

Thailand Equity Research

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Morning Brief

2 September 2009

- Company** SCIB (Outperform) - Share sale expected to be wrapped up by year-end
- News** BECL (Buy) - Coupon rate on BECL's new debenture #3 will be about 4.0-4.5%
- LANNA - Key takeaways from analyst meeting
- Spotting Trends** Petro Spotlight

Where Fundamentals and Timing Converge

Fundamentally 'BUY' rated with technical stop loss & break out signals							Fundamentally 'SELL' rated with technical resistance & stop loss warnings					
#	Stock	Current Price	Fundamental Target	Technical Support			#	Stock	Current Price	Fundamental Target	Technical Resistance	
				Stop Loss	Upside target	Breakout if above					Resistance	Downside target
1	PTTEP	138.50	194.00	will update	158, 163	149						
2	DELTA	17.60	17.30	will update	18.3, 20.7	-						
3	TSTH	1.79	2.00	will update	2.08-2.10, 2.7	-						
4	PTTAR	21.80	22.70	19 (closing)	26.25, 28	-						
5	CENTEL	3.80	4.34	will update	4.24-4.26	4						

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information known to us then, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice.

Report Summary

SCIB (FP Bt20.50, Outperform)

Share sale expected to be wrapped up by year-end

- ▶ SCIB's president expects the MoF to sign approval for FIDF to sell its 47.58% (1,005.3mn shares) in SCIB by the end of Sep09. A deal is then expected to be concluded within the next 2 to 3 months (i.e. by the end of this year).
- ▶ There are 5 potential bidders, including both local and foreign entities. We believe that foreign banks could bid at a premium over book value to include the value of the banking license.
- ▶ Compared with CIMB's recent acquisition of BT: SCIB is 3 times larger than BT in terms of loans, 2.8x larger in terms of number of branches and 2.1x larger in terms of deposits. Should the purchase price of SCIB be 3x that of BT (3x Bt14bn), the acquisition cost would be Bt42bn, or Bt20.5/share. This reflects a PBV of 1.04x. We believe SCIB's selling price will be in a range of 1-1.3BV, or between Bt19.50-Bt25.00 per share

For more details please see Company Focus

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News Comment

2 September 2009

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BECL (FP Bt24.40, Buy)

Coupon rate on BECL's new debenture #3 will be about 4.0-4.5%

Yesterday we called BECL's IR to get more information about the company's issuance of Bt2bn in new debentures (#3). The details are as follows:

- ▶ A new 3.5-year debenture of Bt1bn will be sold via a private placement (PP) and a 4-year debenture of Bt1bn will be sold via a public offering (PO) through KBANK's branch network during 7-11 September 2009.
- ▶ A coupon rate is not being quoted yet (it will depend on the bids from institutional investors). The rate is expected to be only 4.0-4.5% (we believe that it will be about 1.6% over the government bond yield).
- ▶ The proceeds will be used to replace some long-term loans from KTB, BBL, SCB and TMB (total amount of Bt11.5bn, or about 50% of BECL's loans), as the company would like to change the interest rate from a floating rate (MLR-2%; average MLR of the four banks in July was 5.96%) to a fixed rate.
- ▶ The penalty fee from the repayment will be only Bt40mn (2% of the prepayment amount of Bt2bn), which accounts for only 2.5% of our 2009 net profit forecast of Bt1.57bn.
- ▶ BECL still has room to issue Bt1.5bn in additional debentures to refinance loans as its board had authorized a total issue of Bt15bn. (Including the new debentures the company has to date issued Bt13.5bn.)

News Comment

2 September 2009

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LANNA (FP = Na., Not Rated)

Key takeaways from analyst meeting

We came back from the analyst meeting with a positive view on LANNA, based on its earnings outlook. The table below shows management's guidelines and our best guesses based on trends in the business.

Figure 1: Business outlook guidance

	1Q09	2Q09	3Q09	4Q09	2010	2011
Coal						
- Volumes (mn tonnes)	0	0.4	0.8	1	3.5	3.5
- Price (USD/tonne)	0	55	50-55	50-55	up 15%	
Ethanol						
- Volumes (mn litres)	13	12	10	4	44	57
- Price (Bt/litre)	17	22	24		>24*	

* Note that the margin to produce ethanol starting 2010 will come under pressure (please see details in 2010 earnings outlook).

