

Is PTT's strategy to become a **multi-industry conglomerate** the right move?



Valuation Master Class

CASE  STUDY
VALUATION MASTER CLASS
by  INVESTMENT
RESEARCH



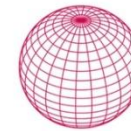
This information is for
learning purposes only.

***This is not
investment advice or a
recommendation.***



Ask
Ajarn
Andrew

Is PTT's strategy to become a multi-industry conglomerate the right move?



VALUATION MASTER CLASS



Sector: Energy 

State-owned Thailand-based giant engaged in petroleum and gas business; ranked among the world's largest 200 companies

My value estimate:

THB48
(Upside 26%)

BUY



3 things to know about this company

- ★ Expansion to other industries as oil business matures
- ★ Natural gas as transition fuel drives PTT's organic growth
- ★ Attractive dividend yield despite rise in invested capital

Key statistics

Analyst consensus (21)

THB50
(Upside 32%)

BUY

PB ratio

1.2x

Dividend yield

2.6%



Sales

Story

FVMR

Value

WCB

Risks

Crude oil 57%



Natural gas 21%



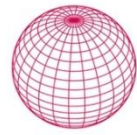
Petrochemicals 17%



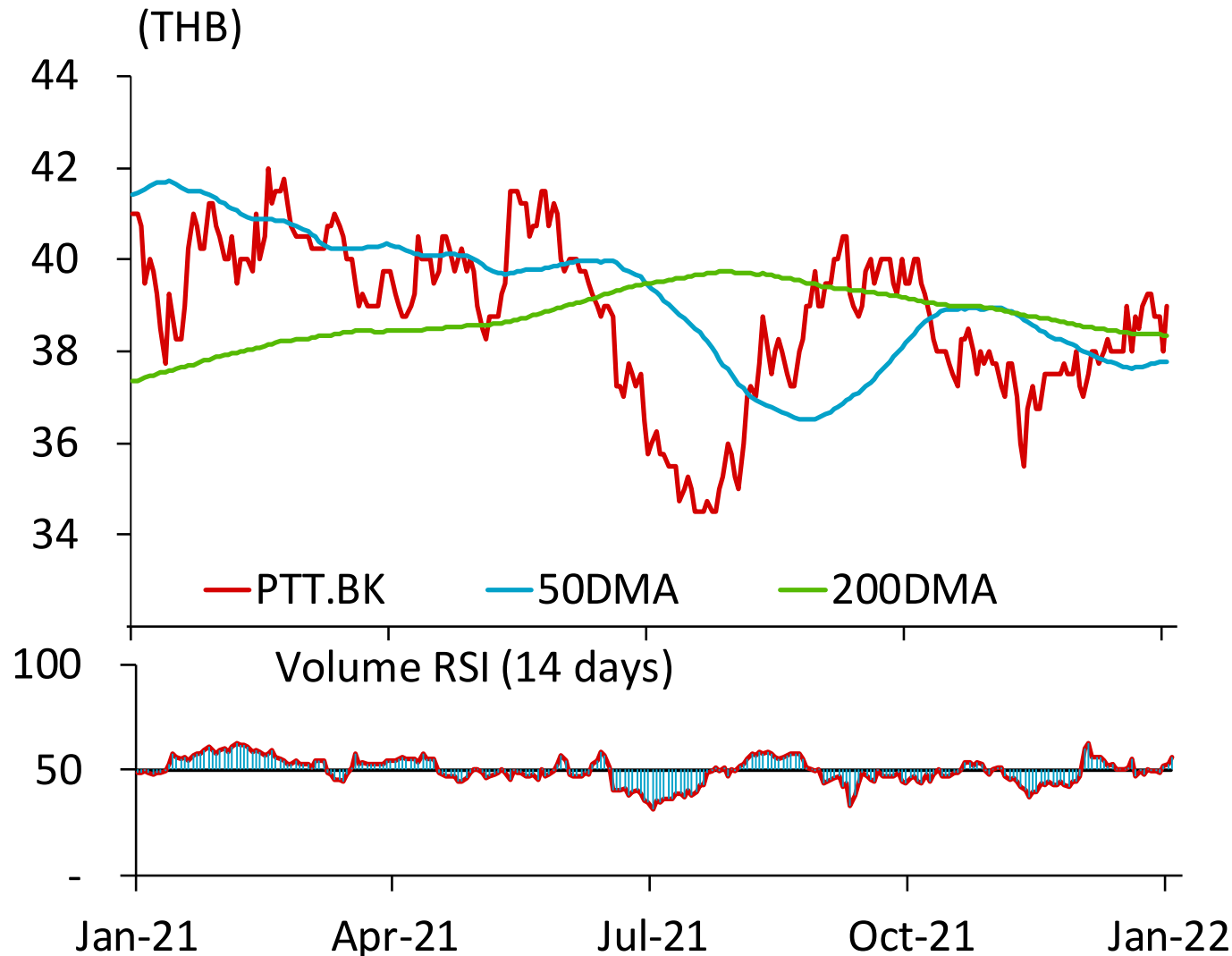
Power & Utilities 7%



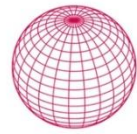
Volatile price, but volume could help to turnaround



VALUATION MASTER CLASS



- ★ Over the past year, the stock price has been highly volatile
 - Most recently, the 50 DMA stayed below the 200 DMA, which is a bearish signal
 - However, both lines moved close together since early this year
- ★ The Volume RSI has stayed slightly above the 50%-line, which is a positive sign



Sales

Story

FVMR

Value

WCB

Risks

- ★ In its new strategic alignment, management aims to tap into further industries to escape growth stagnation
 - This includes pharmaceuticals, nutrition, medical technology, AI, robotics, cloud service provider, infrastructure, batteries for electric vehicles, and many more
- ★ The company will allocate 32% of its future CAPEX budget until 2030 to invest in new industries, mainly through M&A

Selected subsidiaries and LT-investments

AI AND
ROBOTICS
VENTURES**RAiSE**
Robotics & AI Service Enabler**OR****ptt
DIGITAL**

Diversifying business lines sounds great, but is there any downside?

