

5 OCTOBER 2021

Thailand Energy – Oil stations

Return of the price cap and subsidy for biodiesel

Price subsidy for biodiesel reintroduced

On 4 Oct-21, the energy minister, Mr. Supattanaphong Punmeechow, head of the Energy Planning and Policy Office (EPPO), announced that the government will reduce the prices of biodiesel B7 and B10, currently used by over 10m vehicles nationwide, via three policies, including 1) cutting the marketing margin (MM) for retail oil station operators from THB1.8/litre to THB1.4/litre, effective 5-31 Oct-21; 2) reducing the oil fund for B7 from THB1/litre to THB0.01/litre, effective 11-31 Oct-21; and 3) changing the biodiesel mix from the current B10 and B7 to B6 (6% ethanol plus 94% diesel), effective 11-31 Oct-21.

THB30/litre price cap for B6

With these policies being enforced starting on the 5th and 11th of Oct-21, there will only be one type of biodiesel, B6 (containing 6% biodiesel), available at oil stations from 11-31 Oct-21. The estimated retail price of B6 will be THB28.26/litre, according to the EPPO, and if the crude oil price rises further, the government will deploy its oil fund to provide subsidies of THB3b monthly. As of end-Sep-21, the oil fund stands at a surplus of THB11b, and hence should be sufficient to allow the government to achieve the THB30/litre price cap for B6.

Financial impact from the price cap for 21 days

We estimate that PTG should see the highest net loss in percentage terms from the government's subsidy policy for 21 days (11-31 Oct-21 inclusive) at THB63m, accounting for 11% of PTG's quarterly net profit that we estimate at THB0.5b. We expect OR to see the largest net loss in monetary terms at THB114m. The projected impact would be insignificant to OR at only 3% of its quarterly net profit that we estimate at THB0.2b. Other companies should feel an even more limited pinch from the government's subsidy policy as they sell more gasoline and premium gasohol products than PTG and OR. Our assumptions include 1) a THB0.2/litre average MM loss; 2) a 21-day subsidy period; and 3) the diesel sales volume will account for 2/3 of Thailand's total sales volume of 6.24b litres as of 2Q21. However, we think the downsides could be lower than what we project, as we estimate that in 3Q21 the country's sales volumes could decline by 5-15% q-q for each operator due to the lockdowns in Jul-Aug, and the lockdown easing has just occurred in late Sep-21.

OR and ESSO are our top picks; PTG could lose the most on the diesel price cap

OR and ESSO are our top picks in Thailand's downstream oil station sector, as we project that they will suffer lower net losses from the government's biodiesel subsidy policy. OR's losses should be more than offset by the higher net profits from its non-oil businesses, in our view. PTG should see a higher impact from the price cap policy as biodiesel makes up its largest product portion at over 75% of its total oil sales volume, based on our estimate.



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Return of the price cap and subsidy for biodiesel

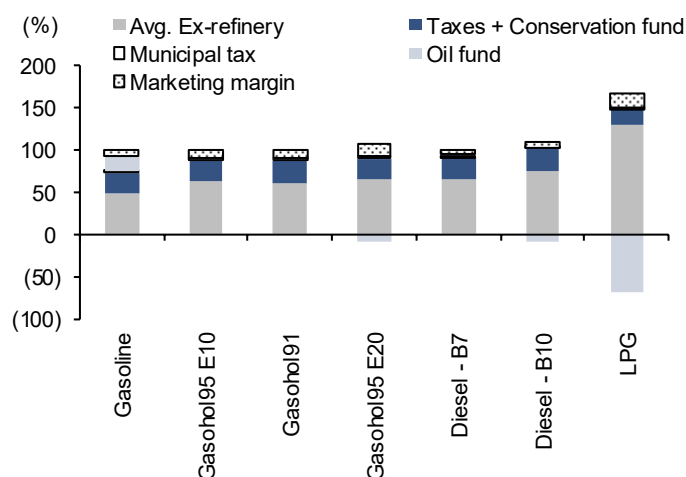
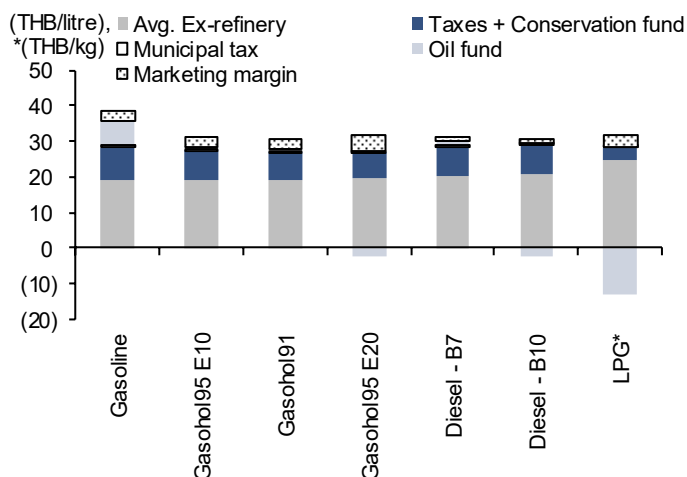
On 4 October 2021, the energy minister, Mr. Supattanaphong Punmeechow, head of the EPPO, announced that the government will reduce the prices of biodiesel B7 and B10, currently used by over 10m vehicles nationwide, via three policies, including:

