

16 APRIL 2020

THAILAND / ELECTRIC UTILITIES

ENERGY ABSOLUTE EA TB

BUY

UNCHANGED

TARGET PRICE	THB62.00
CLOSE	THB37.00
UP/DOWNSIDE	+67.6%
PRIOR TP	THB60.00
CHANGE IN TP	3.33%

Capex revisions underscore growth

Emerging growth from new S-curve projects

After its net profit (NP) growth of 55.8% y-y in 2019, we believe EA will see its NP growth accelerate by 33.8% y-y to THB8.1b in 2020, slowing down to 3% y-y growth in 2021, before rising again to 53.4% y-y growth in 2022. The key drivers are 1) the start-ups of its new crude palm oil (CPO)-based phase change material (PCM) S-curve projects in Apr-20 (65ktpa capacity); 2) the commercial operation date (COD) commencement of its electric vehicle (EV) cars, to be delivered in 2Q20 (4,500 cars); 3) the COD of two E-ferry boats within 2Q20; and 4) the COD of its first battery phase 1 plant within 4Q20 (1GWh).

2x NP growth from EV and CPO ventures from 2019-2022

We project that NPs from EA's S-curve growth projects will rise from 11% of its total NP in 2020 to 45% in 2022. The key drivers in 2020 will be the THB0.3b NP from EV car sales, THB0.4b NP from its 65ktpa PCM plant, and THB50-78m NPs from its E-ferries, EV charging stations, and the battery phase 1 plant.

Capex plan revisited

Following management's guidance, we fine-tune our capex projections for EA in 2020-22, lowering them from THB15.1b to THB7.4b in 2020, from THB15b to THB3.8b in 2021, and from THB7.3b to THB3.8b in 2022. The lower capex is mostly due to the delay of investment in EA's 49GWh phase 2 battery plant, to reflect the higher demand risk for batteries caused by COVID-19. As a result, our SoTP-based TP is raised by THB2, from THB60 to THB62, to reflect EA's lower capex.

The only EV play in the Thai market

We think EA remains the only listed Thai company with potential NP growth from EV chain ventures. We think EA's new S-curve ventures are likely to be successful given 1) EA's highly disciplined investment plan to ensure a low-cost structure and the timely supply and demand synchronization of its products; 2) its timely completion and CODs for its new projects to ride the industry's demand growth phases; and 3) the proven track record of its existing management team, including the two founders: Mr Somphot Ahunai (CEO) and Mr. Amorn Saphaweekul (CFO).

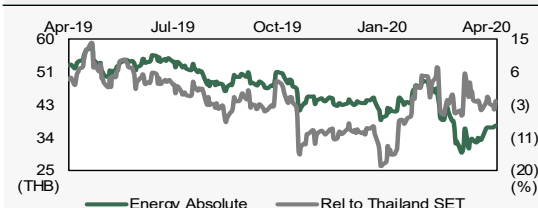
Suwat Sinsadok *



*Not an employee of BNP Paribas. For all matters and queries relating to this report, please contact your BNP Paribas representative. Our research is available on Thomson Reuters, Bloomberg, S&P Global, FactSet, RSRCHXchange and ONEaccess.

KEY STOCK DATA

YE Dec (THB m)	2019A	2020E	2021E	2022E
Revenue	14,887	23,598	32,606	44,095
Rec. net profit	6,082	8,137	8,378	12,856
Recurring EPS (THB)	1.63	2.18	2.25	3.45
Prior rec. EPS (THB)	1.63	2.18	2.25	3.45
Chg. In EPS est. (%)	-	0.0	0.0	0.0
EPS growth (%)	55.8	33.8	3.0	53.4
Recurring P/E (x)	22.7	17.0	16.5	10.7
Dividend yield (%)	1.6	2.2	2.7	4.1
EV/EBITDA (x)	17.7	13.8	11.9	8.7
Price/book (x)	5.9	4.7	4.0	3.2
Net debt/Equity (%)	128.4	102.0	74.3	43.1
ROE (%)	29.3	30.9	26.2	32.8



