# Global Power Synergy

(GPSC.BK)

| | |
|---|---|
| Rating | **OUTPERFORM* [V]** |
| Price (20 Apr 16, Bt) | 26.00 |
| Target price (Bt) | 34.00[1] |
| Upside/downside (%) | 30.8 |
| Mkt cap (Bt mn) | 38,956 (US$ 1,116) |
| Enterprise value (Bt mn) | 45,450 |
| Number of shares (mn) | 1,498.30 |
| Free float (%) | 25.0 |
| 52-week price range | 27.8 - 21.5 |
| ADTO - 6M (US$ mn) | 2.8 |

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
*[1]Target price is for 12 months.*
*[V] = Stock considered volatile (see Disclosure Appendix).*

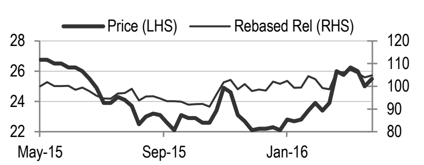
**Research Analysts**
**Wattana Punyawattanakul**
66 2 614 6215
wattana.punyawattanakul@credit-suisse.com

**INITIATION**

## Organic growth powerhouse

- **Initiate with OUTPERFORM.** We initiate coverage on GPSC, a utilities flagship under PTT group, with an OUTPERFORM rating and a DCF-based target price of Bt34 (potential upside of 30.8%). Standing out from its Thai peers, GPSC is geared up to strike organic growth from both existing committed capacities and growing demand from PTT group. GPSC is our new top pick in the sector, replacing EGCO.
- **Widening margin is structural.** Margins of GPSC's electricity sales to industrial customers (IUs) are on a structurally rising trend. Selling price of electricity to IUs are based on government's announced tariffs, which will likely rise with higher portion of expensive renewable power in Thailand's total power generation. This would result in expanding margins as a major portion of its costs is natural gas. Electricity sales to IUs account for 35% of FY16E revenue and is expected to witness a 17% CAGR in 2016E-18E. The expected rise in tariffs is estimated to account for Bt6/share in our DCF-based NAV.
- **Growing demand from PTT group.** Apart from the committed capacity expansion of 579 MW, a minimum of 120 MW of high-margin cogeneration plants may have to be built to support potential new demand from PTT group. Another Bt5 could be added into our DCF-based NAV from these potential new demands from PTT group.
- **Valuation reasonable relative to growth.** GPSC's premium valuation can be explained by superior growth; core earnings is expected to witness 29% CAGR in 2016-18E, vs peers' -0.9% to 6%. To us, the market has not yet factored in the benefit from structural margin expansion, and more clarity on its growth plans. **Key risks** are development risks and plants' reliability.

### Share price performance




*The price relative chart measures performance against the THAILAND SET IDX which closed at 1413.97 on 20/04/16*
*On 20/04/16 the spot exchange rate was Bt34.92/US$1*

| Performance over | 1M | 3M | 12M | |
|---|---|---|---|---|
| Absolute (%) | 2.0 | 15.0 | — | — |
| Relative (%) | 0.5 | 1.5 | — | — |

