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KEY HIGHLIGHTS

Update

PTT Oil & Retail Business (OR TB/HOLD/Bt20.20 /Target: Bt21.80)

Challenges to persist into 2024. Downgrade to HOLD.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,380.31	0.13	0.01
SET50	852.94	0.00	0.00
Value (Btm) - SET	32,889		
Top 5 Sector			
BANK	368.22	0.98	0.27
PETRO	722.09	5.68	0.79
PROP	228.05	1.22	0.54
ENERG	20,618.74	14.43	0.07
ICT	149.65	0.67	0.45

Source: Bloomberg

TOP VOLUME

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
AOT	58.50	(1.68)	4,123.6
PTT	35.25	1.44	1,888.0
PTTEP	148.50	(1.98)	1,980.6
CPALL	53.25	2.40	2,649.0
HANA	46.75	4.47	538.1

TOP GAINERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
SDC	0.05	25.00	0.2
PPPM	0.06	20.00	0.1
NPK	16.00	18.52	0.0
FANCY	0.44	12.82	0.0
TAN	14.40	12.50	49.2

TOP LOSERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
TWZ	0.04	(20.00)	0.4
NATION	0.06	(14.29)	0.2
TKC	12.50	(11.97)	147.1
KC	0.11	(8.33)	5.9
LHPF	6.15	(8.21)	0.2

*ADT: Average daily turnover

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	79.5	(5.9)	(8.6)	(1.6)
Dubai crude*	80.6	(6.1)	(9.1)	2.5
Baltic Dry Index	3,192.0	118.3	194.7	110.7
Gold Spot***	2,092.9	5.0	7.7	14.7

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(7.6)	(7.6)	(5,513.1)	(11,314.3)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 34.74

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

Thai Lending Rate (%)* - MLR = 7.10

COMPANY UPDATE

PTT Oil & Retail Business (OR TB)

Challenges To Persist Into 2024; Downgrade To HOLD

We expect OR's oil sale volume to grow in tandem with expanding domestic demand in 2024. However, uncertainties persist due to government policies and the entry of new operators. These factors will result in uncertain marketing margins and reduced profitability due to heightened competition. We cut our 2024 core profit forecast by 7% by adjusting the Lifestyle business' EBITDA margin. Downgrade to HOLD. Target price: Bt21.80.

WHAT'S NEW

- Thailand's GDP continues to expand strongly.** The Bank of Thailand (BOT) forecasts a 3.2% yoy growth in Thailand's GDP for 2024 vs the 2.4% yoy growth expected for 2023. This growth should be driven by continued expansion in domestic demand, particularly through consumption and investment by both private and government sectors. Consequently, overall domestic demand is projected to increase 2.9% yoy 2024 (vs 3.7% yoy growth expected in 2023). The abovementioned factors along with the growth in the number of tourists, particularly in 4Q23, should bolster demand for oil in Thailand. Both the transportation and tourism sectors should see increased demand for oil, supported by the expectation of Thailand's GDP expanding 3.6% yoy in the specified period, aligning with the BOT's economic projections (GDP growth for 2023 at 2.4% yoy).

KEY STATISTICS

	2022	2023F	----- excl. DW* -----	2024F	2025F	----- incl. DW* -----	2024F	2025F
GDP growth	2.6%	2.4%	3.2%	3.1%	3.8%	2.8%		
Domestic Demand	4.1%	3.7%	2.9%	3.1%	3.7%	2.5%		
Private Consumption	6.3%	7.1%	3.2%	3.0%	4.5%	2.1%		
Private Investment	5.1%	2.4%	3.6%	4.5%	3.9%	4.1%		
Government Consumption	0.2%	-4.0%	1.1%	2.8%	1.1%	2.8%		
Public investment	-4.9%	0.5%	2.7%	1.4%	2.7%	1.4%		
Number of foreign tourists (m persons)	11.2	28.3	34.5	39.0	34.5	39.0		
Dubai crude oil price (US\$/bbl)	96.5	82.0	85.0	85.0	85.0	85.0		
Headline inflation	6.1%	1.3%	2.0%	1.9%	2.2%	2.0%		
Core inflation	2.5%	1.3%	1.2%	1.3%	1.2%	1.4%		