Share price performance	1 Month	3 Month	12 Month	
Absolute (%)		13.0	(8.6)	(26.7)
Relative to country (%)		3.2	16.9	(1.6)
Next Results			May 2020	
Mkt cap (USD m)			4,228	
3m avg daily turnover (USD m)			16.7	
Free float (%)			40	
Major shareholder		Mr. Somphot Ahunai (23%)		
12m high/low (THB)			57.75/29.75	
3m historic vol. (%)			68.4	
ADR ticker			-	
ADR closing price (USD)			-	
Issued shares (m)			3,730	

Sources: FactSet Estimates; FSSIA estimates

Investment thesis

EA is Thailand's largest green energy player, operating through its three business segments of solar, wind and biodiesel; all touted to be the key pillars of Thailand's energy growth over the next 10 years. A biodiesel producer since 2012 with an 800k litre-per-day (lpd) capacity, EA later ventured into the solar and wind businesses. We believe EA's solar farms will be key earnings growth drivers, as they stand to gain from: 1) a high-margin THB6.5/kwh adder; and 2) a 40% decline in the cost of solar panels since 2010.

EA has evolved from being a pure biodiesel player to emerge as one of Thailand's key players in renewable energy. While its biodiesel segment has been struggling at a mere 50% utilisation rate due to the country's oversupply, EA's solar and wind farm businesses have benefited from high-margin electricity tariffs and the declining cost of solar panels.

Catalyst

Higher utilisation rates of power plants and rising demand for electricity in Thailand are key growth drivers.

Risk to our call

Downside risks to our SOTP-based TP include: 1) lower-than-expected demand for electricity in Thailand; 2) lower crude prices; and 3) lower-than-expected demand for batteries.

Company background

Energy Absolute (EA) is a leading green energy company in Thailand with business interests in biodiesel, solar and wind energy. EA has expanded into the battery storage and electricity vehicle (EV) businesses, which will be key earnings growth drivers post 2019E.

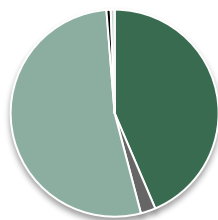
Key executives

	Age	Joined	Title
Mr. Somphote Ahunai	50	2009	Chief Executive Officer
Mr. Amorn Saphaweekul	43	2012	Chief Financial Officer

<http://www.energyabsolute.co.th>

Principal activities (revenue, 2019)

- Methyl ester Biodiesel products - 44.1%
- Pure glycerine products - 2.4%
- Electricity from solar and wind power - 53.4%
- Head office and others - 0.7%
- Project consultation regarding alternative electric energy - -0.6%
- Battery and EV - 0.0%



Source: Energy Absolute

Event calendar

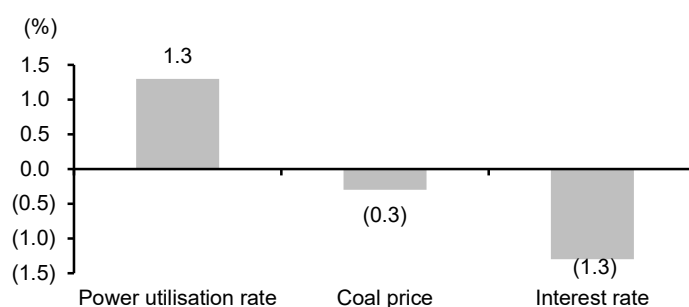
Date	Event
May 2020	1Q20 results announcement

Key assumptions

	2020E	2021E	2022E
Dispatched power (GWh)	9,715	9,715	9,715
Capacity factor - wind farms (%)	26	26	26
Battery sales volume (GWh)	0.4	2.9	6.3
EV car sales (cars)	5,000	5,000	5,500
EV boat sales (boats)	40	50	50
EV charging stations (stations)	800	1,000	1,000
Green diesel & PCM (tpd)	120	124	124

Sources: Energy Absolute; FSSIA estimates

Earnings sensitivity



Sources: Energy Absolute; FSSIA estimates

- For every 1% increase in utilisation rate, we estimate earnings would rise by 1.3%, and vice versa, all else being equal.
- For every 1% increase in interest rate, we estimate earnings would decline by 1.3%, and vice versa, all else being equal.

