

## COMPANY RESULTS

### PTT Exploration & Production (PTTEP TB)

2Q23: Strong Net Profit

PTTEP's 2Q23 results were impressive, with net profit increasing both qoq and yoy in line with our and consensus expectations. However, we expect 3Q23 core profit to decline due to lower gas prices and increased production costs. PTTEP has announced an interim dividend of Bt4.25/share. Looking ahead, we are optimistic about crude oil prices for the rest of 2023 due to the tight supply in the market. Maintain BUY and roll over our target price of Bt182.00 to 2024.

#### 2Q23 RESULTS

Year to 31 Dec (Btm)	2022	1Q23	2Q23	yoy % chg	qoq % chg	6M22	6M23	yoy % chg
Revenue	83,088	75,493	67,479	-19	-11	151,237	142,972	-5
Operating Profit	43,055	38,120	32,597	-24	-14	78,922	70,717	-10
EBITDA	57,322	42,547	36,437	-36	-14	115,451	78,984	-32
EBT	42,856	38,233	33,042	-23	-14	78,096	71,275	-9
Core Profit	21,813	20,034	19,759	-9	-1	40,618	39,793	-2
Net Profit	20,600	19,281	21,036	2	9	31,119	40,318	30
EPS	5.19	4.86	5.30	2	9	7.84	10.16	30
Gross Profit Margin (%)	63.9	61.3	58.5			64.4	60.0	
EBITDA Margin (%)	69.0	56.4	54.0			76.3	55.2	
Net profit margin (%)	24.8	25.5	31.2			20.6	28.2	

Source: PTT Exploration & Production, UOB Kay Hian

#### RESULTS

• **PTTEP's 2Q23 net profit was Bt21b**, up 9% qoq and up 2% yoy, in line with our and consensus expectations. This growth can be primarily attributed to an extraordinary gain of Bt1.3b (vs loss of Bt1.2b in 2Q22 and loss of Bt753m in 1Q23). These gains came from foreign exchange and hedging. However, it is worth noting that the core profit for 2Q23 declined both qoq and yoy, as a result of several factors:

a) **ASP declines.** Average selling price (ASP) was US\$45.70/bbl (vs 2Q22: US\$55.60/bbl, 1Q23: US\$50.00/bbl) due to a drop in liquid and gas prices by 10% qoq and 5.7% qoq respectively. The drop in liquid prices can be attributed to the ongoing decline in crude oil prices over the past six months. On the other hand, the decrease in gas prices was influenced by the concession change of the Bongkot South project (G2/61).

#### KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	219,068	331,350	269,307	289,511	274,430
EBITDA	160,693	253,734	212,373	222,557	207,242
Operating profit	90,399	170,566	119,239	138,260	129,994
Net profit (rep./act.)	38,864	70,901	61,418	72,087	67,560
Net profit (adj.)	42,888	90,721	61,418	72,087	67,560
EPS (Bt)	10.8	22.9	15.5	18.2	17.0
PE (x)	14.8	7.0	10.3	8.8	9.4
P/B (x)	1.6	1.4	1.4	1.2	1.2
EV/EBITDA (x)	3.8	2.4	2.9	2.7	2.9
Dividend yield (%)	3.1	5.8	5.0	5.6	5.3
Net margin (%)	17.7	21.4	22.8	24.9	24.6
Net debt/(cash) to equity (%)	12.7	2.3	(5.2)	(18.8)	(29.7)
Interest cover (x)	24.8	30.9	25.7	28.1	26.1
ROE (%)	9.8	16.7	13.5	14.8	12.9
Consensus net profit	-	-	65,268	61,080	58,426
UOBKH/Consensus (x)	-	-	0.94	1.18	1.16

Source: PTT Exploration & Production, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt159.50
Target Price	Bt182.00
Upside	+14.1%
(Previous TP)	Bt174.00)

#### COMPANY DESCRIPTION

PTTEP explores for crude oil and natural gas, developing fields for production.

#### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	PTTEP TB
Shares issued (m):	3,970.0
Market cap (Btm):	633,212.7
Market cap (US\$m):	18,502.5
3-mth avg daily t'over (US\$m):	35.3
Price Performance (%)	

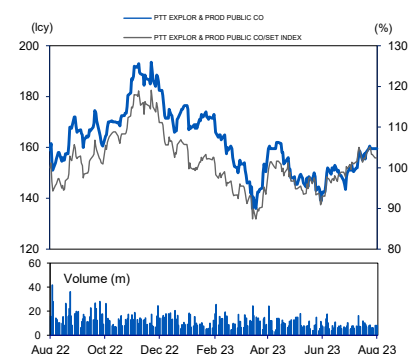
52-week high/low Bt193.50/Bt136.00

1mth	3mth	6mth	1yr	YTD
6.3	7.8	(7.0)	(1.8)	(9.6)

#### Major Shareholders

	%
PTT	64.8
NVDR	6.2
Social Security Office	2.0
FY23 NAV/Share (Bt)	117.66
FY23 Net Cash/Share (Bt)	6.11

#### PRICE CHART



Source: Bloomberg

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b) **Sales volume declining both qoq and yoy.** In 2Q23, sales volume amounted to 440,000 barrels of oil equivalent per day (BOED), down 3.5% qoq and 4.4% yoy. This decrease was due to: a) the transition of the G2/61 project's concession from a Concession Agreement to a Product Sharing Contract (PSC) on 8 Mar 23 which affected the sales volume, b) lower sales in Malaysia from a 1.5-month unplanned shutdown of the Sabah K project which impacted production, and c) the reduced output from the Oman project.

c) **Slightly higher production costs.** PTTEP had unit costs of US\$26.41/bbl (vs US\$28.79/bbl in 2Q22 and US\$26.07/bbl in 1Q23) due to the acceleration of petroleum production in the Erawan project (G1/61) which caused operating expenses to rise.

#### STOCK IMPACT

- **Positive view on crude oil prices due to tight supply.** A reduction in oil supplies of approximately 5.2m barrels per day (BPD) is anticipated for July and August due to the production reduction plan. This is contributing to the support of Dubai crude oil prices. Qtd, Dubai crude oil prices are at \$80.2/bbl, up 3% qoq.
- **3Q23 core profit should decrease qoq due to:** a) an expected increase in unit costs to US\$28.00-29.00/bbl, and b) 3Q23 ASP decreasing both qoq and yoy due to a decline in gas selling prices to US\$5.8 per Million British Thermal Unit (MMBTU). These lower gas prices are a consequence of decreased crude oil prices over the past 6-9 months, along with a higher proportion of sales volume in the G1/61 project and G2/61 projects under the PSC contract. This is despite positive factors such as a 5.6% qoq increase in sales volume of 470,000 BOED and a rise in crude oil prices.
- **PTTEP announced a Bt4.25 per share interim dividend,** with an ex-dividend date (XD) set for 15 Aug 23 and the actual payment made on 29 Aug 23. We expect a dividend of Bt8.00 per share in 2023.

#### EARNINGS REVISION/RISK

- **Downgraded 2023 crude oil price assumption.** We have revised down our projected core profit for 2023-24 by 2% and 5% respectively, based on the assumption that Dubai crude oil prices in 2023 will be US\$81/bbl (previously US\$85/bbl). Additionally, we expect lower production cost per unit at \$27.50/bbl and an increase in petroleum sales to 464,000 BOED. Consequently, our net profit forecast for 2023 now stands at Bt61.4b, declining 13% yoy. In 2024, we maintain our assumption of Dubai crude oil price at US\$84/bbl. However, we have revised up the production cost per unit to US\$28.0/bbl, while petroleum sales target remains at 510,000 BOED, which should lead to a core profit of Bt72.1b for 2024, up 17% yoy.
- **Assumption sensitivity.** Every US\$1.00/bbl decrease in oil price would lower our 2024 core profit forecast by 1.10%, or Bt805m. Our new unit cost assumption for 2024 is US\$28.0/bbl. Every US\$1/bbl decline in unit cost would raise our 2024 core profit forecast by 4.4%, or Bt3.20b. Our forex assumption for 2024 is Bt34.00/US\$. Every Bt1/US\$ depreciation would raise our 2024 core profit forecast by 0.6%, or Bt405m.

