

EA: EV-ESS business to kick start in 3Q21



Update

Yesterday analyst meeting come out in a positive tone. The 1.0GWh ESS plant is scheduled to commence operation in 3Q21. The company also plan to deliver 100 E-Buses and set 28 E ferry ready for operation in 2H21.

- Expect 3Q21 net profit to improve YoY and QoQ backed by 1) first time revenue recognition of EV business (100 E bus delivery scheduled for 2H21), and 2) solid biodiesel business performance.
- Positive 2021-25E outlook as we expect a 15% CAGR net profit growth on the back of incrementing contribution from new EV-ESS businesses (commencing on 3Q-4Q21), viz., EV car/bus/truck sales, and ESS (battery) supply to B2B clients.

We upgrade our recommendation to BUY and revise up the SOTP based target price by 43% of Bt70.0, factoring in the 15% CAGR net profit growth in 2021-25, and incrementing future growth following Global EV trend. Our valuation implies 34x PE,22E.

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	39.7	45.7	34.4	30.7	27.2
Recurring net profit growth (%)	23.1	(13.4)	33.1	12.0	13.0
Recurring EPS (Bt)	1.6	1.4	1.8	2.1	2.3
Recurring EPS growth (%)	23.1	(13.1)	32.7	12.0	13.0
PBV (x)	10.1	8.4	7.0	5.9	5.1
BVPS (Bt)	6.3	7.5	8.9	10.6	12.5
ROE (%)	29.3	20.3	22.6	21.2	20.3
DPS (Bt)	0.3	0.3	0.4	0.4	0.5
Dividend yield (%)	0.5	0.5	0.6	0.7	0.7
Enterprise value (Bt m)	266,909	276,919	278,955	280,859	278,905
EV-to-EBITDA (x)	27.5	30.1	23.7	21.1	18.7

Sittidath Praserttrunguang
Registration No. 17618
sittidath.pr@countrygroup.co.th
+66 2 205 7000 ext 4400

Sachin Muralee Krishna
Assistant analyst

Energy Absolute PCL

Recommendation: BUY

Current price*: Bt63.00

Target price 2021: Bt70.00

Up/(downside): 11.1%

IOD: 5 / 5

CAC: Certified

Stock data

RIC code	EA.BK
Index	.SETI
SET Index (20 August 2021)	1,553.18
Market cap (Bt m)	234,990
Shares outstanding (million)	3,730
Par (Bt)	0.10



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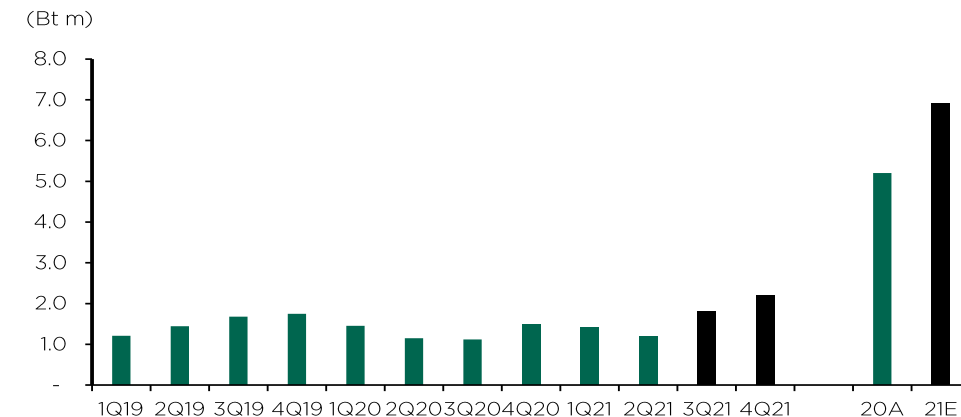
Positive 2H21 earnings outlook

- Expect 3Q21 net profit to improve YoY and QoQ backed by 1) first time revenue recognition of EV-bus business (100 units delivery scheduled for 2H21), and 2) solid biodiesel business performance as B100 selling price surged 45% YoY in 2Q21 due to rising demand from B10 mandate and drop in CPO stock.
- The 4Q21 earnings should further growth QoQ supported by ramp up of EV-ESS segment sales and seasonal high wind power plant operation.
- Positive 2021-25E outlook as we expect a 15% CAGR net profit growth on the back of incrementing contribution from new EV-ESS businesses (commencing on 3Q-4Q21), viz., EV car/bus/truck sales and ESS (battery) supply to B2B clients.