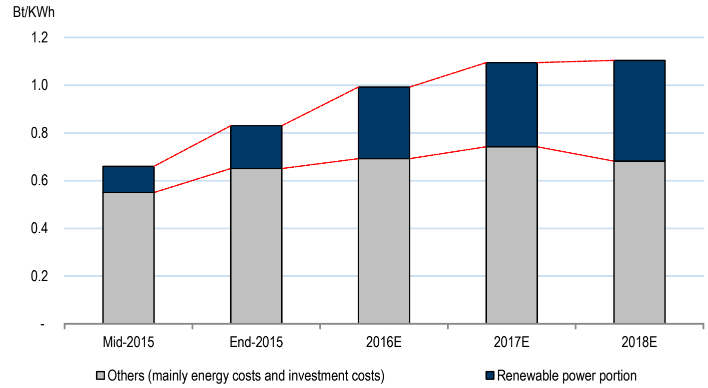
### Financial and valuation metrics

| Year | 12/15A | 12/16E | 12/17E | 12/18E |
|---|---|---|---|---|
| Revenue (Bt mn) | 22,443.7 | 21,369.0 | 26,753.7 | 33,033.9 |
| EBITDA (Bt mn) | 3,162.6 | 3,677.0 | 4,669.5 | 5,913.8 |
| EBIT (Bt mn) | 2,080.3 | 2,485.8 | 3,019.3 | 4,033.2 |
| Net profit (Bt mn) | 1,906.0 | 2,163.7 | 2,684.3 | 3,606.5 |
| EPS (CS adj.) (Bt) | 1.40 | 1.44 | 1.79 | 2.41 |
| Change from previous EPS (%) | n.a. | | | |
| Consensus EPS (Bt) | n.a. | 1.43 | 1.70 | 2.36 |
| EPS growth (%) | -0.5 | 3.2 | 24.1 | 34.4 |
| P/E (x) | 18.6 | 18.0 | 14.5 | 10.8 |
| Dividend yield (%) | 3.7 | 3.7 | 3.9 | 4.6 |
| EV/EBITDA (x) | 13.5 | 12.4 | 10.2 | 7.7 |
| P/B (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| ROE (%) | 6.0 | 5.8 | 7.0 | 9.0 |
| Net debt/equity (%) | 10.2 | 17.2 | 22.8 | 16.7 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

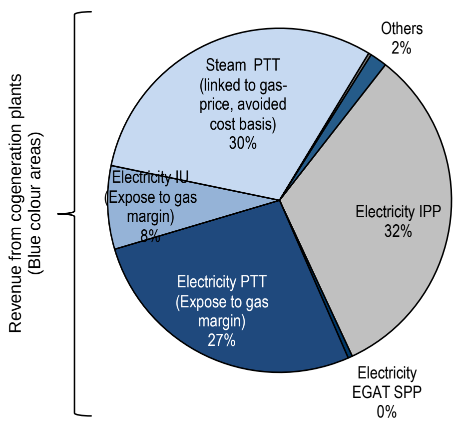
# Focus charts

**Figure 1: Pro forma gas-fired cogeneration margin*—fuelled by growing portion of expensive renewable power generation**



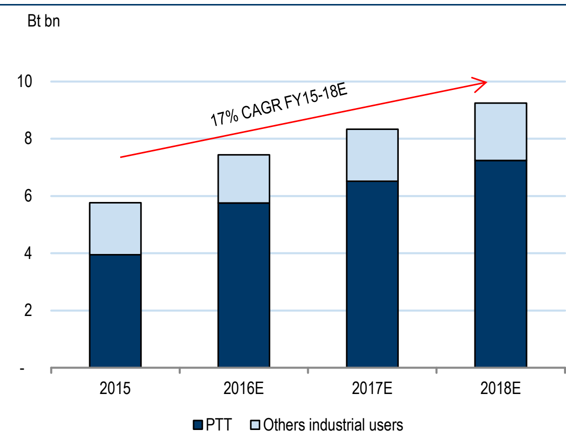

**Calculated based on the difference between PEA (Provincial Electricity Authority) tariff for industrial users and natural gas cost at 8,600 BTU/KWh heat rate, Source: GLOW, EGAT, ERC, Credit Suisse estimates*