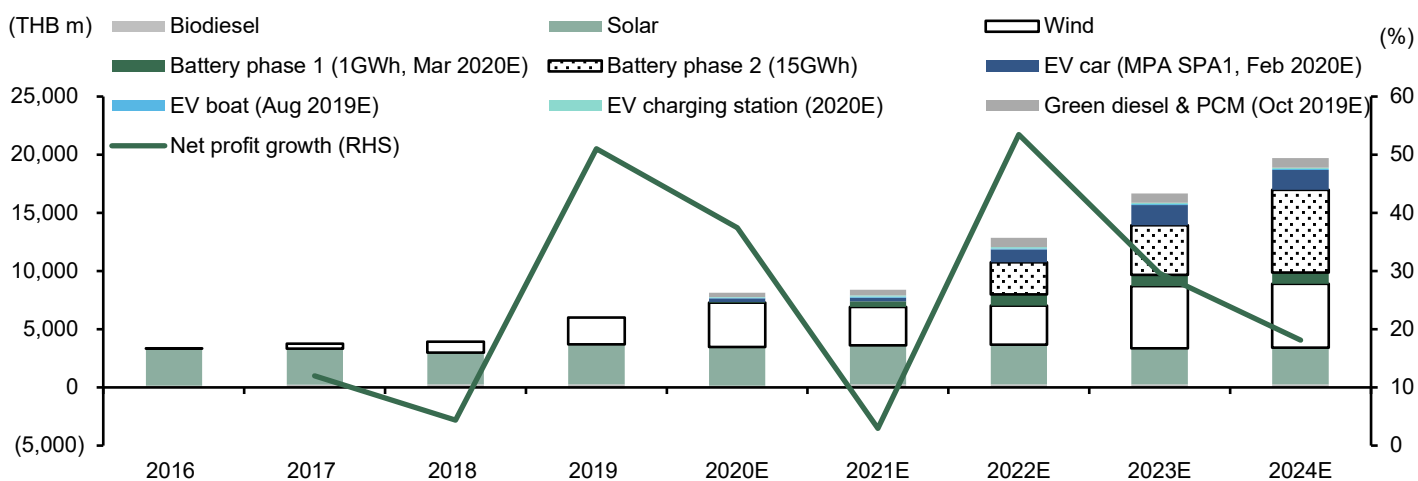
Emerging growth from new S-curve projects

After its NP growth of 55.8% y-y in 2019, we believe EA will see its NP growth accelerate by 33.8% y-y to THB8.1b in 2020, slowing down to 3% y-y growth in 2021, before rising again to 53.4% y-y growth in 2022. The NP growth slowdown in 2021 is due to the absence of significant growth from new projects, as EA will delay the investment in its battery phase 2 project, changing from lump sum capex to a more staggered investment in 2020-22, according to management.

The key drivers are 1) the start-ups of its new CPO-based PCM S-curve projects in Apr-20 (65ktpa capacity); 2) the COD commencement of its EV cars, to be delivered in 2Q20 (4,500 cars); 3) the COD of two E-ferry boats within 2Q20; and 4) the COD of its first battery phase 1 plant within 4Q20 (1GWh).

While we think the NP growth in 2020 is more visible, given the low demand and execution risks for its key growth drivers: PCM and battery phase 1 plants, we think EA's NP growth in 2022 will be more uncertain, based on the unsecured demand for its battery phase 2 plant.