- The advantage of focusing on one single segment is that a company allocates all resources to maximize the return out of that business
- In case of multiple business lines, investors are exposed to industries in which they might not want to invest
 - **Investors can diversify themselves by simply adding stocks of other companies to their portfolio**
 - **This is why conglomerates usually trade at a discount**



Ask
Ajarn
Andrew

Transition from mature to growth company requires high CAPEX



VALUATION MASTER CLASS

Sales

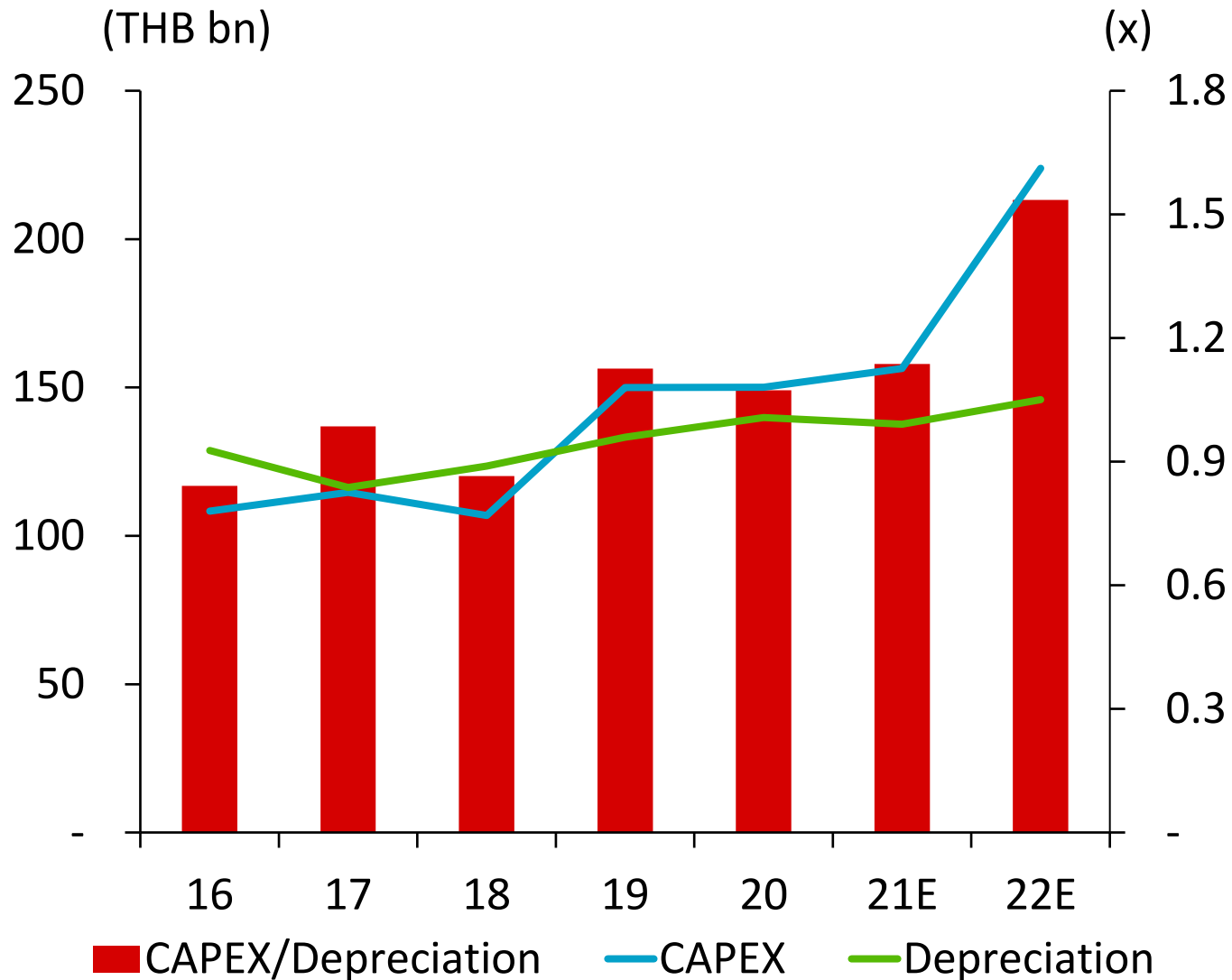
Story

FVMR

Value

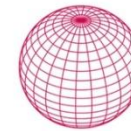
WCB

Risks



- ★ In the context of its aggressive expansion plan, I expect a massive ramp-up of CAPEX
 - Between 2016 and 2018, CAPEX/depreciation was below 1x, highlighting its past maturity status
 - The ratio could grow to 1.5x by 22E, reflecting its attempt to reach high growth again

