

August 16, 2004

PTT Plc. (PTT)

NEW : BUY
PREVIOUS : BUY

ENERGY

Better-than-expected 2Q04 earnings due to the reversal of allowance of Bt2,160mn

Price Target
Bt149
Bt227

PTT Plc. (PTT) announced outstanding 2Q04 earnings growth of 107% to Bt14,083mn (EPS Bt5.04). Earnings came in better than expected due to the company booking a reversal of allowance for share of net loss over investment in ATC of Bt2,160mn. Excluding this extra item, PTT's 2Q04 normalised earnings of Bt11,923mn was in line with our previous estimate of Bt11,879mn.

Revenues jumped 25% yoy to Bt150bn as a result of higher petroleum selling prices and higher sales volume. As cost of goods sold rose at a similar rate of 24% yoy, PTT's gross margins slightly improved to 13% in 2Q04 from 12% in 2Q03.

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PTT income statement

Income statement (Bt mn)	2Q04	1Q04	QOQ	2Q03	YOY	1H04	FY04F	%
Sales	150,673	137,969	9%	120,344	25%	288,642	501,194	58%
COGS	131,596	120,360	9%	105,819	24%	251,957	433,691	58%
Gross profit	19,077	17,609	8%	14,525	31%	36,685	67,503	54%
Gross margin (%)	13%	13%	N.A.	12%	N.A.	13%	13%	N.A.
SG&A	4,307	3,800	13%	3,187	35%	8,108	13,973	58%
EBITDA	19,965	19,266	4%	15,426	29%	39,231	66,621	59%
EBITDA margin (%)	13%	14%	N.A.	13%	N.A.	14%	13%	N.A.
Interest expense	1,882	1,902	(1%)	2,088	(10%)	3,784	7,198	53%
Subsidiary contribution	5,812	3,752	55%	751	673%	9,564	13,227	72%
Net profit before extra items	14,083	12,274	15%	6,194	127%	26,357	44,560	59%
Extraordinary gain (loss)								
- Forex gain (loss)	0	0	N.A.	617	N.A.	0	0	N.A.
- Other (loss)	0	0	N.A.	0	N.A.	0	0	N.A.
Net profit	14,083	12,274	15%	6,811	107%	26,357	44,560	59%
EPS (Bt) before extra items	5.04	4.39	15%	2.21	127%	9.42	15.93	59%
EPS (Bt)	5.04	4.39	15%	2.44	107%	9.42	15.93	59%

PTT's oil sales volume rose 10% yoy to 10,405 million litres. This coupled with higher average sales prices resulted in a 91% yoy jump in EBITDA of the company's oil businesses.

For PTT's gas business, EBITDA increased 38.4% yoy due to a 2.9% yoy rise in natural gas sales volume to 2,784 million cubic feet per day (mmcf), increasing gas separation sales with volume up 3.3% yoy and a 23% yoy rise in average LPG prices to \$319/tonne.

For PTTEP, which PTT holds a 64.99% stake, EBITDA surged 32% yoy as a result of a 14% higher average petroleum sales prices to \$22.86/barrel of oil equivalent and a 23% yoy increase in sales volume to 133,101 barrel of oil equivalent per day.

Earnings revision (Btmn)

	Previous	New	%
2004F	42,400	44,560	5%
2005F	44,020	44,020	0%

Source : KELIVE Research estimate

Earnings contribution from subsidiaries in refinery and petrochemical businesses jumped 673% yoy to Bt5,812mn due to widening gross refinery margins (GRM) and higher petrochemical prices. In addition, PTT recorded a reversal of allowance for share of net loss over investment in ATC totalling Bt2,160mn in this quarter.

As a result of extra reversal of allowance in ATC, we have revised our 2004 earnings projection up 5% to Bt44,560 (EPS Bt15.93). The company's 1H04 earnings accounts for 59% of our new full-year earnings forecast. The company should easily make our full-year projection given continuing high petroleum prices and rising sales volume from growing domestic demand.

We expect the company to pay a dividend of at least Bt4/share, representing a dividend yield of 2.7% at the current share price. The current stock price looks deeply undervalued trading at a PER of 9.4x and offering a potential 52% upside to our fair value estimate of Bt227. Therefore, we are maintaining our **BUY** recommendation on PTT.

Earnings summary

	2001	2002	2003	2004F	2005F
Sales (Btmn)	377,902	399,752	494,009	501,194	530,781
EBITDA (Btmn)	49,840	58,148	64,313	66,621	70,360
Normalized earnings (Btmn)	18,551	23,935	38,066	44,560	44,020
Earnings (Btmn)	21,565	24,485	39,401	44,560	44,020
EPS (Bt)	7.71	8.75	14.09	15.93	15.74
PER (x)	19.3	17.0	10.6	9.4	9.5
EV/EBITDA (x)	10.2	8.8	7.5	7.2	7.0
Free cash flow (Btmn)	(26,970)	19,316	30,191	5,909	33,678
CF/share (Bt)	7.5	10.5	18.5	14.0	15.6
BVPS (Bt)	20.7	28.9	40.2	52.1	63.1
P/BV (x)	7.2	5.2	3.7	2.9	2.4
DPS (Bt)	2.50	2.85	4.00	4.00	4.00
Dividend yield (%)	1.7%	1.9%	2.7%	2.7%	2.7%
Net debt /equity (x)	1.5	1.2	0.6	0.4	0.4
ROA (%)	8.2%	8.3%	12.6%	12.7%	11.2%
ROE (%)	48.7%	35.3%	40.8%	34.5%	27.3%

Source : PTT and KELIVE Research estimate

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