

**BUY** (Unchanged)

Company Update

TP: Bt 100.00

(Unchanged)

4 AUGUST 2020

Upside : 102.0%

# Energy Absolute Pcl (EATB)

## New expansion potential

We see a possibility that EA's 2 hydropower projects under study on the Thai-Lao border could get PPAs since they are in locations where they could divert water from the Mekong River in line with the government's plans. We estimate Bt5/share for the projects but leave this as upside as the projects are in the initial stage. Reaffirm BUY.

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### MOU studying two hydropower projects in Laos

EA announced that it and three partners have signed an MOU with the Lao government to complete the feasibility study to develop two hydropower projects within two years. The projects are 1) Saravan downstream, and 2) Phamong with a combined 3-3.5GW of capacity to sell electricity to the domestic market and export abroad. The three partners are Chaleun Sekong Energy, Lao PDR; Vega Digital Thailand; and PSL Service Sole, Lao PDR. Both projects would be run-of-the river plants on the border between Thailand and Laos. EA plans to hold 50% in the two projects and use internal cash flows to fund the investments.

### Sound rationale to obtain PPAs, in our view

We expect the projects to gain support from the Thai government due to clear benefits: 1) Thailand's 2018 Power Development Plan sets aside 9GW of hydropower generation to be bought from Laos (5.9MW has secured PPA contracts) with 2GW for projects that can utilize water. We see the projects being able to divert water from the Mekong River in the peak season to reservoirs in Thailand for agriculture usage in the northeastern provinces and for Eastern Economic Corridor (EEC) industrial uses; 2) the projects would be 50% owned by the Thai government once the concessions end as they traverse the two countries' borders, unlike most others which are all in Lao territory.

### Leaving projects as potential upside to our TP

We leave the potential valuation as upside since the projects are in the initial stage and there will be many hurdles including an environmental impact assessment (EIA) and approval by the Mekong River Commission. Nonetheless, we estimate the two projects, if they can secure PPAs, would yield Bt5/share to EA assuming a 50% shareholding in them, capex of USD2.0/MW, a D/E ratio of 3:1, a plant factor of 50%, an EiRR of 13%, and the projects starting commercial operation in 2030. Our SOTP-based 12-month TP is set at Bt100.

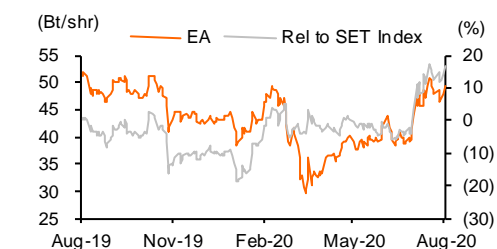
### Reaffirming our BUY call

If the two projects secure PPAs from EGAT, we estimate they would provide Bt6bn in profit p.a. to EA. EA remains our top pick in the sector on its new S-curve earning cycle from its planned Lion battery gigafactory and related commercial e-transport (the e-ferry's first run for the House panel on energy took place last week with battery production and e-taxis scheduled for initial launch in 4Q20. 2021 is still targeted to be the first full year of the operation of its batteries, e-ferries, e-taxis and e-buses. We reaffirm our BUY rating on the stock.

### COMPANY VALUATION

Y/E Dec (Bt m)	2019A	2020F	2021F	2022F
Sales	14,887	17,747	32,388	54,384
Net profit	6,082	6,360	8,811	12,867
Consensus NP	—	6,283	7,403	8,808
Diff frm cons (%)	—	1.2	19.0	46.1
Norm profit	5,922	6,360	8,811	12,867
Prev. Norm profit	—	6,360	8,811	12,867
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	1.6	1.7	2.4	3.4
Norm EPS grw (%)	45.0	7.4	38.5	46.0
Norm PE (x)	31.2	29.0	21.0	14.3
EV/EBITDA (x)	22.3	20.3	16.0	12.0
P/BV (x)	7.9	6.4	5.2	4.1
Div yield (%)	0.6	0.7	1.4	2.1
ROE (%)	28.5	24.4	27.4	31.7
Net D/E (%)	128.4	140.5	148.2	151.2

