

# Thailand Utilities

## Impact from potential electricity price cut

- On 30 Aug 2023, the Pheu Thai party, the new government, proposed an urgent policy to reduce the electricity price, though there are still no clear guidelines.
- There should be more details in the first cabinet meeting, which is expected to be in mid- to end-Sep 2023.
- We believe this could lead to negative sentiment for selected utility stocks.

### Electricity price cut as an urgent policy of the Pheu Thai party

On 30 Aug 2023, Mr Srettha Thavisin, the prime minister under the Pheu Thai-led government, proposed an energy price cut as an urgent policy. This also includes cutting the electricity price. However, there are still no clear guidelines on the method or the magnitude of the electricity price cut. We expect more details will be provided later in the first cabinet meeting, which is expected to be between mid- to end-Sep 2023.

### Potential measures for lowering the electricity price

According to BangkokBiznews, there are five potential measures to reduce the electricity price: 1) the government subsidising the electricity price for vulnerable groups whose households use less than 300 units per month, and subsidise users who use more than 500 units per month, arranged by tiers; 2) prioritise Gulf of Thailand gas (cheap gas) for the portion passed through a gas separation plant for household electricity usage to lower household electricity prices; 3) extend EGAT's time to return its loan, which was generated by subsidising the electricity price during the period of high energy costs since Sep 2021, perhaps by issuing government bonds; 4) negotiate with independent power producers (IPPs) to reduce availability payments by extending power purchase agreements (PPAs); and 5) expedite the discussions on overlapping territories between Thailand and Cambodia and incorporate natural gas production to lower the reliance on imported LNG. We think the first three methods are implementable. However, we believe the key measure to impact listed utility stocks would be the extension of EGAT's time to return its debt.

### Expect Ft cut of no more than THB0.30/kWh, assuming no change in gas cost

EGAT has subsidised the electricity price since Sep 2021, causing EGAT to have a current outstanding debt of THB135b. The latest Ft (Sep 2023 to Dec 2023) at THB0.6689/kWh includes the accumulated factor (AF), a component of the Ft representing the difference between the actual Ft (based on actual costs) and the announced Ft of THB0.3831/kWh, in order to recover the debt by Apr 2025. Therefore, we believe the Ft in Jan 2024 to Apr 2024 could be cut by no more than THB0.30/kWh, assuming no change in gas cost assumptions.

### GULF would have the smallest impact

For the stocks under our coverage, we estimate that GULF's earnings would be the least impacted, since a large portion of its revenue is from IPPs, which are based on cost pass-through PPAs. However, BGRIM's and BCPG's earnings are more sensitive to changes in the Ft due to a higher proportion of capacity selling at the price based on the Ft.



**Kwanwaree Apichartsatporn**

Analyst register no. 117055

kwanwaree.a@fssia.com, +66 2646 9968

The Chairman of The Audit Committee and Independent Director of Finansia Syrus Securities PCL is also BCPG's Independent Director.

## Key charts

### Exhibit 1: Earnings sensitivity

% impact on 2024E net income from Ft cut	10 Satang/kWh	20 Satang/kWh	30 Satang/kWh
	(%)	(%)	(%)
GULF	0%	1%	1%
BGRIM	2%	5%	7%
BCPG	4%	7%	11%

Source: FSSIA estimates

### Exhibit 2: Summary of key valuations

Company	BBG code	--- Share price ---			Up side	----- Recurring profit -----			- EPS growth -		----- P/E -----			DivYld	ROE	PBV
		Current	Target			22A	23E	24E	23E	24E	23E	24E	25E			
		(THB)	(THB)	(%)	(THB m)	(THB m)	(THB m)	(y-y%)	(y-y%)	(x)	(x)	(x)	(%)	(%)	(x)	
Gulf Energy Development	GULF TB	48.75	52.30	7	12,637	16,409	19,874	29.9	21.1	34.9	28.8	23.0	1.4	14.2	4.8	
B.Grimm Power	BGRIM TB	35.75	45.00	26	(1,244)	2,558	3,026	(305.6)	18.3	36.4	30.8	28.5	1.2	7.6	2.5	
BCPG	BCPG TB	10.20	15.10	48	2,066	1,731	1,986	(16.2)	14.7	17.1	14.9	13.7	2.3	5.8	1.0	

