

COMPANY UPDATE

Banpu (BANPU TB)

Strong Coal And Gas Prices To Support Share Price In The Short Term

Management expects coal and gas prices to remain high during 4Q22-1Q23 on the back of strong demand during winter and the energy crisis amid geopolitical risks. We raise our 2022-23 earnings forecasts mainly to reflect higher coal price assumptions. This may support short-term investors to trade the stock on the undemanding valuation. The stock is trading at 4.0x core PE in 2023 vs regional peers' 6.6x. Maintain HOLD. Target price: Bt13.90.

WHAT'S NEW

- BANPU slightly revised down its coal sale targets for 2022.** BANPU revised down its Indonesian coal sale targets by 6% to 20.4m tonnes and Australian coal sale by 6% to 9.3m tonnes for 2022 due to the impact on the coal mining conditions such as higher COVID-19 cases in Australia mines which will impact production volumes, and uncondusive weather with the onset of the rainy season in Indonesia.
- Global coal prices remain solid with the energy crisis in Europe.** The Russia-Ukraine conflict is fuelling concerns of an energy shortage in Europe. On the 27th Climate Change Conference of the parties (COP27) at Egypt, Germany, Italy, the Netherlands, Greece and Hungary have all announced plans to extend the lifetime of coal plants, reopen those that have been closed or lift the cap on coal-burning hours. European buyers are starting to load up on fossil fuels for fear that a standoff between Russia and the Western nations will cut off gas and oil supplies. The European Union (EU) relies on Russian's fossil fuels, with 70% of its coal, 38% of its natural gas and 27% of its crude oil from Russia. At present, gas prices in Europe have also stayed at a high level of US\$30-40 per million british thermal unit (mmBTU) on concerns over potential supply disruptions. It is likely that European utilities will import more coal as an alternative fuel instead. As a result, Newcastle Coal (NWC) prices remain high at US\$380/tonne in 4Q22 qtd (3Q22: US\$413/tonne, 2Q22: US\$209/tonne, 2022 ytd: US\$343/tonne), compared with our forecasted coal price at an average of US\$280.00/tonne in 2022 (2021: US\$137.74/tonne).
- Henry hub gas prices are expected to stay high until 1Q23.** Henry Hub futures signal an increase from the current spot price to around US\$6.10/mmBTU in 1Q23 on the strong demand during the winter season and a decline to US\$4.70-4.90/mmBTU levels in the following quarters.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	71,312	133,190	245,306	140,884	111,572
EBITDA	8,512	47,346	120,280	61,101	54,368
Operating profit	(2,806)	31,450	95,088	34,885	27,088
Net profit (rep./act.)	(1,786)	9,852	53,581	30,181	21,787
Net profit (adj.)	(4,123)	24,370	68,866	35,321	25,899
EPS (Bt)	(0.8)	4.4	9.6	4.0	2.4
PE (x)	n.m.	2.8	1.3	3.1	5.1
P/B (x)	1.0	0.9	0.7	0.9	1.3
EV/EBITDA (x)	21.7	3.9	1.5	3.0	3.4
Dividend yield (%)	3.2	3.6	8.1	3.8	1.6
Net margin (%)	(2.5)	7.4	21.8	21.4	19.5
Net debt/(cash) to equity (%)	106.8	111.8	35.5	0.1	(21.0)
Interest cover (x)	1.6	8.4	16.8	11.4	10.3
ROE (%)	n.a.	10.5	41.8	16.3	8.6
Consensus net profit	-	-	45,115	34,871	24,792
UOBKH/Consensus (x)	-	-	1.53	1.01	1.04

Source: Banpu, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

HOLD

(Maintained)

Share Price	Bt12.50
Target Price	Bt13.90
Upside	+11.2%
(Previous TP)	Bt16.50)

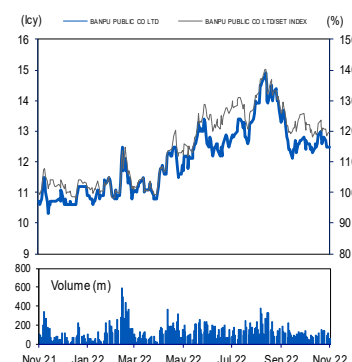
COMPANY DESCRIPTION

A regional coal producer with mines in four countries, namely Indonesia (ITMG), Australia (Centennial), Mongolia (Hunnu), and China, commanding total equity reserves of 713mt. Banpu Power (Banpu held by 78.7%) also has power generation capacity (equity basis) of around 2.86GWe as of Dec20.