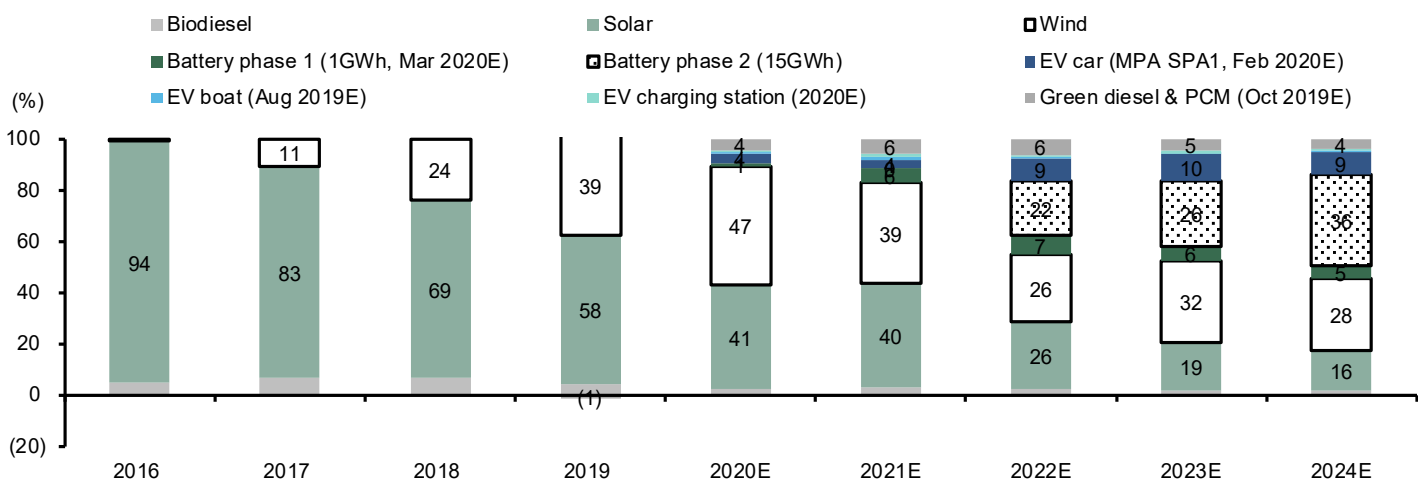
Exhibit 1: Net profit breakdown by project VS net profit growth



Sources: EA, FSSIA estimates

Our NP projections for 2020-22 will more than double from THB6b in 2020 to THB12.9b in 2022. We project that NPs from EA's S-curve growth projects will rise from 11% of its total NP in 2020 to 45% in 2022. The key drivers in 2020 will be the THB0.3b NP from EV car sales, THB0.4b NP from its 65ktpa PCM plant, and THB50-78m NPs from its E-ferries, EV charging stations, and the battery phase 1 plant.

Exhibit 2: Net profit breakdown by project (%)



