</b>
<b>Free cash flow</b>	<b>3,783</b>	<b>(2,525)</b>	<b>5,154</b>	<b>5,316</b>	<b>7,542</b>

*Capex plan is supported  
by hefty cashflow from  
renewable plants*

**VALUATION**

<b>FY ending Dec</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Normalized PE (x)	20.2	16.3	14.6	13.8	11.3
Normalized PE - at target price (x)	29.2	23.4	21.0	19.9	16.3
PE (x)	15.3	15.3	14.6	13.8	11.3
PE - at target price (x)	22.1	22.1	21.0	19.9	16.3
EV/EBITDA (x)	15.9	13.8	12.0	11.3	9.5
EV/EBITDA - at target price (x)	20.9	17.9	15.5	14.7	12.4
P/BV (x)	3.0	2.8	2.4	2.1	1.8
P/BV - at target price (x)	4.3	4.0	3.5	3.0	2.7
P/CFO (x)	36.1	20.8	9.8	10.7	9.7
Price/sales (x)	4.6	3.9	3.1	2.6	2.1
Dividend yield (%)	1.0	1.0	1.4	1.4	2.6
FCF Yield (%)	3.2	(2.2)	4.4	4.6	6.5
<b>(Bt)</b>					
Normalized EPS	1.5	1.9	2.1	2.3	2.8
EPS	2.0	2.0	2.1	2.3	2.8
DPS	0.3	0.3	0.4	0.5	0.8
BV/share	10.4	11.2	13.0	14.8	16.9
CFO/share	0.9	1.5	3.2	2.9	3.2
FCF/share	1.0	(0.7)	1.4	1.4	2.0

Sources: Company data, Thanachart estimates



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	25.7	18.6	26.8	16.8	24.8
Net profit (%)	24.7	0.0	5.1	5.6	22.0
EPS (%)	24.7	0.0	5.1	5.6	22.0
Normalized profit (%)	(4.4)	24.5	11.5	5.6	22.0
Normalized EPS (%)	(4.4)	24.5	11.5	5.6	22.0
Dividend payout ratio (%)	14.7	14.7	20.0	20.0	30.0
<b>Operating performance</b>					
Gross margin (%)	31.4	34.5	32.2	28.6	26.9
Operating margin (%)	25.8	29.9	28.5	25.1	23.6
EBITDA margin (%)	40.6	42.5	38.0	33.9	31.4
Net margin (%)	21.1	22.6	21.8	19.6	19.4
D/E (incl. minor) (x)	1.2	1.4	1.2	1.0	0.8
Net D/E (incl. minor) (x)	1.2	1.4	1.1	0.9	0.7
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	6.1	6.6	6.8	6.8	8.0
ROE - using norm profit (%)	16.1	17.8	17.8	16.3	17.4
<b>DuPont</b>					
ROE - using after tax profit (%)	15.0	16.9	18.5	16.9	18.2
- asset turnover (x)	0.3	0.3	0.3	0.4	0.4
- operating margin (%)	27.2	31.0	29.5	26.1	24.6
- leverage (x)	2.6	2.7	2.6	2.4	2.2
- interest burden (%)	79.5	75.5	77.9	79.1	83.0
- tax burden (%)	97.4	96.7	95.0	95.0	95.0
WACC (%)	5.0	5.0	5.0	5.2	5.2
ROIC (%)	8.7	10.0	10.1	10.1	11.4
NOPAT (Bt m)	6,361	8,692	10,329	10,623	12,446
invested capital (Bt m)	86,620	101,970	105,311	109,035	112,384

Sources: Company data, Thanachart estimates

*Profitability trending up as  
new businesses are  
reaching critical scale*

**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

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.



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### 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.

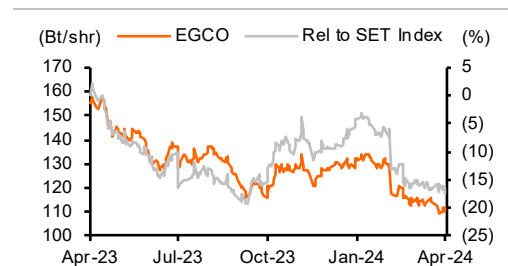
### Valuation looks undemanding

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

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

Projects	Valuation method	WACC	Value (Bt/share)
<b>TH Conventional - IPP</b>			<b>56.2</b>
- BLCP	DCF	0.0%	13.3
- GPG	DCF	7.3%	19.1
- KEGCO	DCF	4.7%	23.8
<b>TH Conventional - SPP</b>			<b>9.1</b>
- EGCO Cogen	DCF	6.7%	0.2
- BPU	DCF	6.7%	6.8
- KLU	DCF	6.7%	2.2
<b>TH Renewables</b>			<b>21.4</b>
- 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
<b>Overseas power plants</b>			<b>201.1</b>
- 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
<b>Subtotal - existing projects</b>			<b>287.8</b>
<b>Other businesses &amp; net debts</b>			<b>(157.9)</b>
<b>Grand total</b>			<b>130.0</b>

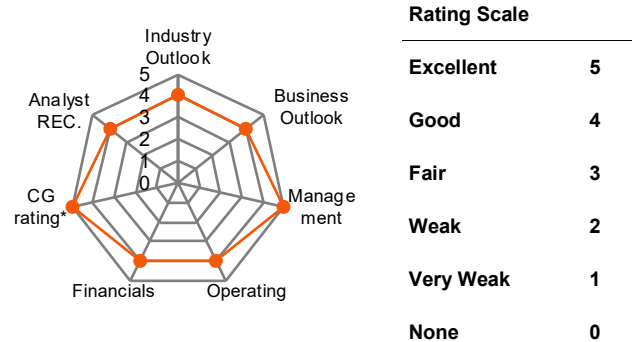
Sources: Company data, Thanachart estimates

## 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



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.

### O — Opportunity

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

### 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.

### 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

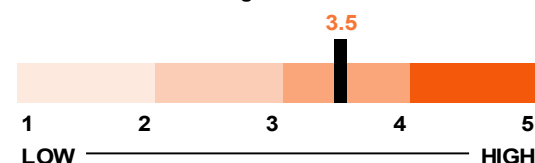
## RISKS TO OUR INVESTMENT CASE

- 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 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)

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

- 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 CO<sub>2</sub> 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

## 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
<b>Gross profit</b>	<b>9,120</b>	<b>8,711</b>	<b>7,883</b>	<b>8,105</b>	<b>5,740</b>
% 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
<b>Operating profit</b>	<b>6,366</b>	<b>5,174</b>	<b>4,905</b>	<b>5,248</b>	<b>3,043</b>
% operating margin	10.7%	10.4%	10.6%	12.2%	8.4%
Depreciation & amortization	3,285	3,040	3,114	3,114	3,115
<b>EBITDA</b>	<b>9,651</b>	<b>8,213</b>	<b>8,019</b>	<b>8,362</b>	<b>6,158</b>
% 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)
<b>Pre-tax profit</b>	<b>4,440</b>	<b>4,001</b>	<b>818</b>	<b>1,512</b>	<b>(261)</b>
Income tax	1,120	1,029	204	378	0
<b>After-tax profit</b>	<b>3,320</b>	<b>2,972</b>	<b>613</b>	<b>1,134</b>	<b>(261)</b>
% 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
<b>NET PROFIT</b>	<b>2,683</b>	<b>(8,384)</b>	<b>10,664</b>	<b>12,169</b>	<b>10,662</b>
<b>Normalized profit</b>	<b>12,677</b>	<b>10,098</b>	<b>10,664</b>	<b>12,169</b>	<b>10,662</b>
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

*Earnings base is likely to remain stable*

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
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
<b>Total assets</b>	<b>254,043</b>	<b>243,233</b>	<b>249,339</b>	<b>250,767</b>	<b>251,675</b>
<b>LIABILITIES:</b>					
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
<b>Total LT debt</b>	<b>94,026</b>	<b>106,465</b>	<b>100,780</b>	<b>94,646</b>	<b>89,437</b>
Others LT liabilities	7,847	8,669	8,823	9,029	9,239
<b>Total liabilities</b>	<b>133,246</b>	<b>138,007</b>	<b>136,861</b>	<b>129,533</b>	<b>123,193</b>
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
<b>Retained earnings</b>	<b>102,590</b>	<b>90,784</b>	<b>98,026</b>	<b>106,773</b>	<b>114,014</b>
Shareholders' equity	120,494	104,927	112,169	120,916	128,156
<b>Liabilities &amp; equity</b>	<b>254,043</b>	<b>243,233</b>	<b>249,339</b>	<b>250,767</b>	<b>251,675</b>

Sources: Company data, Thanachart estimates

## 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
<b>Cash flow from operations</b>	<b>13,723</b>	<b>9,313</b>	<b>13,785</b>	<b>15,482</b>	<b>14,430</b>
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
<b>Cash flow from investments</b>	<b>(1,922)</b>	<b>(15,483)</b>	<b>(2,230)</b>	<b>156</b>	<b>120</b>
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
<b>Cash flow from financing</b>	<b>7,760</b>	<b>(2,426)</b>	<b>(5,418)</b>	<b>(10,638)</b>	<b>(9,550)</b>
<b>Free cash flow</b>	<b>11,875</b>	<b>7,498</b>	<b>12,285</b>	<b>14,982</b>	<b>13,930</b>

*Cash generation from existing power plants remains resilient*

## 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
<b>(Bt)</b>					
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

*EGCO's valuations look attractive, in our view*



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
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
<b>Operating performance</b>					
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
<b>DuPont</b>					
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

ROE appears stable at a decent level

**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.

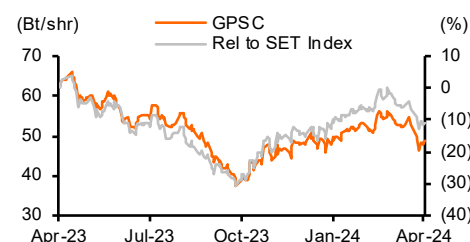
### Upside from the new PDP

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												
<b>Equity value / share (Bt)</b>	<b>34.7</b>												