- 1) Cutting the MM for retail oil station operators from THB1.8/litre to THB1.4/litre, effective 5-31 October 2021;
- 2) Reducing the oil fund for B7 from THB1/litre to THB0.01/litre, effective 11-31 October 2021;
- 3) Changing the biodiesel mix from the current B10 and B7 to B6 (6% ethanol plus 94% diesel), effective 11-31 October 2021.

Of the three government policies announced, we think the MM cut would have the largest impact on the oil station players. As of 4 October 2021, the price of diesel was slightly above the THB30/litre threshold that the Thai government wants to maintain in order to help alleviate the energy cost of living, as diesel is Thailand’s major fuel for transportation.

Exhibit 1: Retail oil price structure breakdown

Exhibit 2: Retail oil price structure breakdown (%)



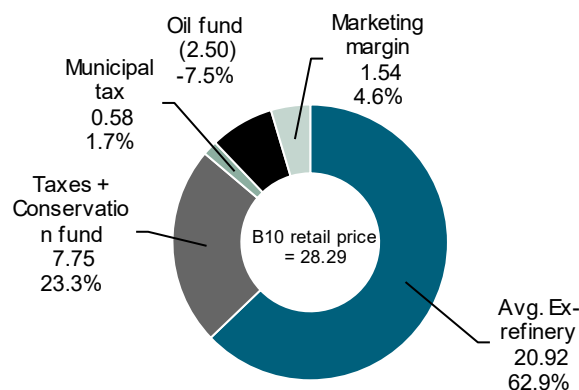
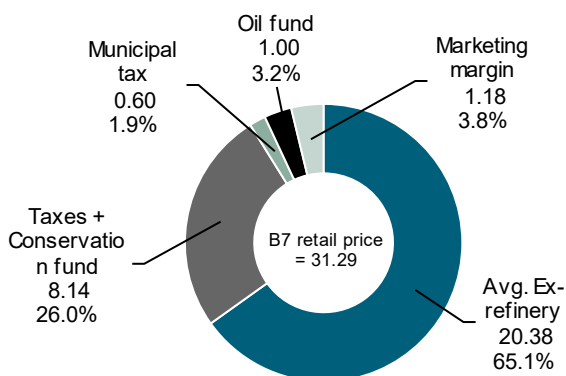
Prices as of 4 Oct 2021
Source: EPPO

Prices as of 4 Oct 2021
Source: EPPO

As of 4 October 2021, the retail B7 and B10 prices in Thailand were at THB31.29/litre and THB28.29/litre, respectively. The B7 retail price has surpassed the government’s THB30/litre policy threshold, triggering the government’s announcement of its three-subsidy policy.

Exhibit 3: B7 retail price breakdown (THB31.29/litre)

Exhibit 4: B10 retail price breakdown (THB28.29/litre)