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 04-Aug-20 (Bt)	49.50
Market Cap (US\$ m)	5,938.7
Listed Shares (m shares)	3,730.0
Free Float (%)	39.7
Avg Daily Turnover (US\$ m)	22.2
12M Price H/L (Bt)	51.75/29.75
Sector	Utilities
Major Shareholder	Ahunai family 44.3%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: 11 Hydropower Projects On The Mekong River



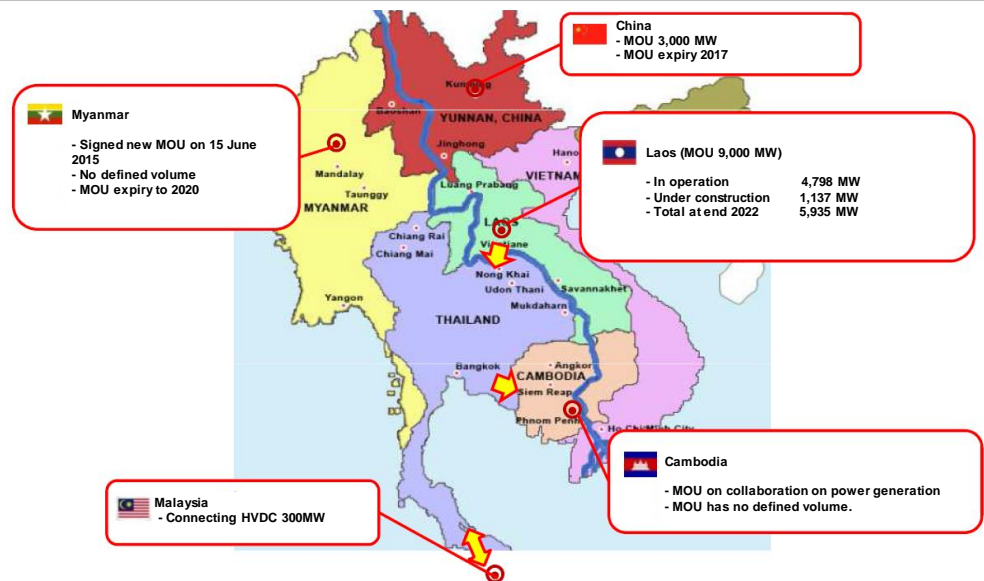
Sources: Workpoint Today; Thanachart estimates

Ex 2: Transmission Network In Laos



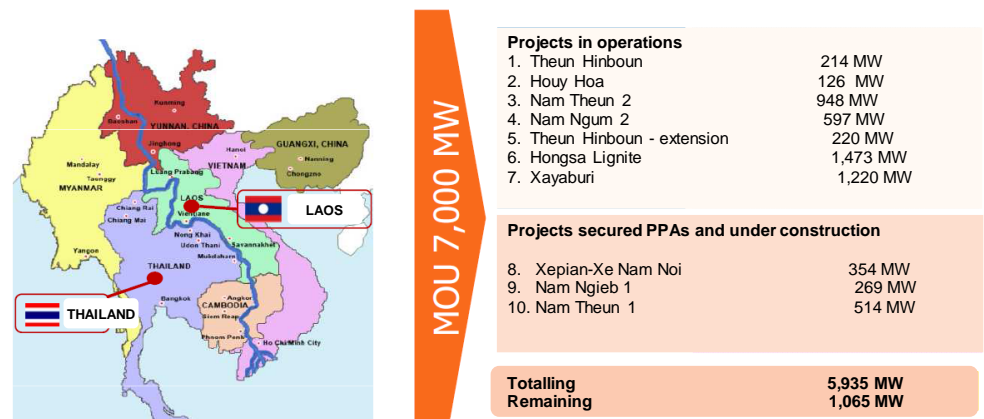
Source: Electricity du Laos. 2017. Electricity Statistics 2016. Vientiane