	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
<b>Total</b>				<b>22.3</b>

**Grand total****57.0**

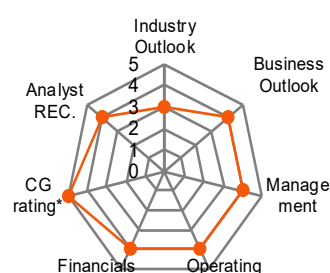
Source: Thanachart estimates

## 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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

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

## 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

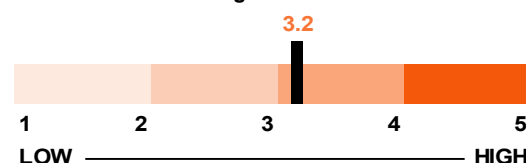
## RISKS TO OUR INVESTMENT CASE

- 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
<b>Gross profit</b>	<b>3,361</b>	<b>10,045</b>	<b>10,424</b>	<b>11,246</b>	<b>11,627</b>
% 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
<b>Operating profit</b>	<b>1,544</b>	<b>7,795</b>	<b>8,129</b>	<b>8,836</b>	<b>9,169</b>
% operating margin	1.2%	8.6%	8.1%	9.7%	10.4%
Depreciation & amortization	9,293	9,483	9,568	10,544	11,116
<b>EBITDA</b>	<b>10,837</b>	<b>17,278</b>	<b>17,697</b>	<b>19,379</b>	<b>20,285</b>
% 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)
<b>Pre-tax profit</b>	<b>(1,679)</b>	<b>3,736</b>	<b>3,679</b>	<b>4,794</b>	<b>5,671</b>
Income tax	(746)	405	441	719	851
<b>After-tax profit</b>	<b>(932)</b>	<b>3,331</b>	<b>3,238</b>	<b>4,075</b>	<b>4,821</b>
% 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
<b>NET PROFIT</b>	<b>891</b>	<b>3,694</b>	<b>4,613</b>	<b>6,877</b>	<b>7,896</b>
<b>Normalized profit</b>	<b>218</b>	<b>3,596</b>	<b>4,613</b>	<b>6,877</b>	<b>7,896</b>
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
<b>ASSETS:</b>					
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
<b>Total assets</b>	<b>288,810</b>	<b>281,703</b>	<b>279,976</b>	<b>280,673</b>	<b>272,750</b>
<b>LIABILITIES:</b>					
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
<b>Total LT debt</b>	<b>123,033</b>	<b>106,904</b>	<b>108,538</b>	<b>105,502</b>	<b>94,567</b>
Others LT liabilities	18,483	18,607	18,504	18,602	18,700
<b>Total liabilities</b>	<b>173,710</b>	<b>164,178</b>	<b>159,240</b>	<b>155,075</b>	<b>141,962</b>
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)
<b>Retained earnings</b>	<b>22,798</b>	<b>25,007</b>	<b>27,308</b>	<b>31,025</b>	<b>34,859</b>
Shareholders' equity	104,730	106,195	108,496	112,213	116,047
<b>Liabilities &amp; equity</b>	<b>288,810</b>	<b>281,703</b>	<b>279,976</b>	<b>280,673</b>	<b>272,750</b>

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
<b>Cash flow from operations</b>	<b>5,915</b>	<b>18,685</b>	<b>14,625</b>	<b>19,833</b>	<b>20,677</b>
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
<b>Cash flow from investments</b>	<b>(19,195)</b>	<b>(13,205)</b>	<b>(10,517)</b>	<b>(18,065)</b>	<b>1,380</b>
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
<b>Cash flow from financing</b>	<b>13,724</b>	<b>(6,520)</b>	<b>(7,305)</b>	<b>(6,768)</b>	<b>(17,057)</b>
<b>Free cash flow</b>	<b>(264)</b>	<b>9,225</b>	<b>12,110</b>	<b>(92)</b>	<b>19,877</b>

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
<b>(Bt)</b>					
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
<b>Growth Rate</b>					
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
<b>Operating performance</b>					
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
<b>DuPont</b>					
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

**BUY** (Unchanged)

Change in Numbers

**TP: Bt 54.00** (From: Bt 50.00)**Upside : 30.9%****26 APRIL 2024**

# Gulf Energy Dev. Pcl (GULF TB)

## Biggest PDP beneficiary

GULF is our top pick in the Thai utilities sector. We see it as the biggest beneficiary of the new PDP since it is the strongest contender to win more renewable PPAs and potential IPP replacement projects. We reaffirm our BUY rating with a new SOTP-based TP of Bt54/share.

**NUTTAPOP PRASITSUKSANT**

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### BUY as our top sector pick

This report is a part of *Thai Utilities Sector – A new PDP, A new catalyst dated 26 April 2024*. We reaffirm our BUY on GULF as our top sector pick. *First*, we see GULF as the biggest beneficiary of the new PDP release, which we expect to come with a much larger renewable capacity quota. *Second*, as the largest private power plant operator, we believe GULF is a major candidate to win the rights to develop conventional power plants to replace 13GW of expiring IPP projects over 2026-35F. *Third*, despite a limited near-term contribution, we expect its investments in gas infrastructure facilities to benefit from gas market liberalization in the future. Though we have yet to include potential from the new PDP, we estimate GULF's earnings to grow 15/18/10% in 2024-26F based on its PPA-secured projects.

### Strong contender for new PPAs

GULF won 2.0GW of PPAs from the recent renewable power bid in 1Q23 (from the 5.2GW capacity quota). We expect GULF to continue being the biggest winner in future renewable bids. Supported by its larger business scale as the biggest private power producer in Thailand and lower financial costs than peers, we also see GULF as the strongest contender in the replacement plan for up to 13GW of expiring IPP projects over 2026-35F, likely also to be included in the new PDP. Our valuation assumes GULF will win 1) 1.0GW of renewable PPAs from the bid later this year, 2) 8.0GW of renewable PPAs from the new PDP quota, and 3) 3.0GW of IPP replacement projects.

### Emerging gas businesses

GULF has been investing in gas infrastructure facilities, which look likely to enjoy the liberalization of the natural gas market in Thailand in the future. Its investments comprise distribution pipelines, an LNG terminal, and LNG import licenses. We don't expect them to yield much return over the next few years, but their profit contribution should be more significant from 2028F.

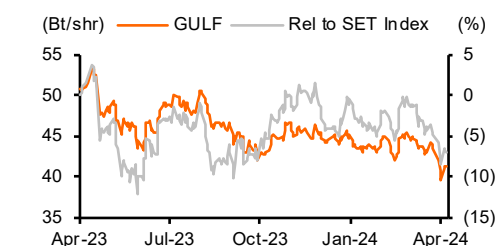
### Secured capacity growth into 2033F

GULF's operating capacity looks set to grow by 8% p.a. over the next ten years or to 13GW in 2033F (6.1GW in 2023), based on projects with secured PPAs. The capacity growth is from 1) 1.9GW in equity-capacity of gas-fired IPP plants commencing operation over 2024-27F, 2) 2.0GW of the capacity of solar and wind projects winning from the bid in 2023 scheduled for CODs over 2025-30F, and 3) three hydropower plants with a total of 1.0GW of capacity due to begin operation during 2030-33.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	114,054	145,316	161,336	163,940
Net profit	14,858	16,981	19,949	21,891
Consensus NP	—	18,546	21,261	23,600
Diff frm cons (%)	—	(8.4)	(6.2)	(7.2)
Norm profit	14,759	16,981	19,949	21,891
Prev. Norm profit	—	18,438	22,674	24,700
Chg frm prev (%)	—	(7.9)	(12.0)	(11.4)
Norm EPS (Bt)	1.3	1.4	1.7	1.9
Norm EPS grw (%)	28.0	15.1	17.5	9.7
Norm PE (x)	32.8	28.5	24.3	22.1
EV/EBITDA (x)	32.6	28.6	25.4	23.7
P/BV (x)	4.2	4.0	3.8	3.6
Div yield (%)	2.1	2.5	2.9	3.2
ROE (%)	13.0	14.3	16.0	16.7
Net D/E (%)	168.3	168.2	160.3	156.4

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	41.25
Market Cap (US\$ m)	13,068.9
Listed Shares (m shares)	11,733.1
Free Float (%)	26.1
Avg Daily Turnover (US\$ m)	12.9
12M Price H/L (Bt)	53.25/39.50
Sector	Utilities
Major Shareholder	Mr. Sarath Rattanawadi 35.81%

Sources: Bloomberg, Company data, Thanachart estimates

**ESG Summary Report ..... P65**

## Ex 1: Sum-of-the-Parts Valuation

SOTP Valuation	Equity value (Bt m)	Valuation method	WACC	Value (Bt/share)
<b>Subsidiaries</b>				
- GMP	41,291	DCF	4.4%	3.5
- GCG	1,014	DCF	5.0%	0.1
- GTN	1,510	DCF	5.6%	0.1
- Borkhum Riffgund	7,541	DCF	6.2%	0.6
- GSRC	40,102	DCF	4.2%	3.4
- GPD	42,349	DCF	4.4%	3.6
- Mab-Ta-Phut 3	35,788		20% IRR on project cost	3.1
- Domestic renewable (RE Proposal phase 1)	49,809	DCF	5.0%	4.2
- Hydropower projects in Laos	11,372	DCF	10.0%	1.0
<b>Subtotal</b>				<b>19.7</b>
<b>Associates</b>				
- GULF JP	12,113	DCF	4.4%	1.0
- Marafiq	5,768	DCF	5.7%	0.5
- Hin Kong	19,580	DCF	4.8%	1.7
- Burapa	6,765	DCF	4.3%	0.6
- Mekong wind	296	DCF	5.0%	0.0
- Gulf Gunkul	5,526	DCF	4.7%	0.5
- Jackson	18,750	DCF	6.4%	1.6
- UK Offshore	18,359	DCF	5.9%	1.6
- PTT NGD	25,920		15% IRR on project cost	2.2
- Lam Chabang 3	14,400		20% IRR on project cost	1.2
- One Bangkok	14,117		15% IRR on project cost	1.2
- M6, M81 motorways	23,000		10% IRR on project cost	2.0
<b>Subtotal</b>				<b>14.0</b>
<b>Other investments</b>				
- SPCG	1,072		10% discount from market price	0.1
- INTUCH	127,147	DCF	8.0%	10.8
- THCOM	6,237	DCF	8.2%	0.5
- 3BBIF	2,999	DDM	6.3%	0.3
- Datacenter partnership	8,173	DCF	7.6%	0.7
- Gulf Binance	4,214	DCF	10.0%	0.4
<b>Subtotal</b>				<b>12.8</b>
<b>Potential projects</b>				
- Domestic renewable (RE Proposal phase 2)	24,904	DCF	5.0%	2.1
- Renewable PPAs from PDP-2024 (8GW capacity)	39,847	DCF	8.0%	3.4
- Potential IPP replacement projects (3GW capacity)	24,000	DCF	8.0%	2.0
<b>Subtotal</b>				<b>7.6</b>
<b>Grand Total</b>				<b>54.0</b>

