

COMPANY UPDATE

Banpu (BANPU TB)

2023 Earnings To Weaken On Lower Commodity Prices

BANPU has set aside US\$900m capex in 2023, similar to that in 2022, focusing on renewable, clean energy and US gas-based businesses. We cut our 2023 net profit forecast by 47% to Bt18.7b due to lower coal and gas price assumptions, reflecting the weak demand and oversupply concerns. Maintain HOLD with a new target price of Bt11.10.

WHAT'S NEW

- **Greener & Smarter strategy.** BANPU continues its "Greener & Smarter" strategy in 2023-25, aiming to enhance its green energy portfolio and develop energy technologies in three business groups, namely:
 - a) **Energy resources:** In the mining business, BANPU is focusing on enhancing production efficiency as well as seeking other sources of strategic minerals (besides coal) such as nickel mines. The natural gas business focuses on: a) maintaining its market leadership in the US, b) seeking new investment opportunities, and c) developing carbon capture and storage projects to achieve its goal of reducing greenhouse gas emissions by 2025.
 - b) **Energy generation:** BANPU (via its power investment arm) plans to maintain production efficiency at its large thermal power plants to generate stable cash flow. In addition, it is seeking new investment opportunities in high efficiency and low emission power plants after acquiring gas-fired power plants in the US. BANPU also plans to enhance its renewable energy portfolio in strategic countries where it already has operations.
 - c) **Energy technology:** Banpu is seeking investments in high-growth businesses to generate high cash flow. In Feb 23, BANPU increased its stake in Durapower Holdings from 47.68% to 65.10% with an investment of US\$70m to create growth opportunities in the battery business, which is part of BANPU's strategies to achieve its net zero policy.
- In 2023, BANPU has set aside capex of US\$900m, split into 60% for investments in renewable and clean energy and 40% for investments in the US gas-based business.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	133,190	272,270	173,691	153,521	134,320
EBITDA	49,146	124,876	55,658	49,340	41,695
Operating profit	33,250	102,668	34,880	29,508	23,141
Net profit (rep./act.)	9,852	40,519	18,733	14,398	12,233
Net profit (adj.)	22,165	70,610	18,733	14,398	12,233
EPS (Bt)	3.4	9.0	2.2	1.7	1.4
PE (x)	3.2	1.2	4.9	6.3	7.5
P/B (x)	0.6	0.5	0.5	0.5	0.4
EV/EBITDA (x)	4.0	1.6	3.6	4.0	4.8
Dividend yield (%)	4.2	11.1	5.1	3.9	3.3
Net margin (%)	7.4	14.9	10.8	9.4	9.1
Net debt/(cash) to equity (%)	137.6	76.5	59.4	37.3	20.1
Interest cover (x)	8.4	13.3	6.5	6.8	6.4
ROE (%)	9.7	29.3	10.9	7.6	5.9
Consensus net profit	-	-	32,588	21,608	12,778
UOBKH/Consensus (x)	-	-	0.57	0.67	0.96

Source: Banpu, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt11.00
Target Price	Bt11.10
Upside	+1.0%
(Previous TP)	Bt13.90

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 3.3GWe as of Dec22.

STOCK DATA

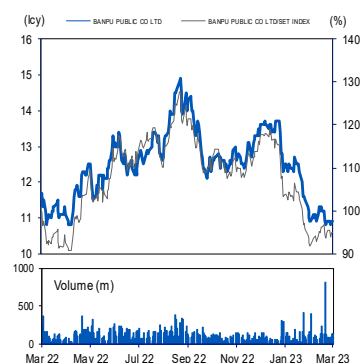
GICS sector	Energy
Bloomberg ticker:	BANPU TB
Shares issued (m):	8,454.2
Market cap (Btm):	91,304.9
Market cap (US\$m):	2,641.8
3-mth avg daily t'over (US\$m):	41.7
Price Performance (%)	
52-week high/low	Bt14.90/Bt10.80

1mth	3mth	6mth	1yr	YTD
(3.6)	(19.4)	(23.9)	(10.7)	(21.2)

Major Shareholders

	%
Vongkusolkij family	17.0
NVDR	16.0
State Street Bank Europe Ltd.	6.7
FY23 NAV/Share (Bt)	21.33
FY23 Net Debt/Share (Bt)	12.68

PRICE CHART



Source: Bloomberg

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- **BANPU Power (78.7%-owned by BANPU).** BANPU Power (BPP) expects its 2023 operating performance to improve due to an increase in power production capacity. At present, it is in negotiating the purchase of two power plants with high efficiency low emission (HELE) technology. BPP expects to conclude the purchase of one of the two targeted power assets in 2Q23 and add electricity capacity of 800-1,000 megawatts (MW) to its power portfolio.
- **BANPU NEXT (50%-owned by BANPU).** BANPU NEXT's business strategy in 2023-25 is mainly: a) expanding solar rooftops and solar floating capacity by 500MW, and b) increasing li-ion battery capacity to 3GWh in 2025 (2022: 1GWh).