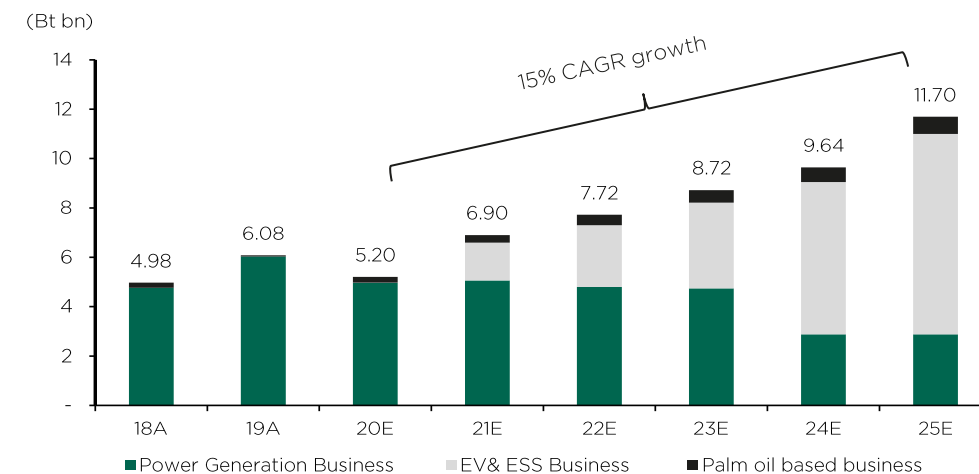
EV-ESS plant COD in 2H21

- The 1.0GWh ESS plant is scheduled to commence operation in late 3Q21. Plant utilization should be around 50% in 2H21, and the products will be off taken for captive use (EV car, bus and Ferry). We expect EA to enter JV/ collaboration with leading global automobile players by 4Q21, and secure long term supply contract for battery modules.
- The EV assembly plant in Chachoengsao (AAB –Absolute Assembly) is 90% complete as of 2Q21. EA plan to deliver 30 buses in 3Q21 and target a total of 100 units for 2H21. The production will pick up to 3,000 units/ year in by 2022. The company has high potential to win the tender to supply 2,500 buses to BMTA (tender call expected in 2H21-1H22).

Earnings forecast



EA net profit growth



EA: Early entry into high growth global EV market

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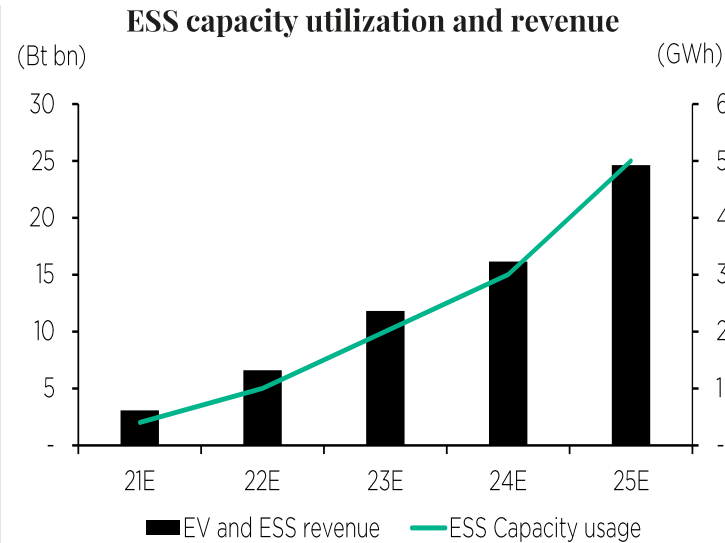
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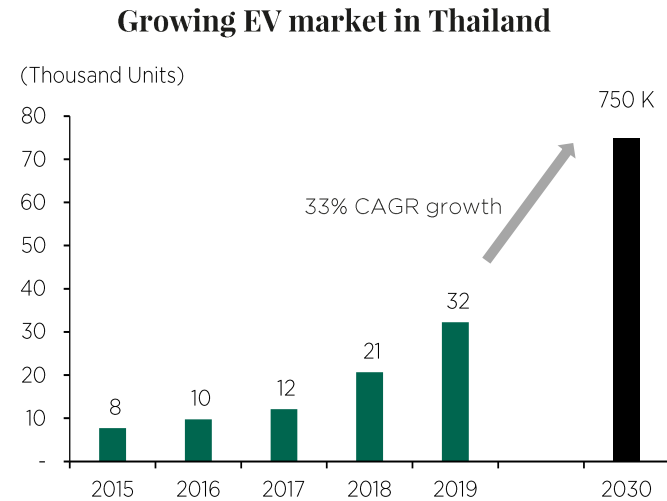
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40% CAGR profit growth from EV & ESS