*DW = Digital Wallet

Source: Bank of Thailand, UOB Kay Hian

- Domestic petroleum demand to grow during 4Q23 and 2024.** The high season of tourism will begin in 4Q23, along with a continued expansion of the economy. We expect demand for gasoline, diesel fuel and jet fuel to increase 5.5% qoq, 8.5% qoq, and 17% qoq respectively. Economic growth should continue into 2024, which should result in demand for gasoline, diesel fuel and jet fuel increasing 3.7% yoy, 0.4% yoy, and 24% yoy respectively.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	511,799	789,785	769,159	780,888	807,918
EBITDA	20,675	20,134	23,617	28,149	26,429
Operating profit	14,601	13,632	16,219	18,437	16,182
Net profit (rep./act.)	11,466	10,370	12,458	14,400	12,666
Net profit (adj.)	11,000	10,326	12,458	14,400	12,666
EPS (Bt)	0.9	0.9	1.0	1.2	1.1
PE (x)	21.7	23.1	19.2	16.6	18.9
P/B (x)	1.1	1.1	1.0	1.0	1.0
EV/EBITDA (x)	11.2	11.5	9.8	8.2	8.7
Dividend yield (%)	2.3	2.5	3.3	3.5	3.0
Net margin (%)	2.2	1.3	1.6	1.8	1.6
Net debt/(cash) to equity (%)	(9.6)	1.9	(3.4)	(2.2)	(4.0)
Interest cover (x)	16.5	17.4	20.3	28.8	28.8
Consensus net profit	-	-	12,516	12,792	13,641
UOBKH/Consensus (x)	-	-	1.00	1.13	0.93

Source: PTT Oil & Retail Business, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	Bt20.20
Target Price	Bt21.80
Upside	+7.9%
(Previously)	Bt23.00)

COMPANY DESCRIPTION

The company operates an integrated oil and non-oil retailing platform both in Thailand and abroad, including the sales and distribution of petroleum products and other products in retail and commercial marketing, coffee shops, other food and beverage outlets.

STOCK DATA

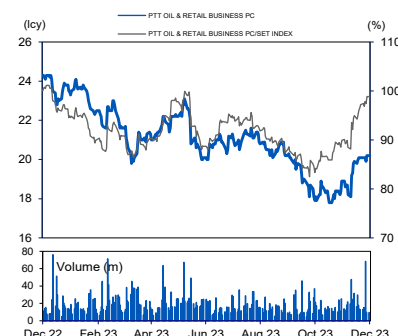
GICS sector	Consumer Discretionary
Bloomberg ticker:	OR TB
Shares issued (m):	12,000.0
Market cap (Btm):	238,800.0
Market cap (US\$m):	6,780.0
3-mth avg daily t'over (US\$m):	8.8
Price Performance (%)	

52-week high/low Bt24.40/Bt17.80

1mth	3mth	6mth	1yr	YTD
8.7	(2.5)	(0.5)	(18.4)	(16.4)

Major Shareholders	%
-	-
-	-
-	-
FY23 NAV/Share (Bt)	19.18
FY23 Net Cash/Share (Bt)	0.65

PRICE CHART



Source: Bloomberg

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• **Marketing margin to remain under pressure from government policy in 2024.** In 2023, the potential risk from the government's policy aimed at lowering retail oil prices will impact the marketing margin of the oil station business. This is because the government-set selling price does not accurately reflect the global market price. Nevertheless, the government's objective of reducing the cost of living for citizens poses risks through its policy, and such circumstances may persist in 2024. Furthermore, the implementation of the EURO 5 diesel oil standard is set to commence on 1 Jan 24, subject to channel check by management's oil station business. These risks are limited, especially since we do not expect EURO 5 diesel fuel usage to have any significant impact on marketing margins. However, we remain cautious and will closely monitor this issue.