Sources: EA; FSSIA estimates

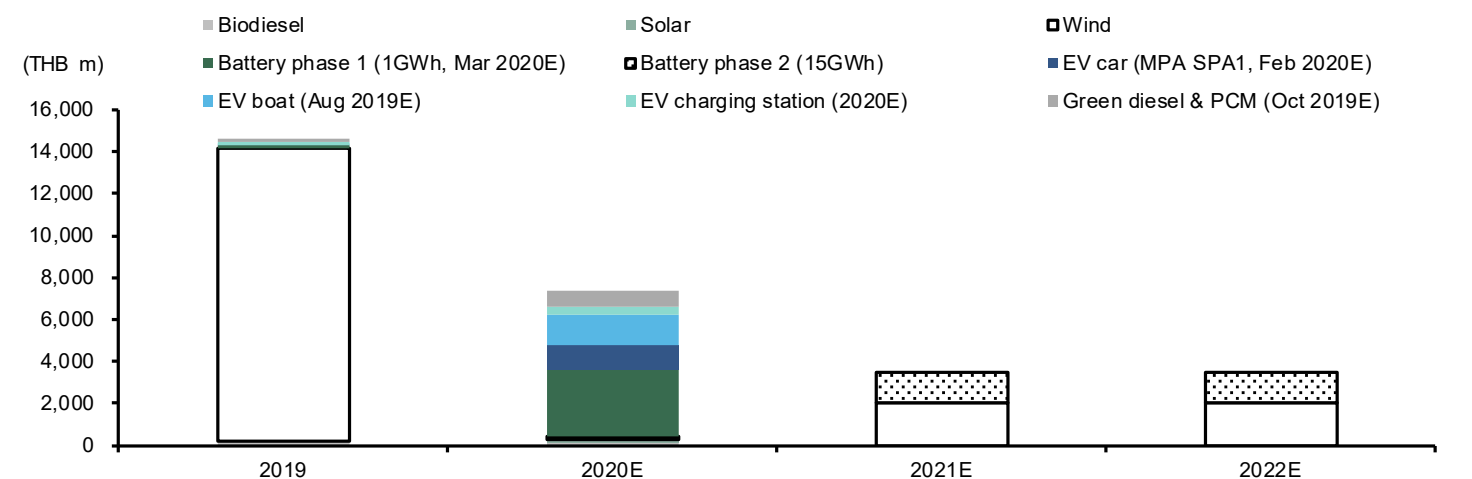
Capex revisions

Following management's guidance, we fine-tune our capex projections for EA in 2020-22, lowering them from THB15.1b to THB7.4b in 2020, from THB15b to THB3.8b in 2021, and from THB7.3b to THB3.8b in 2022.

The lower capex is mostly due to the delay of investment in EA's 49GWh phase 2 battery plant, to reflect the higher demand risk for batteries caused by COVID-19. As a result, our SoTP-based TP is raised by THB2, from THB60 to THB62, to reflect EA's lower capex.

While we have revised our capex and net debt following management's new guidance, we maintain our NP forecasts for 2020-22, as our existing capacity and NPs are based on more conservative projections than EA's previous projections.

Exhibit 3: Capex breakdown by project



Sources: EA, FSSIA estimates

The success of EV chain projects could lead to valuation rerating

We think EA remains the only listed Thai company with potential NP growth from EV chain ventures. We think EA's new S-curve ventures are likely to be successful given:

- 1) EA's highly disciplined investment plan to ensure a low-cost structure and the timely supply and demand synchronization of its products. Historically, EA has always invested in new growth projects in a cautious way, making sure to match its cash flow generation with its funding needs and the demand secured with the production of new plants.
- 2) The timely completion and CODs for its new projects to ride the industry's demand growth phases. Given the uncertainties of battery technology and demand, EA plans to fund its 49GWh battery phase 2 plant in stages in order to fully match battery demand visibility with its plant.
- 3) The proven track record of its existing management team, including the two founders: Mr Somphot Ahunai (CEO) and Mr. Amorn Saphaweekul (CFO). The two executives have been successful in building, implementing, and operating Thailand's largest and most profitable solar and wind farms during 2015-19, and have successfully developed CPO-based PCM and green diesel product innovations. Hence, in the latest growth phase of its EV projects, we think EA, under its two founding executives, is likely to secure a first mover benefit to ride the industry growth outlook for PCM and batteries.

Exhibit 4: EA's SOTP, DCF-based valuation

Cost of equity assumptions		(%)	Cost of debt assumptions		(%)
Risk free rate		2.3	Pre-tax cost of debt		4.6
Market risk premium		8.5	Marginal tax rate		20.0
Stock beta		0.40			
DCF assumptions					
Cost of equity, Ke		5.7	Net cost of debt, Kd		3.4
Weight applied		25.0	Weight applied		75.0
WACC		4.0			
SOTP valuation estimate		(THB m)	(THB/share)	Valuation methodology	
Biodiesel		3,891	1.0	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Solar					
Lopburi		1,331	0.4	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Nakornsawun		12,119	3.2	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Lumpang		20,085	6.1	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Pitsanulok		22,035	5.9	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Total solar		55,570	15.6		
Wind					
Southern (COD 2017)					
Had Gunghun 1		4,175	1.1	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Had Gunghun 2		5,087	1.4	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Had Gunghun 3		5,103	1.4	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Had Gunghun 4		6,301	1.7	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Total wind farms - Southern		14,365	5.5		
Northeastern (COD 2018-19)					
Hanuman 1		8,207	2.2	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Hanuman 5		8,732	2.3	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Hanuman 8		8,186	2.2	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Hanuman 9		7,641	2.0	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Hanuman 10		14,591	3.9	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Total wind farms - Northeastern		47,358	12.7		
Battery phase 1 (1GWh)		9,186	2.5	DCF with WACC 7%, Risk free rate 5.3%, Risk premium 8.5%	
Battery phase 2 (15GWh)		86,032	23.1	DCF with WACC 7%, Risk free rate 5.3%, Risk premium 8.5%	
EV cars (MPA SPA1, 2020E)		11,961	3.3	2020E P/E at 12x	
EV boats (2020E)		507	0.1	2020E P/E at 12x	
EV charging stations (2020E)		1,210	0.3	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Total EV and battery		108,896	29.3		
Green diesel & PCM (Jan 2020E)		10,904	2.9	2020E P/E at 15x	
Laemchabang phase 3 (2020E) (Excluded in TP)		13,899	3.7	DCF with WACC 4.0%, Risk free rate 2.3%, Risk premium 8.5%	
Net debt		(31,710)	(10.1)		
Minorities		15,498	5.1		
Residual ordinary equity		224,565	62.0		