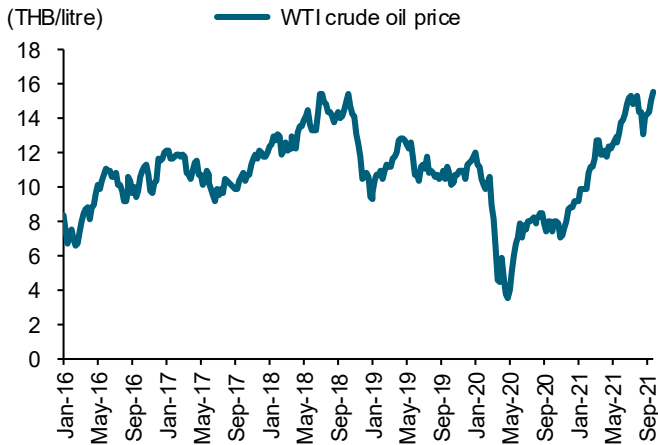
Prices as of 4 Oct 2021
Source: EPPO

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Source: EPPO

Crude oil price uptrend vs biodiesel prices in Thailand

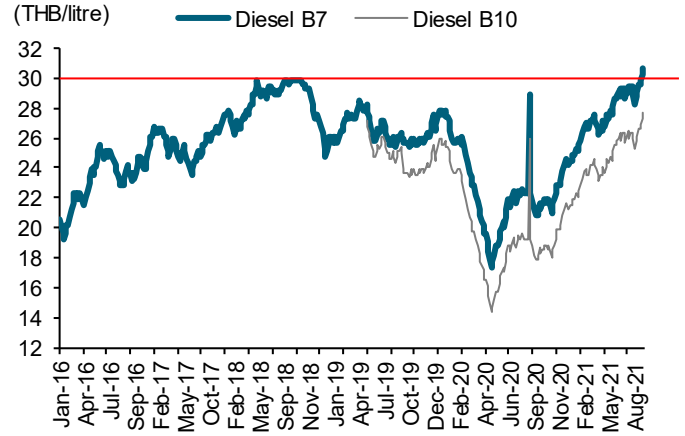
The crude oil price has risen significantly since its bottom in May-20, jumping to over THB15/litre in Oct-21 and driving up the biodiesel price for B7 to surpass THB30/litre. However, the price of B10 has remained below THB30/litre threshold, but the government would like to ensure that the biodiesel price will not exceed THB30/litre, leading to the three policies announced.

Exhibit 5: WTI crude price



Source: Bloomberg

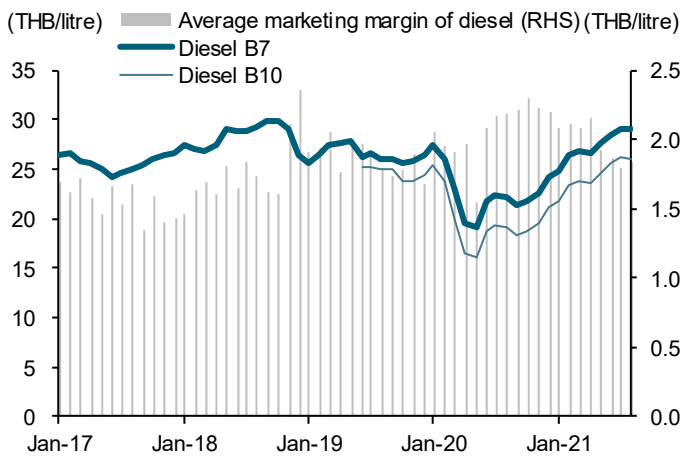
Exhibit 6: Diesel crude price



Source: PTT

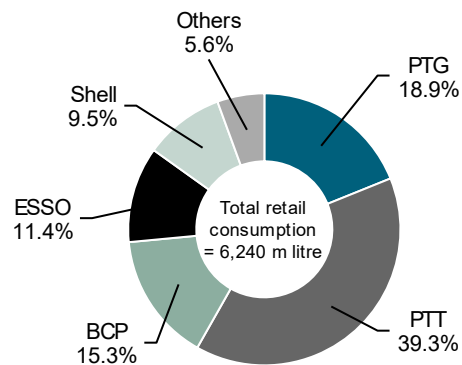
As of 2Q21, the demand for biodiesel and gasohol combined was 6.24b litres, comprising around 2/3 of the demand, or 4.2b litres for biodiesel and 2.04b litres for gasohol (gasoline plus ethanol). OR (PTT (PTT TB, BUY, TP THB60)'s brand) has the highest market share at 39.3%, followed by PTG (18.9%), BCP (15.3%), ESSO (11.4%), Shell (9.5%), and others (5.6%).

Exhibit 7: Average marketing margin of diesel by EPPO vs diesel price – B7 and B10



