THAILAND ENERGY

Globlex Securities Co., Ltd.

20 January 2025

SG-based, import-parity ex-refinery pricing now in jeopardy

- Thaksin's revisited changes in Thailand's ex-refinery pricing from the current SG-based, import-parity basis to the cost-plus basis created a chaos in energy sector
- Supreme Administrative Court's precedent judgements on legality and fairness of SG-based, import-parity ex-refinery pricing provides a solid ground on continuality
- Buy on weakness on SPRC and BCP on their share price plunges

Incessant regulatory risks poured by ex-PM Thaksin (again)

On 18 Jan-25 Mr. Thaksin addressed the possibility of change in the pricing formula for the refined oil products, whose prices have long been linked to Singapore Gross Refining Margin (GRM) on the import parity basis, citing that there are hidden costs that should be eliminated in order to reduce the final ex-refinery refined oil products.

Thailand's ex-refinery pricing based on SG-based, import-parity basis

Thailand's SG-based, import parity ex-refinery prices (SIEP) has long been based on the import parity basis, with the premium comprising 1) quality adjustments; 2) transportation cost; 3) insurance cost at 0.084% of C&F crude oil; 4) fuel loss at 0.3% of CIF crude oil; and 5) legal reserve.

A precedent case delivered by Supreme Administrative Court on the pricing

On 27 August 2023 the Supreme Administrative court dismissed the case filed by Mr. Mongkolkit and other four persons against the Energy Planning and Policy Committee (EPPC)'s illegal authority to set up SIEP for refined oil products. The court cited that EPPC has a legal right to establish the ex-refinery pricing formula for the refined oil products produced from local refinery plants using the import parity basis on top of the Singapore's market prices of refined oils.

Supreme Administrative court agreed on SG-based, import parity pricing

According to the court's judgment, key issues related to SIEP included 1) there are two methods to set up the ex-refinery prices - cost plus and competitive market-based pricing on demand-supply dynamics; 2) Thailand's refinery industry competes in a free market with foreign competitors as refined oil imports are permitted; 3) EPPC uses SIEP linked to SG market prices is a fair and appropriate approach; 4) Singapore is Asia's energy trading hub with over 300 oil traders, thereby resulting in a fair pricing; 5) As Thailand needs to import crude oil and other refined oils (gasoline, LPG), EPPC will compare domestic supply with domestic demand with excess (deficit) requiring imports/exports whose prices are on import parity basis; 6) Thailand needs to import 80% of crude oil (0.8mbpd) to be blended with domestic crude oil (20%), incurring transportation and insurance costs; 7) EPPC's existing SIEP transportation and insurance costs are reasonable to provide fair oil costs structure to the public.

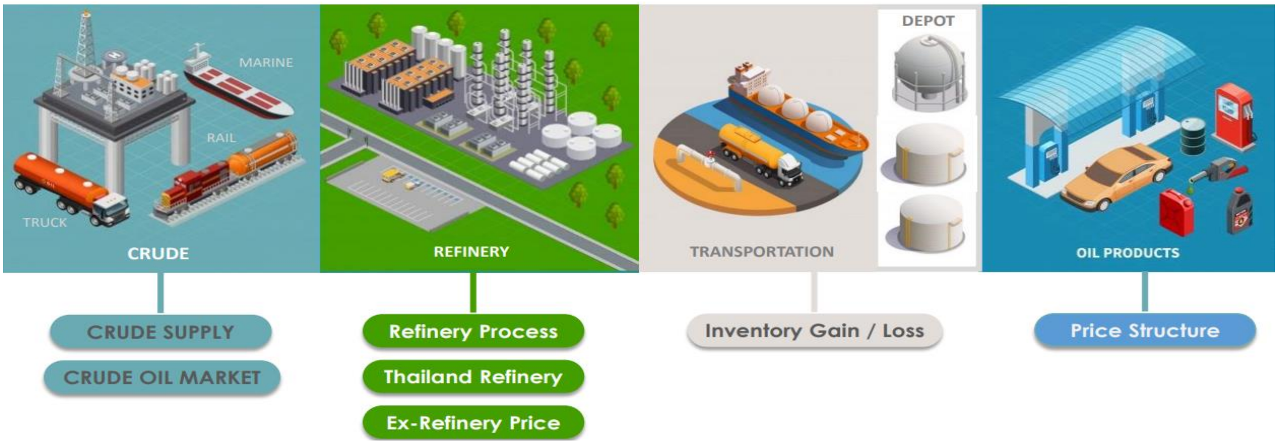
Unlikely to change the Singapore-based, import-parity ex-refinery pricing

We think the likelihood to change the existing SIEP for refined oils is low given 1) the precedent court's judgement on the fair ground for EPPC using the SIEP; 2) the changes to cost-plus basis may indeed "increase" the ex-refinery prices diesel and gasoline given the prolonged downcycle GRM that results in Thai refiners' operating losses. Hence, the change to cost-plus formula could put the losses of refiners into the public burdens in the forms of higher, not lower ex-refinery prices. We prefer SPRC and BCP on the limited downsides and their unjustified share price plunges.