### Ex 3: Power Purchase Status From Neighboring Countries



Source: EGAT. 4 June 2018

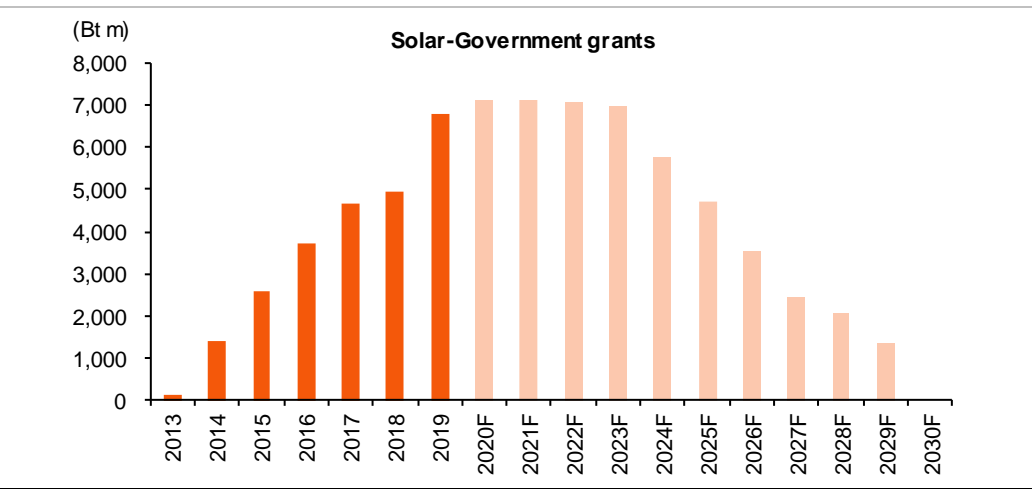
### Ex 4: Power Purchase Status From Laos



**For another 2,000MW (under MOU 9,000MW)  
must be projects that can divert water for usage.**

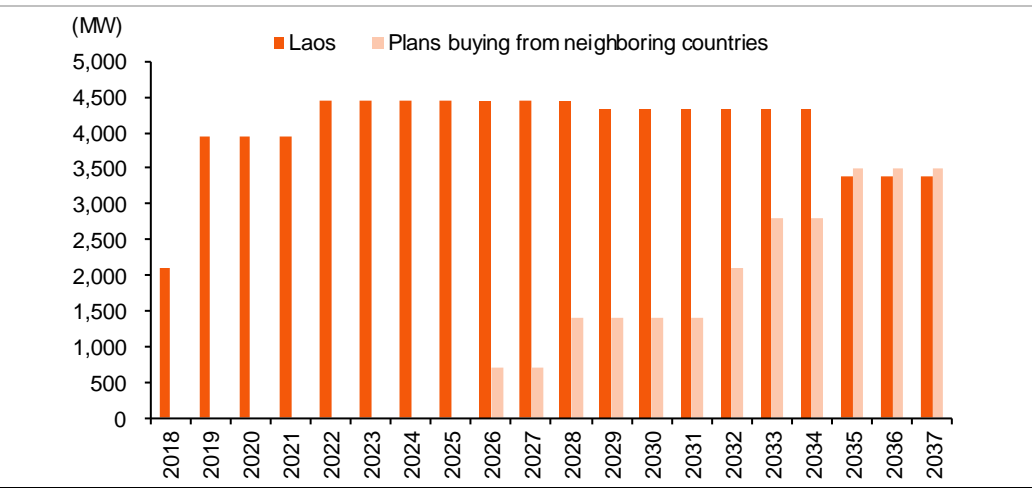
Sources: EGAT. 4 June 2018, Thanachart estimates

Ex 5: EA’s Adder Tariff Revenues Estimated By TNS



Sources: Company data; Thanachart estimates

Ex 6: 2018 PDP: Hydropower In Laos & Planned Purchased From Neighboring Countries



Sources: Company data; Thanachart estimates

## Ex 7: Sum-of-the-parts Valuation

Sum-of-the-parts valuation	(Bt/shr)
Solar	
- Lopburi	0.2
- Nakornsawan	2.1
- Lampang	2.3
- Pitsanulok	2.7
Wind 126MW	3.1
Wind 260MW	7.1
Bio, Green diesel & PCM	10.8
<b>Total</b>	<b>28.1</b>
ES business	60.0
Charging stations	3.9
E-ferries	0.6
E-taxis	3.7
Solar + BES (Condao, Myanmar, Thailand)	3.3
Other potential (e-trucks, blockchain)	0.4
<b>Total</b>	<b>100.0</b>