#### SENSITIVITY ANALYST ON DUBAI PRICE VS OUR 2023 EARNINGS FORECASTS

Dubai (US\$/bbl)	PTTEP's 2024	EPS	2024 Target	Current PE
2024 Assumption	Net Profit (Btm)	(Bt/share)	Price (Bt)	2024 (x)
74.00	64,037	16.1	161	9.9
79.00	68,062	17.1	171	9.3
84.00	72,087	18.2	182	8.8
89.00	76,112	19.2	192	8.3
94.00	80,137	20.2	202	7.9

Source: PTT Exploration & Production, UOB Kay Hian

#### VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of Bt182.00,** based on average five-year regional forward PE at 10x. We roll over our target price to 2024. A favorable outlook on crude oil prices for the rest of 2023 and into 2024 enhances the investment appeal of PTTEP. Over the past five years, there has been a notable correlation of as much as 82.7% between PTTEP's stock prices and crude oil prices.

#### PTTEP: KEY STATISTICS IN 2023 AND 6M23

	2022	1Q23	2Q23	Chg. %yoy	Chg. %qoq	6M22	6M23	Chg. %yoy
Sales volume (BOED)	465,459	480,817	444,868	-4.4%	-3.5%	446,414	452,843	1.4%
Gas price (US\$/MMBTU)	6.10	6.52	5.87	-3.8%	-10.0%	6.1	6.2	1.6%
Avg. selling price (US\$/BOE)	55.6	50.0	45.7	-17.8%	-8.6%	53.5	47.9	-10.5%
Avg. Dubai (US\$/bbl)	108.5	80.3	77.8	-28.3%	-3.2%	102.0	79.1	-22.5%
Liquid price (US\$/BOE)	62.2	65.2	66.2	6.4%	1.5%	61.7	65.7	6.5%
Unit Cost (US\$/bbl)	28.8	26.1	26.4	-8.3%	1.3%	27.7	26.2	-5.2%

Source: PTT Exploration & Production, UOB Kay Hian

#### KEY ASSUMPTION 2023-24

	--- 2023 ---			--- 2024 ---		
	Old	New	%Chg.	Old	New	%Chg.
Fx (Bt/US\$)	34.0	34.0	0%	34.0	34.0	0%
Dubai Crude Oil Price (US\$/bbl)	85.0	81.0	-5%	84.0	84.0	0%
Gas Price (US\$/MMBTU)	6.1	6.1	0%	5.8	5.8	0%
Unit Cost (US\$/BOE)	27.5	27.0	-2%	27.0	28.0	4%
Sales Volume (KBOED)	456	464	2%	510	510	0%
Net Profit (Btm)	62,601	61,418	-2%	75,501	72,087	-5%
EPS (Bt per share)	15.8	15.5	-2%	19.0	18.2	-5%

Source: PTT Exploration & Production, UOB Kay Hian

#### GUIDANCE 3Q23 AND 2023

	Outlook	
	Q3 2023	FY 2023
Sales Volume (KBOED)	~470	~464
Gas Price (US\$/MMBTU)	~5.8	~6.0
Unit Cost (US\$/BOE)	~27-28	
Profitability (EBITDA Margin)	70-75%	

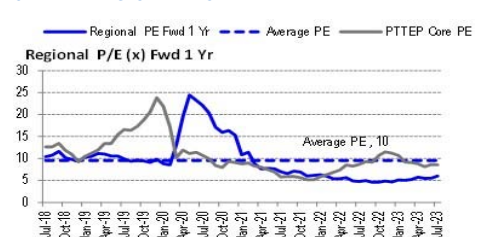
Source: PTT Exploration & Production, UOB Kay Hian