Share prices as of 31 Aug 2023

Source: FSSIA estimates

## Public disclosures related to sustainable development evaluation of Thai listed companies

**Rating** regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

### CG Score by the Thai Institute of Directors Association (Thai IOD)<sup>1</sup>

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

### Corporate Governance Report Disclaimer

The disclosure of the survey result 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 companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). 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 data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. FSSIA does not confirm nor certify the accuracy of such survey result.

### AGM Checklist by the Thai Investors Association (TIA)<sup>2</sup>

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

### CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)<sup>3</sup>

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

### Sustainability Investment (THSI)<sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices<sup>5</sup> (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

#### Disclaimer:

<sup>1</sup> Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

<sup>2</sup> Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

<sup>3</sup> Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

<sup>4</sup> Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

<sup>5</sup> Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

Kwanwaree Apichartsatoporn FSS International Investment Advisory Securities Co., Ltd

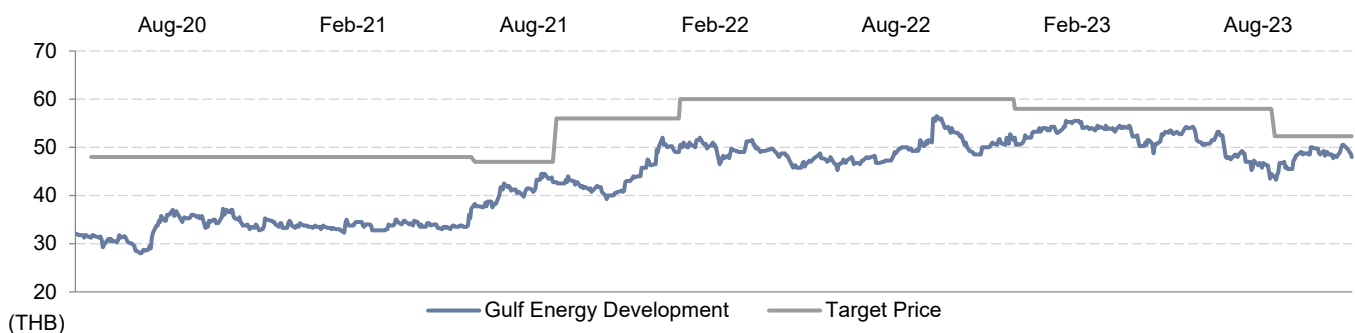
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### History of change in investment rating and/or target price

#### Gulf Energy Development (GULF TB)



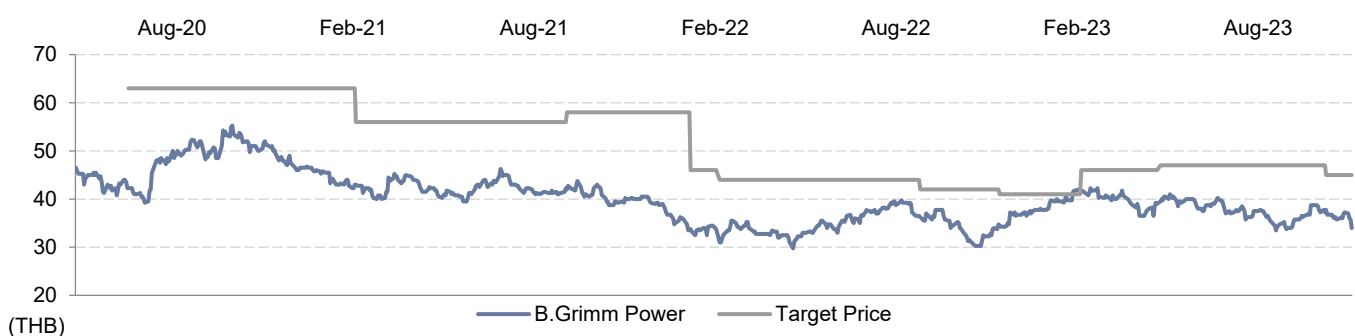
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
11-Sep-2020	BUY	48.00	15-Oct-2021	BUY	56.00	14-Nov-2022	BUY	58.00
06-Aug-2021	BUY	47.00	31-Jan-2022	BUY	60.00	23-Jun-2023	BUY	52.30

