

Tuesday, July 24, 2012

EQUITY TALKS

**PTT's financial status unaffected by purchase of PTTEP's newly-issued shares.
Reiterate "BUY"**
BUY

- ▶ **Invest in upstream-petroleum business through PTTEP to urge long-term growth**
- ▶ **No negative effects toward PTT as already included in investment plan**
- ▶ **New 2012 fair value is B390.3/share. Recommend gradual "ACCUMULATE"**
- ▶ **Invest in upstream-petroleum business through PTTEP to urge long-term growth**

After the new shares for capital raising have been issued by PTTEP, PTT who currently possesses a major part of shareholding at 65.29% in PTTEP has to be financially prepared to increase its investment in order to maintain the shareholding at the same level at 65.29% of PTTEP's total paid-up share capital. In doing this, PTT has to purchase no more than 403.395 million new shares after this round of newly-issued share offering (before the new shares are allocated to the over-allotment agent). If the selling price of the newly-issued shares is B160 each, PTT's investment for this round will stand at approx B65bn (based on our preliminary assumption because the price will be assigned after the process of book building). The capital increase aims to expand investment in the petroleum business to other regions worldwide in order to search for oil and natural gas resources, strengthen the company's financial structure and enhance financial liquidity.

- ▶ **No negative effects toward PTT as already included in investment plan**

PTT's additional investment for maintaining shareholding in PTTEP hasn't financially affected the company because it is already included as a part of the company's capital expenditure (CAPEX) plan to make PTTEP a spearhead for investment in an upstream business - petroleum exploration and production - locally and overseas by 41% of 2012-2016 expenditure budget of B900bn in total (another 41% will be an investment in a gas business expansion including gas pipeline, LNG terminal, NGV station, and other related businesses while the rest 16% will be an investment in a capacity expansion for petrochemical business through PTTGC to focus more on specialty products in order to create value added for the business). However, due to this round of investment, PTT might have to borrow money from financial institutions in the near future which will make D/E ratio increase to 0.55x from the current 0.4x, still lower than the sector's average at 1x. Nevertheless, in the next 3-5 years, additional income and profit from investing in PTTEP will help decrease D/E ratio in a long term.

- ▶ **New 2012 fair value is B390.3/share. Recommend gradual "ACCUMULATE"**

According to the fair value of PTTEP that has been revised down to B167.51/share (from B200/share), we derive PTT's fair value, based on DCF and sum of parts, at end-2012 at B390.3/share (from B411/share). At present, the market has 20% upside from the new fair value. We reiterate "BUY" due to the potential growth in a long term. In a short term, PTT is projected to benefit from adjusting of formula for calculation of profit sharing between PTT and PTTGC that is expected to be concluded in 1-2 months ahead. Every 5% increase of profit sharing will urge PTT's profit to rise by 1.2% from 2012 net profit forecast (half year) and 2.2% from 2013 net profit forecast.

Key Data (Bm)					
FY: Close Dec. 31					
	FY09A	FY10A	FY11A	FY12F	FY13F
Sales	1,570,716	1,900,005	2,428,165	2,419,218	2,530,295
Net Profit	59,548	83,992	105,296	100,056	112,189
EPS (B)	21.01	29.48	36.86	35.03	39.28
PER (X)	15.51	11.06	8.84	9.31	8.3
DPS (B)	8.5	10.25	12.25	12.75	12.75
Dividend Yield (%)	2.61	3.14	3.76	3.91	3.91
BVS (B)	151.45	172.31	194.63	243.54	283.36
PBV (X)	2.15	1.89	1.67	1.34	1.15
ROE (%)	14.65	18.26	20.12	15.99	14.91

Source : Research ASP

Current price (B)	326.00
Fair Value (B)	390.30
Market cap (B bn)	931.15
CGR	▲▲▲▲▲

Comparison ASP & SAA consensus

EPS (B)	ASP	Cons	% diff
2012F	35.03	38.93	-10%
2013F	39.28	43.04	-9%

Source : ASP & SAA consensus

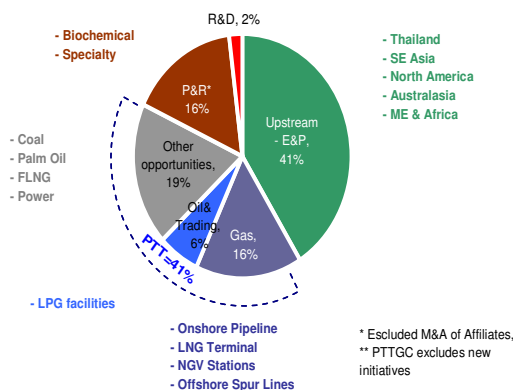
Symbol	Level	Mean
▲▲▲▲▲	90-100	Excellence
▲▲▲▲	80-89	Very good
▲▲▲	70-79	Good
na.	<70	Not Available

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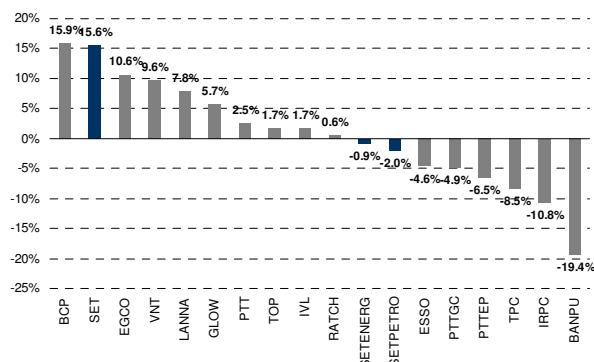
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Investment Expenditure Plan in 2012-2016



Source : PTT

YTD Return of Stocks in Power Sector since 2012



Source : Bloomberg

Recommendation Stock's Energy in Thai & Region

	Rec. / BB Rating	Current Price	Target Price	Upside (%)	PBV		PER	
					2012F	2013F	2012F	2013F
PTT	BUY	326.00	390.30	20	1.34	1.15	9.31	8.30
PTTEP	HOLD	157.50	167.51	6	2.69	2.37	12.50	11.46
BANPU	BUY	440.00	621.12	41	1.16	1.04	10.14	8.71
LANNA	BUY	24.90	30.04	21	1.90	1.65	7.62	6.58
KOREA GAS CORP	4.71	44,850.00	54,636.36	22	0.44	0.43	11.25	10.04
CHINA SHENHUA	4.51	27.80	35.67	28	1.77	1.56	9.56	8.69
SHANXI XISHAN	4.50	14.71	18.95	29	2.70	2.31	13.88	12.79
MITSUBISHI CORP	4.33	1,519.00	1,985.63	31	0.66	0.60	5.31	4.97
YANZHOU COAL	4.28	18.60	26.82	44	1.89	1.65	10.37	9.15
CHINA COAL ENERGY	4.00	6.67	8.80	32.00	0.84	0.76	7.32	6.48
CHINA PETROLEUM	3.94	6.88	8.06	17.15	0.95	0.87	7.69	6.49
PETROCHINA	3.86	9.55	11.85	24	1.33	1.23	9.79	8.92
CNOOC	3.86	15.44	17.65	14.34	1.83	1.58	8.31	8.29
PETRONAS GAS BHD	3.64	17.96	18.73	4	3.88	3.61	23.03	20.64

Source : Bloomberg

Technical Graph



Source : ASP Research