

7 APRIL 2020

THAILAND / ELECTRIC UTILITIES

ENERGY ABSOLUTE EA TB

BUY

UNCHANGED

TARGET PRICE	THB60.00
CLOSE	THB33.25
UP/DOWNSIDE	+80.5%
PRIOR TP	THB60.00
CHANGE IN TP	UNCHANGED

Unlocking new growth engines

All S-curve growth projects remain on track

From our latest discussion, EA's management indicated that its five new S-curve growth projects, including a 65ktpa PCM plant (Apr-20), an electric vehicle (EV) car manufacturing plant (Apr-20), an EV ferry (Apr-20), a 1GWh battery plant phase 1 (4Q20), and its EV charging stations are on track to start their commercial operation dates (COD) within 2020. EA's conventional businesses should continue to deliver strong operational performance in 1Q20, thanks to solid operations of solar and wind farms and its methyl ester (ME) plant.

First EV car and EV ferry ready for delivery in Apr

According to management, EA is now ready to deliver its first 20 EV cars in Apr, on track for its total 3,500 EV cars to be delivered within 2020. However, due to COVID-19, the buyer, Suvarnabhumi Taxi Cooperative, has faced operations issues, and hence the delivery of EA's first 20 EV cars are likely to be delayed to May or Jun-20. EA is also proceeding with manufacturing EV buses for the domestic market from its plant, already importing critical auto parts at end-Mar, and production is commencing as planned. While EA's first EV ferry is ready for operations on the Chaophraya River, COVID-19 has delayed the start-up date; but EA still expects to COD within 2Q20.

PCM plant to start-up in Apr

Management advised that EA's 65ktpa phase change material (PCM) plant will COD in Apr, and should deliver the first PCM for its Japanese client in Apr-May. Despite the recent spike in crude palm oil (CPO) price, EA still projects 40-50% gross margin for its PCM sales volume in 2020, thanks to the high margin of EA's PCM compared to competitors' synthetic paraffin-based PCM. Meanwhile, EA's 0.8mlpd ME plant should see improving net profits in 2020, driven by the higher ME-CPO margin on the B10 mandate and the rising margin of glycerine – a 10% yield by-product from ME production which is blended with alcohol for cleansing gel.

Strong power performance continues in 2020

We project EA's 1Q20 net profit to be THB1.66b, down 4.9% q-q, due to seasonally lower operations of its wind and solar farms. However, we believe that EA's net profit growth will accelerate starting in 2Q20, driven by the start-ups of its new S-curve growth projects.

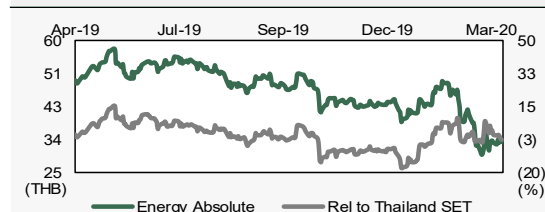
Suwat Sinsadok *



*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)	20.4	15.2	14.8	9.6
Dividend yield (%)	1.8	2.4	3.0	4.5
EV/EBITDA (x)	16.2	13.3	12.3	8.8
Price/book (x)	5.3	4.2	3.6	2.8
Net debt/Equity (%)	128.4	126.8	126.5	77.1
ROE (%)	29.3	30.9	26.2	32.8



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(17.4)	(23.6)	(32.8)
Relative to country (%)	(0.3)	7.1	(2.7)
Next Results	May 2020		
Mkt cap (USD m)	3,762		
3m avg daily turnover (USD m)	18.3		
Free float (%)	40		
Major shareholder	Mr. Somphote Ahunai (23%)		
12m high/low (THB)	57.75/29.75		
3m historic vol. (%)	68.8		
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.