Source: EPPO

Exhibit 8: Retail consumption breakdown as of 2Q21

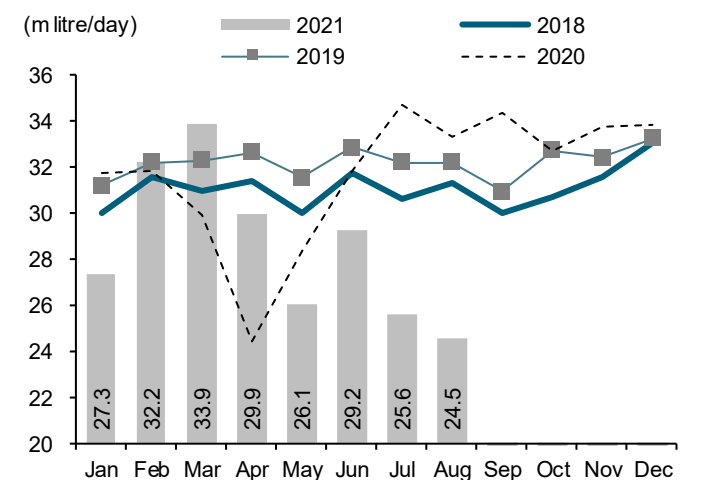


Source: PTG

Potential impact on oil station operators

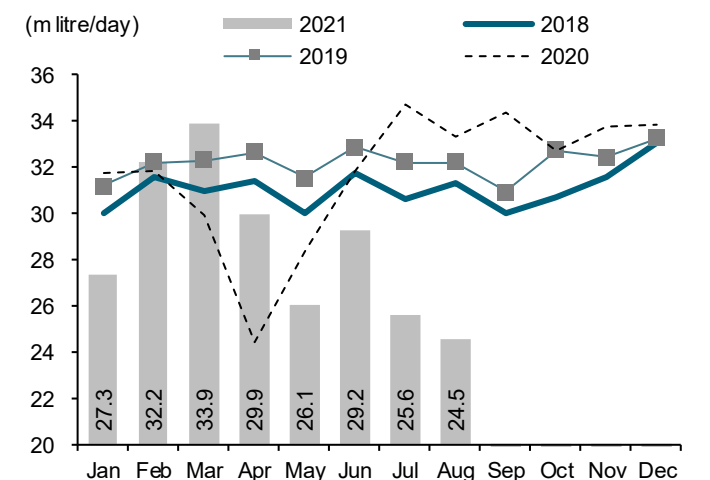
Due to the tight lockdown in Jul-Aug 2021, Thailand saw a sharp drop in the demand for gasoline, diesel, and LPG in Jul-Aug after the sharp demand rebound in Feb-Mar 2021 when the Thai government reopened economic activities.

Exhibit 9: Consumption in Thailand – gasoline



Source: Department of Energy Business, Ministry of Energy (DOEB)

Exhibit 10: Consumption in Thailand – diesel



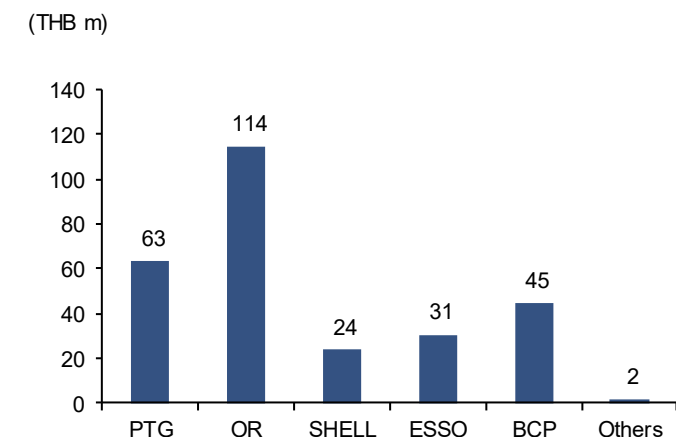
Source: DOEB

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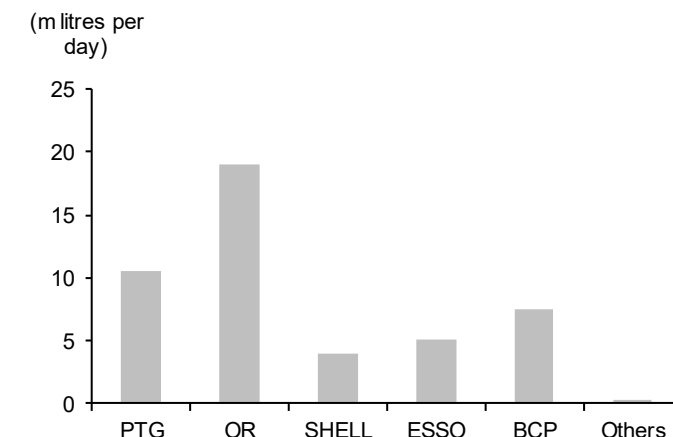
However, we think the downsides could be lower than what we project, as we estimate that in 3Q21 the country's sales volumes could decline by 5-15% q-q for each operator due to the lockdowns in Jul-Aug, and the lockdown easing has just occurred in late Sep-21.

Exhibit 11: Estimated net loss for a THB0.2/litre lower marketing margin for 21 subsidy days