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 8: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
			20F (%)	21F (%)	20F (x)	21F (x)	20F (x)	21F (x)	20F (x)	21F (x)	20F (%)	21F (%)
Datang International Power	991 HK	China	13.8	16.9	8.4	7.2	0.4	0.4	8.4	8.1	6.3	7.1
Huadian Power	1071 HK	China	20.6	9.7	5.9	5.4	0.4	0.3	8.1	7.9	7.7	8.4
Huaneng Power	600011 CH	China	20.4	16.1	12.2	10.5	0.7	0.7	7.8	7.3	4.8	5.1
Cheung Kong Infrastructure	1038 HK	Hong Kong	(13.0)	9.6	11.5	10.5	0.9	0.8	39.0	38.0	6.0	6.1
China Power Int'l	2380 HK	Hong Kong	(3.4)	31.8	8.4	6.4	0.5	0.4	9.1	7.8	7.4	8.1
China Resources Power	836 HK	Hong Kong	18.2	12.0	5.4	4.8	0.6	0.6	5.3	4.8	7.2	8.0
CLP Holdings	2 HK	Hong Kong	7.6	5.6	16.2	15.4	1.7	1.6	10.5	10.1	4.2	4.3
Hongkong Electric Holdings	6 HK	Hong Kong	(7.8)	5.0	14.0	13.3	1.1	1.1	66.9	62.3	6.4	6.5
Huaneng Power	902 HK	Hong Kong	26.9	13.4	8.6	7.6	0.5	0.5	7.8	7.3	6.9	7.2
Reliance Infrastructure	RELI IN	India	na	na	na	na	na	na	na	na	na	na
Tata Power	TPWR IN	India	(9.0)	14.4	12.1	10.6	0.7	0.7	8.8	8.4	2.7	3.2
Tenaga Nasional	TNB MK	Malaysia	(9.7)	6.3	12.3	11.6	1.0	1.0	7.2	7.0	4.7	5.1
YTL Corp	YTL MK	Malaysia	(53.7)	42.1	38.7	27.2	0.7	0.7	12.4	11.9	4.4	4.8
YTL Power	YTLP MK	Malaysia	(39.7)	17.1	17.3	14.8	0.5	0.5	10.5	10.3	5.2	5.2
Manila Electric	MER PM	Philippines	(8.2)	4.7	13.6	13.0	3.2	3.1	7.0	6.9	5.8	5.8
Absolute Clean Energy *	ACE TB	Thailand	35.0	27.1	31.3	24.7	3.9	3.5	21.5	19.6	1.0	1.6
BCPG Pcl *	BCPG TB	Thailand	23.4	6.8	14.6	13.6	1.9	1.8	16.3	17.0	4.1	4.1
B.Grimm Power Pcl *	BGRIM TB	Thailand	35.2	8.4	44.8	41.4	4.3	4.0	12.6	12.4	0.9	1.0
Banpu Power Pcl *	BPP TB	Thailand	8.6	19.6	11.1	9.3	1.1	1.1	62.2	73.5	4.5	5.4
CK Power Pcl *	CKP TB	Thailand	240.4	84.5	56.1	30.4	2.1	2.0	23.8	18.7	0.7	1.3
EA Pcl*	EA TB	Thailand	7.4	38.5	29.0	21.0	6.4	5.2	20.3	16.0	0.7	1.4
Electricity Generating *	EGCO TB	Thailand	0.3	2.9	12.4	12.0	1.1	1.0	25.3	23.4	3.0	3.2
Global Power Synergy *	GPSC TB	Thailand	9.3	24.6	35.6	28.6	1.9	1.8	16.6	14.7	1.7	2.1
Gulf Energy Dev. Pcl *	GULF TB	Thailand	44.8	33.3	71.9	53.9	9.1	8.5	42.2	36.6	0.8	1.1
Gunkul Engineering *	GUNKUL TB	Thailand	(14.8)	13.6	11.9	10.5	2.1	1.9	15.5	14.1	3.8	4.3
RATCH Group *	RATCH TB	Thailand	6.3	15.4	13.4	11.6	1.4	1.3	23.1	18.3	4.5	4.7
SPCG Pcl*	SPCG TB	Thailand	0.3	(8.3)	6.7	7.3	1.2	1.1	5.0	4.6	6.7	6.1
TPC Power Holding *	TPCH TB	Thailand	22.7	28.9	12.3	9.6	1.7	1.5	9.1	6.2	1.2	1.6
WHA Utilities & Power *	WHAUP TB	Thailand	(33.9)	17.8	14.1	12.0	1.2	1.1	39.2	32.5	2.1	2.5
<b>Average</b>			<b>12.4</b>	<b>18.5</b>	<b>19.6</b>	<b>15.9</b>	<b>1.9</b>	<b>1.7</b>	<b>19.3</b>	<b>18.1</b>	<b>4.1</b>	<b>4.5</b>

