

July 13, 2004

Bangchak Petroleum Plc. (BCP-DR1)

NEW : SPECULATIVE BUY
PREVIOUS : SPECULATIVE BUY
ENERGY

Expect big turnaround in 2Q04 earnings

Price Target
Bt16.50
Bt21.00

Bangchak Petroleum (BCP-DR1) is projected to report an outstanding turnaround generating earnings of Bt499mn or an EPS of Bt0.73 in 2Q04 compared to huge loss of Bt913mn in the same period of last year. Improvement in the gross refinery margin (GRM), a higher utilization rate, lower interest costs and stock gains are the key earnings drivers this quarter.

Our 2Q04 earnings forecast is based on sales volume of 86,700barrel/day, increasing 17% from an average of 74,000 barrel/day in 2003, but 9.4% lower than 1Q04 when 95,700 barrel/day were produced. This drop was due to the company shut down of the distillation unit 2 (40,000barrel/day) for 30 days between 16 May-14June 2004 for maintenance.

The higher sales volume mainly came from bunker oil following PTT petroleum report that bunker oil consumption was up 30% yoy, due to Electricity Generating Authority of Thailand (EGAT) higher use of bunker oil to generate electricity rather than natural gas, because of limitations of the gas pipeline. Hence, we expect BCP to benefit from this situation at least until the PTT third pipeline comes on line in 2006.

BCP's GRM improved to \$2.20/barrel in 2Q04 from \$1.09/barrel in the same quarter last year following higher domestic oil demand and also the refinery improvement programme, which could add around \$0.30/barrel on top of this base GRM.

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BCP income statement

Income statement (Bt mn)	2Q04F	1Q04	QOQ	2Q03	YOY	FY03	FY04F	%
Sales	15,971	18,651	(14%)	14,827	8%	61,930	72,252	17%
COGS	14,886	17,288	(14%)	15,204	(2%)	59,465	68,446	15%
Gross profit	1,084	1,363	(20%)	(376)	N.A.	2,465	3,806	54%
Gross margin (%)	6.8%	7.3%	N.A.	-2.5%	N.A.	4.0%	5.3%	32%
SG&A	319	390	(18%)	327	(2%)	1,720	1,806	5%
EBITDA	901	1,125	(20%)	(495)	N.A.	1,354	2,470	82%
EBITDA margin (%)	5.6%	6.0%	N.A.	-3.3%	N.A.	2.2%	3.4%	56%
Interest expense	218	243	(10%)	276	(21%)	1,028	819	(20%)
Net profit before extra items	499	698	(29%)	(1,039)	N.A.	(418)	964	N.A.
Extraordinary gain (loss)								
- Forex gain (loss)	0	33	N.A.	54	N.A.	297	0	N.A.
- Other (loss)	0	(84)	N.A.	71	N.A.	(190)	0	N.A.
Net profit	499	647	(23%)	(913)	N.A.	(1,298)	964	N.A.
EPS (Bt) before extra items	0.73	1.03	(29%)	(1.99)	N.A.	(0.80)	1.71	N.A.
EPS (Bt)	0.73	0.95	(23%)	(1.7)	N.A.	(2.49)	1.71	N.A.

Source: Company reports and KeLive estimates.

We expect the company to record a moderate stock gain of around Bt200mn in 2Q04 as a result of keeping a crude oil inventory of 5 million barrels at a time when crude oil prices rose and the gain was approximately \$1/barrel during the quarter. However, if global crude oil prices drop in the second half of this year, the company may also have to record an inventory loss that will probably offset the inventory gain in the first half. Therefore, we haven't counted this inventory effect into our full year earnings projection.

Although our 1H04 earnings forecast of Bt1.1bn accounts for 124% of our full year net profit forecast of Bt964mn or an EPS of Bt1.71 excluding extraordinary items like the stock gain, we have still not revised our projection due to the company booking a stock gain of Bt600mn in the first half and the chance of a stock loss, if crude oil prices decline in the second half of the year.

The current share price looks inexpensive trading on a PER of 9.6x and a prospective 2005 PER of 6.8x. With an upside of 27% to our fair value estimate of Bt21 based on a DCF method, a big turnaround result is expected for 2Q04. We reiterate our **SPECULATIVE BUY** on BCP-DR1.

Earnings summary

	2000	2001	2002	2003	2004F	2005F
Sales (Btmn)	52,118	48,483	51,804	61,930	72,252	73,726
EBITDA (Btmn)	1,306	(559)	2,888	1,354	2,470	2,813
Normalised earnings (Btmn)	(1,084)	(2,972)	519	(418)	964	1,368
Earnings (Btmn)	(1,582)	(2,987)	534	(1,298)	964	1,368
EPS (Bt)	(3.03)	(5.72)	1.02	(2.49)	1.71	2.43
PER (x)	N.A.	N.A.	16.1	N.A.	9.6	6.8
EV/EBITDA (x)	18.6	(46.1)	8.5	17.0	10.0	8.2
Free cash flow (Btmn)	(3,841)	993	37	2,386	(1,980)	2,233
CF/share (Bt)	(6.8)	0.1	0.6	5.1	(4.1)	3.4
BVPS (Bt)	11.1	4.7	8.8	5.9	12.1	14.6
P/BV (x)	1.5	3.5	1.9	2.8	1.4	1.1
DPS (Bt)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0%	0%	0%	0%	0%	0%
Net debt/equity (x)	2.7	7.1	3.5	4.7	2.3	1.7
ROA (%)	-5%	-11%	2%	-5%	3%	5%
ROE (%)	-23%	-73%	15%	-34%	19%	18%

Source: Company reports and KeLive estimates.

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