Sources: Companies; FSSIA estimates

Exhibit 12: Estimated net biodiesel sales volume loss for 21 subsidy days

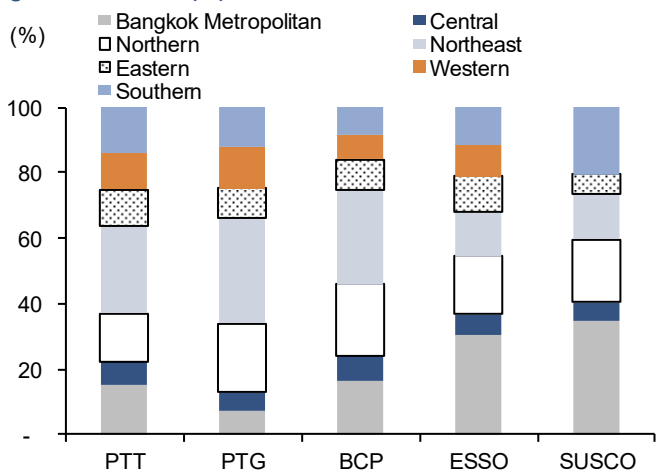


Sources: Companies; FSSIA estimates

Potential impact from flooding on oil station operators

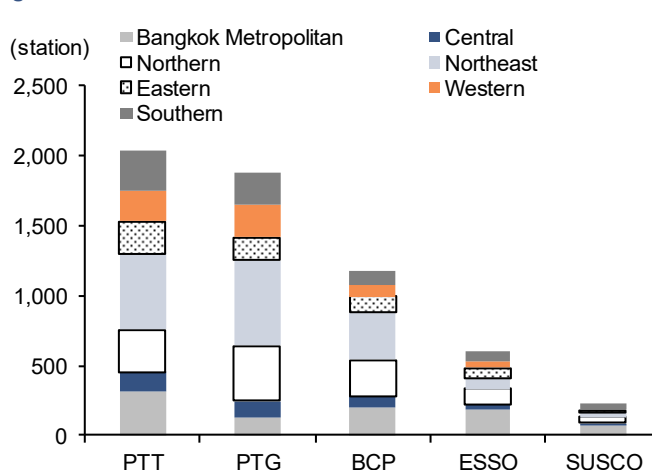
On top of the price subsidy announced, we think that oil station operators will also face a demand downside from the recent flooding. However, the impact should be limited to less than 2% for ESSO and SUSCO, 2-3% for BCP and OR, and 5% for PTG, given that most of ESSO's and SUSCO's oil stations are located in Bangkok and its vicinity where the flooding remains at bay as of 4 October 2021.

Exhibit 13: Major oil station operators – breakdown by region as of 2020 (%)



Source: DOEB

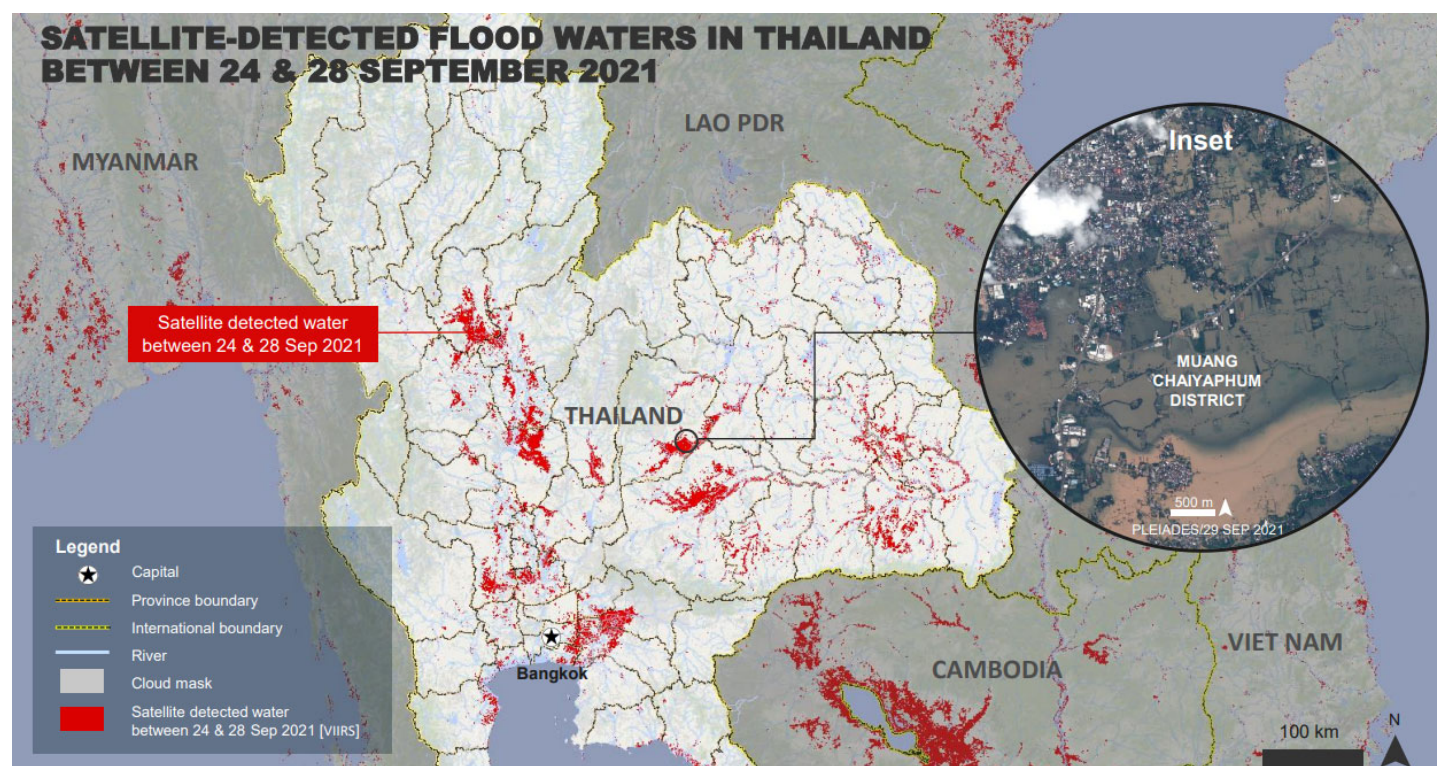
Exhibit 14: Major oil station operators – breakdown by region as of 2020