Sources: Thanachart estimates

COMPANY DESCRIPTION

Gulf Energy Development Pcl (GULF) is a major power company in Thailand with strong expertise in gas-fired power projects. The firm holds a total of 11.5GW committed capacity as of 2023, of which 6.6GW is already in operation. GULF continues to search for new capacity in which renewable projects are now its key focus. GULF's another major business is telecommunication services through an indirect holding in Advanced Info Service Pcl (ADVANC), a leading telecom operator in Thailand. GULF also reinvests its hefty cash flow from power generation business in other infrastructure businesses, i.e. motorways, deep-sea ports, and LNG terminals.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong partnerships help give access to low financing costs and improve efficiency via up-to-date technology.
- Secured contracts to develop more power plants to sustain its capacity growth outlook into 2033F.

O — Opportunity

- GULF is looking for massive new capacity potential in ASEAN and in the domestic market.
- Aggressively explores into other non-utilities infrastructure business to propel growth.

CONSENSUS COMPARISON

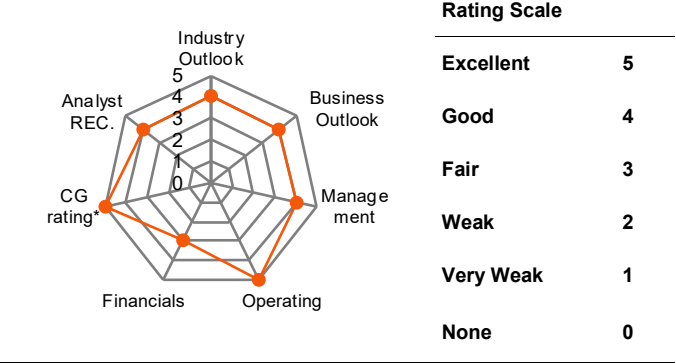
	Consensus	Thanachart	Diff
Target price (Bt)	54.83	54.00	-2%
Net profit 24F (Bt m)	18,546	16,981	-8%
Net profit 25F (Bt m)	21,261	19,949	-6%
Consensus REC	BUY: 16	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings are 8/6% lower than the Bloomberg consensus numbers, which we attribute to us being more conservative on the profitability of its new IPP plants.
- We see our TP as relatively in line with the Street's.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; \*CG Rating

W — Weakness

- High balance sheet gearing, despite it is by design as a business growth strategy of the company and is still being supported by local banks.

T — Threat

- There could be regulatory risk especially for overseas projects where the company has been increasing its focus.

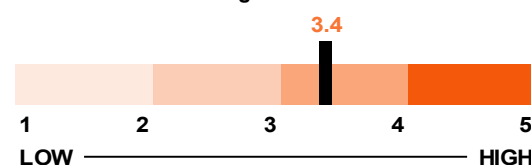
RISKS TO OUR INVESTMENT CASE

- A stronger-than-expected impact from a SPP margin hiccup, either from fuel price hikes or delayed electricity selling price adjustments due to the government's subsidy policy, would be a near-term downside risk to our earnings forecasts.
- If GULF secures less new capacity, either domestically or abroad, this would pose a downside risk to our valuations.
- A longer-than-expected development period or lower-than-expected profitability from new projects would be secondary downside risks to our forecasts and valuations.

Source: Thanachart

GULF is the largest power plant operator in Thailand, mainly gas-based, with equity-owned operating capacity of 6.6GW as of 2023. It has started to expand into non-power businesses, including telecommunication, LNG terminal, deep-sea ports and motorways to sustain its growth in long-term. We assign a relatively high 3.4 ESG score for GULF since it has clear targets and plans for GHG reduction and other ESG 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)
GULF	YES	AA	-	B	59.63	50.75	71.00	-	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

- GULF has committed to reducing carbon intensity by 30% (from 2019) by 2030F, mainly via an increase in its renewable portion to 30% of total capacity from only 8% in 2021. GULF has a 'No Coal' policy and a policy to buy carbon credits to offset its carbon emissions.
- GULF's greenhouse gas (GHG) emissions in 2021 came to 12.4m tonnes of CO2 equivalent (or 0.48 tonnes/MWh), and the company plans to reduce this by 25% by 2030.
- GULF produces minimal waste and almost no hazardous waste from its electricity generation business. The company has had a zero-waste to landfill target since 2020.
- GULF consumes significant amounts of water for its gas-fired and biomass power plants. The company reuses the water multiple times in its processes, reclaiming it back as steam to feed surrounding factories, and shares treated water with local communities.

### SOCIAL

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

- GULF ensures the human rights of all stakeholders are kept intact and it provides health and safety protection for staff in the workplace. It extends the same code of conduct to suppliers.
- GULF has a 31% mix of female staff. It also committed to a strong policy to provide work opportunities to the new generation (aged below 30).
- GULF's 'IMPACT' campaign for social and community development involves: 1) Infrastructure development for better well-being of local communities, 2) medical services for those in need, 3) productivity knowledge sharing for local businesses, 4) activities supporting local sports teams, 5) environmental conservation with locals, and 5) teaching and learning funds for educational institutes.

### GOVERNANCE & SUSTAINABILITY

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

- GULF's board of directors (BOD) comprise 12 members, of whom seven are independent directors. Female members account for 25% of the BOD.
- There have been a series of business acquisitions outside of its utility business by GULF for the past few years. The biggest one was a 42% stake in Intouch Holdings (INTUCH), which owns a 40% stake in the biggest Thai telecom operator, Advanced Info Service (ADVANC). We see this as GULF's attempt to diversify its business and look for new growth drivers in the long term.
- GULF promotes an innovation mindset among its employees through continuous training while accelerating investments in innovative and digital businesses (i.e., the telecom industry, cryptocurrency trading platforms, and smart systems for the electricity grid).

Sources: Thanachart, Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	94,151	114,054	145,316	161,336	163,940
Cost of sales	74,711	92,022	120,703	133,878	134,340
<b>Gross profit</b>	<b>19,440</b>	<b>22,033</b>	<b>24,613</b>	<b>27,458</b>	<b>29,601</b>
% gross margin	20.6%	19.3%	16.9%	17.0%	18.1%
Selling & administration expenses	2,955	3,915	4,141	4,317	4,529
<b>Operating profit</b>	<b>16,485</b>	<b>18,118</b>	<b>20,472</b>	<b>23,140</b>	<b>25,072</b>
% operating margin	17.5%	15.9%	14.1%	14.3%	15.3%
Depreciation & amortization	5,063	4,181	5,584	6,471	7,237
<b>EBITDA</b>	<b>21,548</b>	<b>22,299</b>	<b>26,057</b>	<b>29,611</b>	<b>32,309</b>
% EBITDA margin	22.9%	19.6%	17.9%	18.4%	19.7%
Non-operating income	355	2,595	2,328	2,269	2,028
Non-operating expenses	0	0	0	0	0
Interest expense	(7,652)	(9,817)	(10,931)	(10,982)	(10,722)
<b>Pre-tax profit</b>	<b>9,189</b>	<b>10,896</b>	<b>11,869</b>	<b>14,427</b>	<b>16,377</b>
Income tax	1,344	597	618	823	864
<b>After-tax profit</b>	<b>7,845</b>	<b>10,299</b>	<b>11,251</b>	<b>13,604</b>	<b>15,513</b>
% net margin	8.3%	9.0%	7.7%	8.4%	9.5%
Shares in affiliates' Earnings	6,664	9,530	11,651	12,748	13,364
Minority interests	(2,982)	(5,070)	(5,920)	(6,403)	(6,986)
Extraordinary items	(109)	99	0	0	0
<b>NET PROFIT</b>	<b>11,418</b>	<b>14,858</b>	<b>16,981</b>	<b>19,949</b>	<b>21,891</b>
<b>Normalized profit</b>	<b>11,527</b>	<b>14,759</b>	<b>16,981</b>	<b>19,949</b>	<b>21,891</b>
EPS (Bt)	1.0	1.3	1.4	1.7	1.9
Normalized EPS (Bt)	1.0	1.3	1.4	1.7	1.9

