

COMPANY UPDATE

Star Petroleum Refining (SPRC TB)

Positive On Investment In Oil Station Business

SPRC announced plans to acquire the retail oil station business and 9.91% of the Thai petroleum pipeline yesterday (6 December). We positive on this deal with expect no need for a cash call for this deal. We also expect SPRC to post impressive earnings outlook in 4Q22. Maintain BUY. Target price: Bt15.00.

WHAT'S NEW

- **Acquisition of oil station business.** Star Petroleum Refining's (SPRC) announced plans to acquire 100% of the retail oil station business (under brand Caltex), which is currently operated by Chevron (Thailand) (CTL); 2.51% in Bangkok Aviation fuel Services Pcl (BAFS TB, Not Rated) and 9.91% of Thai petroleum pipeline (Thappline). The deal will likely be concluded in Jun 24 for a total value of around Bt5.5b. Note that SPRC will arrange an EGM on 31 Jan 23 (ex-meeting date was on 19 Dec 22).
- **Positive on the deal.** We believe the acquisition is strategically important for SPRC as it expands into the oil retail business in Thailand and also reduces exposure on PTT (SPRC sold around 40% of refined products to PTT). Caltex currently controls a market share of 5.6% in the oil retail business, ranking fifth in terms of market share in the business. According to SPRC, Caltex now operates 427 oil stations comprising retailer-owned and retailer-operated (RORO) stations and 24 company-owned and retailer-operated (CORO) stations. However, we foresee SPRC aggressively expanding the oil retail business after completing the deal. We roughly estimate the acquisition cost per station at Bt10m/station, which is considered cheap compared to the market cap per oil retail station in Thailand (PTG and SUSCO).
- **No need for cash call.** With a strong balance sheet net D/E of only 0.1x as of 3Q22, we think there is no need for a cash call based on investments of only Bt5.5b. However, we think SPRC needs to fund 100% of the deal with loans as it has cash on hand of only Bt64m. We estimate net D/E will rise to 0.22x after the deal is completed in Jun 24.
- **Key beneficiary of refinery plants shutdown in Thailand.** We believe SPRC will post outstanding results among Thai refineries in 4Q22. The company could benefit from IRPC's and PTTGC's scheduled maintenance in 4Q22 as mentioned above. Management also expects run rate to increase to 94-97% in 4Q22 with a higher proportion of domestic sales (better margin than export of refined products). SPRC's gross refining margin (GRM) should increase, supported by US\$3.0/bbl lower crude premium and strong demand for jet fuel after the relaxation of travel restrictions.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	130,163	172,484	260,182	218,165	215,003
EBITDA	(5,085)	8,781	17,458	8,756	7,913
Operating profit	(7,917)	6,137	14,258	5,556	4,713
Net profit (rep./act.)	(6,005)	4,746	11,423	4,821	4,122
Net profit (adj.)	(1,160)	(336)	11,423	4,821	4,122
EPS (Bt)	(0.3)	(0.1)	2.6	1.1	1.0
PE (x)	n.m.	n.m.	4.6	10.8	12.6
P/B (x)	2.0	1.5	1.3	1.4	1.3
EV/EBITDA (x)	n.m.	4.8	2.4	4.8	5.3
Dividend yield (%)	0.0	1.5	9.2	2.5	2.5
Net margin (%)	(4.6)	2.8	4.4	2.2	1.9
Net debt/(cash) to equity (%)	32.6	14.9	(25.5)	(19.7)	(31.4)
Interest cover (x)	(28.7)	41.5	97.0	48.6	98.9
ROE (%)	n.a.	15.6	30.9	12.6	10.6
Consensus net profit	-	-	12,914	6,704	6,865
UOBKH/Consensus (x)	-	-	0.88	0.72	0.60

Source: Star Petroleum Refining, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	Bt12.00
Target Price	Bt15.00
Upside	+25.0%

COMPANY DESCRIPTION

SPRC is one of the leading refineries in Asia Pacific. It operates a complex 175,000 bpd refinery in Rayong (13.2% of Thailand's refining capacity), which has a high Nelson complexity index of 6.3.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	SPRC TB
Shares issued (m):	4,335.9
Market cap (Btm):	52,030.8
Market cap (US\$m):	1,483.6
3-mth avg daily t'over (US\$m):	7.3

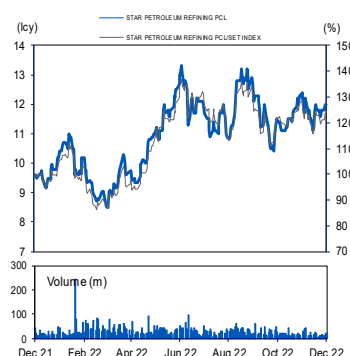
Price Performance (%)

