

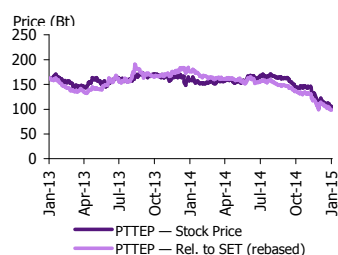
BUY

Stock Data

Last close (Jan 21) (Bt)	104.50
12-m target price (Bt)	130.00
Upside (Downside) to TP (%)	24.40
Mkt cap (Btbn)	414.86
Mkt cap (US\$mn)	12,726

Bloomberg code	PTTEP TB
Reuters code	PTTEP.BK
Risk rating	M
Mkt cap (%) SET	2.91
Sector % SET	15.33
Shares issued (mn)	3,970
Par value (Bt)	1
12-m high / low (Bt)	172.5 / 99.8
Avg. daily 6m (US\$mn)	26.11
Foreign limit / actual (%)	40 / 21
Free float (%)	34.7
Dividend policy (%)	≤ 30

Price Performance



Source: SET, SCBS Investment Research

Share performances

	1M	3M	12M
Absolute	(14.3)	(27.4)	(33.9)
Relative to SET	(14.4)	(27.6)	(44.5)

Source: SET, SCBS Investment Research

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Lower oil price hurts but isn't fatal

PTTEP's share reflects LT Dubai at US\$65/bbl vs. US\$44-45/bbl now, but we do not see the low as staying long since at US\$40/bbl ~1.6% of global supply would operate below cash cost. At cash cost of US\$21/bbl PTTEP can keep its head above water. Our DCF valuation is affected by the low oil price and we cut TP to Bt130 from Bt200 based on LT Dubai at US\$80/bbl from 2017. The longer oil price remains low, the higher the downside to valuation. We still BUY based on a gradual increase in oil price from US\$60/bbl in 2015 to US\$80/bbl in 2017. Though profit downside is limited, it will drag on share performance until bottoming.

Lower oil price hit ASP but aided by stable gas price. PTTEP's average selling price will be hit by lower oil price since 30% of its sales volume (liquid portion – crude and condensate) is linked to Dubai. The plunge in Dubai to US\$60/bbl in 2015 from US\$98bbl in 2014 leads to an estimated fall in ASP to US\$49/BOE in 2015 (-24% YoY) from US\$64/BOE in 2014. Some support is given by a more stable gas price at slightly below US\$8/mmbtu. We believe the April adjustment in gas price will reflect the recent decline in oil price and reduce gas price by 10%. Factoring in the full price of gas from Zawtika (M9) after the 25% discount in 2H14, we estimate average gas price will slip only 7.5% from now to ~US\$7.4/mmbtu. The 2015F ASP remains at a comfortable level when compared with unit cost of US\$42/BOE and cash cost of US\$21/BOE.

Investment budget cut. PTTEP has cut its 5-year investment plan (2015-19) by 11% from its earlier 2014-18 plan to US\$24.3bn. 2015 capex budget has reduced 17.3% from the previous plan on the delay in okaying new projects and a cost reduction program. Thailand and Southeast Asia remain key areas for capital investment in 2015-19F, at 79%. This implies its commitment to the region to maintain production plateau in the low oil price environment. PTTEP views that the low oil price may open the way to new M&As, with a focus on producing assets in Thailand. Cash on hand and room to raise debt allows new investment of ~US\$5bn on top of the planned investment budget.

Oil drop hurt 4Q14. We estimate a 40% QoQ and 20% YoY fall in recurring profit to Bt7.8bn in 4Q14 despite lower exploration expense and higher sales volume QoQ from a full quarter of operations at Zawtika. The steady fall in oil price may slash ASP to US\$55.6/boe, down 14.6% QoQ and 13.7% YoY. Worse still, impairment for Montara and Canada Oil Sand of over US\$1bn due to lower oil price could push it into the red with a loss of ~Bt25bn vs. profit of Bt15bn in 3Q14, cutting 2014F by 59% from earlier forecast.

Lowered 2015-16F by 55% and 45%, respectively, though note this is still subject to extra items such as gain from oil hedging (~70% of liquid products of ~US\$90+ Dubai) and potential impairment for projects with high investment cost such as Montara to reflect lower crude oil price. The latter is a non-cash item; impairment would be required if oil price continues to fall.