*Strong earnings growth  
outlook among peers*

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	70,249	72,686	81,259	74,999	65,637
Cash & cash equivalent	42,209	42,003	43,500	33,500	23,500
Account receivables	18,999	21,165	29,860	33,151	33,686
Inventories	1,561	2,958	3,307	3,668	3,681
Others	7,481	6,562	4,592	4,680	4,770
Investments & loans	177,379	201,616	207,699	208,951	208,951
Net fixed assets	99,555	90,222	110,029	125,943	152,937
Other assets	70,989	94,989	95,828	96,670	97,516
<b>Total assets</b>	<b>418,172</b>	<b>459,514</b>	<b>494,815</b>	<b>506,563</b>	<b>525,040</b>
<b>LIABILITIES:</b>					
Current liabilities:	51,868	65,623	75,497	76,697	77,628
Account payables	7,484	9,391	13,228	14,672	14,722
Bank overdraft & ST loans	6,669	4,789	3,045	3,021	3,068
Current LT debt	22,633	37,636	45,216	44,862	45,553
Others current liabilities	15,082	13,807	14,009	14,143	14,285
<b>Total LT debt</b>	<b>220,770</b>	<b>242,137</b>	<b>256,223</b>	<b>254,216</b>	<b>258,133</b>
Others LT liabilities	9,732	7,650	7,964	8,117	8,181
<b>Total liabilities</b>	<b>282,370</b>	<b>315,410</b>	<b>339,684</b>	<b>339,031</b>	<b>343,942</b>
Minority interest	25,015	27,519	33,440	39,843	46,829
Preferreds shares	0	0	0	0	0
Paid-up capital	11,733	11,733	11,733	11,733	11,733
Share premium	51,822	51,822	51,822	51,822	51,822
Warrants	0	0	0	0	0
Surplus	4,172	2,139	2,139	2,139	2,139
<b>Retained earnings</b>	<b>43,060</b>	<b>50,891</b>	<b>55,998</b>	<b>61,995</b>	<b>68,575</b>
Shareholders' equity	110,787	116,585	121,692	127,689	134,269
<b>Liabilities &amp; equity</b>	<b>418,172</b>	<b>459,514</b>	<b>494,815</b>	<b>506,563</b>	<b>525,040</b>

*Stabilizing debt level on  
rising cash generation  
from operational plants*

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	9,189	10,896	11,869	14,427	16,377
Tax paid	(1,377)	(612)	(589)	(825)	(858)
Depreciation & amortization	5,063	4,181	5,584	6,471	7,237
Chg In working capital	(5,284)	(1,656)	(5,207)	(2,209)	(497)
Chg In other CA & CL / minorities	18,760	7,232	13,792	12,796	13,410
<b>Cash flow from operations</b>	<b>26,351</b>	<b>20,040</b>	<b>25,450</b>	<b>30,661</b>	<b>35,669</b>
Capex	25,511	5,151	(25,293)	(22,281)	(34,122)
Right of use	(1,697)	425	(100)	(100)	(100)
ST loans & investments	(443)	(638)	0	0	0
LT loans & investments	(35,150)	(24,238)	(6,083)	(1,251)	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(15,225)	(25,568)	(524)	(692)	(791)
<b>Cash flow from investments</b>	<b>(27,004)</b>	<b>(44,868)</b>	<b>(32,000)</b>	<b>(24,324)</b>	<b>(35,013)</b>
Debt financing	17,455	33,681	19,921	(2,385)	4,655
Capital increase	0	0	0	0	0
Dividends paid	(5,162)	(7,040)	(11,887)	(13,964)	(15,324)
Warrants & other surplus	7,936	(2,020)	13	13	13
<b>Cash flow from financing</b>	<b>20,229</b>	<b>24,621</b>	<b>8,047</b>	<b>(16,337)</b>	<b>(10,656)</b>
<b>Free cash flow</b>	<b>51,862</b>	<b>25,192</b>	<b>157</b>	<b>8,380</b>	<b>1,547</b>

Still sufficient gearing  
room to support its  
expansion plan

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	42.0	32.8	28.5	24.3	22.1
Normalized PE - at target price (x)	55.0	42.9	37.3	31.8	28.9
PE (x)	42.4	32.6	28.5	24.3	22.1
PE - at target price (x)	55.5	42.6	37.3	31.8	28.9
EV/EBITDA (x)	32.1	32.6	28.6	25.4	23.7
EV/EBITDA - at target price (x)	39.1	39.3	34.3	30.5	28.4
P/BV (x)	4.4	4.2	4.0	3.8	3.6
P/BV - at target price (x)	5.7	5.4	5.2	5.0	4.7
P/CFO (x)	18.4	24.2	19.0	15.8	13.6
Price/sales (x)	5.1	4.2	3.3	3.0	3.0
Dividend yield (%)	1.5	2.1	2.5	2.9	3.2
FCF Yield (%)	10.7	5.2	0.0	1.7	0.3
<b>(Bt)</b>					
Normalized EPS	1.0	1.3	1.4	1.7	1.9
EPS	1.0	1.3	1.4	1.7	1.9
DPS	0.6	0.9	1.0	1.2	1.3
BV/share	9.4	9.9	10.4	10.9	11.4
CFO/share	2.2	1.7	2.2	2.6	3.0
FCF/share	4.4	2.1	0.0	0.7	0.1

Sources: Company data, Thanachart estimates

High valuation justified  
by strong growth outlook,  
in our view



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	98.3	21.1	27.4	11.0	1.6
Net profit (%)	48.9	30.1	14.3	17.5	9.7
EPS (%)	48.9	30.1	14.3	17.5	9.7
Normalized profit (%)	30.2	28.0	15.1	17.5	9.7
Normalized EPS (%)	30.2	28.0	15.1	17.5	9.7
Dividend payout ratio (%)	61.7	69.5	70.0	70.0	70.0
<b>Operating performance</b>					
Gross margin (%)	20.6	19.3	16.9	17.0	18.1
Operating margin (%)	17.5	15.9	14.1	14.3	15.3
EBITDA margin (%)	22.9	19.6	17.9	18.4	19.7
Net margin (%)	8.3	9.0	7.7	8.4	9.5
D/E (incl. minor) (x)	1.8	2.0	2.0	1.8	1.7
Net D/E (incl. minor) (x)	1.5	1.7	1.7	1.6	1.6
Interest coverage - EBIT (x)	2.2	1.8	1.9	2.1	2.3
Interest coverage - EBITDA (x)	2.8	2.3	2.4	2.7	3.0
ROA - using norm profit (%)	3.0	3.4	3.6	4.0	4.2
ROE - using norm profit (%)	11.1	13.0	14.3	16.0	16.7
<b>DuPont</b>					
ROE - using after tax profit (%)	7.6	9.1	9.4	10.9	11.8
- asset turnover (x)	0.2	0.3	0.3	0.3	0.3
- operating margin (%)	17.9	18.2	15.7	15.7	16.5
- leverage (x)	3.8	3.9	4.0	4.0	3.9
- interest burden (%)	54.6	52.6	52.1	56.8	60.4
- tax burden (%)	85.4	94.5	94.8	94.3	94.7
WACC (%)	4.9	4.9	4.9	5.4	5.4
ROIC (%)	4.6	5.4	5.4	5.7	6.0
NOPAT (Bt m)	14,074	17,124	19,406	21,820	23,749
invested capital (Bt m)	318,651	359,145	382,676	396,288	417,522

Sources: Company data, Thanachart estimates

*Strong profitability from  
its large portion of IPP  
plants in Thailand*

**HOLD** (From: BUY)

Change in Recommendation

**TP: Bt 2.70**

Upside : 4.7%

(From: Bt 3.80)

**26 APRIL 2024**

Small Cap Research

**Gunkul Engineering Pcl** (GUNKUL TB)**Muted growth outlook**

We downgrade GUNKUL to HOLD as we see its de-rated share price to 16x PE in 2024F has fairly reflected its flat near-term earnings outlook, while the growth from 832MW of renewable PPAs won in the bid last year comes much later in 2028-30F. We lower our TP to Bt2.7.

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**Pain before gain; downgrading to HOLD**

This report is part of *Utilities Sector – A new PDP, A new catalyst, dated 26 April 2024*. We downgrade GUNKUL to HOLD (from Buy). *First*, we project GUNKUL's earnings to be flat in 2024-26F. *Second*, most of the 832MW in renewable power purchase agreements (PPAs) won in the "RE Proposal" bid last year are scheduled for COD much later in 2028-30F. As there is also an offsetting factor of declining profit from the expiry of subsidies at its domestic wind farms, we project only 9% p.a. earnings growth for GUNKUL in 2028-31F. *Third*, we foresee potential upside from more renewable bids and rising demand for engineering work in the power industry coming with the new PDP. *Lastly*, its 16x PE in 2024F looks fair to us against its flat near-term earnings, with some potential upside from the PDP.

**Cutting our TP**

We cut our DCF-derived SOTP-based TP (2024F base year) to Bt2.7/share (from Bt3.8) and lower our earnings by 26/25/13% in 2024-26F due to 1) a cut in demand for related construction work from winning renewable projects from the bid last year (i.e., plant installation, and construction of transmission line and substation), and 2) a sharper-than-expected Ft cut by the government and thus lower electricity selling prices from its subsidized renewable power plants. While cutting our TP, we also remove the value earlier given to its cannabis business, since the current government is not looking to promote the industry.

**Muted near-term growth**

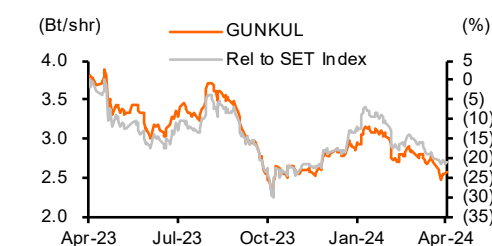
We estimate -6/4/0% earnings growth for GUNKUL in 2024-26F, given there will be no capacity growth during the period. The 6% drop in 2024F is due to lower electricity selling prices at its subsidized solar and wind power projects (a total of 112MW or 17% of operating capacity) as a result of sharp Ft cuts. Even the 177MW of solar farms it won in the recent bid (from a total of 832MW in awarded PPAs) are scheduled to commence operation in 2026F. Their profit contributions will be offset by the expiry of subsidy (adders) at its 30MW wind farm that year.

**Opportunities from the new PDP**

We expect GUNKUL to benefit from the release of the new PDP in two areas. 1) Due to its strong track record of winning 832MW of PPAs, or 16% of last year's bid for 5.2GW of renewable quota, we expect GUNKUL to win more PPAs from future biddings. 2) More renewable project developments also mean more demand for construction work for GUNKUL, which is one of the leading engineering contractors in the Thai power industry. We still leave both as upsides to our numbers at this stage.