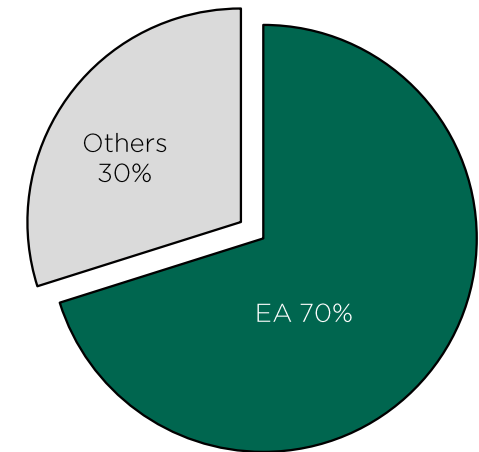
- EA has structured a well integrated EV & ESS business that aims to build a 1.0GWh ESS pilot plant (COD in 3Q21) that will supply Li-ion batteries to its own EV business line and expand to up to 20GWh in future.
- We believe this risk-minimizing strategy will allow EA to start recognizing profit from this business in 4Q21 and scale up thereafter, thanks to its monopoly position in the local market and synergy benefits. We estimate 40% CAGR profit growth for the EV & ESS business during 2021-25, and that it will account for 54% of EA's net profit by 2025.



Thailand to become regional EV hub in next 5 years.

- The government is expected to play a pivotal role in promoting EVs in Thailand. By 2030, the country aims to be producing at least 750,000 EVs a year, accounting for 30% of its total automobile manufacturing capacity.
- EA being the first and largest EV and ESS producer in Thailand, will benefit the most from the supportive EV policies. We see potential for EA to run at least a 15GWh ESS factory within 2030, capturing a 50% share of Thailand's forecast ESS demand.

Growing EV market in Thailand



Largest market share of Thailand EV charging stations

- EA is also diligently preparing for domestic EV deployment by simultaneously expanding and promoting EV charging stations throughout the country. EA has already established 1700 chargers (both DC and AC) in 440 locations, giving it a 70% market share in Thailand.
- We believe EA's plan to expand charging stations collaborating with oil retail players (Caltex etc.) will directly complement its EV business in Thailand and allow it to generate profit in future