Source: DOEB

According to the United Nations Institute for Training and Research (UNITAR), as of 28 Sep-21, there are 19 provinces that have been impacted by flooding, including Chiang Rai, Chiang Mai, Lampang (upper North of Thailand), Tak (West), Sukhothai, Phitsanulok, Phetchabun, Phichit (lower North), Kamphaeng Phet, Chaiyaphum (Central), Loei, Nakhon Ratchasima, Sisaket (western Northeast), Prachinburi, Sa Kaeo, Chanthaburi (East), Phra Nakhon Si Ayutthaya (Bangkok suburb), Ratchaburi, and Nakhon Si Thammarat (South).

Exhibit 15: Satellite-detected flood areas in Thailand between 24-28 September 2021



Source: United Nations Institute for Training and Research (UNITAR)

Exhibit 16: Peer comparisons

Company	BBG code	Rec	Share Price (LCY)	Target price (LCY)	Upside (%)	Market Cap (USD m)	3Y EPS CAGR (%)	----- PE -----		---- ROE ----		---- PBV ----		EV / EBITDA	
								21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)	21E (x)	22E (x)
THAILAND															
PTT Oil and Retail	OR TB	BUY	27.50	36.00	31	9,768	1.6	35.2	28.7	13.9	11.5	3.4	3.2	23.5	17.4
Ptg Energy	PTG TB	BUY	16.00	20.80	30	791	6.4	14.1	13.3	22.5	21.0	3.0	2.6	5.8	5.3
Esso Thailand	ESSO TB	HOLD	8.25	8.90	8	845	67.8	6.4	5.6	26.8	24.5	1.5	1.2	6.1	5.0
Bangchak Corp	BCP TB	BUY	27.50	38.00	38	1,105	0.0	14.4	6.6	5.6	11.5	0.8	0.7	9.6	7.4
Susco	SUSCO TB	BUY	3.20	3.50	NA	95	17.3	11.8	10.3	8.2	8.5	0.9	0.8	15.6	12.7
Thailand avg						12,603	4.8	30.0	24.1	14.6	13.0	3.0	2.8	20.0	14.9
MALAYSIA															
Petronas Dagangan	PETD MK		19.10	NA	NA	4,541	40.5	33.0	26.2	10.0	12.6	3.4	3.4	14.2	12.0
Malaysia avg						4,541	40.5	33.0	26.2	10.0	12.6	3.4	3.4	14.2	12.0
Average (all)						17,144	14.3	30.8	24.6	13.3	12.9	3.1	3.0	18.4	14.1

Share prices as of 4 October 2021

Sources: Bloomberg, FSSIA estimates

Corporate Governance report of Thai listed companies 2020

EXCELLENT LEVEL										
AAV	ADVANC	AF	AIRA	AKP	AKR	ALT	AMA	AMATA	AMATAV	ANAN
AOT	AP	ARIP	ARROW	ASP	BAFS	BANPU	BAY	BCP	BCPG	BDMS
BEC	BEM	BGRIM	BIZ	BKI	BLA	BOL	BPP	BRR	BTS	BWG
CENTEL	CFRESH	CHEWA	CHO	CIMBT	CK	CKP	CM	CNT	COL	COMAN
COTTO	CPALL	CPF	CPI	CPN	CSS	DELTA	DEMCO	DRT	DTAC	DTC
DV8	EA	EASTW	ECF	ECL	EGCO	EPG	ETE	FNS	FPI	FPT
FSMART	GBX	GC	GCAP	GEL	GFPT	GGC	GPSC	GRAMMY	GUNKUL	HANA
HARN	HMPRO	ICC	ICI	III	ILINK	INTUCH	IRPC	IVL	JKN	JSP
JWD	K	KBANK	KCE	KKP	KSL	KTB	KTC	LANNA	LH	LHFG
LIT	LPN	MAKRO	MALEE	MBK	MBKET	MC	MCOT	METCO	MFEC	MINT
MONO	MOONG	MSC	MTC	NCH	NCL	NEP	NKI	NOBLE	NSI	NVD
NYT	OISHI	ORI	OTO	PAP	PAP	PCSGH	PDJ	PG	PHOL	PLANB
PLAT	PORT	PPS	PR9	PREB	PRG	PRM	PSH	PSL	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QTC	RATCH	RS	S	S & J	SAAM
SABINA	SAMART	SAMTEL	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SDC
SEAFCO	SEAOIL	SE-ED	SELIC	SENA	SIRI	SIS	SITHAI	SMK	SMPC	SNC
SONIC	SORKON	SPALI	SPI	SPRC	SPVI	SSSC	SST	STA	SUSCO	SUTHA
SVI	SYMC	SYNTEC	TACC	TASCO	TCAP	TFMAMA	THANA	THANI	THCOM	THG
THIP	THRE	THREL	TIP	TIPCO	TISCO	TK	TKT	TTB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TRC	TSC	TSR	TSTE	TSTH
TTCL	TTW	TU	TVD	TVI	TVO	TWPC	U	UAC	UBIS	UV
VGI	VIH	WACOAL	WAVE	WHA	WHAUP	WICE	WINNER	TRUE		

