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KEY HIGHLIGHTS

Update

Esso Thailand (ESSO TB/HOLD/Bt9.50/Target: Bt9.80)

On the path to margin recovery with limited upside.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,557.41	8.40	0.54
SET50	960.35	5.64	0.59
Value (Btm) - SET	64,545		
Top 5 Sector			
BANK	403.86	(7.22)	(1.76)
PETRO	758.40	4.35	0.58
PROP	244.44	1.45	0.60
ENERG	22,371.83	58.47	0.26
ICT	158.40	(0.06)	(0.04)

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
DELTA	110.50	7.28	30,983.4
KTB	19.10	(4.50)	154,678.0
EA	63.75	4.51	42,152.7
BDMS	27.50	(2.65)	94,011.7
KBANK	131.00	(1.13)	17,742.0

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SGF	0.62	31.91	16,351.9
TWZ	0.05	25.00	8,808.3
MPIC	1.69	23.36	77,824.0
ADD	6.95	17.80	755.9
ARIN	4.74	16.75	724.3

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
AKS	0.01	(50.00)	8,691.0
TSTE	8.00	(16.23)	2.0
PPPM	0.07	(12.50)	2,997.3
KC	0.09	(10.00)	961.3
3K-BAT	50.00	(9.09)	1.0

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	83.2	(0.1)	10.2	0.8
Dubai crude*	85.2	3.2	10.8	8.3
Baltic Dry Index	1,151.0	19.6	(5.3)	(24.0)
Gold Spot***	1,915.5	(2.5)	(1.3)	5.0

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
23.1	(314.0)	(3,782.2)	(9,475.3)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 35.05

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 6.85

COMPANY UPDATE

Esso Thailand (ESSO TB)

On The Path To Margin Recovery With Limited Upside

We are still positive on ESSO's earnings outlook in 3Q23. We think GRM will remain strong until 4Q23. We believe the acquisition from BCP is likely to be finalised soon with a purchase price of around Bt9.6-9.8/share, which implies both limited upside and downside from ESSO's current price. Maintain HOLD. Target price: Bt9.80.

WHAT'S NEW

- Benefit from strength of gasoline crack spread.** We attended ESSO Thailand's (ESSO) analyst meeting. Overall, ESSO should continue to benefit from the strength of the gasoline crack spread, implying solid earnings momentum in 3Q23. Current gasoline spread has been increasing, up to US\$22.0/bbl last week from an average of US\$16.6/bbl in 2Q23, supported by strong demand in driving seasons with an improving economic outlook in the US. Prices for diesel and jet fuel also have been rising much faster than for crude petroleum, widening margins for refiners. Note that the benchmark Singapore gross refinery margin (GRM) jumped to US\$8.7/bbl qtd, up from only US\$4.1/bbl in 2Q23.
- Preparing for EURO 5.** ESSO is preparing for a 1.5-month major turnaround for implementing and connecting a new facility for Sriracha Euro 5 Project, starting in Sep 23. The improvement project must be completed by 31 Dec 23. The Thai government originally planned to enforce Euro 5 and 6 standards in 2021 and 2022, but postponed Euro 5 until 1 Jan 24, citing economic damage caused by COVID-19. The government delayed Euro 6 enforcement to 2025 for small petrol-powered vehicles, and to 2026 for large petrol vehicles and all diesel vehicles. Despite the scheduled maintenance, we still believe ESSO will post strong qoq earnings growth in 3Q23 due to impressive crack spread for diesel, gasoline and jet fuel as mentioned above.
- Merger with BCP likely to be finalised soon.** The Trade Competition Commission of Thailand (TCCT) already approved the proposed merger of petroleum companies Bangchak Corporation (BCP) and ESSO last month. According to our checks, we think the M&A price should be around Bt9.6-9.8/share, based on ESSO's 2Q23 earnings. After the deal is completed, BCP estimates that the merger will increase its fuel stations to 2,145 nationwide (BCP: 1,343, ESSO: 802). This will drive BCP's market share of the fuel station market to 7.7% but still leave it in fourth place behind unbranded stations (70.9%), PTT Oil and Retail Business (OR) (42%) and PT Energy (15%).