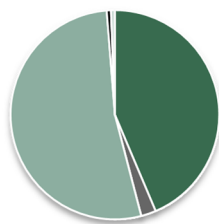
Key executives

	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

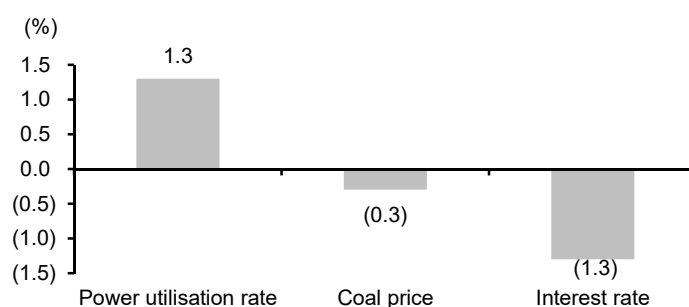
Date	Event
May 2020	1Q20 results announcement

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

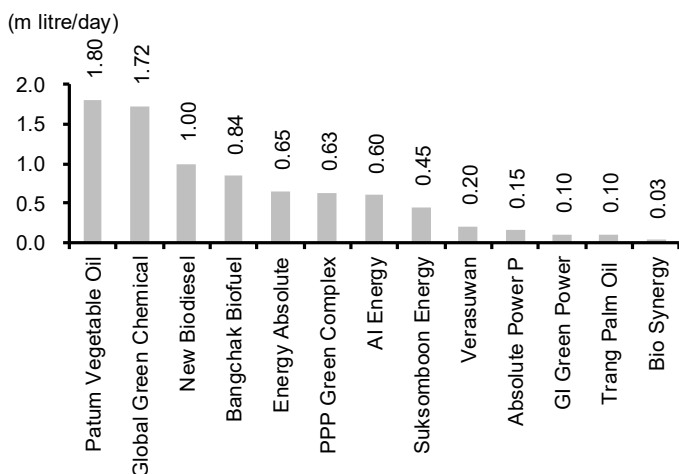
- For every 1% increase in utilisation rate, we estimate earnings would rise by 1.3%, and vice versa, all else being equal.
- For every 1% increase in interest rate, we estimate earnings would decline by 1.3%, and vice versa, all else being equal.

Ready to go for S-curve growth projects

From our latest discussion, EA’s management indicated that its five new S-curve growth projects, including a 65ktpa PCM plant (Apr-20), an EV car manufacturing plant (Apr-20), an EV ferry (Apr-20), a 1GWh battery plant phase 1 (4Q20), and its EV charging stations are on track to start their CODs within 2020.

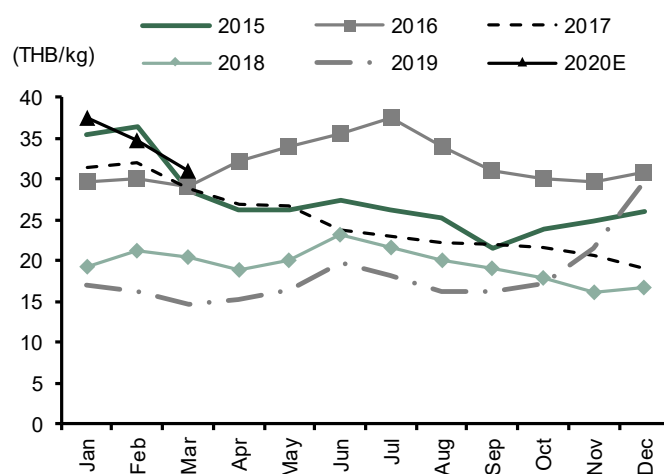
Meanwhile EA’s conventional businesses should continue to deliver strong operational performance in 1Q20, thanks to solid operations of solar and wind farms and its ME plant. We estimate that EA’s power business will generate THB6b net profit in 2020, comprising THB5.8b from its power unit and THB0.2b from its ME unit.