**COMPANY VALUATION**

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	7,596	7,785	8,043	8,807
Net profit	1,474	1,477	1,530	1,525
Consensus NP	—	1,757	1,866	2,078
Diff frm cons (%)	—	(15.9)	(18.0)	(26.6)
Norm profit	1,576	1,477	1,530	1,525
Prev. Norm profit	—	2,003	2,043	1,760
Chg frm prev (%)	—	(26.3)	(25.1)	(13.3)
Norm EPS (Bt)	0.2	0.2	0.2	0.2
Norm EPS grw (%)	26.9	(6.3)	3.6	(0.3)
Norm PE (x)	14.5	15.5	15.0	15.0
EV/EBITDA (x)	15.4	15.1	15.5	13.9
P/BV (x)	1.6	1.5	1.5	1.4
Div yield (%)	2.3	2.6	2.7	2.7
ROE (%)	11.3	10.3	10.0	9.4
Net D/E (%)	89.3	75.2	82.2	88.5

**PRICE PERFORMANCE****COMPANY INFORMATION**

Price as of 25-Apr-24 (Bt)	2.58
Market Cap (US\$ m)	618.8
Listed Shares (m shares)	8,882.5
Free Float (%)	44.5
Avg Daily Turnover (US\$ m)	2.6
12M Price H/L (Bt)	3.92/2.28
Sector	Utilities
Major Shareholder	Gunkul Group 48.54%

Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: 12-month DCF-derived SOTP-TP Calculation**

	Valuation method	WACC (%)	Value per GUNKUL share (Bt)
<b>Existing projects</b>			
Solar farms TH	DCF	5.6-5.8%	0.74
Wind farms - TH	DCF	5.6-6.0%	0.79
Solar rooftop - TH	DCF	5.3-5.8%	0.23
832MW from 2023 RE Bid	DCF	5.2-5.6%	0.43
<b>Subtotal - Domestic</b>			<b>2.20</b>
Solar farms - JP	DCF	4.6%	0.39
Solar farms - VN	DCF	5.9%	0.13
Solar farms - MY	DCF	6.3%	0.04
<b>Subtotal - Overseas</b>			<b>0.56</b>
<b>EPC and trading business</b>	DCF	10.1%	<b>0.47</b>
<b>Cash on hands</b>			<b>(0.51)</b>
<b>Grand total</b>			<b>2.71</b>

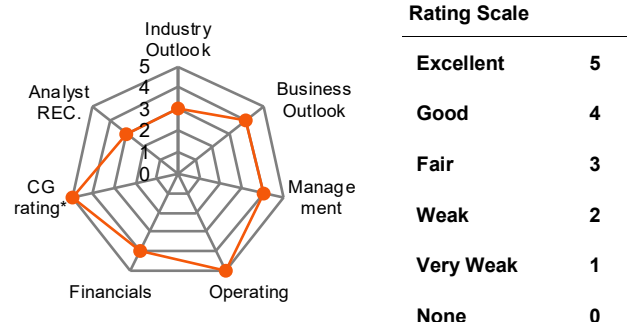
Source: Thanachart estimates

## COMPANY DESCRIPTION

Gunkul Engineering Pcl (GUNKUL) operates three major business units: 1) electrical equipment trading and manufacturing, 2) electricity infrastructure construction service, and 3) renewable power plants. Power generation from renewable sources is now its core business, with a total of 506MW (equity-owned) operating capacity from subsidized solar and wind farms in Thailand, solar power plants abroad, and private solar rooftop projects in Thailand.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

**S — Strength**

- Established reputation and track record in the market, especially for public infrastructure construction projects.
- Strong relationships with local state power agencies.
- Strong cash flow streams from subsidized renewable power plants in Thailand.

**O — Opportunity**

- Bigger slice of the pie in state-enterprise budgets, rising in tandem with a pick-up in the country's GDP.
- Growing development of renewable capacity in Thailand, both from government bids and private demand.

**W — Weakness**

- Limited capacity growth potential in Thailand, given the country's oversupply situation.
- Power generation performance is heavily reliant on natural conditions, which is a normal characteristic for renewable plants.

**T — Threat**

- Lack of expertise in new energy technology, i.e., peer-to-peer trading system, and battery and energy storage.
- Rising number of corporates, both within and outside the utilities sector, investing in renewables to gain benefits from carbon emission neutrality.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	4.30	2.70	-37%
Net profit 24F (Bt m)	1,757	1,477	-16%
Net profit 25F (Bt m)	1,866	1,530	-18%
Consensus REC	BUY: 5	HOLD: 1	SELL: 0

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings forecasts are 16/18% lower than the Bloomberg consensus numbers, which we believe is due to our more bearish assumptions of its construction business during those years.
- Our TP is 37% lower, likely due to us expecting lower profitability from its new renewable projects and our decision to strip out the cannabis business from our numbers.

Sources: Bloomberg consensus, Thanachart estimates

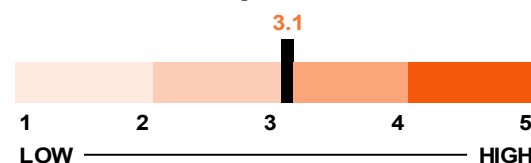
## RISKS TO OUR INVESTMENT CASE

- Less favorable natural conditions, i.e., weak wind speed or low solar radiation, than our assumptions would represent a key downside risk to our earnings forecasts.
- Higher-than-expected new capacity from the JV is an upside risk to our valuation.
- A delay or cancellation of renewable biddings by the government would represent another downside risk to GUNKUL's business growth, and thus our numbers.

Source: Thanachart

GUNKUL operates 506MW of renewable power plants in Thailand and abroad. It also has electrical equipment manufacturing and trading businesses. It recently diversified into the cannabis business. We assign a relatively high ESG score of 3.1 to GUNKUL due to it being a renewable power company that also conducts various social activities to support communities.

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)
GUNKUL	YES	AA	-	AAA	71.73	70.2	27.00	-	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

- GUNKUL, with its core business of a renewable power operation, emits net-negative greenhouse gases (GHG). It has carbon credits from its green energy business, which more than offset emissions from its back office and other smaller businesses.
- Despite already having carbon credits, GUNKUL focuses on energy consumption and waste-reduction policies via efficiency improvement programs and the 3R approach (reduce, reuse, and recycle). It has a goal to lower electricity consumption, waste disposal, and water usage by 5% annually.
- GUNKUL participates in and supports the development of GHG emission standards and a carbon credit trading market in Thailand to promote net-zero emissions policies, where it can also sell carbon credits granted at its renewable projects for extra revenue.

### SOCIAL

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

- GUNKUL's construction service business relies on significant outsourced labor from its partners. The company consistently ensures human rights are protected without excessive working hours, while rest stations and safety equipment are available on its work sites.
- GUNKUL provides various training courses to its staff to keep up with new technological techniques and related regulations linked to its core renewable power business and transmission line construction services.
- Despite most of its business activities being engineering related with exposure to safety risk, GUNKUL reported only 1-2 accidents annually in 2020-22.
- We see GUNKUL's social activity programs as strong. Under its 'Good Neighbors' concept, it supported over 42 local communities around its power plants, especially in the academic and healthcare areas in 2022, and received no complaints from local communities.

### GOVERNANCE & SUSTAINABILITY

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

- Its board of directors (BOD) was reduced to 10 members in 2022, which we see as a better match for GUNKUL's business size. The number of independent directors stayed at four, as did its female directors, thus improving in both aspects in percentage terms.
- We believe GUNKUL has exhibited strong business ethics and provided sufficient business data to the public during its years of operation. Despite its strong business links to government projects and bids, no significant court cases have been filed.
- We like GUNKUL's risk management reports, providing a thorough discussion of impacts from potential regulations and technology changes, with proper mitigation plans.
- GUNKUL was among the first movers in the Thai utilities industry to invest in green energy projects. Going forward, the company has developed a platform to provide trending energy solutions for corporate clients, i.e., solar rooftops with a smart-grid management platform, a carbon credit trading market, and peer-to-peer electricity trading.

Source: Thanachart, Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	6,890	7,596	7,785	8,043	8,807
Cost of sales	4,726	5,160	5,528	5,718	6,147
<b>Gross profit</b>	<b>2,164</b>	<b>2,436</b>	<b>2,257</b>	<b>2,325</b>	<b>2,660</b>
% gross margin	31.4%	32.1%	29.0%	28.9%	30.2%
Selling & administration expenses	1,027	1,155	1,039	1,074	1,149
<b>Operating profit</b>	<b>1,137</b>	<b>1,281</b>	<b>1,218</b>	<b>1,251</b>	<b>1,511</b>
% operating margin	16.5%	16.9%	15.6%	15.5%	17.2%
Depreciation & amortization	1,313	1,011	1,040	1,062	1,216
<b>EBITDA</b>	<b>2,449</b>	<b>2,292</b>	<b>2,258</b>	<b>2,312</b>	<b>2,726</b>
% EBITDA margin	35.5%	30.2%	29.0%	28.8%	31.0%
Non-operating income	676	142	98	101	109
Non-operating expenses	0	0	0	0	0
Interest expense	(865)	(687)	(677)	(658)	(703)
<b>Pre-tax profit</b>	<b>948</b>	<b>736</b>	<b>639</b>	<b>693</b>	<b>917</b>
Income tax	214	179	128	139	183
<b>After-tax profit</b>	<b>735</b>	<b>557</b>	<b>511</b>	<b>554</b>	<b>733</b>
% net margin	10.7%	7.3%	6.6%	6.9%	8.3%
Shares in affiliates' Earnings	511	1,019	975	987	803
Minority interests	(4)	(0)	(9)	(11)	(11)
Extraordinary items	1,769	(101)	0	0	0
<b>NET PROFIT</b>	<b>3,011</b>	<b>1,474</b>	<b>1,477</b>	<b>1,530</b>	<b>1,525</b>
<b>Normalized profit</b>	<b>1,242</b>	<b>1,576</b>	<b>1,477</b>	<b>1,530</b>	<b>1,525</b>
EPS (Bt)	0.3	0.2	0.2	0.2	0.2
Normalized EPS (Bt)	0.1	0.2	0.2	0.2	0.2