Sources: The company and KS estimates

3Q09 earnings: Historical high

LANNA is expected to post peak earnings in 3Q09. We believe the company will report a net profit of Bt260mn in 2Q09, up 12% QoQ and 71% YoY (Bt223mn in 2Q09 and Bt147mn in 3Q08).

- ▶ The first coal sales from Coal Mine #3, managed by PT. Singlurus Pratama (SGP), which is 65% held by LANNA, were made in early July 2009. LANNA is targeting coal sales of 0.5mn tonnes this year and 1.5mn tonnes next year from this project.
- ▶ Luckily, 0.3mn tonnes of its 2009 target and 0.7mn tonnes of the 2010 target under the SGP project have already been committed at last year's high price. Management declined to provide further details on this.

However, these positive factors will be partly offset by a softer net profit in the ethanol business. LANNA's average selling price for ethanol in 3Q09 is estimated at Bt24/litre vs. Bt22/litre in 2Q09, while sales volume in 3Q09 is expected to be around 10mn litres vs. 12mn litres in 2Q09. The decline in sales volume in 3Q09 is due to a shortage of molasses.

4Q09 earnings: Normal huge decline QoQ but up YoY

A two-month shutdown of the ethanol plant for maintenance together with the shortage of molasses will result in a huge decline in earnings QoQ. The ethanol plant is expected to resume operations when new molasses from the sugar cane harvest arrives on the market in December. The YoY increase is due to the commercial startup of the SGP project in 3Q09.

Expect consensus to upgrade 2009 earnings

After reporting a net profit of Bt246mn in 1H09, LANNA is on track to report a 2009 net profit that will easily surpass last year's (Bt471mn in 2008 and Bt1.35 EPS). Based on the limited information, we roughly estimate that the company will be able to record a Bt550mn net profit in 2009 (EPS of Bt1.57) vs the consensus estimate of Bt474mn. If this turns out to be correct, it means LANNA is now trading at a PER of 8.7x in 2009, the same ratio as BANPU.

Note that management is confident that it can achieve its 2009 target for coal sales of 2.2mn tonnes, comprising of 1.7mn tonnes from Coal Mine #1, managed by PT.LANNA Harita Indonesia (LHI), and 0.5mn tonnes from SGP. LHI, in which LANNA holds 55%, resumed operations at Coal Mine #1 on March 3, 2009. LHI's operations were temporarily suspended after heavy rain caused parts of the pit to slide and the government ordered LHI to rehabilitate and improve the areas.

2010 earnings should be up YoY

Coal business should be good YoY, driven by a higher coal sales volumes and prices. LANNA is targeting coal sales next year to reach 3.5mn tonnes, comprising of 2mn tonnes from LHI and 1.5mn tonnes from SGP. The company estimates its average coal price will increase 15% YoY from USD52-53/tonne in 2009 as the economic recovery will drive coal demand from the power sector globally.

But margin in the ethanol business will come under pressure. We expect the performance of the ethanol business in 2010 to decline YoY. This is due to the end of its 5-year contract with Mitphol to supply molasses at a low price of Bt2,000/tonne (vs. the current market price of Bt5,200/tonne). Note that LANNA normally consumes 200 ktpa of molasses to produce 165,000 litres of ethanol per day. Of this, 120 ktpa is fixed at the price of Bt2,000/tonne with the remaining molasses bought at the spot price.

No impact from "DMO" policy

The Indonesian government has agreed in principle to implement a new regulation called "Domestic Market Obligation" (DMO). This law would allow it to impose a quota on each coal operator to supply 30% of production per mine to the domestic market. The regulation will not affect LANNA as the pricing is based on market levels. In addition, most of the coal from its mines has a better heating value than the coal used in Indonesian power plants, so buyers are unlikely to want to buy coal from LANNA. This regulation is also unlikely to affect BANPU for the same reasons. However, in contrast to LANNA, the regulation is applied to BANPU on the basis of 30% of its total Indonesian coal output (not 30% of each coal mine) given its holding status.

Listing of Thai Agro

LANNA plans to list its 75%-held subsidiary, Thai Agro, which manages its ethanol business, on the SET this year. Bualuang Securities is acting as the financial advisor. After the IPO, LANNA's holdings in Thai Agro will be diluted to 57%. The proceeds from the IPO will be used to fund a second ethanol plant as part of a plan to lift capacity from 165,000 litres per day to 365,000 litres per day.