Exhibit 1: Thailand’s ME players



Source: GGC

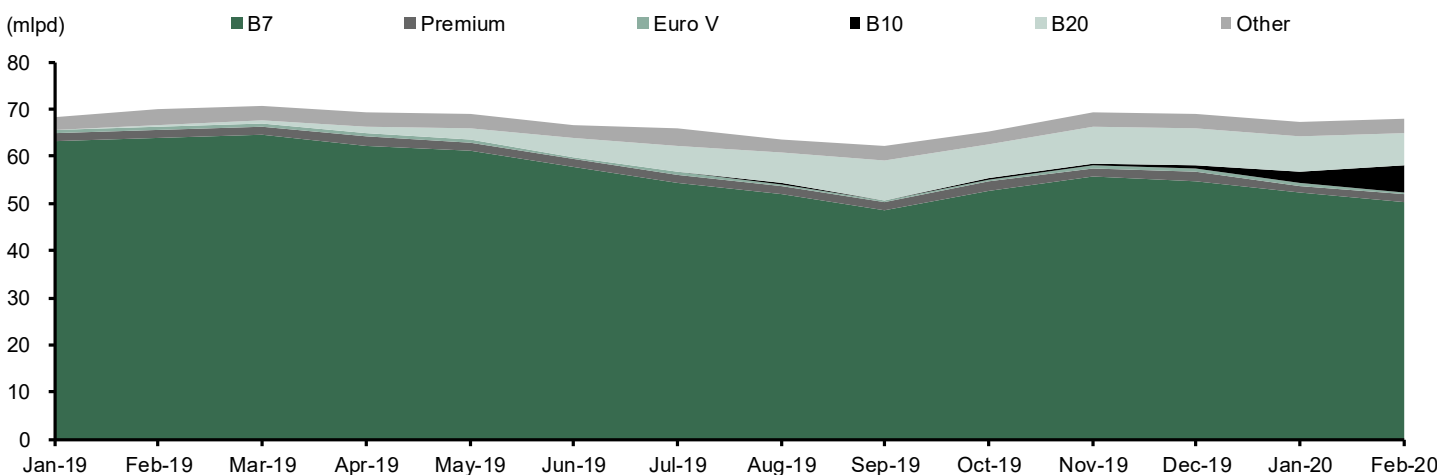
Exhibit 2: Thailand CPO price



Source: DIT

CPO-based units are on the rise in 2020. As Thailand’s fifth-largest ME (B100) producer with a capacity of 0.65m litres per day (mlpd), EA should see stronger net profits from its ME business, thanks to the Thai government’s initiatives for B10 (10% ME blended with 90% diesel) to gradually replace B7 starting Jan-20.

Exhibit 3: Biodiesel demand breakdown in Thailand

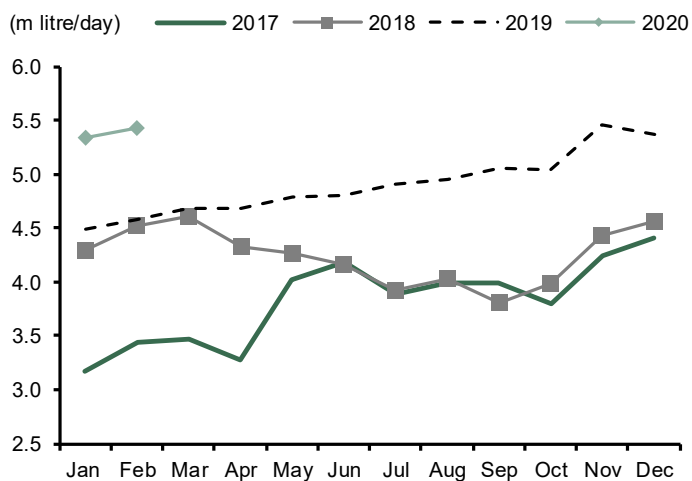


Source: DEDE

According to the Department of Alternative Energy Development and Efficiency (DEDE), Thailand has already seen a gradual shift in demand from B7 to B10 in Jan-Feb 20. B10 demand rose from zero in Nov-19 to 5.5mlpd in Feb-20, and is projected to rise further to 15mlpd by end-20, replacing B7 that has already seen demand drop by over 5mlpd in Jan-Feb 20.

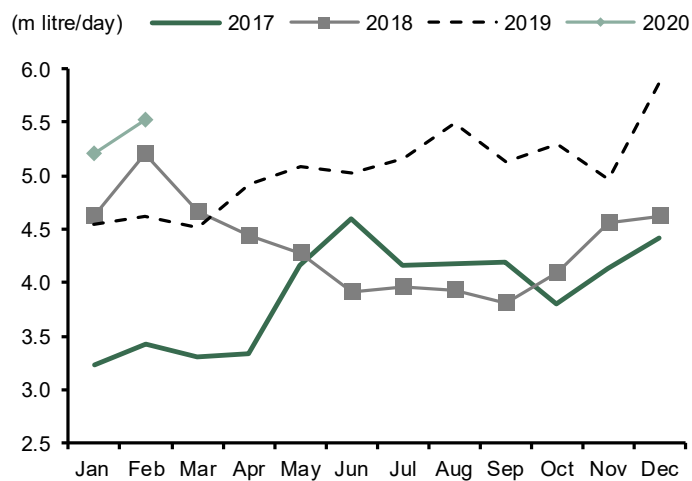
Meanwhile, demand for B20 has been relatively stable y-y at 7mlpd, even after the Thai government cut the price subsidy for B20 from THB5/litre to THB3/litre from the beginning of 2020. We think demand for B20 will stabilise at 7mlpd in 2020, given the THB2-3/litre lower selling price than B10 and B7.