TP cut to Bt130, still 24% upside. We cut 2015 TP to Bt130 from Bt200 to reflect changes in Dubai price assumptions, especially the long term, US\$80/bbl from US\$98bbl. Our sensitivity analysis shows that each US\$5/bbl change in Dubai leads valuation by Bt10/share in same direction.

Forecasts and valuation

Year to 31 Dec	Unit	2012	2013	2014F	2015F	2016F
Revenue	(Btmn)	212,537	224,973	244,917	204,242	222,963
EBITDA	(Btmn)	155,291	162,285	167,400	118,414	134,635
Core profit	(Btmn)	64,811	59,238	57,147	28,720	33,407
Reported profit	(Btmn)	57,316	56,155	24,147	28,720	33,407
Core EPS	(Bt)	19.32	14.92	14.39	7.23	8.41
DPS	(Bt)	5.80	6.00	2.40	2.90	3.40
P/E, core	(x)	5.4	7.0	7.3	14.5	12.5
EPS growth, core	(%)	35.9	(22.8)	(3.5)	(49.7)	16.3
P/BV, core	(x)	1.3	1.1	1.1	1.0	1.0
ROE	(%)	24.5	16.6	14.7	7.1	7.9
Dividend yield	(%)	5.5	5.7	2.3	2.8	3.2
EV/EBITDA	(x)	3.0	2.9	3.0	4.5	4.2

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmm)

FY December 31	2012	2013	2014F	2015F	2016F
Total revenue	212,537	224,973	244,917	204,242	222,963
Cost of goods sold	53,019	55,919	71,864	79,422	79,772
Gross profit	159,517	169,054	173,053	124,819	143,191
SG&A	9,827	10,537	9,609	8,013	8,752
Other income	5,600	3,768	3,957	1,608	196
Interest expense	5,812	6,175	6,827	6,624	6,927
Pre-tax profit	106,787	105,759	103,704	52,007	60,520
Corporate tax	42,120	46,712	46,757	23,498	27,333
Equity a/c profits	145	190	200	210	220
Minority interests	0	0	0	0	0
Core profit	64,811	59,238	57,147	28,720	33,407
Extra-ordinary items	(7,495)	(3,083)	(33,000)	0	0
Net Profit	57,316	56,155	24,147	28,720	33,407
EBITDA	155,291	162,285	167,400	118,414	134,635
Core EPS (Bt)	19.32	14.92	14.39	7.23	8.41
Net EPS (Bt)	17.08	14.14	6.08	7.23	8.41
DPS (Bt)	5.80	6.00	2.40	2.90	3.40

Balance Sheet (Btmm)

FY December 31	2012	2013	2014F	2015F	2016F
Total current assets	123,483	134,719	100,227	61,283	65,672
Total fixed assets	478,030	573,149	613,328	655,057	701,466
Total assets	601,513	707,868	713,555	716,340	767,138
Total loans	115,572	132,008	141,711	123,861	153,861
Total current liabilities	72,749	86,383	101,348	79,244	110,667
Total long-term liabilities	200,660	236,948	219,258	225,749	222,057
Total liabilities	273,409	323,332	320,606	304,993	332,724
Paid-up capital	3,970	3,970	3,970	3,970	3,970
Total equity	328,104	384,536	392,949	411,347	434,415
BVPS (Bt)	82.65	96.86	98.98	103.61	109.42

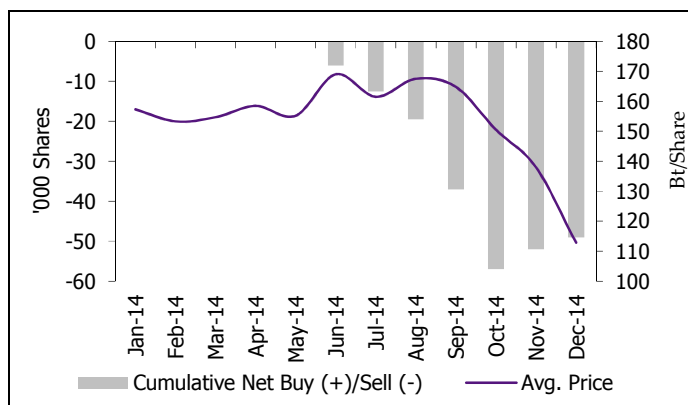
Cash Flow Statement (Btmm)

