

17 July 2012

PTT Exploration & Production

Energy
(O & G)
Neutral

Shell drops out of race for Cove—Negative

What's new? *Bloomberg* reported that Shell pulled out of the race for Cove Energy, leaving PTTEP as the sole bidder for the East African-focused oil exploration firm. PTTEP's 240pence/share offer remains the highest bid. PTTEP today extended its tender offer till July 25.

PTTEP has won? Technically, the race remains open—the submission deadline for third parties (ex-Shell) to place a bid is July 21. Nonetheless, we doubt that any potential suitors for Cove would want to equal PTTEP's bid, let alone make a higher offer. As such, the transaction will probably be completed by mid Aug.

Net debt/equity to breach threshold on Cove purchase ... Given an effective total cost for Cove of £1.4bn, or about US\$2.2bn (including capital gains tax payments for Cove's shareholders), we anticipate that PTTEP's net debt/equity ratio would rise to 0.6x from 0.3x currently—breaching its policy threshold of 0.5x. Management said that the firm will use cash on-hand of US\$1bn with debt financing making up the balance to finance the purchase of Cove Energy.

...so renewed recap risk—but when & how much? We hold view that the size of the takeover will ultimately force a recapitalization. Based on Cove's 8.5% stake in the field, PTTEP will also have to spend at least another US\$1.8-2bn on project development. Our earlier ballpark calculation suggested a \$1.3bn recapitalization, implying a modest 7% share dilution effect. But given that Cove Energy's holding in the Rovuma field is small, it's conceivable that PTTEP would try to acquire further stakes in the field, in which case its recapitalization needs would be significantly greater.

In our view, PTTEP is likely to wait till next year to make a cash call, as the consortium partners in the Rovuma field are due to make a final investment decision on the proposed LNG project in 3Q13. However, the firm might recap earlier if it thought it was at risk of a credit rating downgrade.

BUALUANG RESEARCH

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HOLD (maintained)

Target Price: Bt180.00
Price (16/07/12): Bt173.00
PTTEP.TB / PTTE.BK

Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	169,646	196,267	241,738	227,120
Net profit (Btm)	44,748	56,412	66,406	59,186
EPS (Bt)	13.48	16.99	20.00	17.83
BLS/Consensus (x)	n.m.	1.01	1.00	0.89
EPS growth (%)	+7.1%	+26.1%	+17.7%	-10.9%
Core profit (Btm)	47,190	55,054	66,406	59,186
Core EPS (Bt)	14.21	16.58	20.00	17.83
Core EPS growth (%)	+15.2%	+16.7%	+20.6%	-10.9%
PER (x)	12.8	10.2	8.6	9.7
Core PER (x)	12.2	10.4	8.6	9.7
EV/EBITDA (x)	5.6	4.7	3.7	3.6
PBV (x)	2.9	2.6	2.2	1.9
Dividend (Bt)	5.40	6.80	8.00	7.13
Dividend yield (%)	3.1	3.9	4.6	4.1
ROE (%)	24.0	26.7	27.5	21.2
Net gearing (x)	0.4	0.3	0.2	0.0

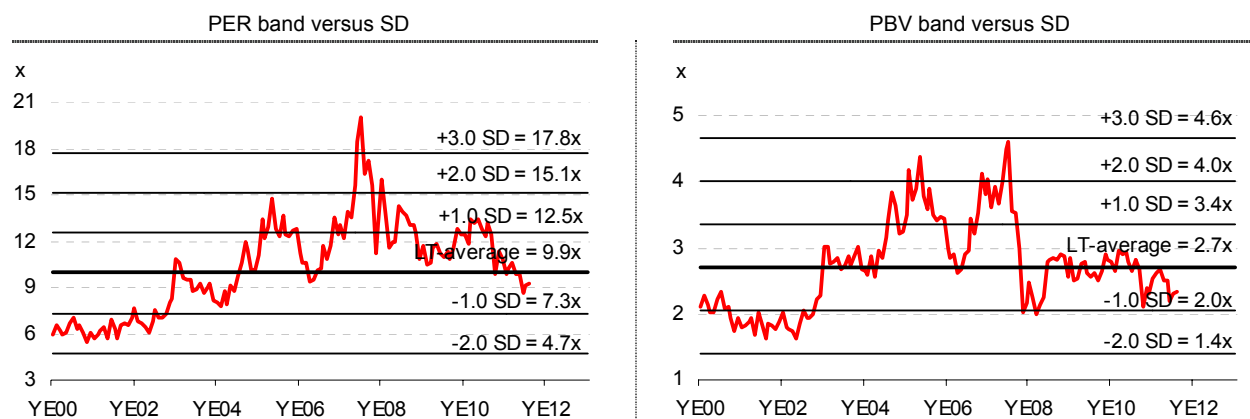
CG Rating - 2011



QUICK VIEW

Action: We regard the acquisition as a short-term negative for the stock. Recap concerns will rise and the dilution effect may perhaps be greater than we earlier anticipated, while the project's commercialization is six years in the future (the field is currently undergoing appraisal and exploration). The first gas would then be expected to flow in 2018—assuming no significant delays. As such, it's very difficult to quantify how much incremental value the project could create for PTTEP.

Figure 1: PE and PBV versus SD



Sources: Bualuang Research estimates, Bloomberg

Figure 2: Sector comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
CNOOC	883 HK	HKD15.08	86,444.89	9.9	10.1	-0.5	-2.1	2.2	1.9	24.0	21.4	3.0	3.2
Oil & Natural Gas Corp	ONGC IN	INR287.00	44,418.94	9.3	8.6	+36.1	+8.7	1.9	1.7	21.1	19.2	3.6	3.5
Reliance Industries	RIL IN	INR720.00	42,656.57	11.2	10.6	+1.6	+5.8	1.4	1.2	12.9	12.1	1.1	1.3
Origin Energy	ORG AU	AUD11.99	13,378.55	14.9	14.4	+15.7	+3.5	1.0	1.0	6.9	6.9	4.2	4.3
PetroChina	857 HK	HKD9.40	251,969.02	10.6	10.3	+16.8	+2.5	1.6	1.4	14.3	14.7	4.0	4.4
China Petroleum & Chemical	386 HK	HKD6.73	79,771.44	7.3	6.8	+8.4	+6.7	1.0	0.9	16.4	15.7	3.9	4.6
GAIL (India)	GAIL IN	INR353.50	8,118.61	11.6	10.9	+3.7	+6.6	2.0	1.8	18.9	17.2	2.3	2.4
PTT Exploration & Production	PTTEP TB	Bt173.00	18,134.82	10.2	8.6	+26.1	+17.7	2.6	2.2	26.7	27.5	3.9	4.6
PTT	PTT TB	Bt331.00	30,209.12	8.2	7.2	+9.4	+13.7	1.3	1.2	19.7	19.9	4.3	4.9
Simple average				10.4	9.7	+13.0	+7.0	1.7	1.5	17.9	17.2	3.4	3.7

Note: Prices as at 16/07/12

Sources: Company, Bualuang estimates/Research, Reuters

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80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.