**Figure 2: Breakdown of GPSC's FY16E revenue—highly exposed to cogeneration business**



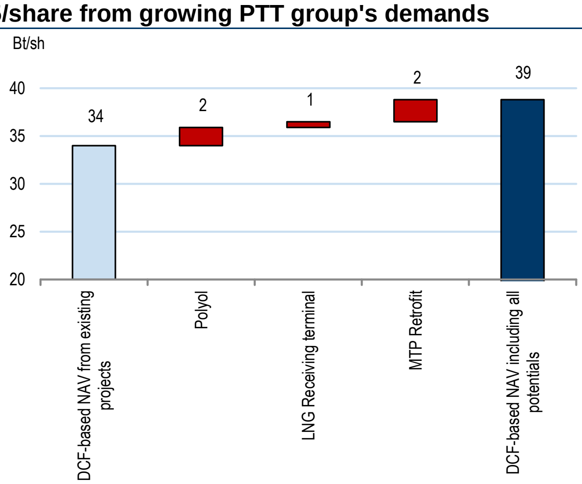

*Source: Company data, Credit Suisse estimates*

**Figure 3: Revenue from electricity sold to IUs expected to rise 17% CAGR 15-18E**



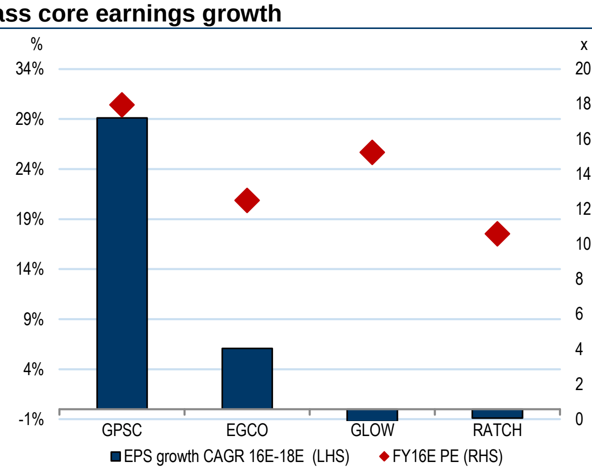

*Source: Company data, Credit Suisse estimates*

**Figure 4: Our DCF-based NAV may be raised by another Bt5/share from growing PTT group's demands**




*Source: Credit Suisse estimates*

**Figure 5: Premium valuation is warranted by its best-in-class core earnings growth**




*Source: Company data, Credit Suisse estimates*

# Organic growth powerhouse

## Initiate with OUTPERFORM

We initiate coverage on Global Power Synergy (GPSC), a utilities flagship under PTT group, with an OUTPERFORM rating and a DCF-based target price of Bt34 (30.8% potential upside). Standing out from its Thai peers, GPSC is geared up to strike organic growth from both existing committed capacities and growing demand from PTT group. GPSC is our new top pick in the sector, replacing EGCO.

GPSC is our new top pick for the sector, replacing EGCO

## Widening cogeneration margin is structural

Margins of GPSC's electricity sales to industrial customers (IUs) are on a structurally rising trend. Selling price for electricity units to IUs is based on government's announced tariffs which will be rising with higher portion of expensive renewable power in Thailand's total power generation. Nearly 1,800 MW of new renewable power capacity are planned to start operation in 2016-17. Power generation from renewable energy sources now accounts for 7% of total power generation in Thailand, and is projected to reach 12% in 2018. This would result in expanding margins as a major portion of its costs is natural gas. Electricity sales to IUs accounts for 35% of FY16E revenue and is expected to rise 17% CAGR 16E-18E. The expected rise in tariffs is estimated to account for Bt6/share in our DCF-based NAV.

GPSC is on course for a structural tailwind benefit from long-term margin expansions at its cogeneration business.

## Growing demands from PTT group

Among its peers, GPSC is likely to grow most in the domestic market, regardless of government's policy. GPSC is different from other utilities because it has PTT group as a cornerstone customer.

GPSC can ride on the new investment cycle with companies under the same group such as PTTGC. A minimum of 120 MW of high-margin cogeneration plants could be built to support rising demand from PTT Group, including Polyol project and Map Tha Put retrofit project at PTTGC and LNG receiving terminal phase 2 at PTT's parent company. Importantly, electricity and steam from cogeneration power plants sold to PTT group earn higher margin and could further benefit from the structurally widening cogeneration margin. Apart from the committed capacity expansion of 579 MW, a minimum of 120 MW of high-margin cogeneration plants may have to be built to support potential new demand from PTT group. Another Bt5 could be added into our DCF-based NAV from this potential new demand from PTT group.

Minimum of 120 MW of high-margin cogeneration plants could be built to support expanding demand from PTT group

## Valuation reasonable relative to growth

It warrants a premium valuation thanks to its superior earnings growth. GPSC's core earnings are expected to witness 29% CAGR (16E-18E), whereas those of its Thai peers are expected to be at only -0.9% to 6%. GPSC is trading at FY16E P/E 17.7x, versus Thai peers' average of 13.9x. We see improving sentiment towards the stock, and the recent rally in share price is believed to be a result of higher-than-expected dividend payment and cyclical margin expansion from lower gas costs (shown in 4Q15 results). GPSC has still underperformed EGCO and GLOW by 7-8% in the past three months. We believe that the market is yet to likely factor in the benefit from long-term structural margin expansion (as a result of larger mix of renewable power generation) and potential new demands from PTT group. GPSC is an under-owned name. The stock has not yet appeared in the radar of foreign investors. Foreign ownership lodges at less than 1%, and presently, there are only 5 analysts tracking the name (according to Bloomberg). **Key risks** are development risks and plants' reliability.