STOCK DATA

GICS sector	Energy			
Bloomberg ticker:	BANPU TB			
Shares issued (m):	8,454.2			
Market cap (Btm):	105,677.0			
Market cap (US\$m):	2,965.2			
3-mth avg daily t'over (US\$m):	50.5			
Price Performance (%)				
52-week high/low	Bt14.90/Bt10.30			
1mth	3mth	6mth	1yr	YTD
(1.6)	(8.1)	7.8	16.8	17.9
Major Shareholders				%
Vongkusolkij family				17.0
NVDR				16.0
State Street Bank Europe Ltd.				6.7
FY22 NAV/Share (Bt)				17.88
FY22 Net Debt/Share (Bt)				6.43

PRICE CHART



Source: Bloomberg

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3Q22 RESULTS

Year to 31 Dec (Btm)	3Q21	2Q22	3Q22	yoy % chg	qoq % chg
Revenue	38,234	60,986	87,274	128.3	43.1
COGS	20,391	28,959	35,094	72.1	21.2
Income tax	1,996	5,691	9,408	371.4	65.3
Recurring-Profit	8,573	18,806	29,526	244.4	57.0
FX gain/(loss)	1,376	1,810	2,886	109.8	59.5
Hedging gain/(loss)	-5,930	-10,077	-9,213	-55.4	8.6
Net income	3,505	12,784	17,744	406.2	38.8
EPS (Bt)	1.29	2.48	3.44	166.5	38.6
Gross margin (%)	46.7%	52.5%	59.8%		
EBITDA margin (%)	45.5%	53.4%	56.3%		
Net profit margin (%)	9.2%	21.0%	20.3%		

Source: Banpu, UOB Kay Hian

STOCK IMPACT

- 3Q22 results beat our and consensus estimates by 32%.** BANPU posted a net profit of Bt17.7b in 3Q22, beating our and consensus estimates by 32%. The key difference is the higher-than-expected Indonesian coal sales volume and ASP as well as the better-than-expected earnings contribution from China coal. Net income was up 38.8% qoq and 406.2% yoy, benefitting from the strong coal prices.
- Non-recurring items.** BANPU recorded non-recurring items comprising of: a) a hedging loss of Bt9.2b in 3Q22 (from both the coal and gas businesses), given the high fluctuation of coal and gas prices in 3Q22, and b) a forex gain of Bt2.9b in 3Q22 (2Q22: Bt1.8b forex gain) on the Thai baht depreciating against the US dollar during the quarter.
- Stripping out the extraordinary items, BANPU recorded a very strong 3Q22 core profit of Bt29.5b, soaring 57.0% qoq and 244.4% yoy, beating our estimate due to the higher-than-expected Indonesian coal ASP and sales volumes. The strong core earnings were mainly due to the coal business, with the skyrocketing coal prices during the period boosting the Indonesian and Australian coal operation earnings performances. Coal production volume also increased to 8.7m tonnes in 3Q22 from 7.9m tonnes in 2Q22, mainly from better Indonesian coal production. Moreover, the US gas business' earnings performance also increased in line with a hike in Henry hub gas prices in the US and gas sales volume after consolidating with the new acquisition of XTO energy (Barnett) gas asset since 1 Jul 22.
- As of 3Q22, BANPU has natural gas swap and option contracts of 153,850,720 mmBTU at the average rate US\$3.64/mmBTU and natural gas liquids swap and option contracts of 3,185,036 barrels at the average rate US\$25.42/bbl for the next 1-2 years. Note that BANPU did not have any coal swap contracts after unwinding its position in 3Q22.