52-week high/low			Bt13.30/Bt8.50	
1mth	3mth	6mth	1yr	YTD
(2.4)	(5.5)	(5.5)	29.0	22.4

Major Shareholders

	%
CHEVRON	61
Thai NVDR	11
FY22 NAV/Share (Bt)	9.10
FY22 Net Cash/Share (Bt)	2.32

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Value-accretive.** We roughly estimate the deal would add earnings on SPRC of around Bt1.0 (around 20% of earnings in 2024). For the short term, we expect SPRC to post strong earnings of around Bt2.0b in 4Q22 based on higher utilisation and refinery margin as mentioned above. We also believe the company will announce attractive dividend payment for 2H22 performance despite an announcement of the acquisition of the retail oil station business. Note that SPRC will arrange an analyst meeting on 8 Dec 22 to provide more details on the deal which will be updated later.

EARNINGS REVISION/RISK

- None.

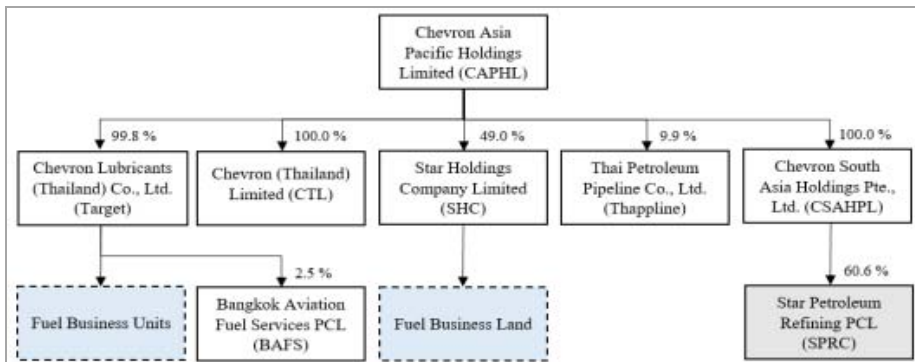
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt15.00**, based on 14.0x 2023F PE, implying mean on regional peers. We like SPRC based on the impressive run rate and good dividend payment.
- **GRM sensitivity.** Every US\$1/bbl increase in our GRM assumption will increase our 2022 core net profit forecast by Bt2.0b.

SHARE PRICE CATALYST

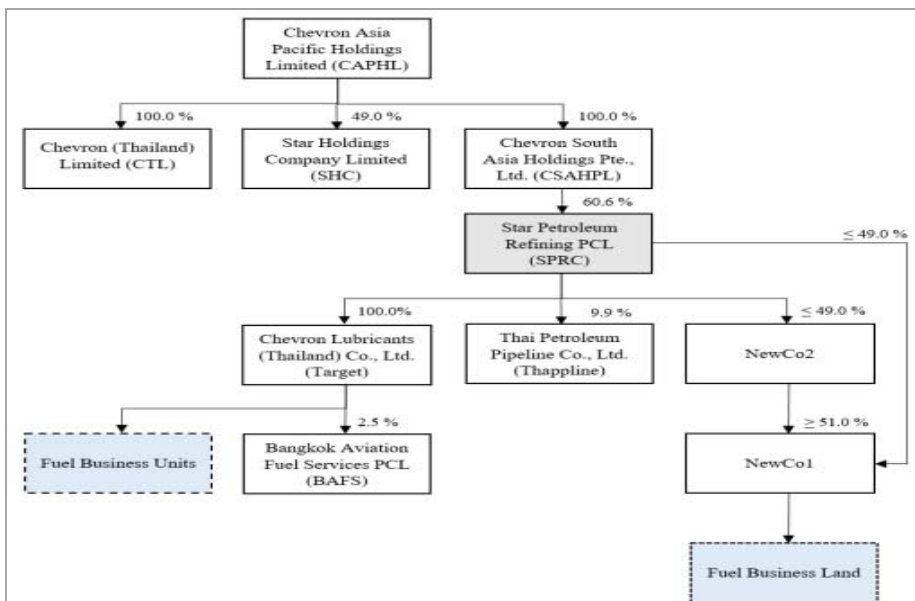
- 8 December: Analyst meeting.
- 4Q22: Expect a recovery in domestic demand.