Analyst

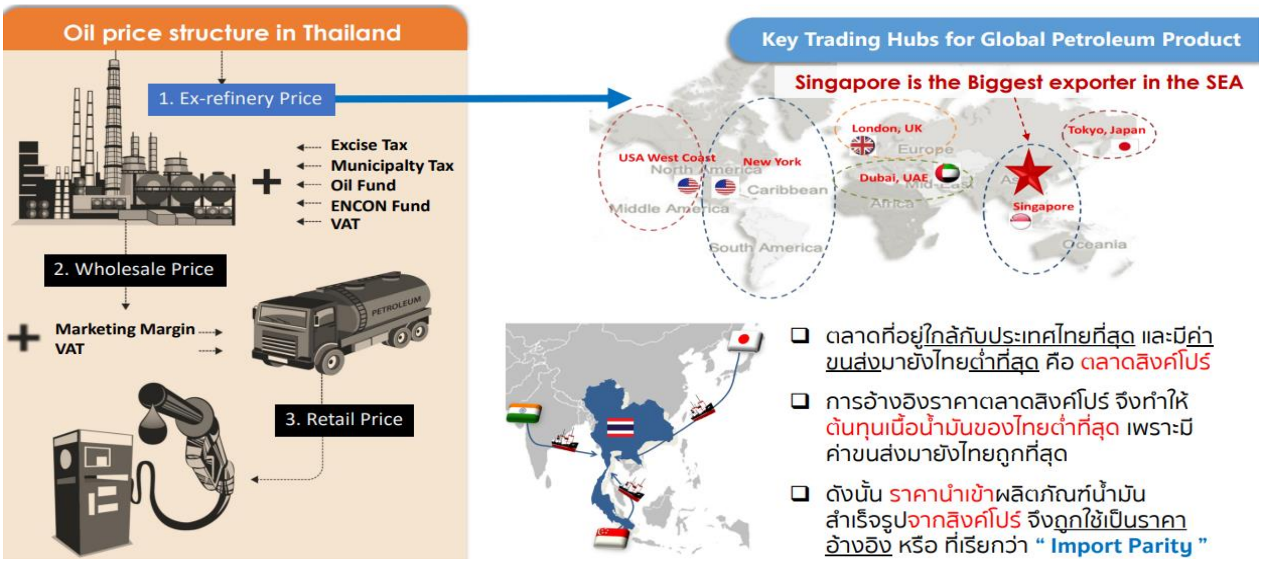
Siriluck Pinthusoonthorn
Siriluck@globlex.co.th,
+662 672 5806

Exhibit 1: Oil price depends on the cost changes throughout the value chain



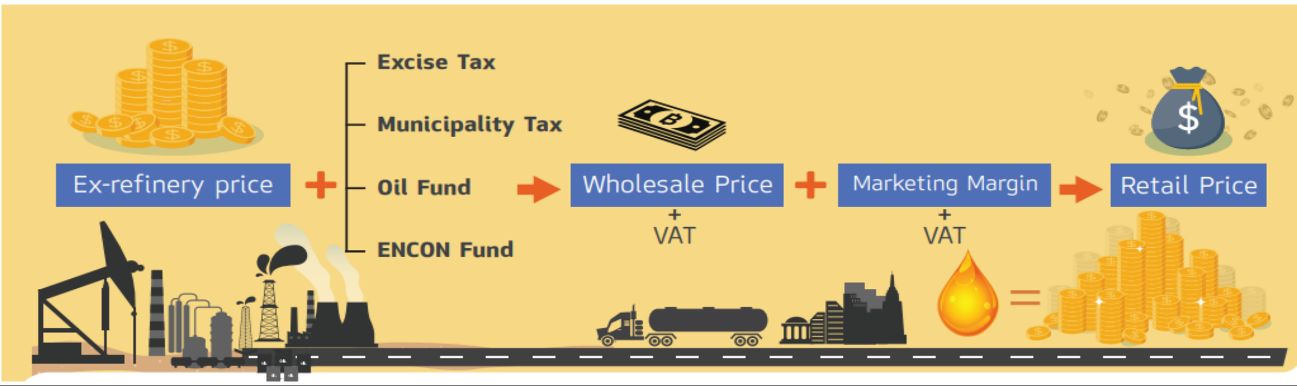
Sources: "Introduction to Downstream Business" by Mr. Bhavorn Wongsinudom

Exhibit 2: Why Thailand's refined oil prices are based on Singapore price?



Sources: "Introduction to Downstream Business" by Mr. Bhavorn Wongsinudom

Exhibit 3: Thailand's retail oil price structure



Sources: EPPO

Exhibit 4: Top picks – key informations

Company BBG	Rec	Share Price (LCY)	Target price (LCY)	Upside (%)	Market Cap (USD m)	3Y EPS CAGR (%)	PE 24E (x)	PE 25E (x)	ROE 24E (%)	ROE 25E (%)	PBV 24E (x)	PBV 25E (x)	EV/EBITDA 24E (x)	EV/EBITDA 25E (x)
BCP TB	BUY	34.50	36.00	4	1,452	3.7	13.1	5.2	4.9	11.7	0.6	0.6	7.1	6.2
SPRC TB	BUY	5.70	9.40	65	721	249.5	14.1	6.8	4.9	9.5	0.7	0.6	8.4	4.6

Sources: Bloomberg, Globlex Research

GENERAL DISCLAIMER

Analyst Certification

Siriluck Pinthusoonthorn, Register No. 119539, Globlex Securities Public Company Limited

The opinions and information presented in this report are those of the Globlex Securities Co. Ltd. Research Department. No representation or warranty in any form regarding the accuracy, completeness, correctness or fairness of opinions and information of this report is offered by Globlex Securities Co. Ltd. Globlex Securities Co. Ltd. Accepts no liability whatsoever for any loss arising from the use of this report or its contents. This report (in whole or in part) may not be reproduced or published without the express permission of Globlex Securities Co. Ltd.

RECOMMENDATION STRUCTURE

Stock Recommendations

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

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause 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.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: 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: 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: 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.