Sources: EA; FSSIA estimates

Financial statements

Energy Absolute

Profit and Loss (THB m) Year Ending Dec	2018A	2019A	2020E	2021E	2022E
Revenue	11,552	14,887	23,598	32,606	44,095
Cost of goods sold	(3,835)	(4,235)	(9,504)	(16,279)	(22,572)
Gross profit	7,717	10,652	14,094	16,327	21,523
Other operating income	-	-	-	-	-
Operating costs	(805)	(946)	(1,652)	(2,282)	(3,087)
Operating EBITDA	6,912	9,706	12,442	14,045	18,436
Depreciation	(1,833)	(2,517)	(2,458)	(3,658)	(3,658)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	5,079	7,189	9,984	10,387	14,778
Net financing costs	(920)	(1,226)	(1,631)	(1,743)	(1,645)
Associates	(6)	(14)	0	0	0
Recurring non operating income	(140)	53	100	101	101
Non recurring items	1,072	0	0	0	0
Profit before tax	5,091	6,016	8,453	8,745	13,234
Tax	(29)	11	(5)	(46)	(49)
Profit after tax	5,061	6,027	8,448	8,698	13,185
Minority interests	(86)	55	(311)	(320)	(330)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	4,975	6,082	8,137	8,378	12,856
Non recurring items & goodwill (net)	(1,072)	0	0	0	0
Recurring net profit	3,904	6,082	8,137	8,378	12,856
Per share (THB)					
Recurring EPS *	1.05	1.63	2.18	2.25	3.45
Reported EPS	1.33	1.63	2.18	2.25	3.45
DPS	0.40	0.60	0.80	1.00	1.50
Diluted shares (used to calculate per share data)	3,730	3,730	3,730	3,730	3,730
Growth					
Revenue (%)	(0.2)	28.9	58.5	38.2	35.2
Operating EBITDA (%)	8.1	40.4	28.2	12.9	31.3
Operating EBIT (%)	4.4	41.5	38.9	4.0	42.3
Recurring EPS (%)	2.3	55.8	33.8	3.0	53.4
Reported EPS (%)	30.3	22.2	33.8	3.0	53.4
Operating performance					
Gross margin (%)	66.8	71.6	59.7	50.1	48.8
Operating EBITDA margin (%)	59.8	65.2	52.7	43.1	41.8
Operating EBIT margin (%)	44.0	48.3	42.3	31.9	33.5
Net margin (%)	33.8	40.9	34.5	25.7	29.2
Effective tax rate (%)	0.6	(0.2)	0.1	0.5	0.4
Dividend payout on recurring profit (%)	38.2	36.8	36.7	44.5	43.5
Interest cover (x)	5.4	5.9	6.2	6.0	9.0
Inventory days	21.8	46.9	47.2	51.7	56.2
Debtor days	74.0	67.1	59.9	62.0	64.6
Creditor days	56.8	70.3	63.6	69.7	75.7
Operating ROIC (%)	10.5	12.1	13.9	n/a	n/a
ROIC (%)	9.5	11.2	13.0	n/a	n/a
ROE (%)	23.8	29.3	30.9	26.2	32.8
ROA (%)	9.1	10.8	13.2	9.9	14.1
*Pre exceptional pre-goodwill and fully diluted					
Revenue By Division (THB m)					
Methyl ester Biodiesel products	3,213	6,570	6,570	6,570	6,570
Pure glycerine products	298	350	360	361	361
Electricity from solar and wind power	7,692	7,957	7,205	15,722	26,611
Head office and others	341	100	100	101	101
Project consultation regarding alternative electric energy	50	(90)	(90)	(89)	(89)
Battery and EV	(42)	0	9,452	9,941	10,541