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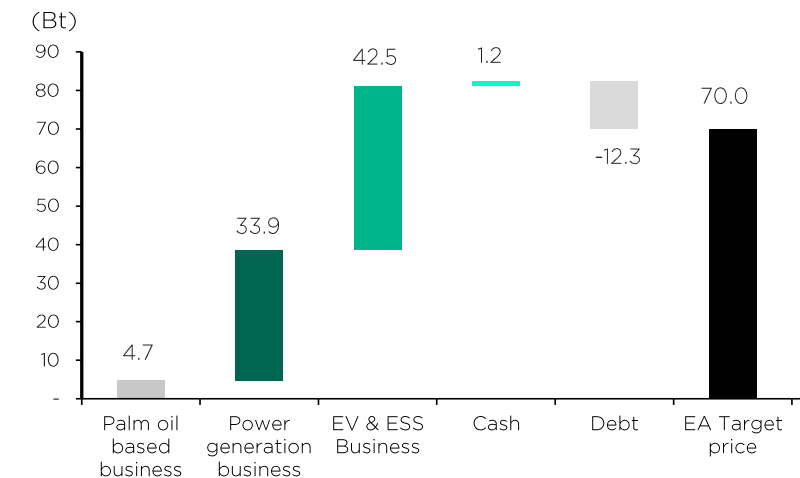
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EA valuation and target price				
Business	2022E net adjusted value (Bt m)	Per share (Bt)	Method	Comments
Bio-products business				
Biodiesel	15,293	4.1	PE	2022E, 15x
Green diesel and PCM	2,387	0.6	PE	2022E, 15x
Power Business				
Solar	40,541	10.9	DCF	WACC 6.1%
Wind	85,825	23.0	DCF	WACC 6.1%
EV & ESS				
ESS Phase 1 (1.0 GWh)	14,346	3.8	DCF	WACC 8.2%, TG 3.0%
ESS Phase 2 (15.0 GWh)	114,625	30.7	DCF	WACC 8.2%, TG 3.0%
EV Car	7,460	2.0	PE	2022E, 15x
EV boat	5,222	1.4	PE	2022E, 15x
EV bus	15,293	4.1	PE	2022E, 15x
EV charging stations	1,865	0.5	PE	2022E, 10x
Cash	4,500	1.2		
Net Debt	(45,880)	-12.3		
Target Price	261,476	70.1		

EA target price breakdown



Revise up TP to Bt70.0 factoring in the EV-ESS growth

- EA is currently trading at 28x PE'22, at a slight premium to its Thailand peers. The prevailing valuation partially factors in the EV and ESS business, as the current share price is well above the combined valuation of EA's power generation and palm oil-based businesses.
- The stock outperformed the SET index and rose +22% YTD surpassing our previous TP of Bt49 in early 2021. Having the dilemma over delay in EV-ESS business commencement has already surpassed (ESS production, E-bus delivery, and E ferry commercial operation beginning by 3Q21), we believe the valuation deserves to be rerated factoring in the long-term growth potential EV-ESS business.
- We revise up our target price by 43% to Bt70, factoring in the 15% CAGR net profit growth in 2021-25 driven by EV-ESS sales, as well as the future growth potential considering Global EV trend. We remove the 20% discount previously employed in NAV due to delay in ESS plant COD and employ additional 1% terminal growth on the DCF based ESS valuation (WACC 8.2%, TG 3%).
- In a worst-case scenario our valuation of EA could drop to Bt38.6, in the case of a project failure or significant delays in expanding ESS phase 2 - 20GWh plant.