Exhibit 4: Domestic ME (B100) consumption



Source: DEDE

Exhibit 5: Domestic ME (B100) production



Source: DEDE

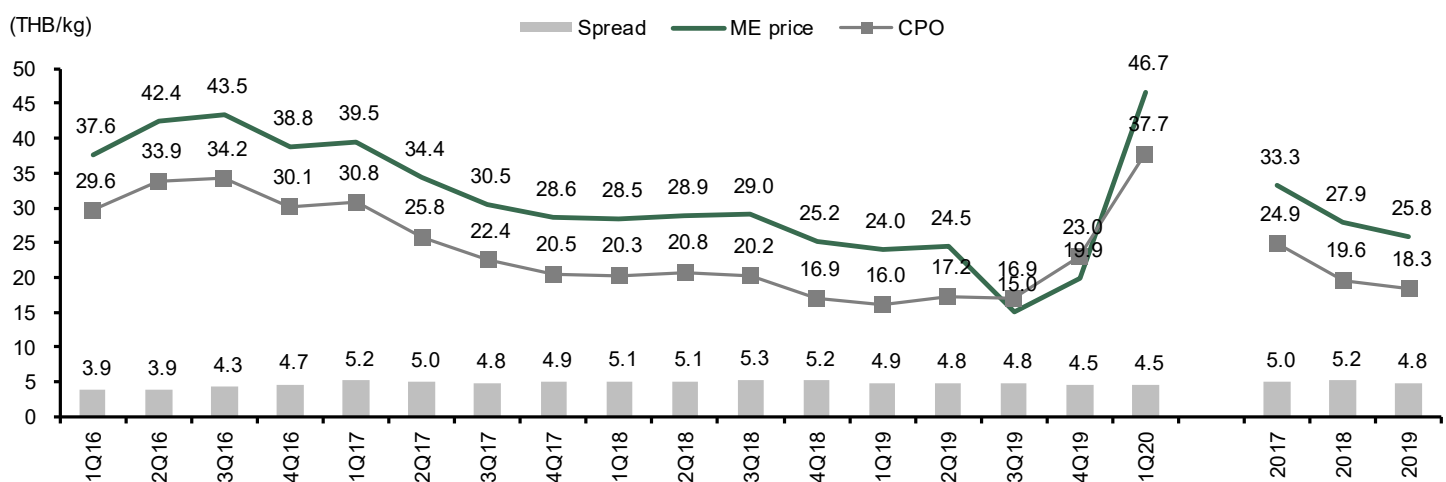
Significant improvement of ME demand-supply balance in Jan-Feb 20.

Following the effective B10 mandate in Jan-Feb 20, Thailand has seen a significant improvement in the demand-supply balance of ME at 5.5mlpd for both demand and production. This has resulted in much higher prices of ME and its CPO feedstock, with prices rising sharply since 4Q19-Feb 20.

However, we project the prices of ME and CPO to normalise starting Mar-20, given the sharp drop in the oil-driven diesel price that led to the declining ME price, and hence its CPO feedstock price.

We project that ME will generate THB0.3b net profit for EA in 2020, up from THB0.1b in 2019, thanks to a higher ME-CPO margin and rising demand from B10.

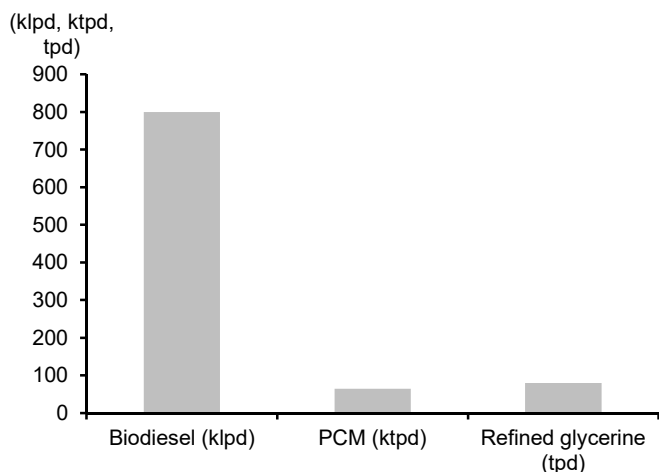
Exhibit 6: ME price and spread vs CPO price