GPSC's core earnings is expected to grow 29% CAGR (16E-18E), where those of its Thai peers is expected to be at only -0.9% to 6%

# Global Power Synergy GPSC.BK

Price (20 Apr 16): **Bt26.00**, Rating:**: OUTPERFORM [V]**, Target Price: **Bt34.00**, Analyst: **Wattana Punyawattanakul**

| **Target price scenario** | | | |
|---|---|---|---|
| **Scenario** | **TP** | **%Up/Dwn** | **Assumptions** |
| Upside | | | Potential 120 MW new projects become materialised |
| Central Case | 34.00 | 30.77 | Value for committed projects (operating + constructing) |
| Downside | | | Projects under construction failed to start operation |

| **Key earnings drivers** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| Avg power tariff (Bt/KWh) | 3.78 | 3.58 | 3.77 | 4.15 |
| Gas cost (Bt/mmbtu) | 318.0 | 243.9 | 253.7 | 297.6 |
| Capacity factor CUP#1-3 | 79.9 | 80.0 | 85.0 | 85.0 |
| | — | — | — | — |
| | — | — | — | — |

| **Income statement (Bt mn)** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| **Sales revenue** | **22,444** | **21,369** | **26,754** | **33,034** |
| Cost of goods sold | 20,177 | 18,654 | 23,405 | 28,589 |
| SG&A | 670.4 | 690.5 | 738.8 | 761.0 |
| Other operating exp./(inc.) | (1,566) | (1,653) | (2,060) | (2,230) |
| **EBITDA** | **3,163** | **3,677** | **4,670** | **5,914** |
| Depreciation & amortisation | 1,082 | 1,191 | 1,650 | 1,881 |
| **EBIT** | **2,080** | **2,486** | **3,019** | **4,033** |
| Net interest expense/(inc.) | 394.0 | 480.9 | 559.3 | 552.9 |
| Non-operating inc./(exp.) | — | — | — | — |
| Associates/JV | — | — | — | — |
| **Recurring PBT** | **1,686** | **2,005** | **2,460** | **3,480** |
| Exceptionals/extraordinaries | — | — | — | — |
| Taxes | 90.0 | 243.2 | 294.6 | 441.7 |
| **Profit after tax** | **1,596** | **1,762** | **2,165** | **3,039** |
| Other after tax income | 292.9 | 383.5 | 496.0 | 535.8 |
| Minority interests | (16.8) | (18.6) | (22.8) | (32.0) |
| Preferred dividends | — | — | — | — |
| **Reported net profit** | **1,906** | **2,164** | **2,684** | **3,606** |
| Analyst adjustments | — | — | — | — |
| **Net profit (Credit Suisse)** | **1,906** | **2,164** | **2,684** | **3,606** |

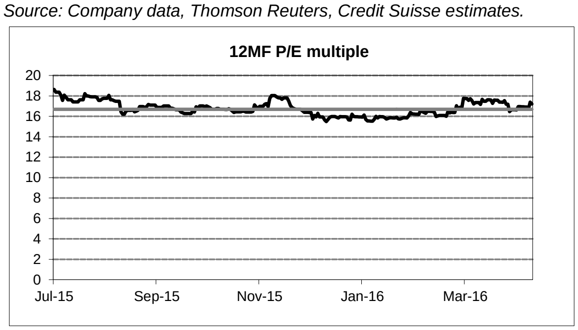
| **Cash flow (Bt mn)** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| **EBIT** | **2,080** | **2,486** | **3,019** | **4,033** |
| Net interest | — | — | — | — |
| Tax paid | — | — | — | — |
| Working capital | (967.5) | 6.4 | (442.4) | (554.1) |
| Other cash & non-cash items | 1,050 | 479 | 811 | 908 |
| **Operating cash flow** | **2,162** | **2,971** | **3,388** | **4,387** |
| Capex | (4,394) | (5,501) | (5,092) | (1,691) |
| **Free cash flow to the firm** | **(3,093)** | **(1,162)** | **(909)** | **3,713** |
| Disposals of fixed assets | — | — | — | — |
| Acquisitions | — | — | — | — |
| Divestments | — | — | — | — |
| Associate investments | (597.5) | 304.7 | 345.1 | 446.4 |
| Other investment/(outflows) | 333.9 | 757.8 | 104.9 | 123.6 |
| **Investing cash flow** | **(4,658)** | **(4,439)** | **(4,642)** | **(1,121)** |
| Equity raised | 9,838 | — | — | — |
| Dividends paid | (1,072) | (1,529) | (1,477) | (1,652) |
| Net borrowings | 2,151 | 3,306 | 2,979 | (242) |
| Other financing cash flow | (59.3) | — | — | — |
| **Financing cash flow** | **10,858** | **1,777** | **1,502** | **(1,894)** |
| **Total cash flow** | **8,362** | **310** | **248** | **1,372** |
| Adjustments | (597.5) | 304.7 | 345.1 | 446.4 |
| **Net change in cash** | **7,765** | **615** | **593** | **1,818** |