VERY GOOD LEVEL										
2S	ABM	ACE	ACG	ADB	AEC	AEONTS	AGE	AH	AHC	AIT
ALLA	AMANAHA	AMARIN	APCO	APCS	APURE	AQUA	ASAP	ASEFA	ASIA	ASIAN
ASIMAR	ASK	ASN	ATP30	AUCT	AWC	AYUD	B	BA	BAM	BBL
BFIT	BGC	BJC	BJCHI	BROOK	BTW	CBG	CEN	CGH	CHARAN	CHAYO
CHG	CHOTI	CHOW	CI	CIG	CMC	COLOR	COM7	CPL	CRC	CRD
CSC	CSP	CWT	DCC	DCON	DDD	DOD	DOHOME	EASON	EE	ERW
ESTAR	FE	FLOYD	FN	FORTH	FSS	FTE	FVC	GENCO	GJS	GL
GLAND	GLOBAL	GLOCON	GPI	GULF	GYT	HPT	HTC	ICN	IFS	ILM
IMH	INET	INSURE	IRC	IRCP	IT	ITD	ITEL	J	JAS	JCK
JCKH	JMART	JMT	KBS	KCAR	KGI	KIAT	KOOL	KTIS	KWC	KWM
L&E	LALIN	LDC	LHK	LOXLEY	LPH	LRH	LST	M	MACO	MAJOR
MBAX	MEGA	META	MFC	MGT	MILL	MITSIB	MK	MODERN	MTI	MVP
NETBAY	NEX	NINE	NTV	NWR	OCC	OGC	OSP	PATO	PB	PDG
PDI	PICO	PIMO	PJW	PL	PM	PPP	PRIN	PRINC	PSTC	PT
QLT	RCL	RICHY	RML	RPC	RWI	S11	SALEE	SAMCO	SANKO	SAPPE
SAWAD	SCI	SCP	SE	SEG	SFP	SGF	SHR	SIAM	SINGER	SKE
SKR	SKY	SMIT	SMT	SNP	SPA	SPC	SPCG	SR	SRICHA	SSC
SSF	STANLY	STI	STPI	SUC	SUN	SYNEX	T	TAE	TAKUNI	TBSP
TCC	TCMC	TEAM	TEAMG	TFG	TIGER	TITLE	TKN	TKS	TM	TMC
TMD	TMI	TMT	TNITY	TNP	TNR	TOG	TPA	TPAC	TPCORP	TPOLY
TPS	TRITN	TRT	TRU	TSE	TVT	TWP	UEC	UMI	UOBKH	UP
UPF	UPOIC	UT	UTP	UWC	VL	VNT	VPO	WIJK	WP	XO
YUASA	ZEN	ZIGA	ZMICO							

GOOD LEVEL										
7UP	A	ABICO	AJ	ALL	ALUCON	AMC	APP	ARIN	AS	AU
B52	BC	BCH	BEAUTY	BGT	BH	BIG	BKD	BLAND	BM	BR
BROCK	BSBM	BSM	BTNC	CAZ	CCP	CGD	CITY	CMAN	CMO	CMR
CPT	CPW	CRANE	CSR	D	EKH	EP	ESSO	FMT	GIFT	GREEN
GSC	GTB	HTECH	HUMAN	IHL	INOX	INSET	IP	JTS	JUBILE	KASET
KCM	KKC	KUMWEL	KUN	KWG	KYE	LEE	MATCH	MATI	M-CHAI	MCS
MDX	MJD	MM	MORE	NC	NDR	NER	NFC	NNCL	NPK	NUSA
OCEAN	PAF	PF	PK	PLE	PMTA	POST	PPM	PRAKIT	PRECHA	PRIME
PROUD	PTL	RBF	RCI	RJH	ROJNA	RP	RPH	RSP	SF	SFLEX
SGP	SISB	SKN	SLP	SMART	SOLAR	SPG	SQ	SSP	STARK	STC
SUPER	SVOA	TC	TCCC	THMUI	TIW	TNH	TOPP	TPCH	TIPIP	TPLAS
TTI	TYCN	UKEM	UMS	VCOM	VRANDA	WIN	WORK	WPH		

Description

Score Range

Excellent

90-100

Very Good

80-89

Good

70-79

Disclaimer:

The disclosure of the survey results of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; ** delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