2 Natural gas as transition fuel drives PTT's organic growth



VALUATION MASTER CLASS

Sales

Story

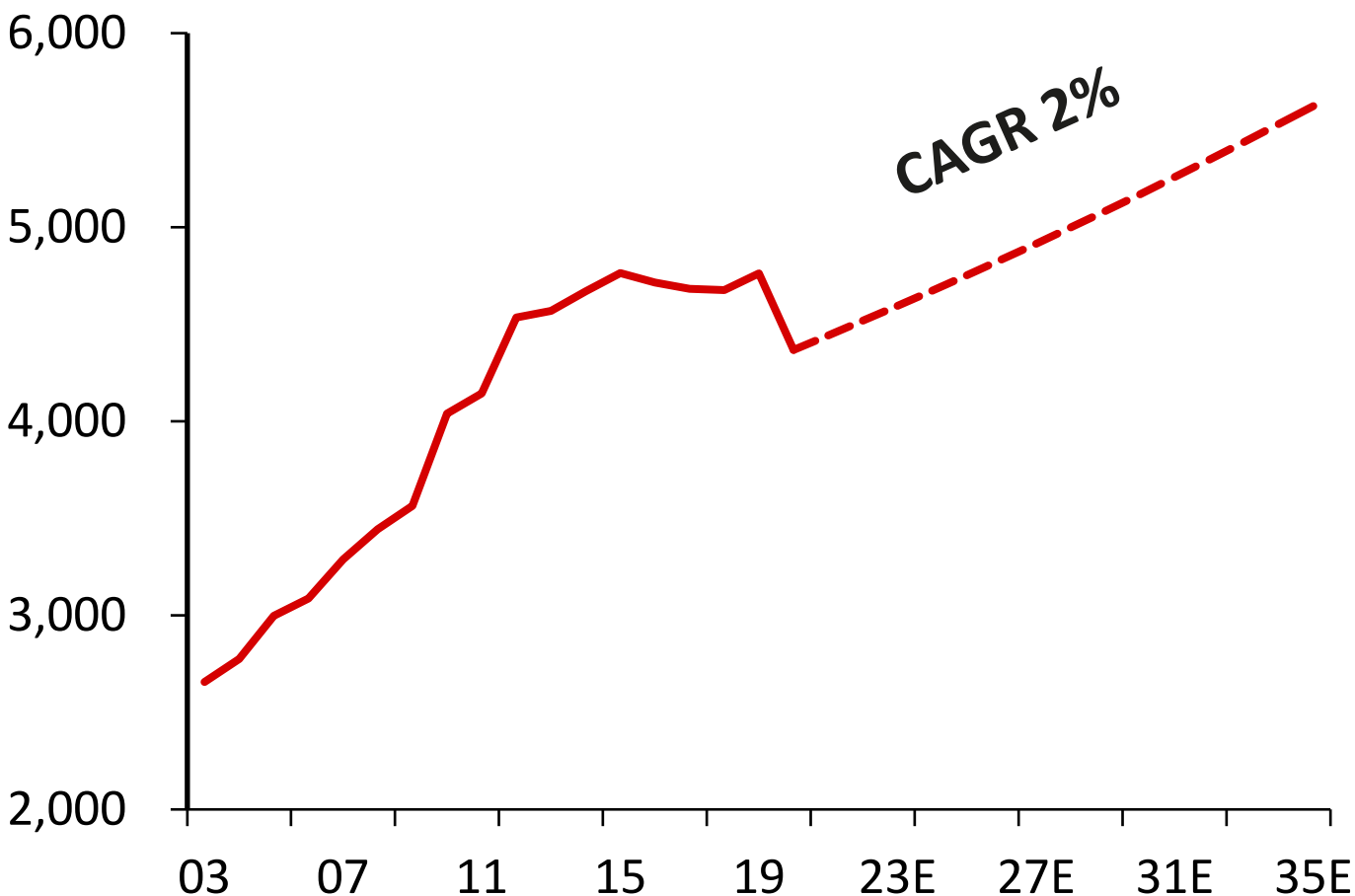
FVMR

Value

WCB

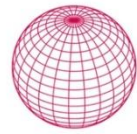
Risks

Thai demand for natural gas, Million standard cubic feet per day (MMscfd)



- ★ PTT continues to expand its natural gas production which already contributed 21% in 2021 (vs. 14% in 2014)
- ★ Natural gas is likely to stay the dominant fuel in Thailand over the medium term
 - Demand for natural gas sees a continuous growth of 2%
 - PTT plans to add a 6th gas pipeline and build a second LNG (liquefied natural gas) terminal during 2022

PTT also aims to become a dominant player in renewable energy



VALUATION MASTER CLASS

Sales

Story

FVMR

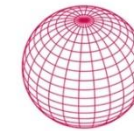
Value

WCB

Risks

- ★ In 2021, PTT entered the renewable energy market with a capacity of 200MW
 - This equals around **1.3% of Thailand's total renewable energy capacity (15,000 MW)**
- ★ The company plans to allocate 15% of its CAPEX budget to expand its existing capacity to 12,000MW by 2030
 - The target might be a bit ambitious
 - Also, I expect the margin from this business to be lower than gas and oil





