

Report type: Trade Flash

Company Overview

PTTGC was formed by the amalgamation between PTTCH PTTAR. The principal businesses 1) petrochemicals and chemicals business, 2) refining and petroleum products supply sourcing, and 3) services and others.

- PTTGC is expected to report a 4QCY12 net profit of Bt9,302mn, down 28% q-q, in an absence of exceptionally high stock gains like in 3QCY12.
- This year, earnings are expected to get a lift from the still-high level of aromatics margins and more synergies to be realized from the merger.
- We rate PTTGC an 'ACCUMULATE' with a CY13 target price of Bt84/share.

What is the news?

In 4QCY12, production capacity seems to stay flat q-q. Utilization rates in refinery, aromatics and olefins are expected to reach 101%, 91% and 88%, respectively.

Gross refining margin would not be as high as US\$5.94/barrel in 3QCY12 as petroleum spread saw a slight decline. Comparing to crude price, jet oil and diesel spread slipped US\$1 to US\$19 as US\$18/barrel, respectively. Spread between fuel oil and crude price fell at a rapid pace by US\$7 to -US\$9/barrel.

Meanwhile, aromatics spread widened notably. Spread between PX spot Korea and condensate increased 25% q-q to US\$640/ton while BZ spot Korea spread jumped 69% y-y to US\$439/ton.

How do we view this?

We project 4QCY12 net profit to soften q-q as the petroleum division is expected to deliver weaker performance, potentially resulted by i) lower GRM and ii) a lack of stock gains after an average oil price dropped to US\$108 at quarter-end from US\$111/barrel in 3QCY12. Nonetheless, as PTTGC is the fully integrated producer (including petrochemical products), the notable increase in aromatics spread and its cost advantage of using natural gas as raw material in the olefins business would help offset the said losses. In sum, net profit would fall 28% q-q to Bt9,302mn in 4QCY12 but the whole-year net profit would soar 10% y-y to Bt32,915mn, above our previous estimate of Bt30,921mn).

We raise our CY13 earnings outlook for PTTGC by 3% to Bt35,038mn, which represents a growth of 6% y-y. The forecast is based on assumptions of PX-condensate and BZ-condensate spreads of US\$650/ton and US\$350/ton respectively. In our view, the still-high level of aromatics margins and more synergies to be realized from the merger would be key earnings drivers for PTTGC. This year, aromatics margins are likely to stay high. In Jan 2013, PX-condensate and BZ-condensate spreads stood at US\$713/ton and US\$492/ton respectively. PTTGC is also expected to realize more synergies from the merger this year, especially from the C3/C4 stream and cracker bottoms projects with estimated benefits of more than US\$30mn.

Investment Actions?

Although the lackluster performance in the petroleum business would pull 4QCY12 net profit slightly lower, the strong performance in the petrochemical segment would become a key catalyze to drive CY12 earnings higher. We expect PTTGC to pay 2HCY12 dividend of Bt1.97/share (given the company's dividend payout ratio at 40%) calculating to unannualized dividend yield of 2.5%.

PTTGC is expected to realize more synergies from the merger this year. Meanwhile, a development in an expansion into overseas should be more concrete. To reflect upbeat earnings outlook, we revise upwardly our CY13 target price to Bt84/share, based on P/BV of 1.5x (previously target price of Bt77 on 1.4x P/BV).

Valuation Method

P/B'13 (1.5x)

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