Sources: Bloomberg, \* Thanachart estimates

Based on 4 August 2020 closing prices

## COMPANY DESCRIPTION

Established in 2006 as a biodiesel business operator, Energy Absolute Pcl (EA) has become Thailand's largest producer of renewable power with a total capacity of 660MW (net) by 2018 (278MW of solar power and 386MW of wind power). EA has a wholly owned subsidiary called Energy Solution Management (ESM) to provide O&M services for the group's renewable power plants. EA invested in the energy storage business via a 70% stake in Taiwan-based Amita Technologies with plans to build a 50GWh energy storage plant in Thailand between 2018-22.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Management has a strong financial background with what we regard as well-thought-out plans for expansion.

### O — Opportunity

- Electricity industry gearing towards renewable energy.
- Huge potential capacity expansion planned.
- Energy storage (ES) could be part of the requirements for the government grid and private off-grid systems.

### W — Weakness

- In a heavy capex cycle due to scheduled new capacity expansion but gearing is still below its threshold.

### T — Threat

- New capacity tendered by the government will likely see lower returns.
- Regulations from both domestic and overseas power markets.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	52.38	100.00	91%
<b>Net profit 2020F (Bt m)</b>	6,283	6,360	1%
<b>Net profit 2021F (Bt m)</b>	7,403	8,811	19%
<b>Consensus REC</b>	<b>BUY: 3</b>	<b>HOLD: 2</b>	<b>SELL: 2</b>

## RISKS TO OUR INVESTMENT CASE

- If investment costs come in higher than we presently anticipate this would represent the key downside risk to our call.
- If projects are delayed from their commercial operation date (COD) schedules, this would represent a secondary downside risk to our call.

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is 91% above the Bloomberg consensus number, which we attribute to us having already incorporated the valuation of its ES gigafactory and downstream businesses.
- Our 2020F net profit is largely in line with the Street's. However, our 2021F profit is 19% above consensus, likely as we expect higher revenues and margins from its BES-related business and an improved biodiesel business performance.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart



## INCOME STATEMENT

2020F revenue, earnings likely to see strong growth with Hanuman's full-year operation...

...plus PCM bringing in new earnings from 3Q20F

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Sales	11,552	14,887	17,747	32,388	54,384
Cost of sales	5,668	6,752	8,701	19,551	34,558
<b>Gross profit</b>	<b>5,884</b>	<b>8,134</b>	<b>9,046</b>	<b>12,837</b>	<b>19,827</b>
% gross margin	50.9%	54.6%	51.0%	39.6%	36.5%
Selling & administration expenses	805	946	1,120	2,001	3,161
<b>Operating profit</b>	<b>5,079</b>	<b>7,189</b>	<b>7,926</b>	<b>10,836</b>	<b>16,666</b>
% operating margin	44.0%	48.3%	44.7%	33.5%	30.6%
Depreciation & amortization	1,833	2,517	3,271	4,135	4,838
<b>EBITDA</b>	<b>6,912</b>	<b>9,706</b>	<b>11,197</b>	<b>14,972</b>	<b>21,504</b>
% EBITDA margin	59.8%	65.2%	63.1%	46.2%	39.5%
Non-operating income	44	68	50	70	108
Non-operating expenses	0	0	0	0	0
Interest expense	(1,086)	(1,386)	(1,554)	(1,707)	(2,507)
<b>Pre-tax profit</b>	<b>4,036</b>	<b>5,870</b>	<b>6,421</b>	<b>9,199</b>	<b>14,267</b>
Income tax	32	(11)	26	181	788
<b>After-tax profit</b>	<b>4,004</b>	<b>5,881</b>	<b>6,396</b>	<b>9,018</b>	<b>13,479</b>
% net margin	34.7%	39.5%	36.0%	27.8%	24.8%
Shares in affiliates' Earnings	(6)	(14)	(15)	(10)	110
Minority interests	86	55	(20)	(196)	(722)
Extraordinary items	1,063	160	0	0	0
<b>NET PROFIT</b>	<b>5,148</b>	<b>6,082</b>	<b>6,360</b>	<b>8,811</b>	<b>12,867</b>
<b>Normalized profit</b>	<b>4,084</b>	<b>5,922</b>	<b>6,360</b>	<b>8,811</b>	<b>12,867</b>
EPS (Bt)	1.4	1.6	1.7	2.4	3.4
Normalized EPS (Bt)	1.1	1.6	1.7	2.4	3.4