Sales

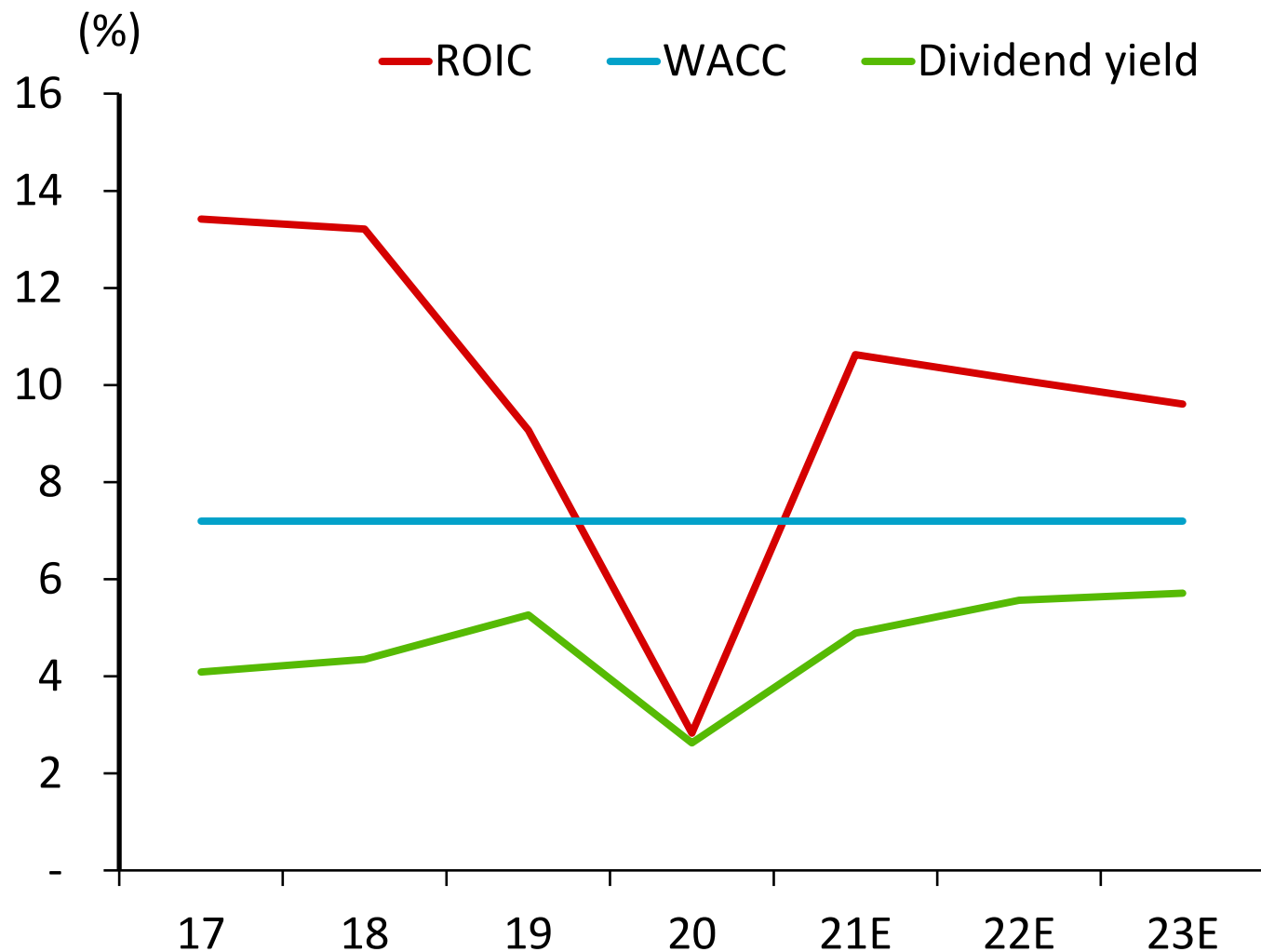
Story

FVMR

Value

WCB

Risks



★ With exception in 2020, PTT was able to create value for its shareholders

- I expect PTT to return to an ROIC of 10% in 21E
- However, ROIC is likely to decline over time, as invested capital heavily increase

★ Dividend yield is attractive and could reach a comfortable 5%+ in 22E



VALUATION MASTER CLASS

Home

Student login

FAQ

Blog

Resources

Testimonials



What Is Going to Happen with Inflation?

By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

[Read More](#)



How to Value a Startup

By Andrew Stotz

This story started when Dan, a podcast listener, replied to my recent weekly email with this question, "How do you value a startup, especially if there is no revenue?"

[Read More](#)



How to Fight Back When Your Dreams Are Crushed

By Andrew Stotz

The trouble you face is not your fault, and I'm gonna show you how you can fight back. I challenge you to recommit to your dreams today!

[Read More](#)

ValuationMasterClass.com



What Does It Mean to Be Financially World Class?



What Is Liabilities To Assets Ratio?



What Is Growth Year Over Year?

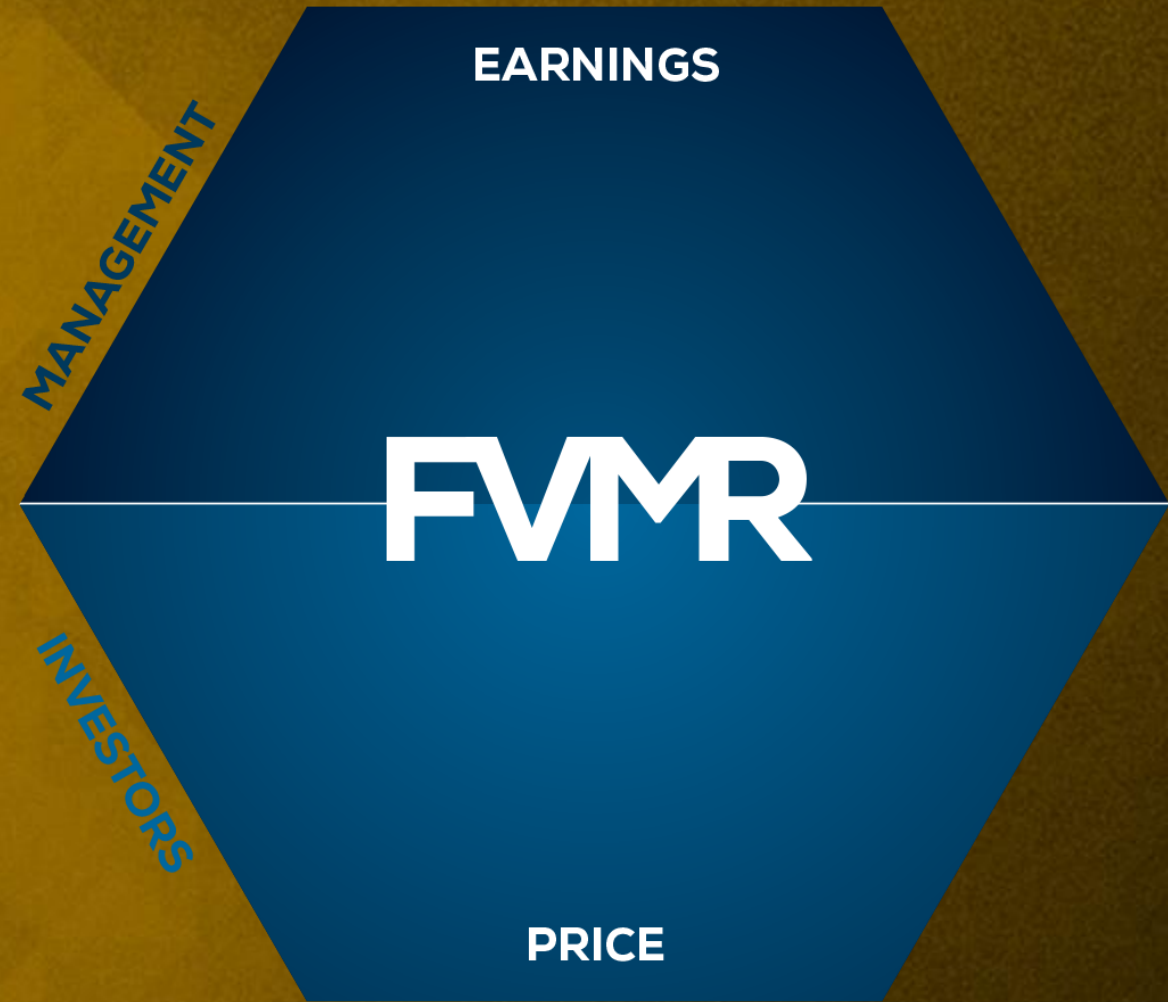
Scan this QR code
to go to the
ValuationMasterClass.com
blog to download all full
Case Study reports for free.