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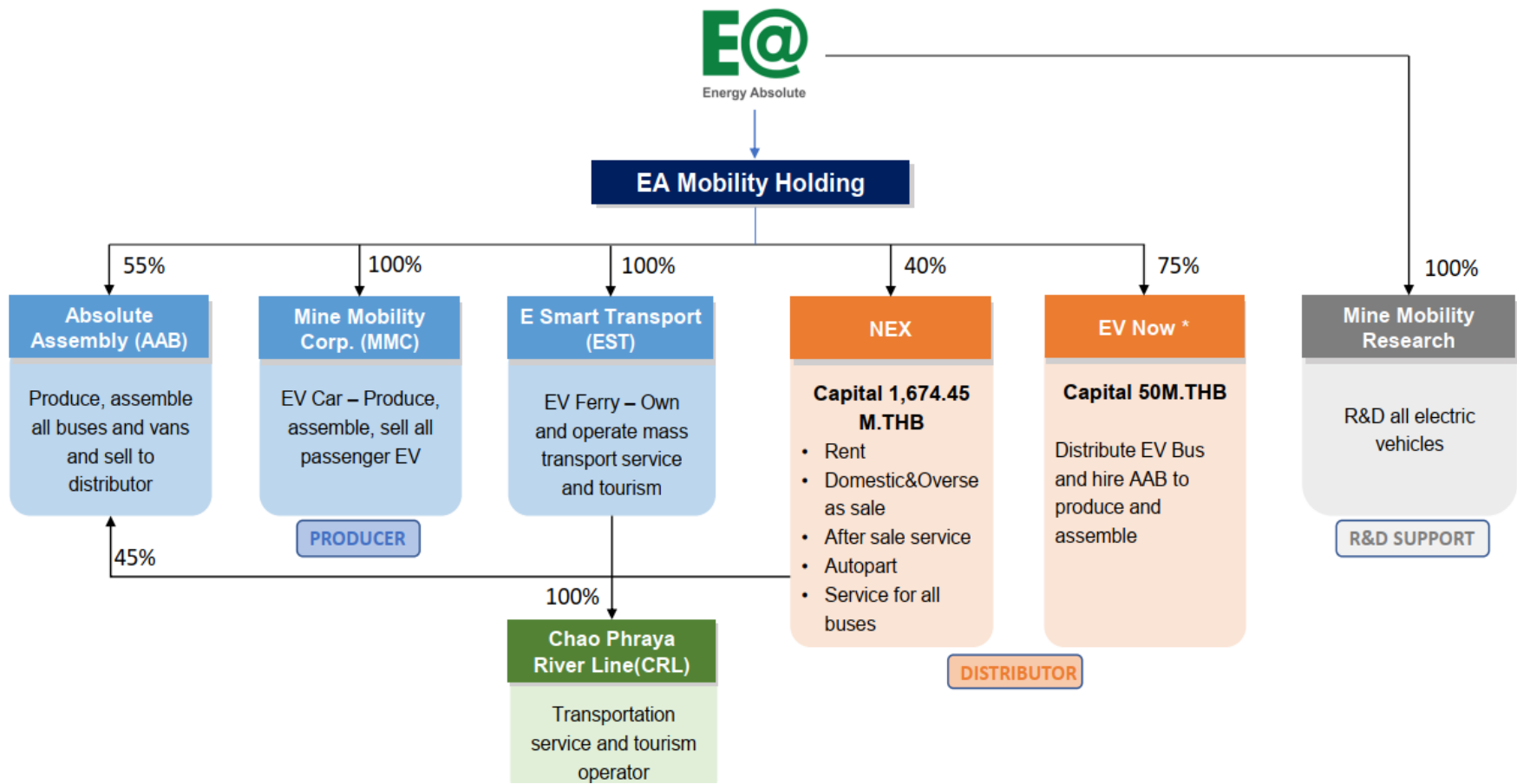
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EV BUSINESS STRUCTURE



(Bt m)	2Q20	3Q20	4Q20	1Q21	2Q21	YoY (%)	6M21	21E	% of 21E
Revenue	4,128	3,773	4,446	4,703	4,923	19.3	9,626	20,751	46.4
Cost of sales	(2,244)	(2,044)	(2,315)	(2,557)	(3,101)	38.2	(5,658)	(10,998)	51.4
Gross profit	1,884	1,730	2,131	2,146	1,823	(3.3)	3,969	9,753	40.7
SG&A	(392)	(268)	(330)	(367)	(312)	(20.6)	(678)	(1,141)	59.4
Other (exp)/inc	-	(0)	(0)	(0)	12	nm	12	0	nm
EBIT	1,492	1,462	1,801	1,779	1,523	2.1	3,302	8,612	38.3
Finance cost	(408)	(421)	(375)	(391)	(379)	(7.1)	(769)	(1,767)	43.5
Other inc/(exp)	47	29	17	5	-	nm	5	123	4.3
Earnings before taxes	1,132	1,070	1,443	1,394	1,144	1.1	2,538	6,968	36.4
Income tax	(7)	(4)	30	(38)	(12)	74.0	(50)	(70)	71.1
Earnings after taxes	1,125	1,066	1,473	1,356	1,132	0.7	2,488	6,897	36.1
Equity income	(2)	(3)	(42)	(25)	(8)	nm	(33)	71	(46.7)
Minority interest	30	33	59	51	50	nm	101	(141)	(71.9)
Earnings from cont. operations	1,153	1,095	1,490	1,382	1,174	1.9	2,556	6,828	37.4
Forex gain/(loss) & unusual items	(3)	24	(6)	30	17	nm	47	74	62.8
Net profit	1,149	1,119	1,484	1,412	1,191	3.6	2,603	6,902	37.7
Recurring profit	1,153	1,095	1,490	1,383	1,175	1.9	2,557	6,829	37.4
EBITDA	2,244	2,141	2,473	2,444	2,237	(0.3)	4,681	11,746	39.9
Recurring EPS (Bt)	0.311	0.294	0.402	0.372	0.316	1.7	0.688	1.831	37.6
Reported EPS (Bt)	0.310	0.300	0.400	0.380	0.320	3.2	0.698	1.850	37.7
Profits (%)	2Q20	3Q20	4Q20	1Q21	2Q21	Diff (%)	6M21	21E	Diff (%)
Gross margin	45.6	45.8	47.9	45.6	37.0	(8.6)	41.2	47.0	5.8
Operating margin	36.1	38.7	40.5	37.8	30.9	(5.2)	34.3	41.5	7.2
Net margin	27.8	29.7	33.4	30.0	24.2	(3.7)	27.0	33.3	6.2