Kwanwaree Apichartsatoporn started covering this stock from 23-Jun-2023

Price and TP are in local currency

Source: FSSIA estimates

#### B.Grimm Power (BGRIM TB)

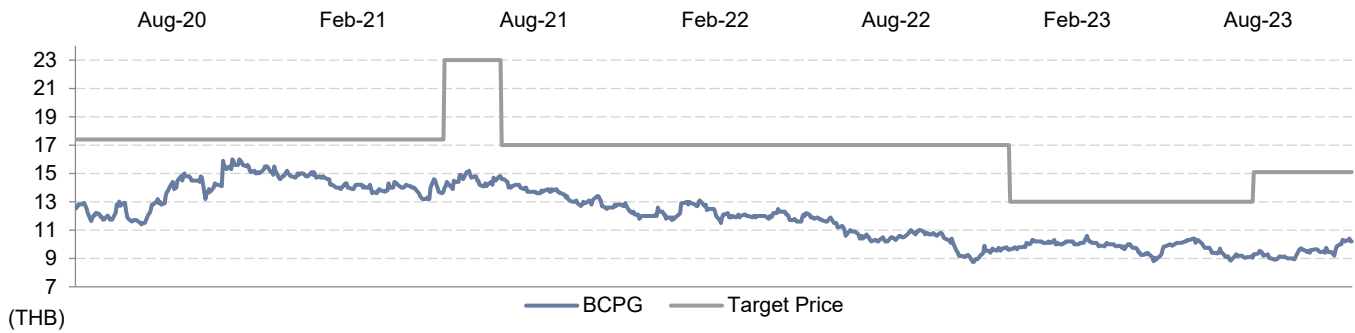


Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
15-Oct-2020	BUY	63.00	04-Mar-2022	BUY	44.00	17-Mar-2023	BUY	47.00
28-Apr-2021	BUY	56.00	25-Aug-2022	BUY	42.00	08-Aug-2023	BUY	45.00
26-Oct-2021	BUY	58.00	01-Nov-2022	BUY	41.00			
09-Feb-2022	BUY	46.00	10-Jan-2023	BUY	46.00			

Kwanwaree Apichartsatoporn started covering this stock from 08-Aug-2023

Price and TP are in local currency

Source: FSSIA estimates

**BCPG (BCPG TB)**

Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
01-Sep-2020	BUY	17.40	31-Aug-2021	BUY	17.00	07-Jun-2023	BUY	15.10
13-Jul-2021	BUY	23.00	10-Nov-2022	BUY	13.00			

Kwanwaree Apichartsatoporn started covering this stock from 07-Jun-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Gulf Energy Development	GULF TB	THB 48.75	BUY	The downside risks to our SoTP-based TP for GULF include 1) a lower-than-expected Ft; 2) a higher-than-expected gas cost; and 3) delays in project commercial operation dates.
B.Grimm Power	BGRIM TB	THB 35.75	BUY	The downside risks to our DCF-based TP include 1) the volatility of gas costs and Ft rates; 2) lower-than-expected industrial user demand; and 3) unplanned shutdowns.
BCPG	BCPG TB	THB 10.20	BUY	The downside risks to our SoTP-based TP include: 1) lower-than-expected demand for electricity in Thailand and the Philippines; and 2) government intervention by way of electricity tariff subsidies; 3) lower-than-expected gas prices for gas-fired plants in the US and; 4) abnormal solar and wind factors.

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 31-Aug-2023 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.