EARNINGS REVISION/RISK

- 9M22 core earnings accounted for 79.6% of our new 2022 core earnings forecasts.** 3Q22 earnings should be the peak quarter of this year. We raise our 2022-23 core earnings forecasts from the better-than-expected coal prices and unit cost of production (Please see the key assumption changes in 2022-23).

SENSITIVITY ANALYSIS ON COAL PRICE VS OUR 2023 CORE EARNINGS FORECASTS

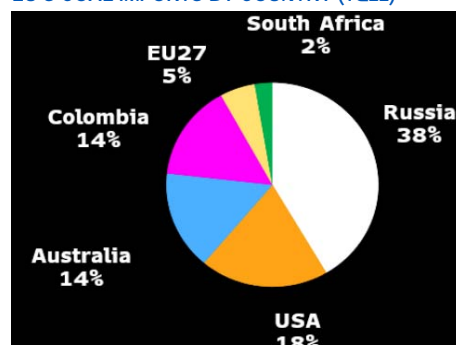
Newcastle coal index 2023 Assumption (US\$/tonne)	BANPU's 2023 profit (Btm)	EPS (Btm)	2023 Target Price (Bt)	Current PE 2023 (x)
200	28,285	2.8	13.0	4.4
230	30,181	3.0	13.9	4.2
250	31,445	3.1	14.5	4.0

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

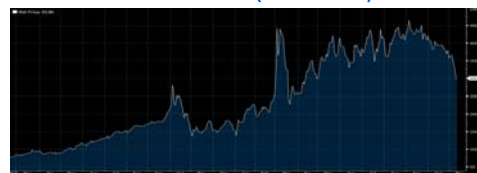
- Maintain HOLD with a 2023 target price of Bt13.90.** We roll over our target to 2023 based on 2023F PE of 4.7x, implying -1SD of regional coal PE mean of 6.6x and reflecting the market's concern on ESG issues. Maintain HOLD for investors who are concerned about BANPU'S ESG issues. However, for trading proposes, investors may be trading on the undemanding valuation. The stock is trading at 4.0x core PE in 2023 vs regional peers' 6.6x.

EU'S COAL IMPORTS BY COUNTRY (1Q22)



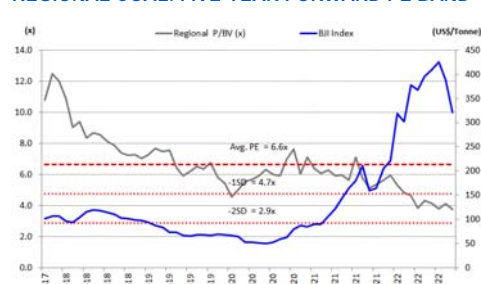
Source: Bloomberg Intelligence, Banchemo Costa &

NEWCASTLE COAL PRICE (US\$/TONNE)



Source: Bloomberg

REGIONAL COAL: FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

KEY ASSUMPTION CHANGES IN 2022-23

	New		Old	
(US\$/tonne)	2022F	2023F	2022F	2023F
Newcastle coal index	350.0	*280.0	280.0	230.0
ASP Indo mine	193.5	140.0	179.4	149.5
Average total Indo costs	91.6	85.9	107.6	107.6
Indo Sale Volume (m tonnes)	19.7	19.7	19.3	22.0
ASP Australia mine (A\$/tonne)	199.7	179.6	280.0	230.0
Australia operating costs (A\$/tonne)	110.0	94.0	175.0	158.0
Australia Sale Volume (m tonnes)	9.3	9.3	10.5	13.0
Henry Hub gas price (US\$/mmBTU)	6.00	*6.00	5.00	4.00

Source: UOB Kay Hian; *using Bloomberg forecast

EARNINGS REVISION BY SEGMENT

	New		Old	
	2022F	2023F	2022F	2023F
Power Business	3,327	3,503	3,327	3,503
Coal business	40,685	15,081	14,879	11,080
- Indonesian Coal*	30,492	7,199	9,672	6,063
- Australian Coal	3,642	3,413	1,002	1,557
- Chinese Coal	6,551	4,469	4,206	3,461
Gas business	9,569	11,597	8,138	7,015
Total net profit	53,581	30,181	26,345	21,598
- Hedging gain/(loss)	-19,220	-5,141	-11,152	-969
- Other non-recurring items	3,935	-	7,349	-
Total core profit	68,866	35,321	30,148	22,567