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	172,878	263,000	200,434	197,600	203,498
EBITDA	8,375	14,659	7,881	7,766	7,997
Operating profit	5,550	11,853	5,081	4,966	5,197
Net profit (rep./act.)	4,443	9,508	4,325	4,017	4,241
Net profit (adj.)	4,443	9,508	4,325	4,017	4,241
EPS (Bt)	1.3	2.7	1.2	1.2	1.2
PE (x)	7.4	3.5	7.6	8.2	7.8
P/B (x)	1.7	1.2	1.1	1.1	1.0
EV/EBITDA (x)	8.3	4.7	8.8	8.9	8.7
Dividend yield (%)	1.6	3.2	2.1	12.6	23.2
Net margin (%)	2.6	3.6	2.2	2.0	2.1
Net debt/(cash) to equity (%)	187.6	159.2	125.1	45.4	37.7
Interest cover (x)	26.9	39.0	19.7	19.8	20.3
ROE (%)	26.5	41.0	15.3	13.3	13.1
Consensus net profit	-	-	3,641	4,452	4,887
UOBKH/Consensus (x)	-	-	1.19	0.90	0.87

Source: Esso Thailand, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt9.50
Target Price	Bt9.80
Upside	+3.2%

COMPANY DESCRIPTION

Refinery

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	ESSO TB
Shares issued (m):	3,460.9
Market cap (Btm):	32,878.2
Market cap (US\$m):	937.6
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

52-week high/low	Bt14.70/Bt8.30				
1mth	3mth	6mth	1yr	YTD	
2.7	7.3	6.7	(25.8)	(24.6)	

Major Shareholders

	%
ExxonMobil International Holdings Inc.	65.4
Vayupak Fund	7.3
FY23 NAV/Share (Bt)	8.45
FY23 Net Debt/Share (Bt)	10.57

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Healthy outlook in 2H23.** We anticipate a favourable company outlook for 2H23. We also foresee a positive GRM trajectory in 4Q23 due to seasonal maintenance activities and strong demand during the winter season. **We also anticipate lower crude premium to US\$1.7/bbl in 3Q23 from US\$2.8/bbl in 2Q23.** Without inventory impact, we believe ESSO's earnings should hover at around Bt500-700m/quarter in 2H23 (from Bt380m in 2Q23).

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain HOLD with target price of Bt9.80.** We value ESSO based on EV/EBITDA at 5.5x, which is the acquisition value from BCP. Our target price implies 1.0x P/B of 2024F. We believe the share price has limited upside in the short term, based on indicative purchase price from BCP and the 1.5-month scheduled maintenance in 4Q23.

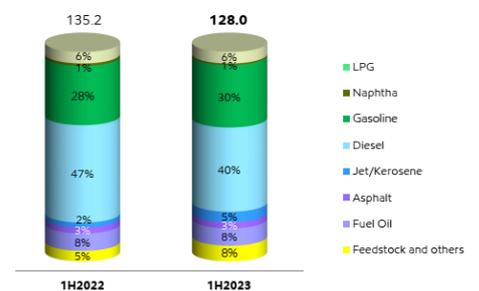
SHARE PRICE CATALYST

- 3Q23: Expect a recovery in GRM.