• **New operator to have limited impact.** In 2H23, there were two changes in the oil station business: a) Bangchak Corporation PCL (BCP TB) announced the acquisition of 75% of Bangchak Sriracha PCL (BSRC TB), and b) the entry of China Petroleum & Chemical Corporation (Sinopec), marked by the acquisition of a 49% stake in SUSCO Dealer Co., Ltd. (SDA). We expect this to have limited impact on the PTT Oil and Retail (OR) and other operators in the oil business in the next two years due to the robust physical and digital platforms of existing operators. However, we do expect heightened competition in certain products, particularly jet fuel, primarily driven by the investment from Sinopec.

• **In 2024, the non-oil business will still face challenges from increased competition.** Based on our channel check, we see negative signs for the growth of the non-oil business due to: a) its branch expansion not meeting its 2023 target, b) the entry of new operators such as Sinopec have increased market competition, and c) its business strategy that is focused on cost control. Despite the anticipated growth in domestic demand throughout 2024, the outlook for private consumption suggests a slower rate of growth, which will limit the business's profitability.

STOCK IMPACT

• **4Q23 core profit to decrease qoq.** 4Q23 core profit is under pressure due to an expected decrease in marketing margin, due to an increased marketing margin in 3Q23. Moreover, operating expenses expected to increase due to higher marketing promotion and SG&A expenses. However, the high season and increased economic activity are expected to result in record-high oil sales in 4Q23.

• **Still cautious on marketing margin in 2024.** In 2024, the oil station business continues to face risks. Marketing margin will continue to be a limiting factor for potential gains despite government measures such as the implementation of EURO 5 diesel fuel starting from 1 Jan 24, and the reduction of oil prices to alleviate living expenses. Another risk is the escalation in competition within the non-oil sector. In addition, the proportion of jet fuel sales faces diminished opportunities due to the entry of new operators. Currently, jet fuel sales accounts for 12%-13% of OR's sales.

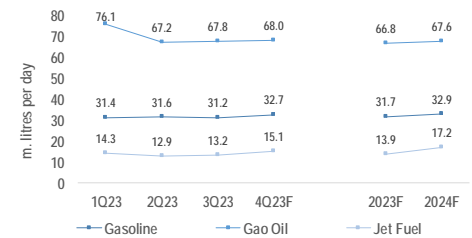
EARNINGS REVISION/RISK

• **We cut core profit forecast for 2024 by 7%.** We cut our 2024 core profit forecast by 7% from Bt15.4b to Bt14.4b by adjusting the EBITDA margin of the Lifestyle business from 28.4% to 26.0% to reflect the increased competition in the non-oil business in 2024.

VALUATION/RECOMMENDATION

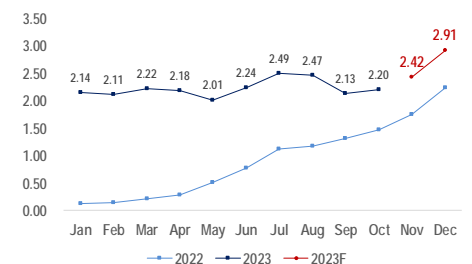
• **Downgrade to HOLD with a 2024 new target price of Bt21.80 (previously: Bt23.00),** based on its average three-year PE at -1.0SD of 18.0x, to reflect the revised net profit forecast in 2024. Although we still believe that OR will continue to be the leader and the strongest operator in the market (with a market share of 42.5%), there should be limited upside to the stock price due to: a) the intense competition in the non-oil business, b) risks from government policies, and c) an expected qoq decline in 4Q23 core profit. Hence, we downgrade to HOLD. We prefer the upstream business (exploration and production of oil and gas). Our top picks include PTT Exploration and Production (PTTEP TB/Target: Bt200.00) and ESSO (ESSO TB/Target: Bt15.00).