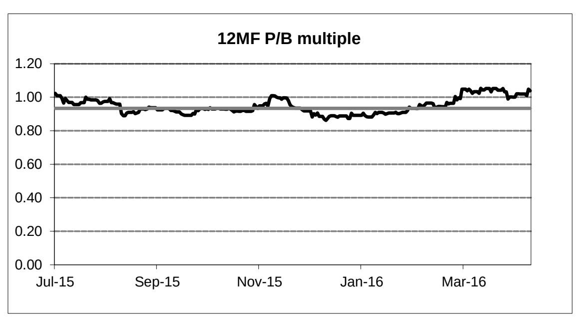
| **Balance sheet (Bt mn)** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| Cash & cash equivalents | 11,186 | 11,800 | 12,394 | 14,212 |
| Current receivables | 3,701 | 3,525 | 4,449 | 5,521 |
| Inventories | 406.3 | 375.6 | 471.3 | 575.7 |
| Other current assets | 1,023 | 467 | 590 | 732 |
| **Current assets** | **16,316** | **16,168** | **17,904** | **21,040** |
| Property, plant & equip. | 23,467 | 27,777 | 31,219 | 31,030 |
| Investments | 8,278 | 8,357 | 8,507 | 8,597 |
| Intangibles | 396.0 | 396.0 | 396.0 | 396.0 |
| Other non-current assets | 7,409 | 6,879 | 6,429 | 5,859 |
| **Total assets** | **55,867** | **59,577** | **64,455** | **66,922** |
| Accounts payable | 1,960 | 1,812 | 2,273 | 2,777 |
| Short-term debt | 1,595 | 1,595 | 1,595 | 1,595 |
| Current provisions | — | — | — | — |
| Other current liabilities | 1,014 | 938 | 1,176 | 1,437 |
| **Current liabilities** | **4,569** | **4,344** | **5,045** | **5,809** |
| Long-term debt | 13,394 | 16,700 | 19,679 | 19,437 |
| Non-current provisions | 452.1 | 464.3 | 479.0 | 501.1 |
| Other non-current liab. | 325.2 | 325.2 | 325.2 | 325.2 |
| **Total liabilities** | **18,740** | **21,834** | **25,528** | **26,072** |
| **Shareholders' equity** | **37,094** | **37,729** | **38,937** | **40,891** |
| Minority interests | 1,122 | 1,103 | 1,080 | 1,048 |
| **Total liabilities & equity** | **55,867** | **59,577** | **64,455** | **66,922** |

| **Per share data** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| Shares (wtd avg.) (mn) | 1,362 | 1,498 | 1,498 | 1,498 |
| **EPS (Credit Suisse) (Bt)** | **1.40** | **1.44** | **1.79** | **2.41** |
| DPS (Bt) | 0.95 | 0.95 | 1.02 | 1.18 |
| BVPS (Bt) | 27.2 | 25.2 | 26.0 | 27.3 |
| Operating CFPS (Bt) | 1.59 | 1.98 | 2.26 | 2.93 |