Sources: DIT; GGC; FSSIA estimates

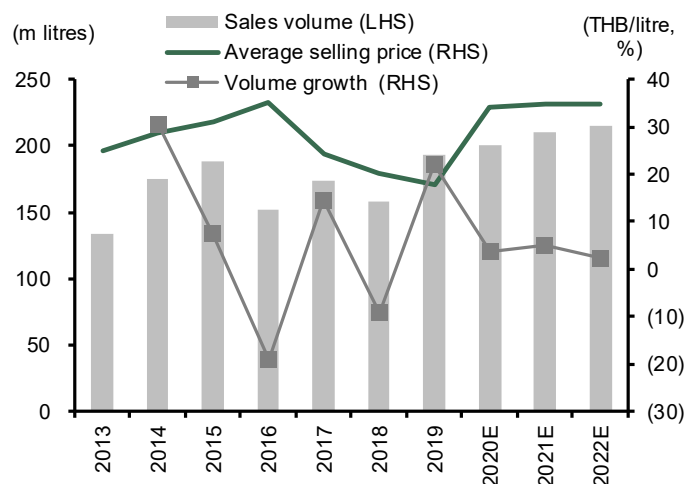
We project that EA will sell 200mlpd of ME in 2020, up 3.6% y-y. Therefore, the rising 3x y-y net profit growth in 2020 would be driven mainly by the widening margin of ME-CPO, which we project to expand from THB0.2/litre in 2019 to THB2.5/litre in 2020.

