

Thailand Equity Research

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Morning Brief

8 September 2009

News

Petro & Refinery (Neutral) - We raise our fair prices on PTTAR, PTTCH and IRPC after shifting to a DCF valuation

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	141.00	194.00	will update	158, 163	149						
2	DELTA	17.70	17.30	will update	18.3, 20.7	-						
3	TSTH	2.00	2.00	will update	2.08-2.10, 2.7	-						
4	PTTAR	24.80	22.70	19 (closing)	26.25, 28	-						
5	CENTEL	3.72	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

Petrochemical and Refinery (Neutral)

We raise our fair prices on PTTAR, PTTCH and IRPC after shifting to a DCF valuation

- ▶ Amalgamation is the most likely case: We expect PTT's group consolidation will be implemented via an amalgamation approach and that only three companies - PTTAR, PTTCH and IRPC - will be merged into the new company, likely to be named "PTT Petrochemical and Refining" (PTTPR), while TOP will continue to operate by itself.
- ▶ Swap ratio will likely depend on DCF valuations. PTTAR has more upside gain than its peers: To reflect the long-term synergy value created from cost savings and integration, we believe that a DCF (discounted cash flow) valuation should be used to determine the share-swap ratios. We thus have changed our valuation method to determine fair price from the dividend discount model (DDM) to DCF. Our fair price for PTTAR thus increases from Bt22.70 to Bt32.7, for PTTCH from Bt56 to Bt89.90 and for IRPC from Bt3.9 to Bt4.5.

As PTTAR will provide the most upside gain (32% upside to our new fair price), we maintain our Buy on PTTAR. We upgrade our recommendation on PTTCH from Underperform to Outperform as its current stock price provides 17.5% upside to our new fair price.

Note that we estimate the synergies from consolidation will come mainly from operational cost savings: IRPC = 10%, PTTAR = 5% and PTTCH = 2.5% of total operating costs (excluding feedstock and depreciation) and will not include the synergy from new investment.

- ▶ IRPC will benefit less than its peers as DCF valuation will not include benefits from new projects: We do not think IRPC will benefit as much from the merger as a DCF valuation will not take into account the benefit from future projects and at its current share price, IRPC provides only 2.3% to our new fair price at Bt4.5 (up from our previous fair price of Bt3.9). We thus maintain our Neutral rating.

Swap ratio: Based on the DCF valuation, we estimate the swap ratio will be; 1 PTTAR share = 0.66 PTTPR share, 1 PTTCH = 1.8 PTTPR share and 1 IRPC = 0.09 PTTPR share

We believe that the group consolidation will be finalized in the middle of October 2009 and PTTPR will be listed and start trading at the beginning of 2Q10.

Note: The details our study will be provided on our presentation that will start to distribute next Tuesday.

For more details please see Sector Focus

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Petro Spotlight

Thailand
8 September 2009

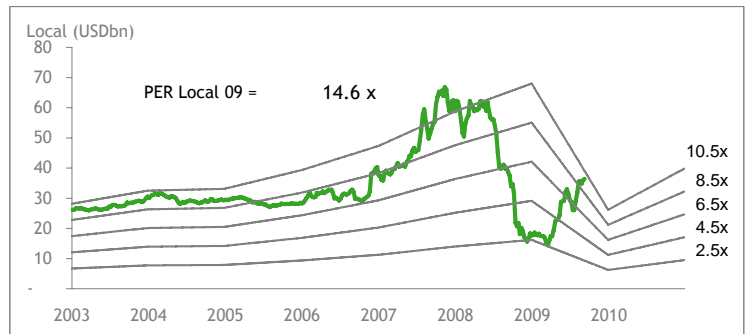
- Polyolefin product prices fell slightly WoW due to weak demand and concerns about new supply from Iran.
- The price of PTA and MEG continued to drop as polyester demand weakened. This also weighed on the paraxylene price, which fell significantly, shedding 10% WoW.
- However, the benzene price lost only a little ground WoW as crude oil price futures edged up. The benzene spread improved significantly WoW as the spot crude oil price dropped last week.
- Local petrochemical stock prices increased more than regional petrochemical prices last week. The gap between local and regional PERs thus narrowed slightly WoW.