**It's usually up within 24h.*



FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
 - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)



Above average fundamentals; price seems cheap



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

Fundamentals



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Operating profit margin	10.6	9.7	6.9	4.5	10.0
Recurring net margin	6.1	4.8	3.6	2.1	4.5
Asset turnover	89.4	101.9	91.7	64.2	71.5
Return on assets	5.5	4.9	3.3	1.3	3.2
Recurring return on equity	15.4	13.4	9.1	3.8	9.5

Valuation



(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Price-to-sales	0.8	0.6	0.4	0.7	0.5
Price-to-earnings	13.0	12.1	11.0	34.9	11.9
Price-to-book	1.9	1.6	1.0	1.3	1.1
PE-to-EPS growth (PEG)	0.4	nm	nm	nm	0.1
EV/EBIT	9.7	8.2	10.1	25.2	7.0

Momentum



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Revenue growth	16.1	17.1	(5.0)	(27.2)	11.8
Recurring EPS growth	36.5	(7.0)	(29.6)	(57.9)	125.5
Operating profit margin chg. (bps)	76	(92)	(278)	(241)	537
	6mth	3mth	1mth	3wk	1wk
Price change	(10.9)	(3.9)	(2.0)	(2.0)	(0.7)

Risk

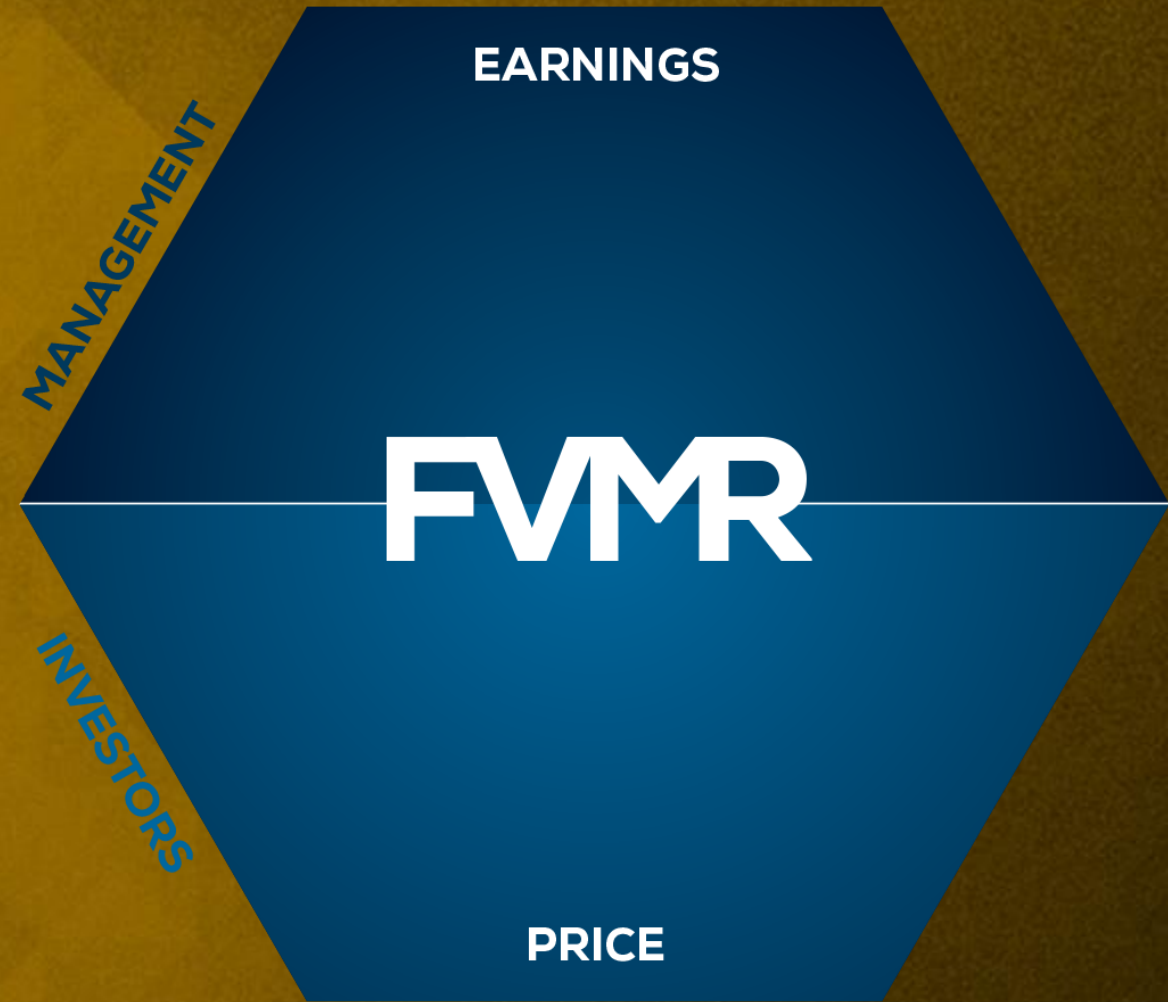


(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Current ratio	2.2	2.1	1.9	2.4	2.0
Net debt-to-equity (%)	68.9	63.3	84.9	88.6	41.6
Times-interest-earned	7.7	8.2	5.2	2.3	nm
	5yr	3yr	1yr	6mth	3mth
Beta	1.3	1.2	1.1	1.2	1.0

Note: Benchmarking against 460 non-financial companies in Thailand.