Exhibit 7: EA's capacity of CPO-based products



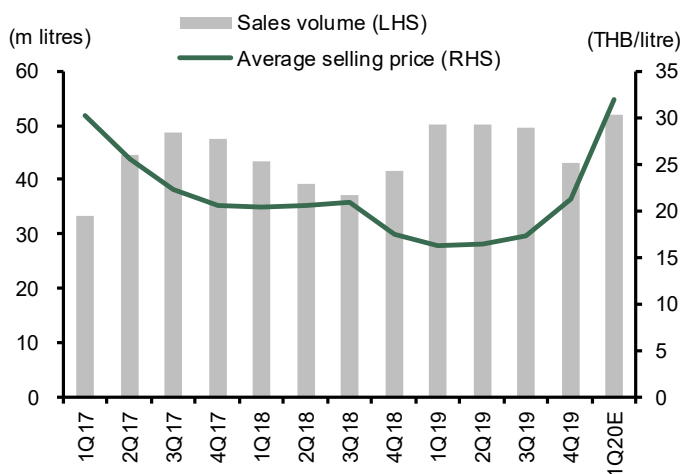
Source: EA

Exhibit 8: ME sales volume, average selling price, and volume growth



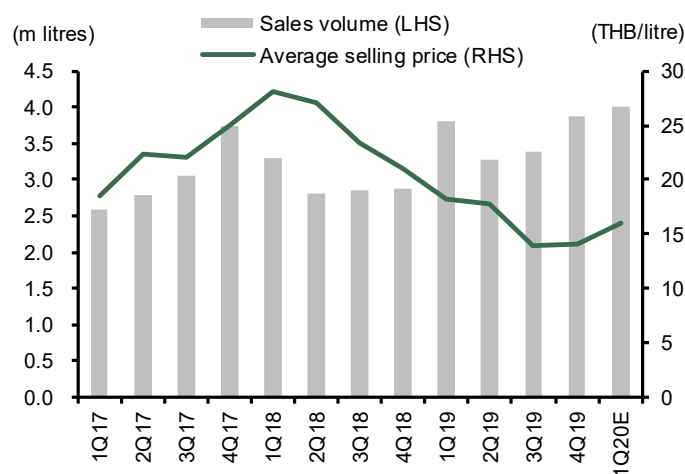
Sources: EA, FSSIA estimates

Exhibit 9: ME sales volume and average selling price



Sources: EA; FSSIA estimates

Exhibit 10: Glycerine sales volume and average selling price

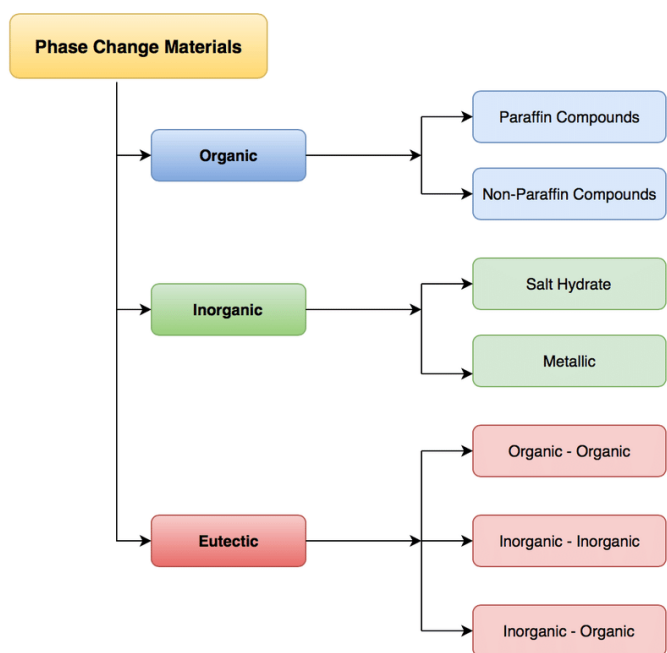


Sources: EA; FSSIA estimates

Emerging new crown jewel. Management advised that EA's 65ktpa PCM plant will COD in Apr, and should deliver the first PCM for its Japanese client in Apr-May. Despite the recent spike in CPO price, EA still projects 40-50% gross margin for its PCM sales volume in 2020, thanks to the high margin of EA's PCM compared to competitors' synthetic paraffin-based PCM. Meanwhile, EA's 0.8mlpd ME plant should see improving net profits in 2020, driven by the higher ME-CPO margin on the B10 mandate and the rising margin of glycerine – a 10% yield by-product from ME production which is blended with alcohol for cleansing gel.

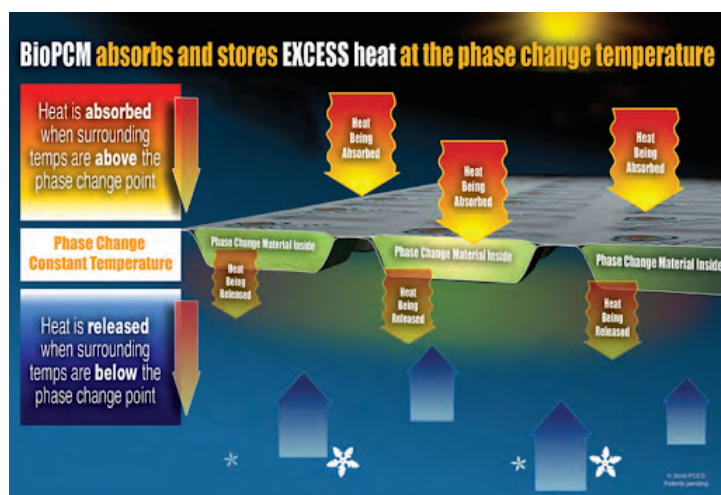
We project that PCM will generate THB0.5-0.7b net profit in 2020, thanks to the projected full utilisation rate of its 65ktpa PCM plant to deliver to its Japanese clients.

Exhibit 11: PCM breakdown by type



Source: Wikipedia

Exhibit 12: PCM functions as a temperature stabiliser



Source: Wikipedia

Softer 1Q20 results due to seasonality

We project EA's 1Q20 net profit to be THB1.66b, down 4.9% q-q, due to seasonally lower operations of its wind and solar farms. However, we believe that EA's net profit growth will accelerate starting in 2Q20, driven by the start-ups of its new S-curve growth projects.

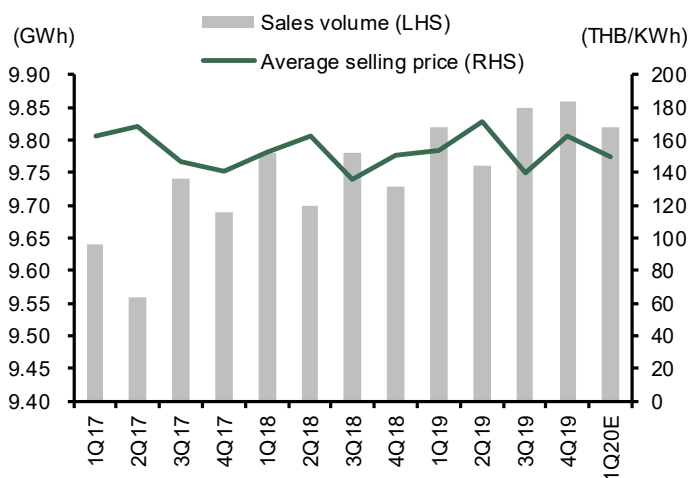
Exhibit 13: 1Q20E/2020E net profit forecasts