| **Key ratios and valuation** | **12/15A** | **12/16E** | **12/17E** | **12/18E** |
|---|---|---|---|---|
| **Growth(%)** | | | | |
| Sales revenue | (5.1) | (4.8) | 25.2 | 23.5 |
| EBIT | 14.6 | 19.5 | 21.5 | 33.6 |
| Net profit | 20.6 | 13.5 | 24.1 | 34.4 |
| EPS | (0.5) | 3.2 | 24.1 | 34.4 |
| **Margins (%)** | | | | |
| EBITDA | 14.1 | 17.2 | 17.5 | 17.9 |
| EBIT | 9.3 | 11.6 | 11.3 | 12.2 |
| Pre-tax profit | 7.5 | 9.4 | 9.2 | 10.5 |
| Net profit | 8.5 | 10.1 | 10.0 | 10.9 |
| **Valuation metrics (x)** | | | | |
| P/E | 18.6 | 18.0 | 14.5 | 10.8 |
| P/B | 0.95 | 1.03 | 1.00 | 0.95 |
| Dividend yield (%) | 3.65 | 3.65 | 3.93 | 4.55 |
| P/CF | 16.4 | 13.1 | 11.5 | 8.9 |
| EV/sales | 1.91 | 2.13 | 1.79 | 1.39 |
| EV/EBITDA | 13.5 | 12.4 | 10.2 | 7.7 |
| EV/EBIT | 20.6 | 18.3 | 15.8 | 11.3 |
| **ROE analysis (%)** | | | | |
| ROE | 6.0 | 5.8 | 7.0 | 9.0 |
| ROIC | 5.16 | 5.13 | 5.77 | 7.38 |
| Asset turnover (x) | 0.40 | 0.36 | 0.42 | 0.49 |
| Interest burden (x) | 0.81 | 0.81 | 0.81 | 0.86 |
| Tax burden (x) | 0.95 | 0.88 | 0.88 | 0.87 |
| Financial leverage (x) | 1.50 | 1.58 | 1.66 | 1.64 |
| **Credit ratios** | | | | |
| Net debt/equity (%) | 10.2 | 17.2 | 22.8 | 16.7 |
| Net debt/EBITDA (x) | 1.20 | 1.77 | 1.90 | 1.15 |
| Interest cover (x) | 5.28 | 5.17 | 5.40 | 7.29 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*




*Source: IBES*

# Widening cogeneration margin is structural

GPSC sees costless rise in revenue, driven by Thailand having increasing share of power generation from renewable power sources

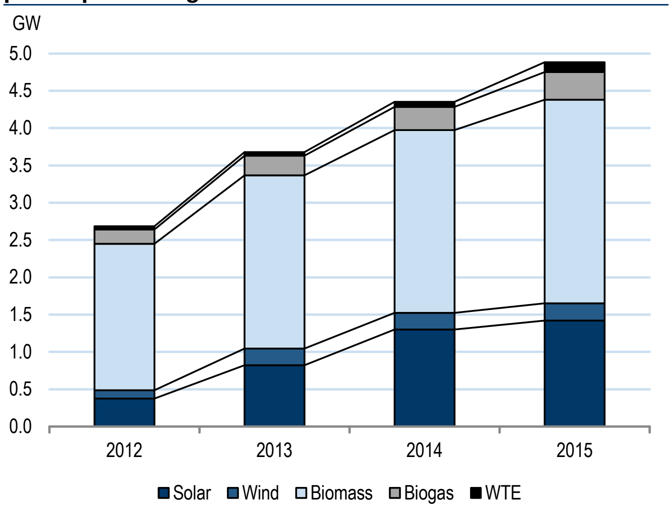
Margins of GPSC's electricity sales to industrial customers (IUs) are on a structurally rising trend. Selling price of electricity units to IUs is based on government's announced tariffs, which will be rising with higher portion of expensive renewable power in Thailand's total power generation. Nearly 1,800 MW of new renewable power capacity are planned to start operation in 2016-17. Power generation from renewable energy sources now accounts for 7% of total power generation in Thailand, and is projected to reach 12% in 2018. This would result in expanding margins as a major portion of its costs is natural gas. Electricity sales to IUs accounts for 35% of FY16E revenue and is expected to witness a 17% CAGR in 2016E-18E. The expected rise in tariffs is estimated to account for Bt6/share in our DCF-based NAV.

## Driven by Thailand's increasing share of power generation from renewable energy sources

Thailand has seen a surge in new renewable capacity – 82% rise in installed capacity between 2012-15

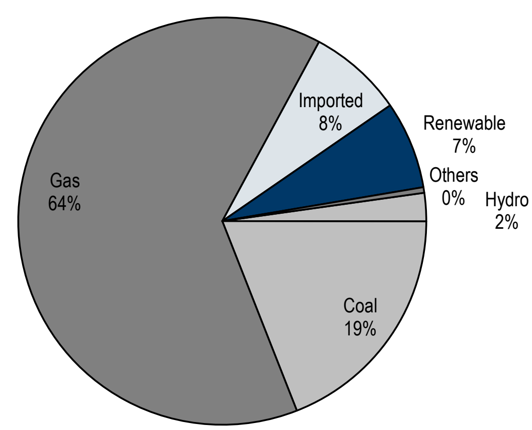
Over the past three years, Thailand has seen a surge in new renewable capacity – 82% rise in installed capacity between 2012 and 2015 (Figure 6). Particularly, solar farms and wind farms grew 277% and 109% over the same period. Power generation from renewable energy sources now accounts for 7% of total power generation in Thailand (Figure 7), rising from 5% in 2015 and less than 3% in 2012.