Sources: Energy Absolute; FSSIA estimates

Financial statements

Energy Absolute

Cash Flow (THB m) Year Ending Dec	2018A	2019A	2020E	2021E	2022E
Recurring net profit	3,904	6,082	8,137	8,378	12,856
Depreciation	1,833	2,517	2,458	3,658	3,658
Associates & minorities	(6)	(14)	0	0	0
Other non-cash items	-	-	-	-	-
Change in working capital	7,992	(9,651)	(1,062)	(1,501)	(2,208)
Cash flow from operations	13,722	(1,067)	9,533	10,535	14,305
Capex - maintenance	(1,833)	(2,517)	(2,458)	(3,658)	(3,658)
Capex - new investment	(12,368)	(3,784)	(4,942)	(158)	(158)
Net acquisitions & disposals	922	(68)	0	0	0
Other investments (net)	(984)	(49)	0	0	0
Cash flow from Investing	(14,263)	(6,418)	(7,400)	(3,816)	(3,816)
Dividends paid	(746)	(746)	(2,238)	(2,984)	(3,730)
Equity finance	0	0	0	0	0
Debt finance	1,525	12,725	(180)	5,946	(10,990)
Other financing cash flows	734	56	311	637	646
Cash flow from Financing	1,513	12,035	(2,107)	3,599	(14,074)
Non recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	972	4,550	26	10,318	(3,586)
Free cash flow to firm (FCFF)	545.96	(6,098.64)	3,763.77	8,461.99	12,133.65
Free cash flow to equity (FCFE)	1,718.50	5,296.19	2,264.44	13,301.86	144.48

Per share (THB)					
FCFF per share	0.15	(1.64)	1.01	2.27	3.25
FCFE per share	0.46	1.42	0.61	3.57	0.04
Recurring cash flow per share	1.54	2.30	2.84	3.23	4.43

Balance Sheet (THB m) Year Ending Dec	2018A	2019A	2020E	2021E	2022E
Tangible fixed assets (gross)	53,646	59,819	67,219	70,719	74,219
Less: Accumulated depreciation	(6,059)	(8,448)	(10,906)	(14,565)	(18,223)
Tangible fixed assets (Net)	47,587	51,371	56,313	56,155	55,996
Intangible fixed assets (Net)	937	3,683	3,683	3,683	3,683
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	33	100	100	100	100
Cash & equivalents	5,479	10,029	10,055	20,373	16,788
A/C receivable	2,295	3,175	4,571	6,499	9,107
Inventories	330	758	1,700	2,912	4,038
Other current assets	47	71	113	155	210
Current assets	8,150	14,033	16,439	29,940	30,143
Other assets	2,501	1,033	1,033	1,033	1,033
Total assets	59,208	70,220	77,568	90,911	90,955
Common equity	18,139	23,365	29,263	34,657	43,783
Minorities etc	1,379	1,502	1,813	2,133	2,463
Total Shareholders' equity	19,518	24,866	31,076	36,791	46,246
Long term debt	26,139	36,977	36,798	42,744	31,753
Other long-term liabilities	1,049	2,306	2,306	2,306	2,306
Long-term liabilities	27,187	39,283	39,103	45,049	34,059
A/C payable	611	1,021	2,291	3,925	5,442
Short term debt	3,081	4,968	4,968	4,968	4,968
Other current liabilities	8,810	81	128	177	240
Current liabilities	12,503	6,070	7,388	9,070	10,650
Total liabilities and shareholders' equity	59,208	70,220	77,568	90,911	90,955
Net working capital	(6,750)	2,902	3,964	5,465	7,673
Invested capital	44,308	59,089	65,092	66,435	68,485

* includes convertibles and preferred stock which is being treated as debt

Per share (THB)					
Book value per share	4.86	6.26	7.85	9.29	11.74
Tangible book value per share	4.61	5.28	6.86	8.30	10.75
Financial strength					
Net debt/Equity (%)	121.6	128.4	102.0	74.3	43.1
Net debt/total assets (%)	40.1	45.5	40.9	30.1	21.9
Current ratio (x)	0.7	2.3	2.2	3.3	2.8
CF interest cover (x)	16.3	8.4	5.4	8.7	1.2