## BALANCE SHEET

Fixed assets, debt, to rise on battery plant and investments...

...with capex for ES Phase 2 due to gradually start from 2021F

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
<b>ASSETS:</b>					
Current assets:	8,150	14,033	7,279	13,102	20,459
Cash & cash equivalent	5,523	10,040	2,512	4,012	5,012
Account receivables	1,651	2,666	3,160	5,768	9,685
Inventories	330	758	930	2,089	3,692
Others	647	569	678	1,234	2,070
Investments & loans	0	0	5,130	5,660	6,859
Net fixed assets	47,587	51,371	61,901	78,040	100,248
Other assets	3,470	4,816	6,244	7,721	8,878
<b>Total assets</b>	<b>59,208</b>	<b>70,220</b>	<b>80,554</b>	<b>104,524</b>	<b>136,443</b>
<b>LIABILITIES:</b>					
Current liabilities:	12,503	6,008	8,972	7,596	9,090
Account payables	150	285	358	803	1,420
Bank overdraft & ST loans	1,817	660	2,796	936	0
Current LT debt	1,264	4,308	4,513	4,099	4,883
Others current liabilities	9,271	755	1,306	1,758	2,787
<b>Total LT debt</b>	<b>26,145</b>	<b>36,993</b>	<b>37,664</b>	<b>54,460</b>	<b>72,626</b>
Others LT liabilities	1,042	2,352	3,694	5,022	6,772
<b>Total liabilities</b>	<b>39,690</b>	<b>45,353</b>	<b>50,330</b>	<b>67,078</b>	<b>88,488</b>
Minority interest	1,379	1,502	1,522	1,719	2,441
Preferreds shares	0	0	0	0	0
Paid-up capital	373	373	373	373	373
Share premium	3,681	3,681	3,681	3,681	3,681
Warrants	0	0	0	0	0
Surplus	(779)	(874)	(874)	(874)	(874)
<b>Retained earnings</b>	<b>14,864</b>	<b>20,185</b>	<b>25,522</b>	<b>32,548</b>	<b>42,336</b>
Shareholders' equity	18,139	23,365	28,701	35,727	45,515
<b>Liabilities &amp; equity</b>	<b>59,208</b>	<b>70,220</b>	<b>80,554</b>	<b>104,524</b>	<b>136,443</b>

Sources: Company data, Thanachart estimates



## CASH FLOW STATEMENT

*We expect negative FCF over 2020-22F...*

*...as we assume the Li-ion BESS gradually expands to Phase 2*

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Earnings before tax	4,036	5,870	6,421	9,199	14,267
Tax paid	(32)	11	(26)	(181)	(788)
Depreciation & amortization	1,833	2,517	3,271	4,135	4,838
Chg In working capital	(87)	(1,308)	(594)	(3,321)	(4,904)
Chg In other CA & CL / minorities	9,637	(8,213)	346	(326)	85
<b>Cash flow from operations</b>	<b>15,387</b>	<b>(1,123)</b>	<b>9,418</b>	<b>9,507</b>	<b>13,498</b>
Capex	(14,201)	(6,301)	(13,585)	(20,034)	(26,757)
Right of use	0	0	(1,350)	(300)	(300)
ST loans & investments	(1)	(1)	0	0	0
LT loans & investments	0	0	(5,130)	(530)	(1,199)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(14)	(97)	1,130	122	823
<b>Cash flow from investments</b>	<b>(14,215)</b>	<b>(6,399)</b>	<b>(18,935)</b>	<b>(20,743)</b>	<b>(27,433)</b>
Debt financing	1,521	12,895	3,012	14,522	18,015
Capital increase	0	0	0	0	0
Dividends paid	(746)	(932)	(1,196)	(1,958)	(3,252)
Warrants & other surplus	(931)	77	172	172	172
<b>Cash flow from financing</b>	<b>(156)</b>	<b>12,039</b>	<b>1,989</b>	<b>12,736</b>	<b>14,935</b>
<b>Free cash flow</b>	<b>1,187</b>	<b>(7,424)</b>	<b>(4,167)</b>	<b>(10,528)</b>	<b>(13,259)</b>