THAILAND PETROLEUM DEMAND IN 4Q23 AND 2024



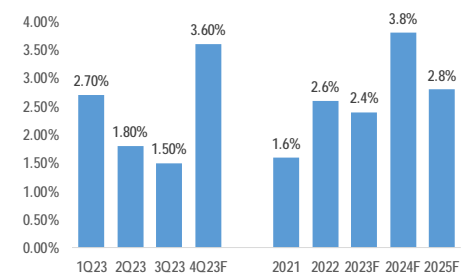
Source: Thai Oil, UOB Kay Hian

INTERNATIONAL TOURIST ARRIVALS TO THAILAND 2022-23F



Source: PTT Oil & Retail Business, Ministry of Tourism & Sport, UOB Kay Hian

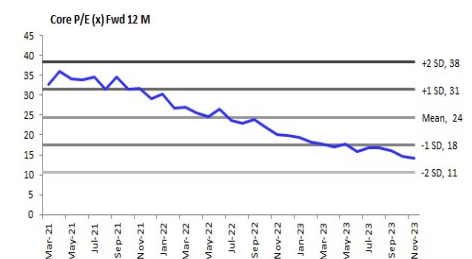
THAILAND'S GDP



Source: BoT, UOB Kay Hian

<https://www.bot.or.th/thai-economy/economic-outlook.html>

AVERAGE THREE YEAR PE



Source: PTT Oil & Retail Business, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	789,785	769,159	780,888	807,918
EBITDA	20,134	23,617	28,149	26,429
Deprec. & amort.	6,503	7,398	9,712	10,247
EBIT	13,632	16,219	18,437	16,182
Associate contributions	490	514	540	567
Net interest income/(expense)	(1,155)	(1,161)	(977)	(917)
Pre-tax profit	13,011	15,573	18,000	15,833
Tax	(2,638)	(3,115)	(3,600)	(3,167)
Minorities	(3)	0	0	0
Net profit	10,370	12,458	14,400	12,666
Net profit (adj.)	10,326	12,458	14,400	12,666

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	44,363	43,075	56,549	59,659
Other LT assets	44,589	43,784	44,242	45,297
Cash/ST investment	39,461	41,408	36,843	39,293
Other current assets	97,091	94,316	95,567	99,035
Total assets	225,504	222,583	233,200	243,284
ST debt	10,263	2,000	2,000	2,000
Other current liabilities	58,397	59,790	64,570	71,239
LT debt	33,556	31,556	29,556	27,556
Other LT liabilities	19,527	19,017	19,307	19,975
Shareholders' equity	223,701	230,159	237,707	242,453
Total liabilities & equity	225,504	222,583	233,200	243,284

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	(4,200)	25,576	27,642	26,113
Pre-tax profit	13,011	15,573	18,000	15,833
Tax	(2,638)	(3,115)	(3,600)	(3,167)
Deprec. & amort.	6,503	7,398	9,712	10,247
Working capital changes	(23,922)	5,720	3,529	3,201
Other operating cashflows	2,847	0	0	0
Investing	5,753	(5,815)	(23,354)	(13,744)
Investments	(6,110)	(6,110)	(23,186)	(13,357)
Others	11,863	295	(168)	(387)
Financing	(9,853)	(16,263)	(8,852)	(9,920)
Dividend payments	(6,464)	(6,000)	(6,852)	(7,920)
Proceeds from borrowings	(3,389)	(10,263)	(2,000)	(2,000)
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	(8,299)	3,498	(4,565)	2,450
Beginning cash & cash equivalent	47,724	37,910	41,408	36,843
Changes due to forex impact	37	0	0	0
Ending cash & cash equivalent	39,461	41,408	36,843	39,293

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Net profit (adj.)	(6.1)	20.7	15.6	(12.0)
Profitability				
EBITDA margin	2.5	3.1	3.6	3.3
Pre-tax margin	1.6	2.0	2.3	2.0
Net margin	1.3	1.6	1.8	1.6
Leverage				
Debt to total capital	29.7	23.3	21.1	19.4
Debt to equity	19.6	14.6	13.3	12.2
Net debt/(cash) to equity	1.9	(3.4)	(2.2)	(4.0)
Interest cover (x)	17.4	20.3	28.8	28.8

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