Figure 2: Regional peers comparison

Company Name	P/E (x)			P/BV (x)			Dividend Yield (%)			EV/EBITDA (x)		
	2008	2009F	2010F	2008	2009F	2010F	2008	2009F	2010F	2008	2009F	2010F
Bumi Resources Tbk Pt	8.7	11.3	13.2	3.0	2.8	2.5	3.0	2.5	1.9	2.7	2.7	2.9
Tambang Batubara Bukit Asam Tbk Pt	17.5	9.9	11.5	7.5	4.8	4.1	1.8	3.1	4.7	9.1	5.7	6.6
Indo Tambangraya Megah Pt	11.7	9.8	11.7	3.9	3.5	3.1	3.3	4.8	5.2	2.3	2.0	2.3
Indika Energy Tbk Pt	10.6	9.9	11.6	2.4	2.0	1.8	1.7	2.5	2.0	43.4	30.0	21.8
China Coal Energy Co	16.5	14.2	13.0	2.0	1.8	1.6	1.7	2.0	2.2	6.9	6.4	5.5
China Shenhua Energy Co Ltd	20.6	17.6	15.7	3.7	3.1	2.7	1.7	1.9	2.1	10.7	9.3	8.3
Yanzhou Coal Mining Co Ltd	7.5	11.9	10.5	1.8	1.7	1.5	4.1	2.5	2.8	3.5	5.2	4.6
Banpu Pd	11.8	8.7	9.8	2.7	2.2	1.9	3.0	3.7	3.5	9.6	6.3	6.6
Gloucester Coal Ltd	21.5	6.2	8.5	5.0	2.7	2.3	3.4	4.3	5.8	5.6	3.5	2.6
Macarthur Coal Ltd	23.2	10.6	12.6	2.6	2.0	1.7	2.0	1.6	3.7	13.3	7.4	5.3
Centennial Coal Co Ltd	3.6	17.1	11.1	2.0	1.8	1.7	6.3	2.7	4.2	5.1	5.2	3.9
Felix Resources Ltd	17.8	12.6	13.1	6.2	4.7	3.9	3.1	3.1	3.5	106.0	5.6	5.8
Straits Asia Resources Ltd	12.9	10.4	12.9	4.2	3.2	2.9	4.6	7.5	5.8	7.9	4.6	6.7
Avg Weight	17.8	15.5	14.3	3.4	2.8	2.5	2.1	2.2	2.4	6.9	8.0	7.2



Petro Spotlight

Thailand
2 September 2009

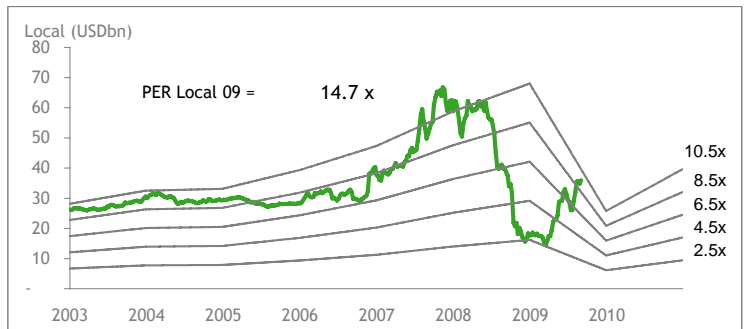
- Ethylene prices increased slightly WoW due to improved derivative demand and tight supply (as some crackers have shut down). However, traders are still concerned about new supply from the Middle East due to come on to the market.
- NPC #10 (Jam Petrochemical) restarted its olefin cracker last week, however it operated at only 50% of capacity. NPC #9's (Arya SaSol) crackers remained shut down and won't be available until October.
- The price of MEG decreased slightly as polyester demand weakened.
- The paraxylene price fell 4% WoW due not only to weaker polyester demand, but also an oversupply of paraxylene. However, this did not have much of a negative impact on the share prices of aromatics producers as QTD the paraxylene price remains flat QoQ and the benzene price and spread have improved significantly QoQ.
- The benzene price decreased slightly following declines in crude oil price and soft derivatives demand.
- Last week, both local and regional petrochemical stock prices increased slightly WoW. The gap between local and regional PERs thus remained flat WoW.