FY December 31	2012	2013	2014F	2015F	2016F
Core Profit	64,811	59,238	57,147	28,720	33,407
Depreciation and amortization	42,692	50,351	56,869	59,782	67,188
Operating cash flow	105,994	118,068	74,420	90,804	95,947
Investing cash flow	(147,193)	(89,286)	(97,048)	(101,511)	(113,597)
Financing cash flow	68,605	(21,643)	(6,032)	(28,172)	19,661
Net cash flow	27,405	7,138	(28,660)	(38,879)	2,011

Key Financial Ratios

	2012	2013	2014F	2015F	2016F
Gross margin(%)	75.1	75.1	70.7	61.1	64.2
Operating margin(%)	50.3	48.1	43.5	27.9	30.2
EBITDA margin(%)	73.1	72.1	68.3	58.0	60.4
EBIT margin(%)	53.0	49.8	45.1	28.7	30.3
Net profit margin(%)	27.0	25.0	9.9	14.1	15.0
ROE (%)	24.5	16.6	14.7	7.1	7.9
ROA (%)	12.4	9.0	8.0	4.0	4.5
Net D/E (x)	0.1	0.1	0.2	0.3	0.3
Interest coverage (x)	26.7	26.3	24.5	17.9	19.4
Debt service coverage (x)	4.1	14.5	9.0	3.8	19.4
Payout Ratio (%)	34.0	42.4	39.5	40.1	40.4

12-Month Cumulative directors trade



Source: SEC

Profit and Loss Statement (Btmm)

FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Total revenue	57,100	58,791	59,192	64,255	64,021
Cost of goods sold	14,578	15,426	16,007	15,525	16,230
Gross profit	42,522	43,364	43,183	48,728	47,790
SG&A	2,250	4,635	1,742	2,998	2,630
Other income	714	1,611	487	3,811	773
Interest expense	1,349	1,955	1,845	1,894	2,003
Pre-tax profit	26,720	23,800	23,788	26,255	22,574
Corporate tax	8,833	14,009	11,184	7,581	8,601
Equity a/c profits	70	32	(4)	36	52
Minority interests	0	0	0	0	0
Core profit	17,957	9,823	12,599	18,710	14,024
Extra-ordinary items	(146)	(2,411)	(164)	(523)	1,260
Net Profit	17,811	7,412	12,435	18,187	15,284
EBITDA	40,987	40,341	41,928	48,204	45,933
Core EPS (Bt)	4.52	2.47	3.17	4.71	3.53
Net EPS (Bt)	4.49	1.87	3.13	4.58	3.85

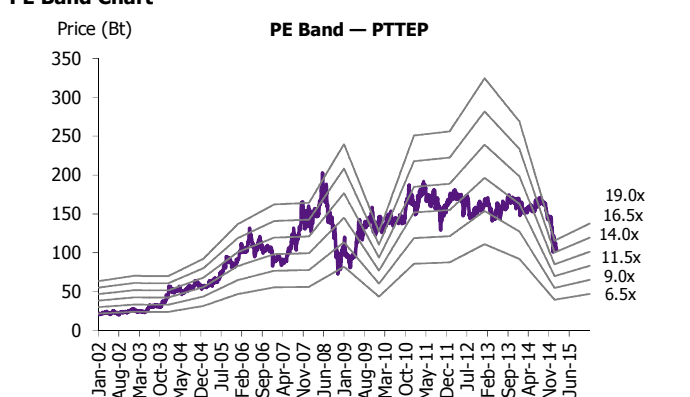
Balance Sheet (Btmm)

FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Total current assets	126,691	134,719	225,767	156,648	166,378
Total fixed assets	527,115	573,149	490,763	585,835	578,701
Total assets	653,806	707,868	716,530	742,483	745,078
Total loans	127,826	132,008	130,240	138,701	137,792
Total current liabilities	70,474	86,383	116,971	56,746	83,895
Total long-term liabilities	221,596	236,948	220,334	255,664	230,055
Total liabilities	292,070	323,332	337,304	312,411	313,951
Paid-up capital	3,970	3,970	3,970	3,970	3,970
Total equity	361,735	384,536	379,226	430,072	431,128
BVPS (Bt)	91.12	96.86	95.52	108.33	108.60