*Including interest expenses, and other non-recurring items

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	133,190	245,306	140,884	111,572
EBITDA	47,346	120,280	61,101	54,368
Deprec. & amort.	15,895	25,193	26,216	27,280
EBIT	31,450	95,088	34,885	27,088
Associate contributions	7,290	12,613	21,091	18,456
Net interest income/(expense)	(5,605)	(7,180)	(5,376)	(5,280)
Pre-tax profit	22,344	94,987	47,256	37,947
Tax	(6,372)	(24,486)	(3,515)	(6,372)
Minorities	(6,121)	(16,920)	(13,560)	(9,788)
Net profit	9,852	53,581	30,181	21,787
Net profit (adj.)	24,370	68,866	35,321	25,899

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Other LT assets	280,363	269,577	284,426	299,188
Cash/ST investment	23,440	81,597	140,794	189,295
Other current assets	61,997	70,118	63,892	59,209
Total assets	365,799	421,293	489,112	547,691
ST debt	(338)	(337)	(336)	(335)
Other current liabilities	57,959	59,127	57,057	55,070
LT debt	139,747	136,287	141,287	128,597
Other LT liabilities	89,154	97,698	142,333	199,900
Shareholders' equity	103,697	152,938	217,826	291,084
Minority interest	24,420	24,420	69,055	126,624
Total liabilities & equity	365,799	421,293	489,112	547,691

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	49,243	71,820	60,554	51,762
Pre-tax profit	22,344	94,987	47,256	37,947
Tax	(6,372)	(24,486)	(3,515)	(6,372)
Deprec. & amort.	15,895	25,193	26,216	27,280
Associates	7,290	12,613	21,091	18,456
Working capital changes	11,003	(6,954)	4,157	2,695
Non-cash items	0	0	0	0
Other operating cashflows	(918)	(29,533)	(34,651)	(28,244)
Investing	(33,824)	10,786	(14,850)	(14,762)
Capex (growth)	(33,824)	10,786	(14,850)	(14,762)
Capex (maintenance)	n.a.	n.a.	n.a.	n.a.
Proceeds from sale of assets	n.a.	n.a.	n.a.	n.a.
Financing	23,244	(7,800)	39,708	38,780
Dividend payments	2,006	(8,573)	(4,829)	(3,486)
Proceeds from borrowings	23,861	(3,460)	5,000	(12,690)
Others/interest paid	(2,623)	4,233	39,537	54,956
Net cash inflow (outflow)	38,663	74,806	85,412	75,781
Beginning cash & cash equivalent	21,941	23,440	81,597	140,794
Changes due to forex impact	(37,164)	(16,648)	(26,216)	(27,280)
Ending cash & cash equivalent	23,440	81,597	140,794	189,295

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	35.5	49.0	43.4	48.7
Pre-tax margin	16.8	38.7	33.5	34.0
Net margin	7.4	21.8	21.4	19.5
ROA	3.0	13.6	6.6	4.2
ROE	10.5	41.8	16.3	8.6
Growth				
Turnover	86.8	84.2	(42.6)	(20.8)
EBITDA	456.3	154.0	(49.2)	(11.0)
Pre-tax profit	n.a.	325.1	(50.3)	(19.7)
Net profit	n.a.	443.9	(43.7)	(27.8)
Net profit (adj.)	n.a.	182.6	(48.7)	(26.7)
EPS	n.a.	116.1	(58.5)	(38.4)
Leverage				
Debt to total capital	63.7	51.4	48.7	43.8
Debt to equity	175.8	105.8	94.7	78.0
Net debt/(cash) to equity	111.8	35.5	0.1	(21.0)
Interest cover (x)	8.4	16.8	11.4	10.3

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