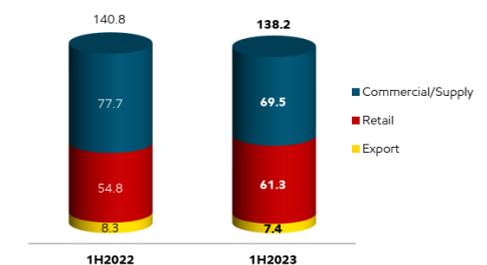
SINGAPORE'S GRM



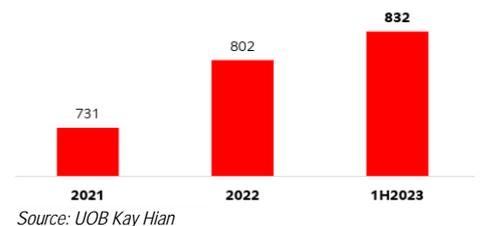
PRODUCTION YIELD



ESSO SALES CHANNEL



NO. SERVICE STATIONS



GLOBAL CRUDE INVENTORIES



PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	263,000	200,434	197,600	203,498
EBITDA	14,659	7,881	7,766	7,997
Deprec. & amort.	2,806	2,800	2,800	2,800
EBIT	11,853	5,081	4,966	5,197
Total other non-operating income	40	180	50	50
Associate contributions	312	547	400	450
Net interest income/(expense)	(376)	(400)	(392)	(393)
Pre-tax profit	11,829	5,408	5,024	5,304
Tax	(2,320)	(1,082)	(1,005)	(1,061)
Minorities	(1)	(2)	(2)	(2)
Net profit	9,508	4,325	4,017	4,241
Net profit (adj.)	9,508	4,325	4,017	4,241

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	1,406	5,485	11,779	4,033
Pre-tax profit	11,829	5,408	5,024	5,304
Tax	(2,320)	(1,082)	(1,005)	(1,061)
Deprec. & amort.	2,806	2,800	2,800	2,800
Working capital changes	(12,527)	(5,549)	4,971	(2,999)
Non-cash items	(1)	(2)	(2)	(2)
Other operating cashflows	1,618	3,909	(9)	(9)
Investing	(2,105)	(1,653)	(1,401)	(1,301)
Capex (growth)	(2,083)	(1,200)	(1,201)	(1,201)
Investments	(49)	(209)	(200)	(100)
Others	27	(244)	0	0
Financing	483	(3,360)	(3,205)	(3,317)
Dividend payments	(1,473)	(2,162)	(2,008)	(2,121)
Issue of shares	n.a.	n.a.	n.a.	n.a.
Proceeds from borrowings	1,956	(1,198)	(1,197)	(1,196)
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	(216)	472	7,172	(584)
Beginning cash & cash equivalent	802	586	1,058	8,230
Ending cash & cash equivalent	586	1,058	8,230	7,646

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	22,982	21,382	19,783	18,184
Other LT assets	10,637	4,960	5,170	5,280
Cash/ST investment	586	1,058	8,230	7,646
Other current assets	51,336	51,670	32,900	35,000
Total assets	85,541	79,070	66,084	66,110
ST debt	42,461	36,208	21,011	18,815
Other current liabilities	7,163	7,003	7,204	7,305
LT debt	1,416	1,416	1,416	1,416
Other LT liabilities	7,297	5,203	5,204	5,205
Shareholders' equity	27,197	29,233	31,241	33,362
Minority interest	7	7	7	7
Total liabilities & equity	85,541	79,070	66,084	66,110

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	5.6	3.9	3.9	3.9
Pre-tax margin	4.5	2.7	2.5	2.6
Net margin	3.6	2.2	2.0	2.1
ROA	12.2	5.3	5.5	6.4
ROE	41.0	15.3	13.3	13.1
Growth				
Turnover	52.1	(23.8)	(1.4)	3.0
EBITDA	75.0	(46.2)	(1.5)	3.0
Pre-tax profit	115.3	(54.3)	(7.1)	5.6
Net profit	114.0	(54.5)	(7.1)	5.6
Net profit (adj.)	114.0	(54.5)	(7.1)	5.6
EPS	114.0	(54.5)	(7.1)	5.6
Leverage				
Debt to total capital	61.7	56.3	41.8	37.7
Debt to equity	161.3	128.7	71.8	60.6
Net debt/(cash) to equity	159.2	125.1	45.4	37.7
Interest cover (x)	39.0	19.7	19.8	20.3

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