Recently, I created a short
online course explaining my
FVMR investing approach

I usually sell it
for \$97 but for
a limited time
I am offering
it for FREE



A person wearing a dark, possibly black, robe is shown from the chest down, holding a large, smooth, white sphere. The sphere is positioned in the center of the frame. The word "Forecast" is written in a bold, black, sans-serif font across the middle of the sphere. The person's hands are visible, with fingers spread, holding the sphere from the sides. The background is dark and out of focus.

Forecast

Analysts are optimistic about the company's new strategy



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	5	5	5	5
Buy	13	14	13	14
Hold	1	2	2	2
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	1.8	1.9	1.9	1.9
Price target	Oct-21	Nov-21	Dec-21	Current
Median	49	50	50	50
Mean	49	50	51	50

21
analysts



Downside: 32%

Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	(5.0)	(27.2)	38.0	4.9	5.5
Gross margin	12.7	10.6	9.6	16.3	16.1	15.9
EBIT margin	9.7	6.9	4.5	9.7	9.5	9.0
Net margin	5.1	4.2	2.3	4.9	4.9	4.8

- ★ Analysts' consensus is bullish with 90% of analysts issuing a BUY recommendation
 - Only 2 analysts recommend **HOLD**
- ★ Consensus expects strong revenue prospects over the next 3 years
- ★ Also, operating margin should return to pre-pandemic levels

Profit & loss statement



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, Bt m)	2019A	2020A	2021E	2022E
Revenue	2,219,739	1,615,665	2,221,539	2,332,616
Cost of goods & services	(1,984,841)	(1,459,996)	(1,877,200)	(1,978,058)
Gross profit	234,897	155,668	344,339	354,558
SG&A	(92,576)	(95,991)	(133,292)	(139,957)
Other operating (exp)/inc	11,860	13,500	9,450	9,544
EBIT	154,181	73,177	220,496	224,145
Interest expense (net)	(18,521)	(23,960)	(25,701)	(27,512)
Other non-operating inc/(exp)	(1,626)	11,578	-	-
Earnings before taxes (EBT)	134,034	60,795	194,795	196,633
Income tax	(32,989)	(25,166)	(45,961)	(46,694)
Earnings after taxes (EAT)	101,045	35,628	148,834	149,939
Equity income/Minority interest	(23,133)	1,994	(28,227)	(26,609)
Earnings from cont. operations	77,912	37,622	120,607	123,330
Forex/Exceptionals before tax	15,038	144	(10,951)	(9,856)
Net profit	92,951	37,766	109,656	113,474

★ Strong bottom-line mainly driven by heightened demand



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, Bt m)	2019A	2020A	2021E	2022E
Cash & short-term investments	335,770	418,137	469,595	441,050
Accounts receivable	203,150	153,480	197,470	207,344
Inventories	152,126	129,779	182,506	186,817
Other current assets	26,053	19,534	24,437	25,659
Total current assets	717,099	720,930	874,007	860,869
Long-term investments	105,226	106,686	153,756	157,293
Net fixed assets	1,390,497	1,458,519	1,577,460	1,700,655
Intangible assets	79,968	68,473	68,345	68,211
Goodwill	107,197	106,994	106,994	106,994
Other long-term assets	86,978	82,580	83,406	84,240
Total assets	2,486,965	2,544,183	2,863,968	2,978,262

★ PTT is a capital-intensive business, with more than 57% of total assets being net fixed assets

- The global average is around 33%

Balance sheet - liabilities



VALUATION MASTER CLASS

Sales

Story

FVMR

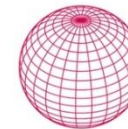
Value

WCB

Risks

(YE Dec, Bt m)	2019A	2020A	2021E	2022E
Overdrafts & short-term loans	96,223	85,654	90,997	92,817
Accounts payable	158,302	111,130	156,433	153,849
Other current liabilities	125,261	101,243	139,957	146,955
Total current liabilities	379,785	298,026	387,388	393,621
Long-term debt	562,746	709,849	818,975	835,355
Other long-term liabilities	243,394	250,462	280,518	283,323
Total liabilities	1,185,925	1,258,338	1,486,880	1,512,298
Minority interest	422,436	403,805	438,433	474,267
Paid-up capital - Common shares	57,774	57,774	57,774	57,774
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	836,350	841,254	897,869	950,911
Revaluation/Forex/Others	(15,521)	(16,988)	(16,988)	(16,988)
Total equity	878,604	882,040	938,655	991,697
Total liab & shareholders' equity	2,486,965	2,544,183	2,863,968	2,978,262

- ★ Its aggressive expansion plan requires the issuance of further capital, likely debt
 - Being state-owned, I don't expect PTT to struggle raising capital



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec)	2019A	2020A	2021E	2022E
General growth (YoY, %)				
Revenue	(5.0)	(27.2)	37.5	5.0
Assets	5.7	2.3	12.6	4.0
Gross profit	(20.8)	(33.7)	121.2	3.0
Operating profit	(31.9)	(52.5)	201.3	1.7
Attributable profit	(22.3)	(59.4)	190.4	3.5
EPS	(22.3)	(59.4)	190.4	3.5
Recurring EPS	(31.0)	(52.9)	214.1	2.5
Du Pont analysis (%)				
Net profit margin	4.2	2.3	4.9	4.9
Revenue per Bt100 of assets	91.7	64.2	82.2	79.9
Assets/equity (x)	2.8	2.9	3.0	3.0
Return on equity	10.6	4.3	12.0	11.8
Others (%)				
Effective tax rate	22.1	41.3	25.0	25.0
Dividend payout ratio	71.7	76.3	45.0	50.1