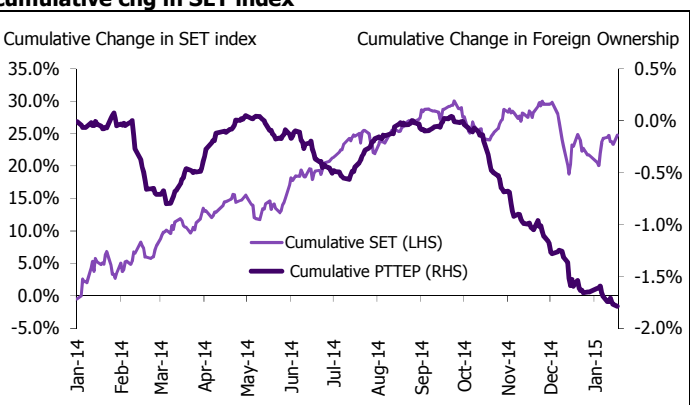
Main Assumptions

	2012	2013	2014F	2015F	2016F
Sales volume (kBOED)	276	293	314	343	342
- Liquid product (% of total)	33.6	34.5	33.0	31.0	31.0
- Gas product (% of total)	66.4	65.5	67.0	69.0	69.0
Dubai crude oil price (US\$/bbl)	114.9	105.4	100.0	60.0	70.0
Avg selling price (US\$/BOE)	64.9	65.6	63.5	48.5	53.1
CAPEX (Btmm)	87,213	80,914	96,888	101,343	113,421