## VALUATION

*29x 2020F PE, vs. 30% three-year normalized EPS growth looks attractive to us*

FY ending Dec	2018A	2019A	2020F	2021F	2022F
Normalized PE (x)	45.2	31.2	29.0	21.0	14.3
Normalized PE - at target price (x)	91.3	63.0	58.6	42.3	29.0
PE (x)	35.9	30.4	29.0	21.0	14.3
PE - at target price (x)	72.5	61.3	58.6	42.3	29.0
EV/EBITDA (x)	30.1	22.3	20.3	16.0	12.0
EV/EBITDA - at target price (x)	57.4	41.7	37.1	28.6	20.7
P/BV (x)	10.2	7.9	6.4	5.2	4.1
P/BV - at target price (x)	20.6	16.0	13.0	10.4	8.2
P/CFO (x)	12.0	(164.5)	19.6	19.4	13.7
Price/sales (x)	16.0	12.4	10.4	5.7	3.4
Dividend yield (%)	0.5	0.6	0.7	1.4	2.1
FCF Yield (%)	0.6	(4.0)	(2.3)	(5.7)	(7.2)
<b>(Bt)</b>					
Normalized EPS	1.1	1.6	1.7	2.4	3.4
EPS	1.4	1.6	1.7	2.4	3.4
DPS	0.3	0.3	0.3	0.7	1.0
BV/share	4.9	6.3	7.7	9.6	12.2
CFO/share	4.1	(0.3)	2.5	2.5	3.6
FCF/share	0.3	(2.0)	(1.1)	(2.8)	(3.6)

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2018A	2019A	2020F	2021F	2022F
<b>Growth Rate</b>					
Sales (%)	(0.2)	28.9	19.2	82.5	67.9
Net profit (%)	34.8	18.1	4.6	38.5	46.0
EPS (%)	34.8	18.1	4.6	38.5	46.0
Normalized profit (%)	8.7	45.0	7.4	38.5	46.0
Normalized EPS (%)	8.7	45.0	7.4	38.5	46.0
Dividend payout ratio (%)	18.1	18.4	20.0	30.0	30.0
<b>Operating performance</b>					
Gross margin (%)	50.9	54.6	51.0	39.6	36.5
Operating margin (%)	44.0	48.3	44.7	33.5	30.6
EBITDA margin (%)	59.8	65.2	63.1	46.2	39.5
Net margin (%)	34.7	39.5	36.0	27.8	24.8
D/E (incl. minor) (x)	1.5	1.7	1.5	1.6	1.6
Net D/E (incl. minor) (x)	1.2	1.3	1.4	1.5	1.5
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	7.9	9.2	8.4	9.5	10.7
ROE - using norm profit (%)	24.9	28.5	24.4	27.4	31.7
<b>DuPont</b>					
ROE - using after tax profit (%)	24.4	28.3	24.6	28.0	33.2
- asset turnover (x)	0.2	0.2	0.2	0.3	0.5
- operating margin (%)	44.3	48.7	44.9	33.7	30.8
- leverage (x)	3.2	3.1	2.9	2.9	3.0
- interest burden (%)	78.8	80.9	80.5	84.3	85.1
- tax burden (%)	99.2	100.2	99.6	98.0	94.5
WACC (%)	5.0	5.0	5.0	5.0	5.0
ROIC (%)	13.2	17.2	14.3	14.9	17.3
NOPAT (Bt m)	5,039	7,202	7,894	10,623	15,745
invested capital (Bt m)	41,843	55,285	71,163	91,211	118,013

Sources: Company data, Thanachart estimates

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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