	1Q19	4Q19	1Q20E		2019	2020E	Chg.	Comments	
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y %)	(THB m)	(THB m)	(y-y %)	
Revenue	3,086	4,083	4,042	(1.0)	31.0	14,887	23,598	58.5	Lower q-q due to lower revenue from wind farm
Operating costs	(1,194)	(1,322)	(1,323)	0.0	10.8	(4,235)	(9,504)	124.4	Higher q-q due to higher cost from solar farm
EBITDA	1,892	2,761	2,719	(1.5)	43.7	9,706	12,442	28.2	Lower q-q due to lower wind farm income
EBITDA margin (%)	61.3	67.6	67.3	nm	nm	65.2	52.7	(19.1)	
Depn & amort.	(507)	(701)	(702)	0.1	38.5	(2,517)	(2,458)	(2.4)	
EBIT	1,385	2,059	2,017	(2.0)	45.6	7,189	9,984	38.9	
Interest expense	(263)	(400)	(402)	0.5	52.8	(1,386)	(1,631)	17.6	Higher due to funding cost for new wind farm
Interest & invt inc	-	-	-	nm	nm	-	-	nm	
Other income	2	25	28	12.4	1,143.3	68	100	nm	
Associates' contrib	(11)	(2)	(1)	nm	nm	(6)	(5)	(16.7)	
Exceptionals	77	69	20	(70.8)	(73.9)	160	-	nm	
Pretax profit	1,190	1,751	1,662	(5.1)	39.7	6,016	8,453	40.5	Lower q-q due to lower wind farm profit
Tax	8	(0)	(1)	672.3	(112.0)	(19)	(18)	(5.3)	
Tax rate (%)	(0.7)	0.0	0.1	nm	nm	0.3	0.2	(32.6)	
Minority interests	12	(1)	2	(283.7)	(83.7)	55	(311)	(665.7)	
Net profit	1,211	1,750	1,663	(4.9)	37.4	6,082	8,137	33.8	
Core net profit	1,134	1,673	1,643	(1.8)	45.0	6,082	8,137	33.8	
EPS (THB)	0.32	0.47	0.45	(4.9)	37.4	1.63	2.18	33.8	
Core EPS (THB)	0.30	0.45	0.44	(1.8)	45.0	1.63	2.18	33.8	

Sources: EA; FSSIA estimates

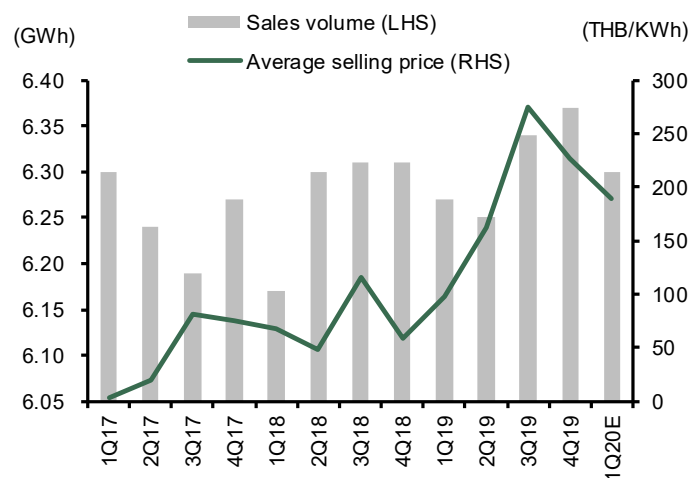
Solar farms are projected to see a 7% q-q lower electricity sales volume to 150GWh due to the rainy season, while the electricity sales volume of EA's two wind farms could decline 18% q-q due to seasonally lower wind speed.