STOCK IMPACT

- **BANPU targets 2023 coal sales of 42m tonnes**, up 3.7% yoy, comprising of 22.5m tonnes of coal sale volume from Indonesia (2022: 19.6m tpa), 8.8m tonnes from Australia (2022: 8.5m tpa) and 10.0m tonnes from China (2022: 10.0m tpa). There will be weak demand for coal in 1Q23 as economic activity was slow to pick up after the Lunar New Year holidays and mild winter. However, we expect coal demand to bounce back in 2Q23 due to the economic recovery following China's reopening. The Indonesian government has approved a 10% increase in coal's export quota compared to the previous year. This is positive for BANPU's coal production in Indonesia in 2023.
- **Natural gas sales volume in 2023 expected to be similar to last year's 280b cubic feet equivalent.** We expect the gas capacity to be similar to the previous year's at 800-900m cubic feet per day. For 2023, the gas business is emphasising on flexible cost management to support the volatile gas price. The selling price of gas is still highly volatile, with the economic slowdown, rising interest rates and uncertain war conditions affecting the gas price trend.

EARNINGS REVISION/RISK

- **We cut our 2023 net profit forecast by 47% to Bt18.7b.** We revise down our 2023 earnings forecast by 47% to reflect the lower coal and gas price assumptions due to the weak demand and oversupply concerns. Our new assumptions in 2023 are US\$130/tonne for Indonesian coal prices (down 33% yoy), A\$165/tonne for Australian coal prices (down 23% yoy), and US\$3/mmBTU (down 53% yoy) for Henry Hub gas prices.

SENSITIVITY ANALYST ON HENRY HUB PRICE VS OUR 2023 EARNINGS FORECASTS

Henry Hub (gas price) 2023 Assumption (US\$/mmBTU)	BANPU's 2023 Profit (Btm)	EPS (Bt/share)	2023 Target Price (Bt)	Current PE 2023 (x)
167.00	9,096	1.08	5.4	10.13
177.00	13,914	1.65	8.2	6.62
187.00	18,733	2.22	11.1	4.96
197.00	23,551	2.79	13.9	3.95
207.00	28,369	3.36	16.8	3.28

Source: UOB Kay Hian.

SENSITIVITY ANALYST ON COAL PRICE VS OUR 2023 EARNINGS FORECASTS

New castle coal Index 2023 Assumption (US\$/tonnes)	BANPU's 2023 Profit (Btm)	EPS (Bt/share)	2023 Target Price (Bt)	Current PE 2023 (x)
2.60	15,936	1.88	9.4	5.84
2.80	17,334	2.05	10.3	5.36
3.00	18,733	2.22	11.1	4.96
3.20	20,131	2.38	11.9	4.62
3.40	21,529	2.55	12.7	4.32

Source: UOB Kay Hian.

VALUATION/RECOMMENDATION

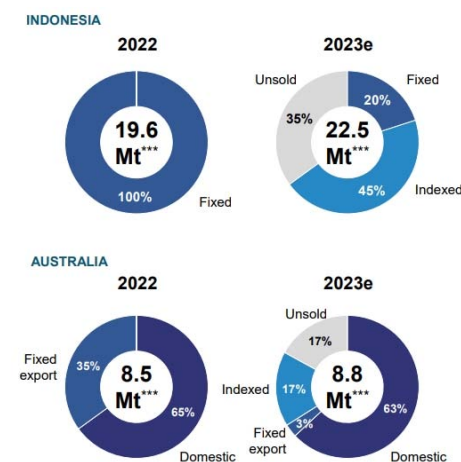
- **Maintain HOLD with a new target price of Bt11.10**, based on 5x 2023F PE. We apply -1.0SD to five-year regional coal PE mean, given the current low commodity prices. We maintain HOLD for investors that are concerned about two factors: a) BANPU's ESG issues, and b) coal and gas price downtrend. Our sector picks are PTT Exploration & Production (PTTEP/BUY/Bt195.00) and PTT Oil & Retail Business (OR/BUY/Bt33.00).