Result summary

- EA reported 2Q21 net profit of Bt1.2bn (+4% YoY, -16% QoQ). The YoY increase was due to improved contribution from biodiesel business. While seasonal weak wind power plant operation resulted QoQ drop.
- The result was lower than our expectation and 1H21 result accounted to only 38% of our full year forecast.
- The revenue for the period was Bt4.9bn (+19% YoY, +4% QoQ). The revenue growth was driven by improved contribution from biodiesel business as average selling price rose 45% YoY.
- The gross profit margin dropped to 37%, compared to 46% in 2Q20 and 1Q21. Resulted from softened margin of biodiesel business according to increase in raw material cost.

EA: Revenue breakdown

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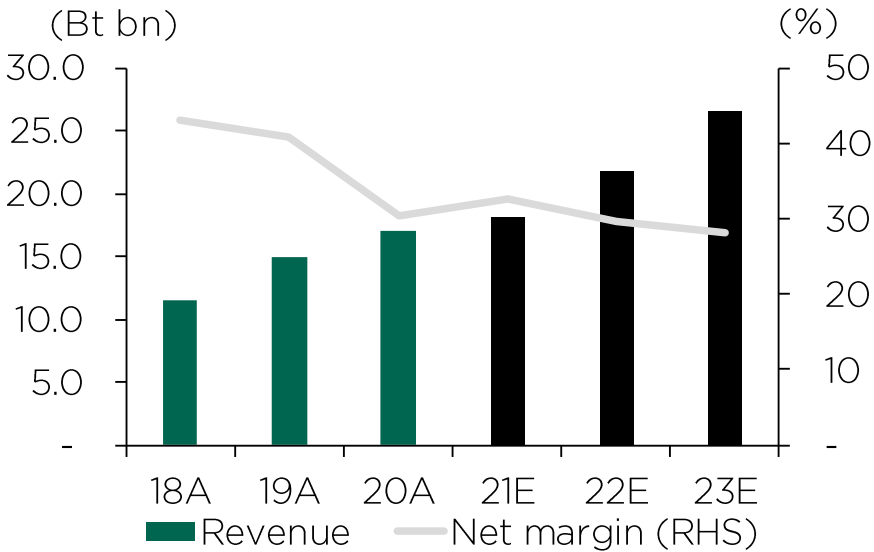
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EA’s main source of income is from sales of biodiesel and electricity through subsidiaries in Thailand. The company has 664MWe projects in portfolio including Solar and Wind sources, and a biodiesel production capacity of 800,000 liter/Day in operation.

In 2020, revenue from electricity sales to EGAT& PEA accounted for 62% of total revenue. While, the revenue from biodiesel and glycerin sales contributed 36% and “Other” including new business expansions to EV and ESS business segment accounted for remaining 2%.