*Flat earnings outlook  
given no capacity  
growth in near term*

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	7,220	6,796	6,886	6,526	6,416
Cash & cash equivalent	3,726	2,751	2,683	2,183	1,683
Account receivables	944	1,125	1,280	1,322	1,448
Inventories	984	1,176	1,136	1,175	1,263
Others	1,566	1,744	1,787	1,846	2,022
Investments & loans	5,542	5,523	5,523	5,523	5,523
Net fixed assets	14,732	14,967	14,427	16,955	19,080
Other assets	4,838	5,565	5,695	5,871	6,394
<b>Total assets</b>	<b>32,331</b>	<b>32,850</b>	<b>32,531</b>	<b>34,876</b>	<b>37,412</b>
<b>LIABILITIES:</b>					
Current liabilities:	4,804	6,349	6,134	6,513	7,073
Account payables	1,693	1,814	1,893	1,958	2,105
Bank overdraft & ST loans	482	1,079	695	761	827
Current LT debt	1,766	2,649	2,641	2,892	3,141
Others current liabilities	863	807	905	902	1,000
<b>Total LT debt</b>	<b>12,432</b>	<b>11,518</b>	<b>10,563</b>	<b>11,570</b>	<b>12,563</b>
Others LT liabilities	956	993	919	939	997
<b>Total liabilities</b>	<b>18,192</b>	<b>18,860</b>	<b>17,616</b>	<b>19,022</b>	<b>20,633</b>
Minority interest	63	58	67	78	89
Preferreds shares	0	0	0	0	0
Paid-up capital	2,221	2,221	2,221	2,221	2,221
Share premium	5,179	5,179	5,179	5,179	5,179
Warrants	0	0	0	0	0
Surplus	(1,130)	(1,688)	(1,688)	(1,688)	(1,688)
<b>Retained earnings</b>	<b>7,807</b>	<b>8,221</b>	<b>9,136</b>	<b>10,065</b>	<b>10,979</b>
Shareholders' equity	14,077	13,933	14,848	15,777	16,691
<b>Liabilities &amp; equity</b>	<b>32,331</b>	<b>32,850</b>	<b>32,531</b>	<b>34,876</b>	<b>37,412</b>

*Healthy balance sheet  
for further investment  
opportunities*

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	948	736	639	693	917
Tax paid	(121)	(244)	(87)	(156)	(165)
Depreciation & amortization	1,313	1,011	1,040	1,062	1,216
Chg In working capital	358	(252)	(35)	(16)	(67)
Chg In other CA & CL / minorities	(220)	845	989	942	708
<b>Cash flow from operations</b>	<b>2,278</b>	<b>2,096</b>	<b>2,544</b>	<b>2,525</b>	<b>2,609</b>
Capex	10,491	(1,246)	(500)	(3,591)	(3,341)
Right of use	139	35	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(3,709)	19	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	2,871	(765)	(204)	(157)	(464)
<b>Cash flow from investments</b>	<b>9,792</b>	<b>(1,957)</b>	<b>(704)</b>	<b>(3,747)</b>	<b>(3,805)</b>
Debt financing	(10,157)	504	(1,346)	1,324	1,307
Capital increase	0	0	0	0	0
Dividends paid	(1,598)	(1,066)	(562)	(601)	(611)
Warrants & other surplus	(457)	(553)	0	0	0
<b>Cash flow from financing</b>	<b>(12,212)</b>	<b>(1,114)</b>	<b>(1,908)</b>	<b>723</b>	<b>696</b>
<b>Free cash flow</b>	<b>12,769</b>	<b>850</b>	<b>2,044</b>	<b>(1,066)</b>	<b>(732)</b>

Cash generation from  
still resilient existing  
power plants

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	18.5	14.5	15.5	15.0	15.0
Normalized PE - at target price (x)	19.3	15.2	16.2	15.7	15.7
PE (x)	7.6	15.5	15.5	15.0	15.0
PE - at target price (x)	8.0	16.3	16.2	15.7	15.7
EV/EBITDA (x)	13.8	15.4	15.1	15.5	13.9
EV/EBITDA - at target price (x)	14.3	15.9	15.6	16.0	14.2
P/BV (x)	1.6	1.6	1.5	1.5	1.4
P/BV - at target price (x)	1.7	1.7	1.6	1.5	1.4
P/CFO (x)	10.1	10.9	9.0	9.1	8.8
Price/sales (x)	3.3	3.0	2.9	2.8	2.6
Dividend yield (%)	2.3	2.3	2.6	2.7	2.7
FCF Yield (%)	55.7	3.7	8.9	(4.7)	(3.2)
<b>(Bt)</b>					
Normalized EPS	0.1	0.2	0.2	0.2	0.2
EPS	0.3	0.2	0.2	0.2	0.2
DPS	0.1	0.1	0.1	0.1	0.1
BV/share	1.6	1.6	1.7	1.8	1.9
CFO/share	0.3	0.2	0.3	0.3	0.3
FCF/share	1.4	0.1	0.2	(0.1)	(0.1)

Sources: Company data, Thanachart estimates

Its 16x PE in 2024F  
already looks fair to us



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	(13.3)	10.2	2.5	3.3	9.5
Net profit (%)	35.0	(51.0)	0.1	3.6	(0.3)
EPS (%)	35.0	(51.0)	0.1	3.6	(0.3)
Normalized profit (%)	(38.6)	26.9	(6.3)	3.6	(0.3)
Normalized EPS (%)	(38.6)	26.9	(6.3)	3.6	(0.3)
Dividend payout ratio (%)	17.7	36.1	40.0	40.0	40.0
<b>Operating performance</b>					
Gross margin (%)	31.4	32.1	29.0	28.9	30.2
Operating margin (%)	16.5	16.9	15.6	15.5	17.2
EBITDA margin (%)	35.5	30.2	29.0	28.8	31.0
Net margin (%)	10.7	7.3	6.6	6.9	8.3
D/E (incl. minor) (x)	1.0	1.1	0.9	1.0	1.0
Net D/E (incl. minor) (x)	0.8	0.9	0.8	0.8	0.9
Interest coverage - EBIT (x)	1.3	1.9	1.8	1.9	2.1
Interest coverage - EBITDA (x)	2.8	3.3	3.3	3.5	3.9
ROA - using norm profit (%)	3.3	4.8	4.5	4.5	4.2
ROE - using norm profit (%)	9.1	11.3	10.3	10.0	9.4
<b>DuPont</b>					
ROE - using after tax profit (%)	5.4	4.0	3.5	3.6	4.5
- asset turnover (x)	0.2	0.2	0.2	0.2	0.2
- operating margin (%)	26.3	18.7	16.9	16.8	18.4
- leverage (x)	2.8	2.3	2.3	2.2	2.2
- interest burden (%)	52.3	51.7	48.5	51.3	56.6
- tax burden (%)	77.5	75.7	80.0	80.0	80.0
WACC (%)	5.8	5.8	5.8	6.0	6.0
ROIC (%)	2.6	3.9	3.7	3.8	4.2
NOPAT (Bt m)	881	969	974	1,000	1,208
invested capital (Bt m)	25,031	26,428	26,064	28,817	31,538

Sources: Company data, Thanachart estimates

ROE remains at a decent  
level in our view

**BUY** (From: HOLD)  
Change in Recommendation

**TP: Bt 33.00** (From: Bt 36.00)  
**Upside : 17.9%**

**26 APRIL 2024**

# RATCH Group Pcl (RATCH TB)

## Correction overdone

We upgrade our call on RATCH to BUY, expecting the Paiton acquisition in 2H24F to drive its earnings growth by 44/36% in 2024-25F. We thus see its 10x PE, against this growth outlook, has been de-rated enough for its investment in a coal-fired power plant.



**NUTTAPOL PRASITSUKSANT**

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### Upgrading to BUY

This report is a part of *Utilities Sector – A new PDP, A new Catalyst dated 26 April 2024*. We upgrade RATCH to BUY (from Hold) despite cutting our DCF-derived SOTP TP (2024F base year) to Bt33 (from Bt36) due to our 30/9/2% earnings cuts from an acquisition delay and weaker-than-expected profits last year. *First*, we see its 36% share price fall from last year's peak as enough of a de-rating on emerging ESG concerns from its plan to invest in the coal power project. *Second*, we expect RATCH to finalize the Paiton acquisition in 3Q24F and estimate the project to help grow its earnings by 44/36% in 2024-25F. *Third*, the Paiton project and its new renewable projects should help curb the impact of expiring IPP contracts in 2025-27F. Net-net, despite 3.6GW of IPPs set to expire in 2025-27F, we project RATCH's total capacity to fall only to 6.5GW in 2028F, from 7.8GW now.

### Finalizing Paiton

We expect RATCH to finalize the acquisition deal for Paiton in 3Q24F after it was delayed from 1H22. The plan is to acquire a 36% stake in the operational 2.1GW Paiton coal-fired power plant in Indonesia. Since RATCH raised capital via a public offering in 2Q22 to fund the deal, the delay has been a disappointment to the market. We expect profits from Paiton at Bt0.9/2.1/2.7bn in 2024-26F, which would more than offset the negative impact from the expiry of RATCH's 3.6GW of IPP projects over 2025-27F. Coal-fired power exposure would jump to 25% of RATCH's total capacity after this deal vs. 11% at present.

### More aggressive in renewables

RATCH has been more active in investing in renewable projects since 2021. Based on its secured projects, its renewable capacity will increase to 2.8GW in 2030F, from 1.5GW in 2023, implying a 40% mix of its 6.9GW total capacity then. Some key projects are 1) 263MW solar farms (50%-owned) with battery energy storage in Australia to gradually COD over 2024-26F, 2) the 252MW Lincoln Gap 3 wind farm (100%) in Australia to COD in 2026, and 3) 440MW of wind projects in the Philippines to COD in 2028-29.