Exhibit 14: Solar farm electricity sales volume and average selling price



Source: EA; FSSIA estimates

Exhibit 15: Wind farm electricity sales volume and average selling price



Source: 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	13.1	n/a	n/a
ROIC (%)	9.5	11.2	12.2	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)	(12,642)	(11,342)	(3,658)
Net acquisitions & disposals	922	(68)	0	0	0
Other investments (net)	(984)	(49)	0	0	0
Cash flow from Investing	(14,263)	(6,418)	(15,100)	(15,000)	(7,316)
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	321	7,646
Cash flow from Financing	1,513	12,035	(2,107)	3,283	(7,074)
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	(7,674)	(1,182)	(86)
Free cash flow to firm (FCFF)	545.96	(6,098.64)	(3,936.23)	(2,721.61)	8,633.65
Free cash flow to equity (FCFE)	1,718.50	5,296.19	(5,435.56)	1,802.26	3,644.48

Per share (THB)					
FCFF per share	0.15	(1.64)	(1.06)	(0.73)	2.31
FCFE per share	0.46	1.42	(1.46)	0.48	0.98
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	74,919	89,919	89,919
Less: Accumulated depreciation	(6,059)	(8,448)	(10,906)	(14,565)	(18,223)
Tangible fixed assets (Net)	47,587	51,371	64,013	75,355	71,696
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	2,355	1,173	1,088
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	8,739	10,740	14,443
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	72,792	85,635	84,185

* 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	126.8	126.5	77.1
Net debt/total assets (%)	40.1	45.5	50.8	51.2	39.2
Current ratio (x)	0.7	2.3	1.2	1.2	1.4
CF interest cover (x)	16.3	8.4	5.4	8.5	5.4

Valuation	2018A	2019A	2020E	2021E	2022E
Recurring P/E (x) *	31.8	20.4	15.2	14.8	9.6
Recurring P/E @ target price (x) *	57.3	36.8	27.5	26.7	17.4
Reported P/E (x)	24.9	20.4	15.2	14.8	9.6
Dividend yield (%)	1.2	1.8	2.4	3.0	4.5
P/CF (x)	21.6	14.4	11.7	10.3	7.5
P/FCF (x)	72.2	23.4	n/a	68.8	34.0
Price/book (x)	6.8	5.3	4.2	3.6	2.8
Price/tangible book (x)	7.2	6.3	4.8	4.0	3.1
EV/EBITDA (x) **	21.6	16.2	13.3	12.3	8.8
EV/EBITDA @ target price (x) **	36.0	26.5	21.3	19.4	14.2
EV/invested capital (x)	3.4	2.7	2.3	2.0	1.9

* Pre exceptional & pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non operating income

Sources: Energy Absolute; FSSIA estimates

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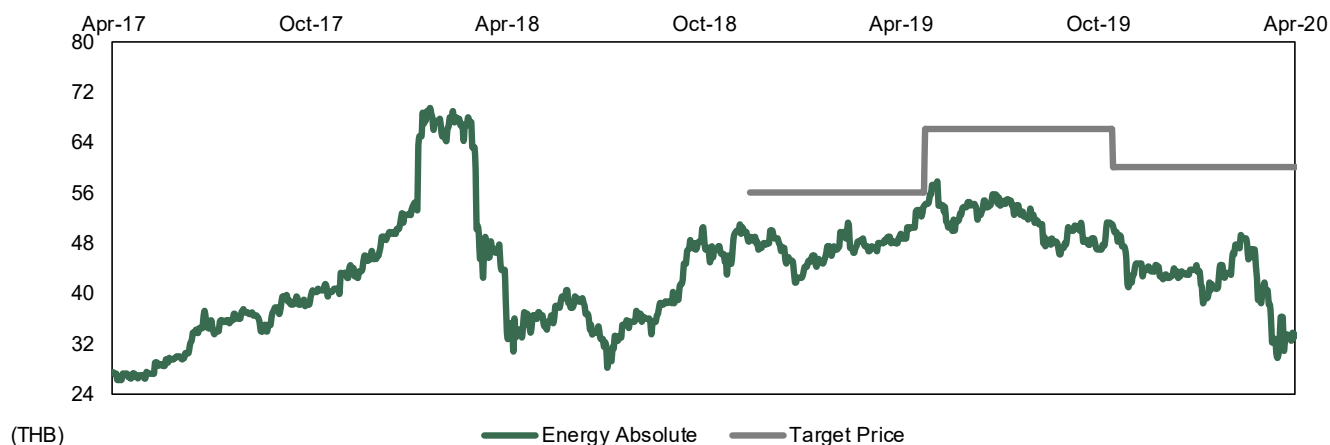
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Energy Absolute (EA TB)



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 33.25	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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