PE Band Chart

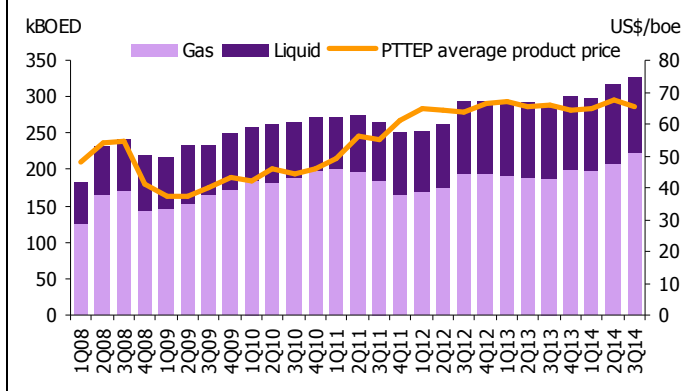


12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



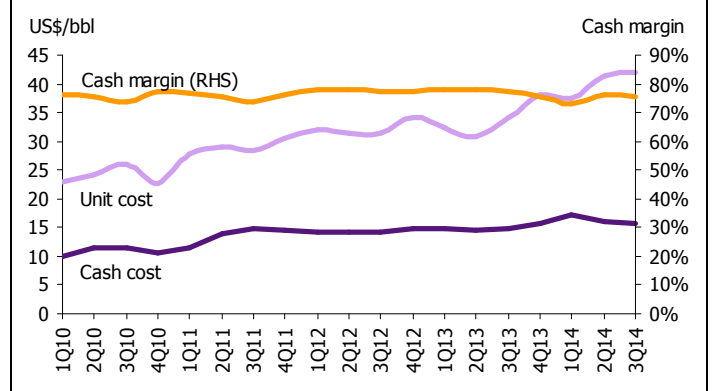
Source: SET, SCBS Investment Research

Figure 1: Sales volume & average selling price



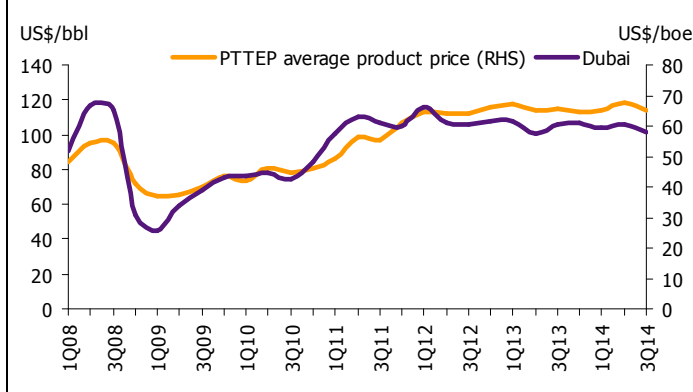
Source: PTTEP, SCBS Investment Research

Figure 2: Production cost and margin



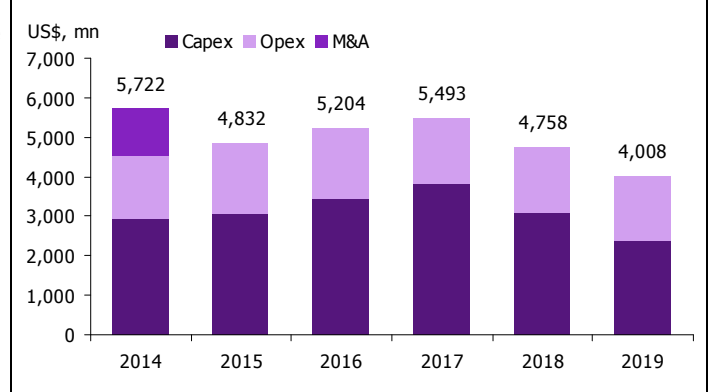
Source: PTTEP, SCBS Investment Research

Figure 3: PTTEP's ASP vs. Dubai oil price



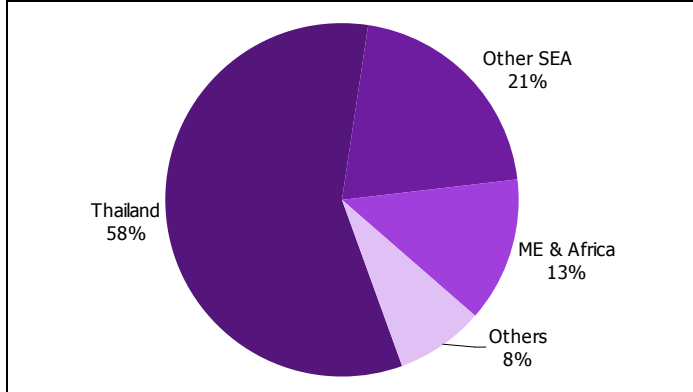
Source: PTTEP, SCBS Investment Research

Figure 4: 5-year investment plan



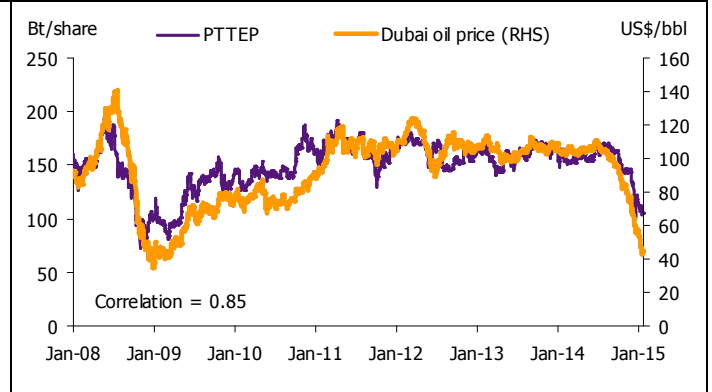
Source: PTTEP, SCBS Investment Research

Figure 5: Capital expenditure breakdown



Source: PTTEP, SCBS Investment Research

Figure 6: Correlation of share price & oil price



Source: Bloomberg Finance LP, SCBS Investment Research

CG Rating 2014 Companies with CG Rating

AAA: BBS, BCP, BJS, CNI, ECGO, GRAMMY, HANA, INTUCH, IRPC, IWL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTGC, SAMART, SAMTEL, SAT, SC, SCB, SE-ED, SIM, SPALI, TISCO, TMB, TOP
 AA: AAV, ACAP, ADVANC, ANAN, ADT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BECL, BIGC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GPPT, GUNKUL, HEMRAI, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOI, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAF, PE, PG, PHOL, PJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPS, SSI, SSSC, STA, SVI, TCAP, TE, THAI, THANI, THCOM, TIP, TIPCO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TST, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WAOAL
 A: ZS, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APCO, APCA, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFTI, BH, BJC, BICHI, BOL, BTNC, BWG, CCET, CGD, CGS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOPROT, HTC, HTEGA, HYDRO, IFS, IHL, INET, IRC, IRP, ITD, KSS, KGI, KKC, KTC, L&E, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFEK, MID, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NIT, OGC, OSHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, QLT, QTC, RCL, SABINA, SALES, SBLIF, SCCC, SCG, SEAFOD, SEADRI, SFP, SIAM, SIRI, SKR, SMG, SMK, SMPK, SMT, SOLAR, SPC, SPCG, SPPT, SSI, STANLY, STEG, STPI, SUG, SWC, SYMC, SYNEK, SYNTEC, TASCO, TBSR, TEAM, TFD, TH, THANA, THP, THRE, TIC, TICON, TIW, TKS, TLLUE, TMI, TMT, TND, TPC, TPORP, TRT, TRU, TSC, TTCL, TUF, TVD, TVFP, UMI, UP, UPF, UPOIC, UT, UV, UWC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMCO

Corporate Governance Report disclaimer

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