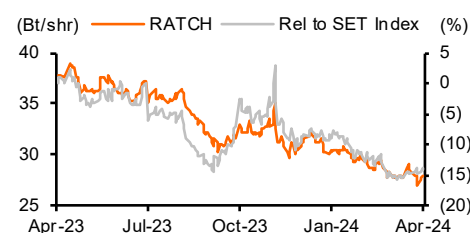
### Already de-rated valuation

RATCH's share price has fallen 36% from last year's peak. The stock thus now looks inexpensive to us at a 10/7/6x PE against its strong EPS growth of 44/36/12% in 2024-26F. RATCH also offers a 6% dividend yield, which we see as sustainable. Its de-rated share price, in our view, has reflected ESG concerns over its investment in coal power, which is strongly against an intensifying green investment trend. Having said that, we foresee RATCH's ESG outlook improving, with its renewable portion growing to 40% of its total capacity in 2030F, from 19% in 2023.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	43,675	50,110	47,579	37,439
Net profit	5,167	6,355	8,653	9,673
Consensus NP	—	6,930	7,883	8,246
Diff frm cons (%)	—	(8.3)	9.8	17.3
Norm profit	4,406	6,355	8,653	9,673
Prev. Norm profit	—	9,053	9,498	9,911
Chg frm prev (%)	—	(29.8)	(8.9)	(2.4)
Norm EPS (Bt)	2.0	2.9	4.0	4.4
Norm EPS grw (%)	(29.3)	44.2	36.2	11.8
Norm PE (x)	13.8	9.6	7.0	6.3
EV/EBITDA (x)	16.4	20.3	16.2	14.7
P/BV (x)	0.6	0.6	0.6	0.5
Div yield (%)	5.7	5.7	6.4	7.1
ROE (%)	4.5	6.4	8.4	8.9
Net D/E (%)	52.3	73.8	63.8	56.0

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 25-Apr-24 (Bt)	28.00
Market Cap (US\$ m)	1,644.4
Listed Shares (m shares)	2,175.0
Free Float (%)	46.2
Avg Daily Turnover (US\$ m)	3.7
12M Price H/L (Bt)	39.00/27.00
Sector	Utilities
Major Shareholder	EGAT 45%

Sources: Bloomberg, Company data, Thanachart estimates

**ESG Summary Report ..... P79**

**Ex 1: Our 12-month DCF-derived SOTP-based Valuation (2024F Base Year)**

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	Terminal Value
EBITDA excl. depre from right of use	7,001	8,312	8,808	8,570	9,102	9,890	9,974	9,794	9,807	9,700	9,749	9,804	29,086
Free cash flow	(22,827)	7,869	4,672	(3,814)	(5,202)	3,582	8,609	8,511	8,539	8,490	8,544	8,587	33,489
PV of free cash flow	0	6,808	3,760	(2,855)	(3,621)	2,319	5,185	4,618	4,291	3,953	3,685	3,431	11,124
Risk Free (%)	2.5												
Market Risk Premium (%)	8.0												
Beta	1.0												
Wacc (%)	7.1												
Terminal Growth (%)	2.0												
Enterprise Value, incl investments*	52,795												
# of Shares	2,175												
<b>Enterprise Value / Share</b>	<b>24.3</b>												
<b>Plus projects under associates and affiliates</b>													<b>Bt/share</b>
<b>Enterprise Value - subsidiaries</b>													<b>24.3</b>
<b>Associates and affiliates</b>													
<b>1. Domestic conventional</b>													<b>25.8</b>
- IPP plants (RPCL, HPC, Hin Kong)													20.8
- SPP plants (RW, NNEG, Berkprai, REN)													5.0
<b>2. Domestic renewables</b>													<b>1.3</b>
- Solar farms (Solarta, Korat-3/4/7)													0.6
- Wind farm (Houy Bong)													0.7
<b>3. Laos hydropower</b>													<b>4.4</b>
- NN2													1.7
- Xepian Xe Namnoy													2.0
- Xekong 4A & 4B													0.7
<b>4. Overseas projects</b>													<b>2.8</b>
- Riau (Gas, Indonesia)													0.8
- Paiton (Coal, Indonesia)													1.5
- Thang Long (Coal, Vietnam)													0.5
<b>5. Other investments</b>													<b>4.5</b>
- BAFS													0.9
- PRINC													0.6
- SCG													0.7
- Motorway M6 and M81													0.7
- MRT Pink and Yellow Line													1.5
Net debt													(25.8)
Minority													(4.2)
<b>Total</b>													<b>33.0</b>

Source: Thanachart estimates

COMPANY DESCRIPTION

Ratchaburi Electricity Generating Holding Plc (RATCH) is a subsidiary of the Electricity Generating Authority of Thailand (EGAT), which holds a 45% stake. RATCH has a target to reach a total capacity of 10GW by 2025. RATCH has invested in several power projects overseas (Laos, Australia, and Indonesia) to offset slower Thai power sector growth and lately expanded into non-power infrastructure businesses like hospitals, motorways, and transportation services.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

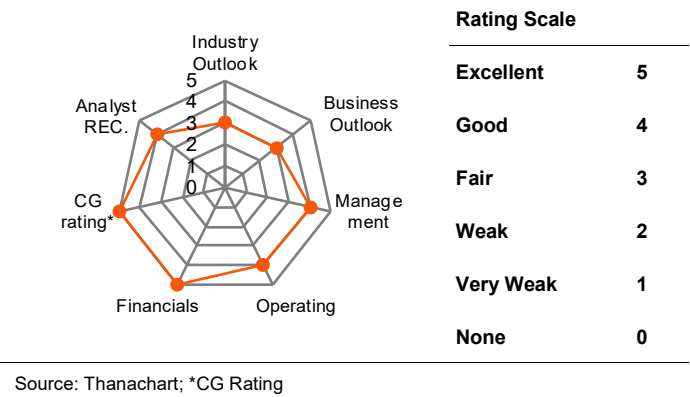
S — Strength

- 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 its trustworthy and renowned shareholder (EGAT).
- Low gearing allows opportunities for overseas M&As.

O — Opportunity

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

COMPANY RATING



W — Weakness

- Conservative approach to changes in technological trends.

T — Threat

- Regulatory risk given more environmental concerns.
- Increasing worries about environmental impacts could raise investment costs.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	34.20	33.00	-4%
Net profit 24F (Bt m)	6,930	6,355	-8%
Net profit 25F (Bt m)	7,883	8,653	10%
Consensus REC	BUY: 4	HOLD: 4	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe the deviation of our 2024-25F earnings from the Bloomberg consensus is due to different in assumptions for the deal closing date and profitability from the Paiton project.
- Our TP is 4% lower than the Street's, likely as we have a more bearish view on RATCH's long-term cash generation and assign more aggressive discount rates for its coal projects.

Sources: Bloomberg consensus, Thanachart estimates

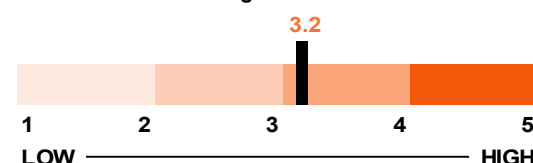
RISKS TO OUR INVESTMENT CASE

- If the profit contributions of projects it is acquiring and closing M&A deals for lower than our expectations, this would represent a downside risk to our call.
- If RATCH fails to spend proceeds from its capital call to invest in larger-capacity or higher-profitability projects than we presently expect, this would offer another downside risk to our valuation.
- Later-than-expected closure of M&A deals would also be a downside risk to our earnings forecasts and valuation.

Source: Thanachart

Our ESG score for RATCH is just 3.2 despite its clear and detailed ESG report. The addition of renewables to its portfolio has been slow, and it needs to invest in coal power to sustain its business. We see social activity as its strongest ESG aspect. Clarification is required as being a subsidiary of a state-owned enterprise enhances its business transparency but costs RATCH slow business decisions, in our view.

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)
RATCH	YES	AA	-	BB	52.82	59.49	62.00	-	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

- RATCH targets to raise the renewable portion of its total power generation capacity to 25% by 2025 (from 19% as of 2Q23), with a long-term goal to reach carbon neutrality by 2050.
- RATCH emitted a total of 7.4m tonnes of CO2 equivalent greenhouse gas (GHG) in 2022. It is implementing various internal electricity consumption reduction policies and installing more solar rooftops and floating projects to grow its company-owned green energy supply.
- RATCH is one of the strong driving forces in promoting GHG emission reduction policies and the carbon credit market in Thailand to speed the country up in reaching its committed carbon emissions targets pledged at the COP-26 meeting.
- RATCH also pays attention to reducing air, water, and sound pollution from its power plants. It tracks and monitors emission amounts closely, as reported in its annual reports, for continuous evaluation and proper execution of pollution-reduction measures.

### SOCIAL

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

- RATCH provides a working environment and plant safety controls that protect its employees from unexpected accidents and working risks as much as possible. It received 21 reports of issues from its employees about its working environment in 2022 (down from 26 cases in 2021 and 41 in 2019). It resolved all the reported issues within a year.
- RATCH has strong, detailed crisis-management plans, i.e., for emerging pandemic and unexpected accident risks at its power plants to ensure business continuity and staff safety.
- RATCH provides educational and healthcare support to communities surrounding its power plants as its key social activities. The company also visits nearby villagers to help solve their living problems, whether or not they are caused by its operations.

### GOVERNANCE & SUSTAINABILITY

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

- RATCH's board of directors comprises 12 members, of whom six (50%) are independent directors. There are three female directors (25%) on its board.
- As a part of the major state-owned enterprise, RATCH has strong transparency and business ethics. However, the requirements to report or gain approval from the cabinet for key issues are a drawback as they make its business decisions slow, in our view.
- RATCH has diversified into non-power businesses, i.e. motorway, transport, and healthcare services. Though we don't see this move benefiting RATCH financially, we regard it as a decent approach to ensure its long-term business sustainability, as RATCH has a sizable amount of power plant contracts set to expire over the next five years.
- Besides its partnerships with companies within the EGAT Group, we believe RATCH lacks initiative in introducing new technology and innovations to improve or grow its business.