KEY ASSUMPTION CHANGES IN 2023-24

	2023	2024	2023
New castle Coal Index	187.0	174.0	280.0
ASP Indo Mine (US\$/Tonnes)	130.0	120.0	140.0
Avg. total indo costs (US\$/Tonnes)	84.5	81.6	85.9
Indo Sale Volume (m Tonnes)	22.5	22.0	19.7
ASP Australia mine (A\$/tonnes)	165.0	130.0	179.6
Australia Operations Cost (A\$/tonnes)	100.0	80.0	94.0
Australia Sale Volume (m Tonnes)	8.8	9.0	9.3
Henry Hub gas price (US\$/mmBTU)	3.0	2.7	6.0
Net Profit	18,733	14,398	35,321

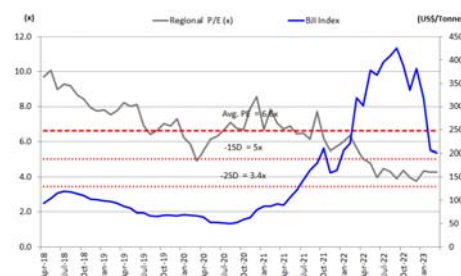
Source: UOB Kay Hian

COAL SALES PRICING STATUS



Source: BANPU, UOB Kay Hian

REGIONAL COAL: FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	272,270	173,691	153,521	134,320
EBITDA	124,876	55,658	49,340	41,695
Deprec. & amort.	22,207	20,778	19,832	18,554
EBIT	102,668	34,880	29,508	23,141
Associate contributions	11,980	9,695	8,058	7,786
Net interest income/(expense)	(9,367)	(8,511)	(7,239)	(6,528)
Pre-tax profit	105,282	36,064	30,327	24,399
Tax	(18,379)	(8,815)	(7,413)	(5,964)
Minorities	(16,293)	(8,516)	(8,516)	(6,202)
Net profit	40,519	18,733	14,398	12,233
Net profit (adj.)	70,610	18,733	14,398	12,233

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	144,829	139,052	132,720	124,166
Other LT assets	164,560	151,694	141,609	132,008
Cash/ST investment	74,448	52,990	71,007	87,360
Other current assets	52,957	33,781	29,976	26,475
Total assets	436,794	377,516	375,311	370,010
ST debt	38,644	15,000	15,000	15,000
Other current liabilities	57,540	44,346	39,233	34,403
LT debt	160,178	145,178	130,178	115,178
Other LT liabilities	28,057	2,779	2,456	2,149
Shareholders' equity	162,523	180,362	198,592	213,428
Total liabilities & equity	436,794	377,516	375,311	370,010

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	61,564	54,008	41,438	35,659
Pre-tax profit	105,282	36,064	30,327	24,399
Tax	(18,379)	(8,815)	(7,413)	(5,964)
Deprec. & amort.	22,207	20,778	19,832	18,554
Working capital changes	(13,856)	5,982	(1,308)	(1,330)
Other operating cashflows	(33,691)	0	0	0
Investing	(30,012)	(27,412)	(3,738)	(707)
Investments	(17,410)	(15,000)	(13,500)	(10,000)
Others	(12,602)	(12,412)	9,762	9,293
Financing	1,965	(48,054)	(19,683)	(18,600)
Dividend payments	(4,736)	(9,410)	(4,683)	(3,600)
Proceeds from borrowings	6,702	(38,644)	(15,000)	(15,000)
Net cash inflow (outflow)	33,518	(21,458)	18,017	16,353
Beginning cash & cash equivalent	39,581	74,448	52,990	71,007
Changes due to forex impact	1,349	0	0	0
Ending cash & cash equivalent	74,448	52,990	71,007	87,360

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	45.9	32.0	32.1	31.0
Pre-tax margin	38.7	20.8	19.8	18.2
Net margin	14.9	10.8	9.4	9.1
ROA	10.1	4.6	3.8	3.3
ROE	29.3	10.9	7.6	5.9
Growth				
Turnover	104.4	(36.2)	(11.6)	(12.5)
EBITDA	154.1	(55.4)	(11.4)	(15.5)
Pre-tax profit	203.8	(65.7)	(15.9)	(19.5)
Net profit	311.3	(53.8)	(23.1)	(15.0)
Net profit (adj.)	218.6	(73.5)	(23.1)	(15.0)
EPS	167.3	(75.4)	(23.1)	(15.0)
Leverage				
Debt to total capital	56.6	48.5	43.5	39.0
Debt to equity	122.3	88.8	73.1	61.0
Net debt/(cash) to equity	76.5	59.4	37.3	20.1
Interest cover (x)	13.3	6.5	6.8	6.4

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