- ★ Given its capital-intensive nature, efficiency is likely to stay below 100%



Sales

Story

FVMR

Value

WCB

Risks

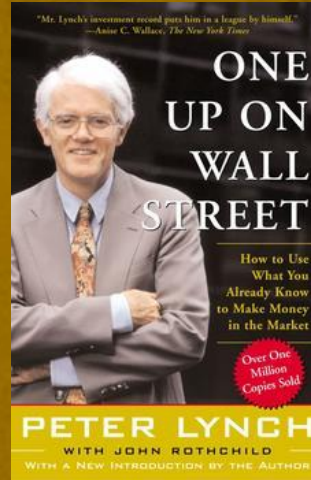
(YE Dec)	2019A	2020A	2021E	2022E
Internal liquidity (x)				
Current ratio	1.9	2.4	2.3	2.2
Quick, or acid test ratio	1.5	2.0	1.8	1.7
Working cap. mgmt (Days)				
Inventory conversion period	28	35	30	34
Receivables collection period	35	40	28	31
Days from raw mat to coll	63	74	58	65
Payables deferral period	29	33	26	28
Cash conversion cycle	34	41	33	37
Profitability ratios (%)				
Gross profit margin	10.6	9.6	15.5	15.2
EBIT margin	6.9	4.5	9.9	9.6
EBIT return on avg assets	6.4	2.9	8.2	7.7
Return on average assets	3.8	1.5	4.1	3.9
Financial risk (x)				
Liabilities-to-assets (%)	47.7	49.5	51.9	50.8
Debt-to-equity	0.8	0.9	1.0	0.9
Net debt-to-equity	0.4	0.4	0.5	0.5
Times-interest-earned	10.9	7.6	12.7	12.2
Effective interest rate (%)	4.4	3.8	3.3	3.3

★ Gross margin in 21E and 22E on a record level, but it might be difficult to maintain a gross margin above 15% over time



Valuation

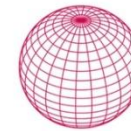
A. Stotz Investment Research Stock Picking Checklist



- ★ Inspired by Peter Lynch's ten baggers (A stock that has gone up 10x)
- ★ Based on our extensive research
- ★ 9 factors that drive long-term share price performance



Long-term share price performance potential



VALUATION MASTER CLASS

Sales

Story

FVMR

WCB

Ratios

Value

Risks

A. Stotz Investment Research Stock Picking Checklist

Potential

Comment

Good / Moderate / Weak

1. Management – Management has a proven commitment to growth

Good

Management aims to expand in further industries to escape growth stagnation

2. Growth – Product and industry can support a decade of 10%+ annual growth

Moderate

Top-line growth over time likely to normalize to an annual 3-6% after 22E

3. Sustainable – Competitive strategy creates sustainably high gross margin

Weak

Gross margin is with 15-16% already at peak; currently no catalyst for further improvement

4. Quality – Good earnings quality, non-core items are small or non-existent

Weak

Earnings fluctuate quite a lot given the industry's volatile nature

5. Efficiency – In the long run sales grow faster than assets

Weak

High CAPEX required to generate further growth; efficiency likely to stay below 100%

6. Tight – Relatively low cash conversion cycle, negative is best

Moderate

Cash conversion is moderately high and stood at 41 days in 2020

7. Cash flow – Operating cash flow is consistently positive

Good

PTT generates high operating cash flow and has no trouble to cover high investing outflows

8. Capacity – Company has access to capital to fund growth

Good

Being state-owned and the largest Thai company helps to get access to further capital

9. Inexpensive – Valuation is reasonable, avoid very expensive stocks

Good

Cheap on both 22E PE and PB compared to Thai Energy companies, in line with ROE



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, Bt m)	2019A	2020A	2021E	2022E
EBIT	154,181.0	73,177.0	220,495.9	224,144.8
<i>Est tax rate (%)</i>	<i>22.1</i>	<i>41.3</i>	<i>25.0</i>	<i>25.0</i>
NOPAT	120,061.6	42,956.2	165,371.9	168,108.6
Add: Depre & amort	133,204.2	139,879.6	137,615.4	145,852.1
Less: CAPEX	(147,107.0)	(146,477.2)	(151,309.5)	(218,537.6)
Chg in A/R	30,591.3	49,669.3	(43,989.7)	(9,873.5)
Chg in inventory	2,025.4	22,347.0	(52,726.5)	(4,311.0)
Chg in oth curr assets	9,501.0	6,518.7	(4,902.9)	(1,221.8)
Chg in A/P	(2,021.2)	(47,172.0)	45,303.4	(2,584.4)
Chg in oth curr liabs	(34,094.9)	(24,017.9)	38,714.3	6,997.8
Less: Chg in working cap	6,001.6	7,345.2	(17,601.3)	(10,992.9)
Less: Chg in invest cap				
Free cash flow to firm	112,160.4	43,703.8	134,076.6	84,430.2

- ★ I expect rising CAPEX in line with its strategy to realize further growth by investing in other industries



Sales

Story

FVMR

Value

WCB

Risks

Forecast assumptions			
	3-year average	Consensus	My assumptions
Revenue growth (CAGR)		15.2	14.9
Gross margin		16.1	15.5
EBIT margin		9.4	9.6
Net margin		4.9	4.9

My valuation method		
Market: Thailand		
Market risk-free rate		2.5
Market equity risk premium		7.0
Market return		9.5
Company beta (x)		1.3
COE		11.3
Valuation Method: FCFF		
WACC		7.2
Terminal growth rate		4.0