SHAREHOLDING STRUCTURE BEFORE THE M&A DEAL



Source : SPRC

SHAREHOLDING STRUCTURE AFTER THE M&A DEAL



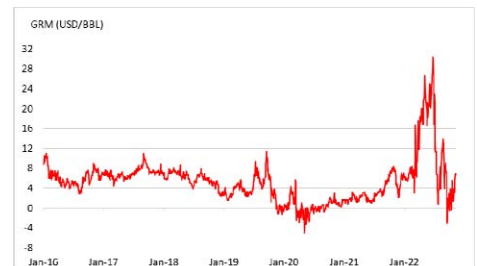
Source : SPRC

MARKET SHARE



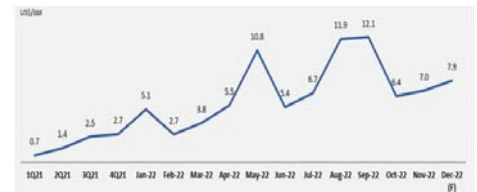
Source: PTG

SINGAPORE'S GRM



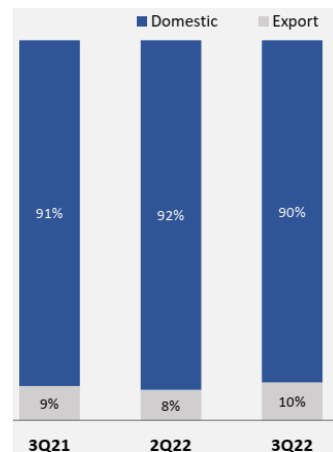
Source: UOB Kay Hian

CRUDE PREMIUM



Source: UOB Kay Hian

DOMESTIC SALES



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	172,484	260,182	218,165	215,003
EBITDA	8,781	17,458	8,756	7,913
Deprec. & amort.	2,644	3,200	3,200	3,200
EBIT	6,137	14,258	5,556	4,713
Total other non-operating income	(12)	200	650	520
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(212)	(180)	(180)	(80)
Pre-tax profit	5,913	14,278	6,026	5,153
Tax	(1,166)	(2,856)	(1,205)	(1,031)
Minorities	0	0	0	0
Net profit	4,746	11,423	4,821	4,122
Net profit (adj.)	(336)	11,423	4,821	4,122

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	24,219	22,819	21,419	18,219
Other LT assets	1,776	310	320	370
Cash/ST investment	2,945	13,650	9,417	13,535
Other current assets	29,786	17,294	21,576	23,090
Total assets	58,726	54,072	52,732	55,214
ST debt	4,680	1,700	1,770	1,770
Other current liabilities	15,351	10,800	13,494	13,351
LT debt	3,374	1,874	374	(1,126)
Other LT liabilities	950	230	230	230
Shareholders' equity	34,371	39,468	36,865	40,988
Minority interest	n.a.	n.a.	n.a.	n.a.
Total liabilities & equity	58,726	54,072	52,732	55,214

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	3,002	23,297	6,432	5,666
Pre-tax profit	5,913	14,278	6,026	5,153
Tax	(1,166)	(2,856)	(1,205)	(1,031)
Deprec. & amort.	2,644	3,200	3,200	3,200
Working capital changes	(5,930)	7,941	(1,589)	(1,656)
Other operating cashflows	1,542	733	0	0
Investing	(2,707)	(1,787)	(1,810)	(50)
Capex (growth)	(2,707)	(1,800)	(1,800)	0
Others	0	13	(10)	(50)
Financing	1,014	(10,805)	(8,855)	(1,499)
Dividend payments	(42)	(3,085)	(7,425)	0
Proceeds from borrowings	(804)	(4,480)	(1,430)	(1,500)
Others/interest paid	1,860	(3,240)	0	1
Net cash inflow (outflow)	1,310	10,705	(4,232)	4,117
Beginning cash & cash equivalent	1,635	2,945	13,650	9,417
Ending cash & cash equivalent	2,945	13,650	9,417	13,535

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	5.1	6.7	4.0	3.7
Pre-tax margin	3.4	5.5	2.8	2.4
Net margin	2.8	4.4	2.2	1.9
ROA	9.0	20.3	9.0	7.6
ROE	15.6	30.9	12.6	10.6
Growth				
Turnover	32.5	50.8	(16.1)	(1.4)
EBITDA	n.a.	98.8	(49.8)	(9.6)
Pre-tax profit	n.a.	141.5	(57.8)	(14.5)
Net profit	n.a.	140.7	(57.8)	(14.5)
Net profit (adj.)	n.a.	n.a.	(57.8)	(14.5)
EPS	n.a.	n.a.	(57.8)	(14.5)
Leverage				
Debt to total capital	19.0	8.3	5.5	1.5
Debt to equity	23.4	9.1	5.8	1.6
Net debt/(cash) to equity	14.9	(25.5)	(19.7)	(31.4)
Interest cover (x)	41.5	97.0	48.6	98.9

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