Sources: Thanachart , Company data

## INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	74,725	43,675	50,110	47,579	37,439
Cost of sales	69,287	37,558	44,311	40,195	29,333
<b>Gross profit</b>	<b>5,439</b>	<b>6,117</b>	<b>5,798</b>	<b>7,384</b>	<b>8,106</b>
% gross margin	7.3%	14.0%	11.6%	15.5%	21.7%
Selling & administration expenses	2,779	3,037	2,789	2,814	2,840
<b>Operating profit</b>	<b>2,660</b>	<b>3,080</b>	<b>3,009</b>	<b>4,570</b>	<b>5,266</b>
% operating margin	3.6%	7.1%	6.0%	9.6%	14.1%
Depreciation & amortization	3,037	4,065	3,992	3,742	3,542
<b>EBITDA</b>	<b>5,697</b>	<b>7,145</b>	<b>7,001</b>	<b>8,312</b>	<b>8,808</b>
% EBITDA margin	7.6%	16.4%	14.0%	17.5%	23.5%
Non-operating income	1,011	3,158	1,801	1,315	1,258
Non-operating expenses	0	0	0	0	0
Interest expense	(2,751)	(4,443)	(4,414)	(4,372)	(4,121)
<b>Pre-tax profit</b>	<b>920</b>	<b>1,795</b>	<b>396</b>	<b>1,513</b>	<b>2,403</b>
Income tax	600	860	127	499	841
<b>After-tax profit</b>	<b>320</b>	<b>934</b>	<b>269</b>	<b>1,014</b>	<b>1,562</b>
% net margin	0.4%	2.1%	0.5%	2.1%	4.2%
Shares in affiliates' Earnings	4,934	3,783	6,274	8,092	9,059
Minority interests	106	(312)	(188)	(453)	(948)
Extraordinary items	422	761	0	0	0
<b>NET PROFIT</b>	<b>5,782</b>	<b>5,167</b>	<b>6,355</b>	<b>8,653</b>	<b>9,673</b>
<b>Normalized profit</b>	<b>5,360</b>	<b>4,406</b>	<b>6,355</b>	<b>8,653</b>	<b>9,673</b>
EPS (Bt)	3.1	2.4	2.9	4.0	4.4
Normalized EPS (Bt)	2.9	2.0	2.9	4.0	4.4

Acquisition deal drives strong earnings growth in 2024-25F

## BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
Current assets:	55,484	41,618	26,059	30,544	33,618
Cash & cash equivalent	37,500	30,069	13,000	18,000	23,000
Account receivables	12,582	5,324	6,864	6,518	5,129
Inventories	1,946	2,513	2,428	2,202	1,607
Others	3,456	3,712	3,767	3,824	3,882
Investments & loans	62,136	64,850	89,974	89,974	89,974
Net fixed assets	52,338	51,492	53,542	50,550	51,058
Other assets	55,845	51,728	52,762	53,818	54,894
<b>Total assets</b>	<b>225,803</b>	<b>209,687</b>	<b>222,338</b>	<b>224,886</b>	<b>229,545</b>
<b>LIABILITIES:</b>					
Current liabilities:	29,173	33,127	19,120	18,168	16,331
Account payables	11,577	6,393	7,284	6,607	4,822
Bank overdraft & ST loans	8,685	1,945	2,129	2,072	2,064
Current LT debt	7,580	24,131	9,215	8,968	8,933
Others current liabilities	1,332	659	492	521	512
<b>Total LT debt</b>	<b>78,999</b>	<b>60,023</b>	<b>82,931</b>	<b>80,709</b>	<b>80,395</b>
Others LT liabilities	10,227	9,403	10,091	10,393	10,705
<b>Total liabilities</b>	<b>118,400</b>	<b>102,554</b>	<b>112,141</b>	<b>109,270</b>	<b>107,431</b>
Minority interest	9,375	9,136	9,324	9,777	10,725
Preferreds shares	0	0	0	0	0
Paid-up capital	21,750	21,750	21,750	21,750	21,750
Share premium	19,280	19,280	19,280	19,280	19,280
Warrants	0	0	0	0	0
Surplus	(4,461)	(6,179)	(6,179)	(6,179)	(6,179)
<b>Retained earnings</b>	<b>61,460</b>	<b>63,147</b>	<b>66,022</b>	<b>70,989</b>	<b>76,538</b>
Shareholders' equity	98,029	97,997	100,873	105,839	111,388
<b>Liabilities &amp; equity</b>	<b>225,803</b>	<b>209,687</b>	<b>222,338</b>	<b>224,886</b>	<b>229,545</b>

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

Healthy cashflow stream  
from existing projects

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	920	1,795	396	1,513	2,403
Tax paid	(589)	(802)	(154)	(484)	(863)
Depreciation & amortization	3,037	4,065	3,992	3,742	3,542
Chg In working capital	208	1,506	(563)	(104)	199
Chg In other CA & CL / minorities	4,308	2,135	6,078	8,049	9,014
<b>Cash flow from operations</b>	<b>7,883</b>	<b>8,700</b>	<b>9,749</b>	<b>12,716</b>	<b>14,294</b>
Capex	(18,929)	(2,697)	(5,542)	(250)	(3,550)
Right of use	0	0	0	0	0
ST loans & investments	1,063	110	0	0	0
LT loans & investments	(10,412)	(2,714)	(25,125)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(8,274)	2,624	(4,639)	(1,253)	(1,265)
<b>Cash flow from investments</b>	<b>(36,552)</b>	<b>(2,677)</b>	<b>(35,306)</b>	<b>(1,503)</b>	<b>(4,815)</b>
Debt financing	35,999	(8,239)	8,176	(2,526)	(357)
Capital increase	24,998	0	0	0	0
Dividends paid	(3,697)	3,480	(3,480)	(3,687)	(4,123)
Warrants & other surplus	609	(8,678)	0	0	0
<b>Cash flow from financing</b>	<b>57,909</b>	<b>(13,437)</b>	<b>4,696</b>	<b>(6,213)</b>	<b>(4,480)</b>
<b>Free cash flow</b>	<b>(11,046)</b>	<b>6,003</b>	<b>4,207</b>	<b>12,466</b>	<b>10,744</b>

## VALUATION

We see its valuation as  
having de-rated enough

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	9.8	13.8	9.6	7.0	6.3
Normalized PE - at target price (x)	11.5	16.3	11.3	8.3	7.4
PE (x)	9.1	11.8	9.6	7.0	6.3
PE - at target price (x)	10.7	13.9	11.3	8.3	7.4
EV/EBITDA (x)	19.3	16.4	20.3	16.2	14.7
EV/EBITDA - at target price (x)	21.0	17.9	21.9	17.5	15.9
P/BV (x)	0.6	0.6	0.6	0.6	0.5
P/BV - at target price (x)	0.7	0.7	0.7	0.7	0.6
P/CFO (x)	6.6	7.0	6.2	4.8	4.3
Price/sales (x)	0.8	1.4	1.2	1.3	1.6
Dividend yield (%)	5.7	5.7	5.7	6.4	7.1
FCF Yield (%)	(21.1)	9.9	6.9	20.5	17.6
<b>(Bt)</b>					
Normalized EPS	2.9	2.0	2.9	4.0	4.4
EPS	3.1	2.4	2.9	4.0	4.4
DPS	1.6	1.6	1.6	1.8	2.0
BV/share	45.1	45.1	46.4	48.7	51.2
CFO/share	4.2	4.0	4.5	5.8	6.6
FCF/share	(5.9)	2.8	1.9	5.7	4.9

Sources: Company data, Thanachart estimates



## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate</b>					
Sales (%)	100.2	(41.6)	14.7	(5.0)	(21.3)
Net profit (%)	(26.0)	(10.6)	23.0	36.2	11.8
EPS (%)	(39.5)	(23.2)	23.0	36.2	11.8
Normalized profit (%)	(17.6)	(17.8)	44.2	36.2	11.8
Normalized EPS (%)	(32.5)	(29.3)	44.2	36.2	11.8
Dividend payout ratio (%)	60.2	67.3	54.8	45.0	45.0
<b>Operating performance</b>					
Gross margin (%)	7.3	14.0	11.6	15.5	21.7
Operating margin (%)	3.6	7.1	6.0	9.6	14.1
EBITDA margin (%)	7.6	16.4	14.0	17.5	23.5
Net margin (%)	0.4	2.1	0.5	2.1	4.2
D/E (incl. minor) (x)	0.9	0.8	0.9	0.8	0.7
Net D/E (incl. minor) (x)	0.5	0.5	0.7	0.6	0.6
Interest coverage - EBIT (x)	1.0	0.7	0.7	1.0	1.3
Interest coverage - EBITDA (x)	2.1	1.6	1.6	1.9	2.1
ROA - using norm profit (%)	2.8	2.0	2.9	3.9	4.3
ROE - using norm profit (%)	6.4	4.5	6.4	8.4	8.9
<b>DuPont</b>					
ROE - using after tax profit (%)	0.4	1.0	0.3	1.0	1.4
- asset turnover (x)	0.4	0.2	0.2	0.2	0.2
- operating margin (%)	4.9	14.3	9.6	12.4	17.4
- leverage (x)	2.3	2.2	2.2	2.2	2.1
- interest burden (%)	25.1	28.8	8.2	25.7	36.8
- tax burden (%)	34.8	52.1	68.0	67.0	65.0
WACC (%)	7.1	7.1	7.1	7.5	7.5
ROIC (%)	0.8	1.0	1.3	1.7	1.9
NOPAT (Bt m)	925	1,603	2,046	3,062	3,423
invested capital (Bt m)	155,793	154,027	182,148	179,587	179,780

Sources: Company data, Thanachart estimates

*Profitability looks set to improve after completion of acquisition deal*

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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

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