Figure 6: **Thailand's installed capacity for renewable power plants – grew 82% between 2012 and 2015**




*Source: DEDE*

Figure 7: **7% of Thailand's power generation comes from renewable energy sources**



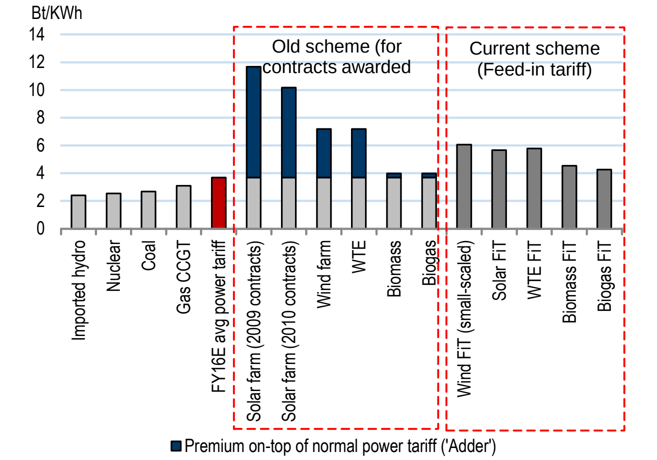

*Source: EPPO*

All of subsidies for renewable power generation are embedded in power tariff

Accelerated renewable power generation was a consequence of generous financial support. Thailand incentivised the private sector by giving out contracts with premium-price tariffs on top of the usual announced power tariff (known as 'adder', between 2007 and 2015) and a fixed-rate tariff (known as 'Feed-in tariff', between 2015 and present). Note that we see only a slight probability for the government to adjust terms in the awarded contracts. Hence, the government will have to be responsible for the committed subsidies until contracts end.

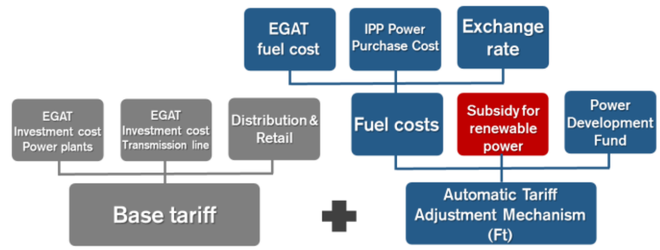
These financial supports have spiked power tariff. Compared to the average power tariff in the country, the government is paying 0.8-3.2x higher prices to purchase power from renewable energy sources (Figure 8). All of these purchasing costs, in turn, are embedded in the power tariff. The structure of power tariff in Thailand allows all costs that arise from power generation, including fuel costs and all types of subsidies, to be passed through (Figure 9).

Figure 8: **Costs of purchasing power from renewable energy sources are high**




*Source: Ministry of Energy, ERC, Credit Suisse estimates*

Figure 9: **Thailand's power tariff structure - subsidies for renewable power are embedded in power tariff.**




*Source: Credit Suisse*

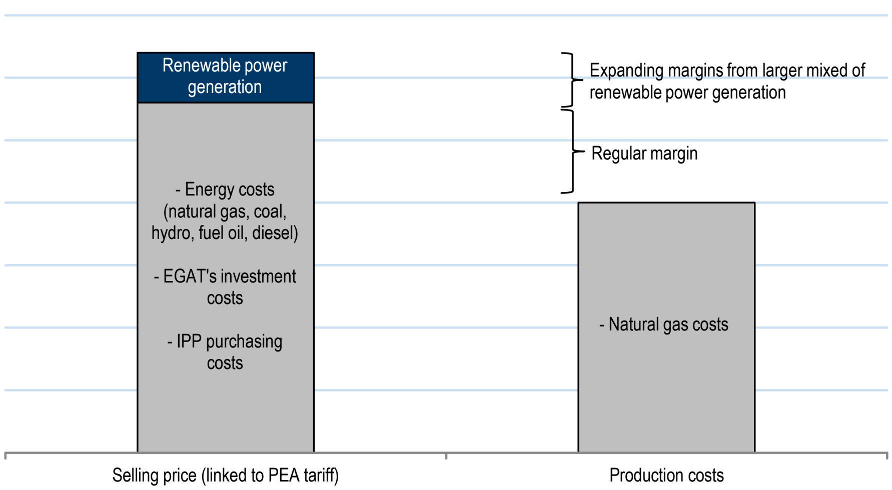
# Costless benefit for cogeneration business