- ★ My revenue and margin forecast is roughly in line with analyst's consensus
- ★ Engaging in new industry lines and M&A could justify a terminal growth rate of 4%



Sales

Story

FVMR

WCB

Ratios

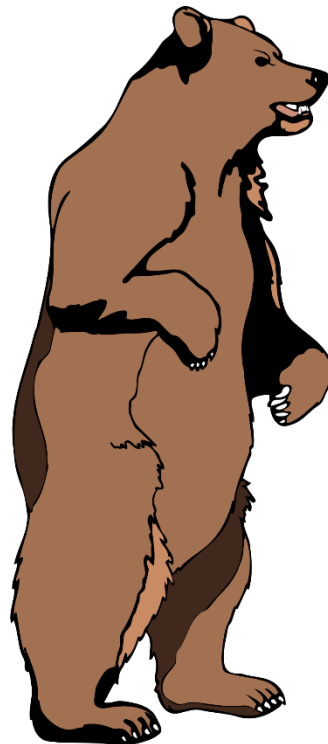
Value

Risks

Bear

THB44

(Upside 16%)



Base

THB48

(Upside 26%)



Bull

THB53

(Upside 39%)

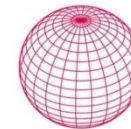


World Class Benchmarking Scorecard

- ★ We identify a company's competitive position relative to global peers
- ★ We use a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)



Both profitability and growth are rather average



Sales

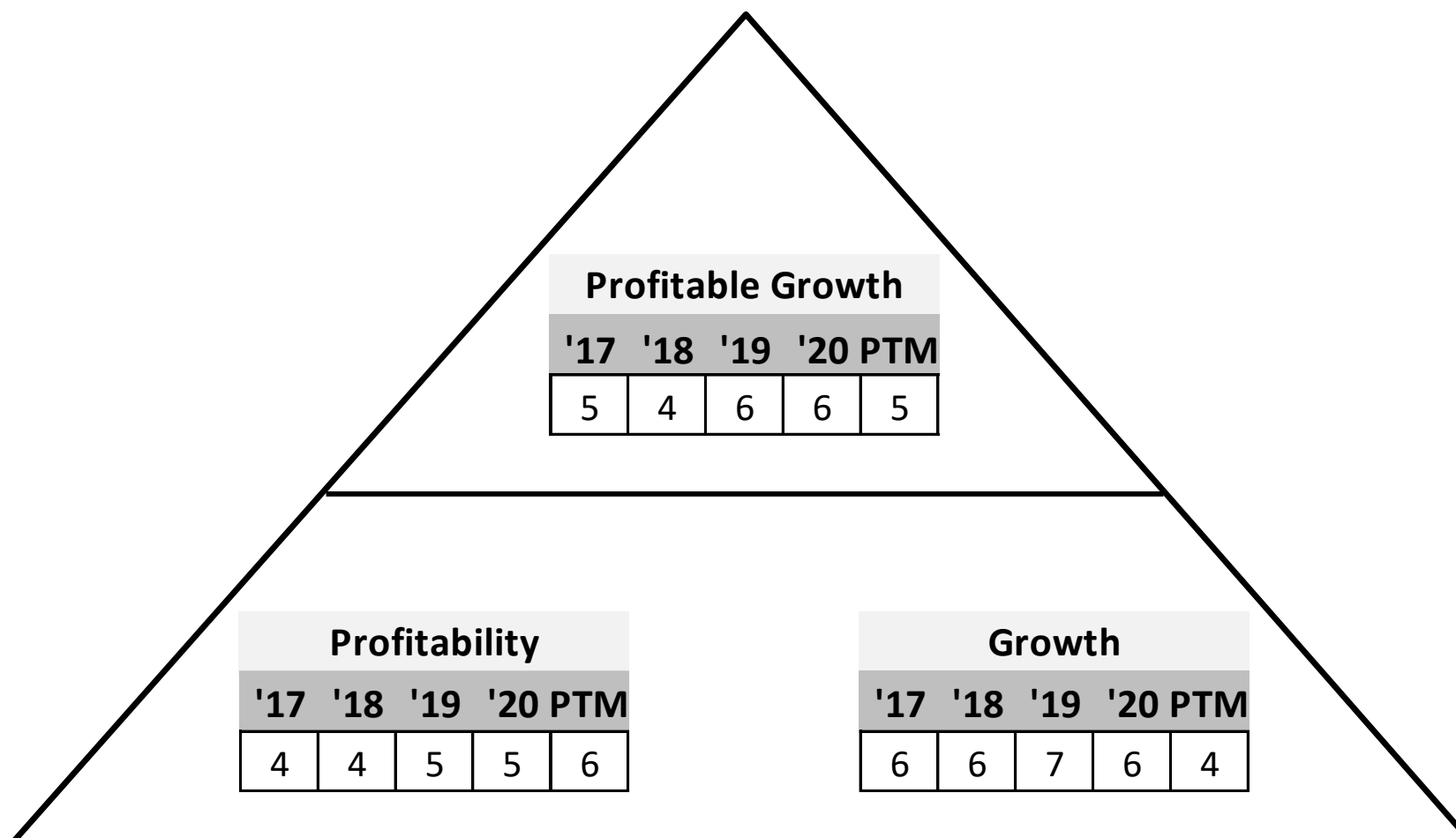
Story

FVMR

Value

WCB

Risks



Benchmarked against 310 large Energy companies worldwide.



Sales

Story

FVMR

Value

WCB

Risks

- ★ Depleting gas reserves in questions longevity of its gas business
- ★ Engaging in new industries might be a risky move (e.g. overpaying acquisitions; inefficiency in integration)
- ★ Volatile commodity prices could pressure margin

CONCLUSION

- Growing gas business and renewables drive organic growth
- PTT's expansion to other industries could be still value accretive
- Attractive dividend yields despite growing CAPEX requirements



Is PTT's strategy
to become a
**multi-industry
conglomerate** the
right move?