Revenue breakdown, 2020



Palm oil based business 36%



Solar & Wind energy 62%



Others 2%

EA: Summary financials

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Profit & loss (Bt m)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Revenue	14,887	17,080	20,751	25,177	30,591	4,128	3,773	4,446	4,703	4,923
Cost of goods sold	(6,752)	(9,271)	(10,998)	(14,099)	(18,355)	(2,244)	(2,044)	(2,315)	(2,557)	(3,101)
Gross profit	8,134	7,808	9,753	11,078	12,236	1,884	1,730	2,131	2,146	1,823
SG&A	(946)	(1,278)	(1,141)	(1,385)	(1,377)	(392)	(268)	(330)	(367)	(312)
Other (exp)/inc	0	0	0	0	0	-	(0)	(0)	(0)	12
Operating profit	7,189	6,530	8,612	9,693	10,860	1,492	1,462	1,801	1,779	1,523
Finance cost	(1,386)	(1,637)	(1,767)	(2,002)	(2,142)	(408)	(421)	(375)	(391)	(379)
Other inc/(exp)	68	123	123	123	123	47	29	17	5	-
Earnings before taxes	5,870	5,016	6,968	7,814	8,840	1,132	1,070	1,443	1,394	1,144
Income tax	11	18	(70)	(79)	(89)	(7)	(4)	30	(38)	(12)
After-tax profit	5,881	5,034	6,897	7,735	8,751	1,125	1,066	1,473	1,356	1,132
Equity income	(14)	(61)	71	72	73	(2)	(3)	(42)	(25)	(8)
Minorities	55	157	(141)	(158)	(178)	30	33	59	51	50
Earnings from cont. operations	5,922	5,130	6,828	7,649	8,646	1,153	1,095	1,490	1,382	1,174
Forex gain/(loss) & unusual item	160	74	74	74	74	(3)	24	(6)	30	17
Net income	6,082	5,205	6,902	7,723	8,720	1,149	1,119	1,484	1,412	1,191
Recurring EPS (Bt)	1.59	1.38	1.83	2.05	2.32	0.31	0.29	0.40	0.37	0.32
Weighted average shares (m)	3,730	3,718	3,730	3,730	3,730	3,708	3,730	3,709	3,715	3,715
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Assets	70,220	78,484	91,842	102,346	110,379	75,867	77,249	78,484	81,018	81,830
Liabilities	45,353	48,857	56,538	60,691	61,554	48,861	48,782	48,857	49,830	49,897
Equity	23,365	27,812	33,348	39,541	46,532	25,433	26,640	27,812	29,248	29,287
Invested capital	56,616	64,433	72,075	80,257	85,400	60,861	62,018	64,433	64,680	64,527
Growth (YoY, %)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Revenue	28.9	14.7	21.5	21.3	21.5	14.2	(8.0)	8.9	(0.6)	19.3
Operating income	20.3	(9.2)	31.9	12.6	12.0	(9.3)	(30.4)	(12.6)	0.2	2.1
Recurring EPS	23.1	(13.1)	32.7	12.0	13.0	(13.7)	(37.9)	(10.9)	(0.5)	1.7
Assets	18.6	11.8	17.0	11.4	7.8	19.5	14.0	11.8	9.4	7.9
Liabilities	14.3	7.7	15.7	7.3	1.4	15.2	9.2	7.7	4.6	2.1
Equity	28.8	19.0	19.9	18.6	17.7	28.9	24.5	19.0	17.7	15.2
Profits (%)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Gross margin	54.6	45.7	47.0	44.0	40.0	45.6	45.8	47.9	45.6	37.0
Operating margin	48.3	38.2	41.5	38.5	35.5	36.1	38.7	40.5	37.8	30.9
Net margin	40.9	30.5	33.3	30.7	28.5	27.8	29.7	33.4	30.0	24.2
ROE	29.3	20.3	22.6	21.2	20.3	18.3	17.2	21.8	19.8	16.3
ROIC	14.4	10.8	12.5	12.6	13.0	9.9	9.5	11.6	10.7	9.3
Core profit (Bt m)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Net profit	6,082	5,205	6,902	7,723	8,720	1,149	1,119	1,484	1,412	1,191

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Investment ratings

BUY:	Expected return excluding dividends of more than 10% within the next 12 months.
HOLD:	Expected return excluding dividends between -10% and 10% within the next 12 months.
SELL:	Expected return excluding dividends of less than -10% within the next 12 months.
NR:	Not Rated- Stock is not in our research coverage.

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