Anti-corruption Progress Indicator 2020

CERTIFIED										
2S	ADVANC	AI	AIE	AIRA	AKP	AMA	AMANAH	AP	AQUA	ARROW
ASK	ASP	AYUD	B	BAFS	BANPU	BAY	BBL	BCH	BCP	BCPG
BGC	BGRIM	BJCHI	BKI	BLA	BPP	BROOK	BRR	BSBM	BTS	BWG
CEN	CENTEL	CFRESH	CGH	CHEWA	CHOTI	CHOW	CIG	CIMBT	CM	CMC
COL	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DELTA	DEMCO	DIMET
DRT	DTAC	DTC	EASTW	ECL	EGCO	FE	FNS	FPI	FPT	FSS
FTE	GBX	GC	GCAP	GEL	GFPT	GGC	GJS	GPSC	GSTEEL	GUNKUL
HANA	HARN	HMPRO	HTC	ICC	ICHI	IFS	INET	INSURE	INTUCH	IRPC
ITEL	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL
KTB	KTC	KWC	L&E	LANNA	LHFG	LHK	LPN	LRH	M	MAKRO
MALEE	MBAX	MBK	MBKET	MC	MCOT	MFC	MFEC	MINT	MONO	MOONG
MPG	MSC	MTC	MTI	NBC	NEP	NINE	NKI	NMG	NNCL	NSI
NWR	OCC	OCEAN	OGC	ORI	PAP	PATO	PB	PCSGH	PDG	PDI
PDJ	PE	PG	PHOL	PL	PLANB	PLANET	PLAT	PM	PPP	PPPM
PPS	PREB	PRG	PRINC	PRM	PSH	PSL	PSTC	PT	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QLT	QTC	RATCH	RML	RWI	S & J
SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SEAOIL	SE-ED	SELIC
SENA	SGP	SIRI	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON	SPACK
SPC	SPI	SPRC	SRICHA	SSF	SSSC	SST	STA	SUSCO	SVI	SYNTEC
TAE	TAKUNI	TASCO	TBSP	TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM
THIP	THRE	THREL	TIP	TIPCO	TISCO	TKT	TTB	TMD	TMILL	TMT
TNITY	TNL	TNP	TNR	TOG	TOP	TPA	TPCORP	TPP	TRU	TSC
TSTH	TTCL	TU	TVD	TVI	TVO	TWPC	U	UBIS	UEC	UKEM
UOBKH	UWC	VGI	VIH	VNT	WACOAL	WHA	WHAUP	WICE	WIJK	XO
ZEN	TRUE									

DECLARED										
7UP	ABICO	AF	ALT	AMARIN	AMATA	AMATAV	ANAN	APURE	B52	BKD
BM	BROCK	BUI	CHO	CI	COTTO	DDD	EA	EFORL	EP	ERW
ESTAR	ETE	EVER	FSMART	GPI	ILINK	IRC	J	JKN	JMART	JMT
JSP	JTS	KWG	LDC	MAJOR	META	NCL	NOBLE	NOK	PK	PLE
ROJNA	SAAM	SAPPE	SCI	SE	SHANG	SINGER	SKR	SPALI	SSP	STANLY
SUPER	SYNEX	THAI	TKS	TOPP	TRITN	TTA	UPF	UV	WIN	ZIGA

Level	
Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

Disclaimer:

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, FSS International Investment Advisory Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment results.

Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Source: The Securities and Exchange Commission, Thailand; * FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Suwat Sinsadok FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
PTT Oil and Retail Business	OR TB	THB 27.50	BUY	The downside risks to our SOTP-based TP include: 1) lower-than-expected demand for petroleum products; 2) a lower marketing margin; and 3) weaker-than-expected jet demand.
PTG Energy	PTG TB	THB 16.00	BUY	The downside risks to our SoTP-based TP include 1) a government cap on oil prices; and 2) weaker demand for diesel and gasoline.
Esso Thailand	ESSO TB	THB 8.25	HOLD	The downside risks to our SoTP-based TP on ESSO include 1) lower-than-expected demand for petroleum products; 2) a higher crude premium; and 3) unplanned shutdowns of its refinery and petrochemical plants. The upside risks include 1) higher-than-expected demand for petroleum products; and 2) a lower crude premium.
Bangchak Corp	BCP TB	THB 27.50	BUY	The downside risks to our SoTP-based TP include: 1) lower-than-expected demand for petroleum products; 2) higher crude premiums; and 3) unplanned shutdowns of the company's refinery plants.
Susco	SUSCO TB	THB 3.20	BUY	The downside risks to our SOTP-based TP include: 1) lower-than-expected demand for petroleum products; 2) a lower marketing margin; and 3) weaker-than-expected jet fuel demand.
PTT PCL	PTT TB	THB 39.00	BUY	Risks to our SoTP-based valuation are the oil price and potential earnings downside from government intervention.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

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All share prices are as at market close on 04-Oct-2021 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.