Sources: Bloomberg, PTIT, KS

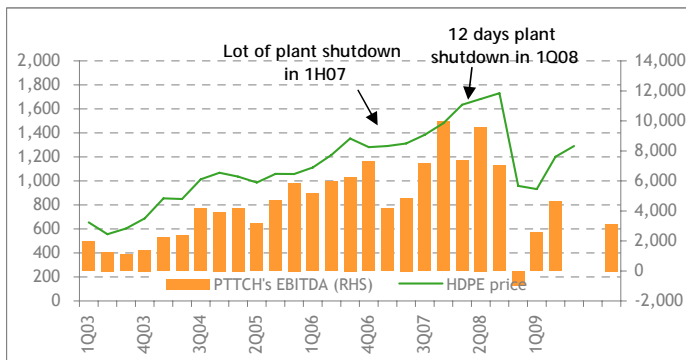
Earnings implications

Products	28/08/09 (US\$/MT)	%WoW	2009 (US\$/MT)	%YoY	KS's Assump.	Implications on forecasts
PTTCH's products						
HDPE -Far East	1,290	0.8	1,125 (25.1)	950	Better	
HDPE-Naphtha Spread	697	0.9	662 (10.4)	526	Better	
MEG South East Asia	730	(0.7)	572 (38.9)	525	Better	
Ethylene - Japan	980	0.5	761 (35.1)	650	Better	
TPC & VNT's products						
PVC - Far East	940	-	763 (26.9)	700	Better	
TPC's PVC Spread	305	(4.2)	315 (31.4)	305	In line	
VNT's PVC Spread	450	(0.6)	382 (16.4)	375	In line	
PTTAR's products						
Paraxylene -Rotterdam	930	(4.1)	880 (20.7)	800	Better	
Paraxylene Spread	313	(13.4)	392 30.3	285	Better	
Benzene - Japan	800	(0.6)	619 (37.2)	550	Better	
Benzene spread	196	(6.8)	132 (25.9)	35	Better	

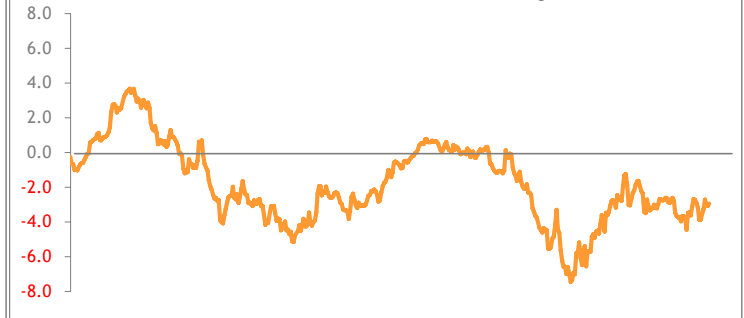
Source: Bloomberg, KS



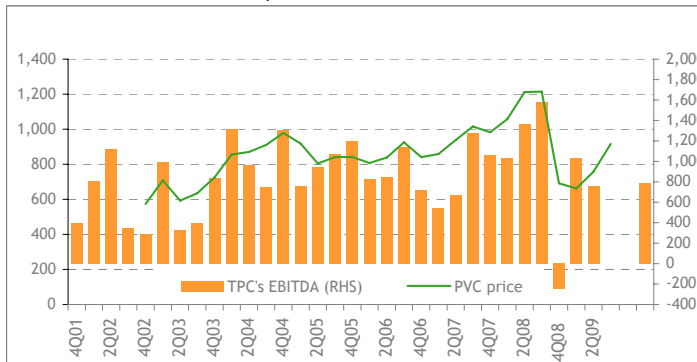
PTTCH's EBITDA VS HDPE price



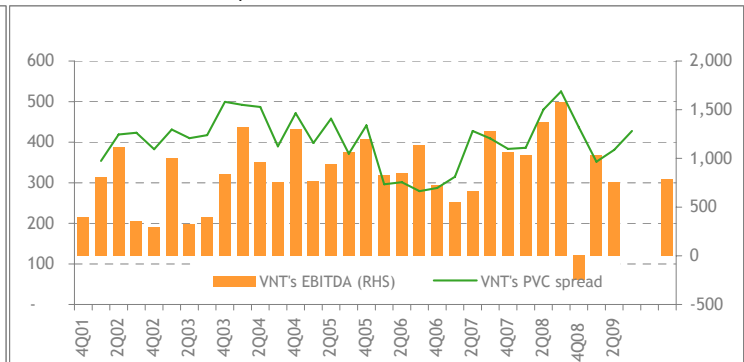
The difference between Local PER and Regional PER



TPC Share Price vs TPC's PVC Spread



VNT's EBITDA vs VNT's PVC spread



Note: * Ignore seasonality effect

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