Valuation	2018A	2019A	2020E	2021E	2022E
Recurring P/E (x) *	35.4	22.7	17.0	16.5	10.7
Recurring P/E @ target price (x) *	59.2	38.0	28.4	27.6	18.0
Reported P/E (x)	27.7	22.7	17.0	16.5	10.7
Dividend yield (%)	1.1	1.6	2.2	2.7	4.1
P/CF (x)	24.1	16.1	13.0	11.5	8.4
P/FCF (x)	80.3	26.1	60.9	10.4	n/a
Price/book (x)	7.6	5.9	4.7	4.0	3.2
Price/tangible book (x)	8.0	7.0	5.4	4.5	3.4
EV/EBITDA (x) **	23.6	17.7	13.8	11.9	8.7
EV/EBITDA @ target price (x) **	37.1	27.3	21.3	18.6	13.8
EV/invested capital (x)	3.7	2.9	2.6	2.5	2.3

* Pre exceptional & pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non operating income

Sources: Energy Absolute; FSSIA estimates

Disclaimers and Disclosures

APPENDIX

DISCLAIMERS AND DISCLOSURES APPLICABLE TO NON-US BROKER-DEALER(S): FSS INTERNATIONAL INVESTMENT ADVISORY SECURITIES CO., LTD

ANALYST(S) CERTIFICATION

Suwat Sinsadok, FSS International Investment Advisory Securities Co., Ltd

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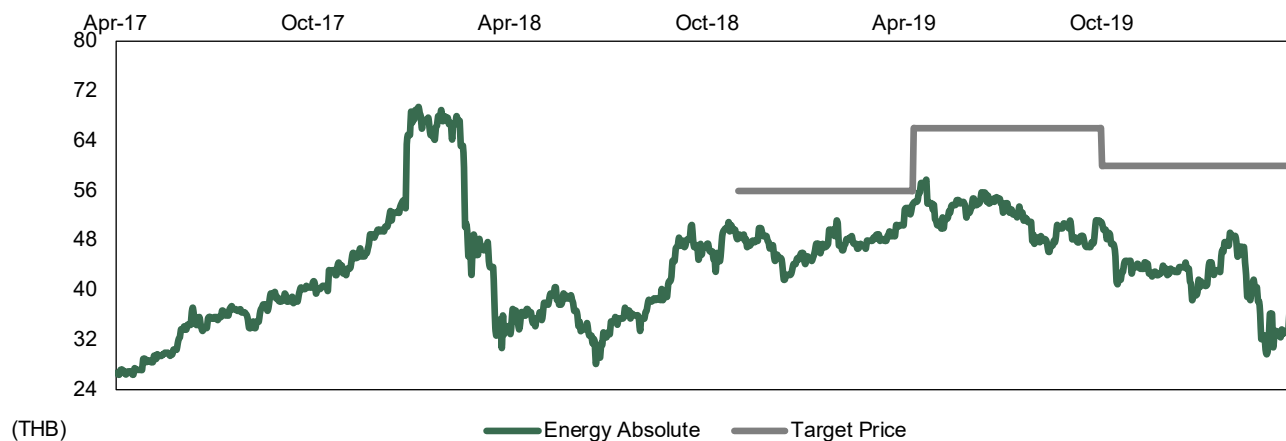
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History of change in investment rating and/or target price

Energy Absolute (EA TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
15-Nov-18	Buy	56.00	26-Apr-19	Buy	66.00	17-Oct-19	Buy	60.00

Suwat Sinsadok started covering this stock from 15 Nov 2018

Price and TP are in local currency

Sources: FactSet; BNP Paribas

Company	Ticker	Price	Rating	Valuation & Risks
Energy Absolute	EA TB	THB 37.00	Buy	Downside risks to our SoTP-based TP include: 1) lower-than-expected demand for electricity in Thailand; 2) lower crude price; and 3) lower-than-expected demand for batteries.

Sources: Factset, BNP Paribas

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