#### 5-YEAR TARGET SALES VOLUME AND INVESTMENT BUDGET



Source: PTT Exploration & Production, UOB Kay Hian

#### 5-YEAR REGIONAL FORWARD PE BAND



Source: PTT Exploration & Production, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	331,350	269,307	289,511	274,430
EBITDA	253,734	212,373	222,557	207,242
Deprec. & amort.	83,168	93,134	84,296	77,248
EBIT	170,566	119,239	138,260	129,994
Associate contributions	668	701	736	773
Net interest income/(expense)	(8,218)	(8,271)	(7,930)	(7,930)
Pre-tax profit	143,196	111,669	131,067	122,837
Tax	(72,295)	(50,251)	(58,980)	(55,276)
Minorities	0	0	0	0
Net profit	70,901	61,418	72,087	67,560
Net profit (adj.)	90,721	61,418	72,087	67,560

**BALANCE SHEET**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	410,614	366,683	331,887	304,139
Other LT assets	262,408	215,073	230,487	218,981
Cash/ST investment	122,324	146,269	217,835	282,288
Other current assets	74,519	64,953	67,662	64,300
<b>Total assets</b>	<b>869,864</b>	<b>792,978</b>	<b>847,871</b>	<b>869,708</b>
ST debt	10,479	0	0	0
Other current liabilities	104,137	44,140	47,526	45,408
LT debt	121,999	121,999	121,999	121,999
Other LT liabilities	166,129	135,022	145,152	137,591
Shareholders' equity	442,422	467,118	508,496	540,013
<b>Total liabilities &amp; equity</b>	<b>869,864</b>	<b>792,978</b>	<b>847,871</b>	<b>869,708</b>

**CASH FLOW**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>164,916</b>	<b>104,121</b>	<b>157,060</b>	<b>146,052</b>
Pre-tax profit	143,196	111,669	131,067	122,837
Tax	(72,295)	(50,251)	(58,980)	(55,276)
Deprec. & amort.	83,168	93,134	84,296	77,248
Working capital changes	(30,141)	(50,431)	677	1,243
Other operating cashflows	40,987	0	0	0
<b>Investing</b>	<b>(58,760)</b>	<b>(32,975)</b>	<b>(54,785)</b>	<b>(45,555)</b>
Investments	(61,755)	(49,203)	(49,500)	(49,500)
Others	2,995	16,228	(5,285)	3,945
<b>Financing</b>	<b>(69,958)</b>	<b>(47,201)</b>	<b>(30,709)</b>	<b>(36,043)</b>
Dividend payments	(28,670)	(36,722)	(30,709)	(36,043)
Proceeds from borrowings	(41,288)	(10,479)	0	0
<b>Net cash inflow (outflow)</b>	<b>36,198</b>	<b>23,945</b>	<b>71,566</b>	<b>64,453</b>
Beginning cash & cash equivalent	85,528	122,324	146,269	217,835
Changes due to forex impact	598	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>122,324</b>	<b>146,269</b>	<b>217,835</b>	<b>282,288</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	76.6	78.9	76.9	75.5
Pre-tax margin	43.2	41.5	45.3	44.8
Net margin	21.4	22.8	24.9	24.6
ROA	8.6	7.4	8.8	7.9
ROE	16.7	13.5	14.8	12.9
<b>Growth</b>				
Turnover	51.3	(18.7)	7.5	(5.2)
EBITDA	57.9	(16.3)	4.8	(6.9)
Pre-tax profit	78.1	(22.0)	17.4	(6.3)
Net profit	82.4	(13.4)	17.4	(6.3)
Net profit (adj.)	111.5	(32.3)	17.4	(6.3)
EPS	111.5	(32.3)	17.4	(6.3)
<b>Leverage</b>				
Debt to total capital	22.1	19.9	18.6	17.8
Debt to equity	29.9	26.1	24.0	22.6
Net debt/(cash) to equity	2.3	(5.2)	(18.8)	(29.7)
Interest cover (x)	30.9	25.7	28.1	26.1

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