Sources: Bloomberg, PTIT, KS

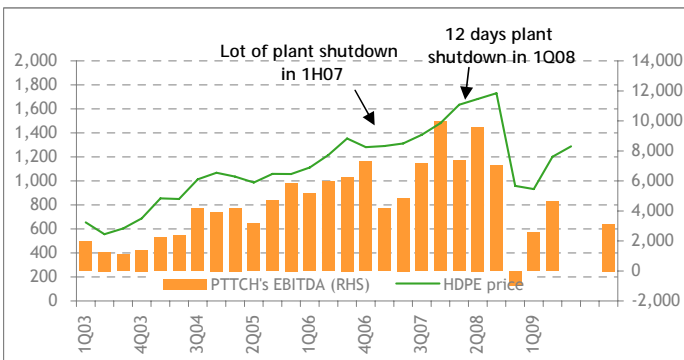
Earnings implications

Products	04/09/09 (US\$/MT)	%WoW	2009 (US\$/MT)	%YoY	KS's Assump.	Implications on forecasts
PTTCH's products						
HDPE -Far East	1,265	(1.9)	1,128	(24.9)	950	Better
HDPE-Naphtha Spread	686	(1.6)	663	(10.3)	526	Better
MEG South East Asia	700	(4.1)	576	(38.5)	525	Better
Ethylene - Japan	1,010	3.1	768	(34.6)	650	Better
TPC & VNT's products						
PVC - Far East	935	(0.5)	767	(26.5)	700	Better
TPC's PVC Spread	301	(1.2)	315	(31.4)	305	In line
VNT's PVC Spread	430	(4.4)	383	(16.1)	375	In line
PTTAR's products						
Paraxylene -Rotterdam	835	(10.2)	878	(20.9)	800	Better
Paraxylene spread	246	(21.2)	388	28.9	285	Better
Benzene - Japan	795	(0.6)	624	(36.7)	550	Better
Benzene spread	183	13.0	134	(24.7)	35	Better

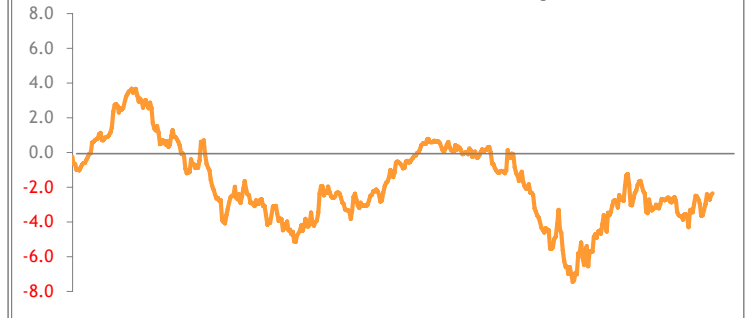
Source: Bloomberg, KS



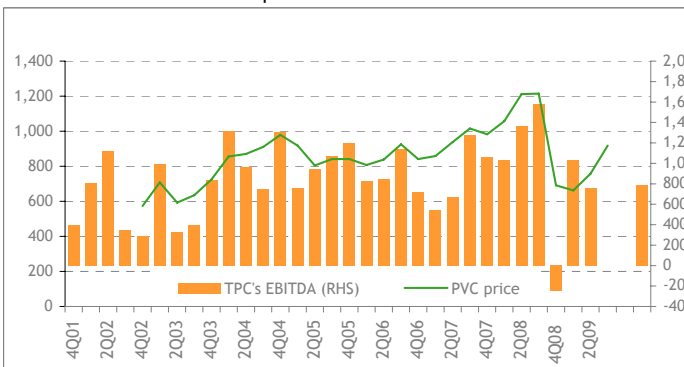
PTTCH's EBITDA VS HDPE price



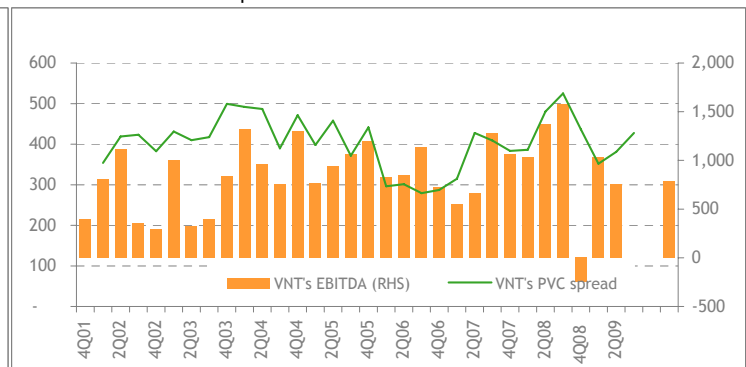
The difference between Local PER and Regional PER



TPC Share Price vs TPC's PVC Spread



VNT's EBITDA vs VNT's PVC spread



Note: * Ignore seasonality effect

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