Thailand, having a larger mix of power generation from renewable sources, benefits cogeneration power producers through its higher electricity selling price to IUs. Negotiations for the selling price are conducted on business-to-business commercial terms basis, and is benchmarked with Provincial Electricity Authority's (PEA) tariff for IUs (a type of power tariff charged to the large users outside Bangkok, normally at a discount to Thailand's averaged power tariff). PEA tariff changes every four months through Fuel Tariff (Ft) adjustment, capturing movement in energy costs and any subsidies paid by the government.

More subsidies government required to pay for renewable power generation translate to higher electricity selling price for cogeneration power plants

Costs involved for cogeneration power plants are mainly from natural gas, and higher subsidies from renewable power generation have no impact on production costs. As such, by having a larger pie of power generation from renewable sources could lead to higher electricity margin for the cogeneration business (Figure 10).

Figure 10: **Simplified structure of electricity revenue-costs dynamic for cogeneration power plants.**



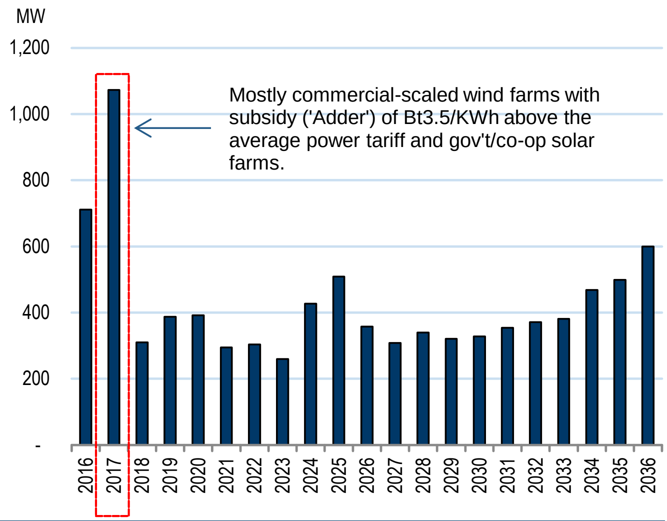

*Source: Credit Suisse*

# The period of rising margin has just begun

The period of momentous changes in the margin lift for SPP cogeneration has just begun. A bunch of wind and solar farms are due to set in motion in 2017, and the maximum benefit from Thailand having a larger pie of renewable power is unlikely to come until 2018. Nearly 1,800 MW of new renewable power capacity have been planned to start operation in 2016-17 (Figure 11), most of which are wind farms with Bt3.5/KWh premium on top of the normal power tariff ('Adder') and solar farms under government/co-op scheme with Feed-in tariff at Bt5.66/KWh. A portion of subsidies for renewable energy sources in power tariff is estimated to reach Bt0.35/KWh and Bt0.42/KWh in 2017 and 2018, respectively, from Bt0.22/KWh in Jan-Apr 2016 (Figure 13).

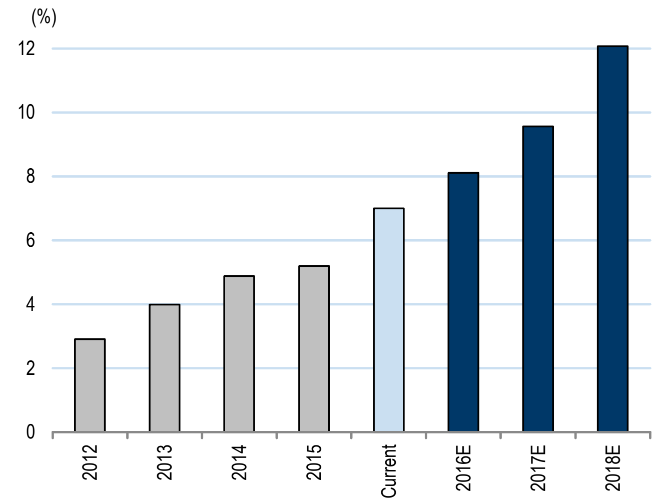
The maximum benefit from Thailand having larger pie of renewable power should be in 2018

Figure 11: **Planned annual start-up of private renewable capacity under PDP 2015—start-up from renewable is not yet at the peak**



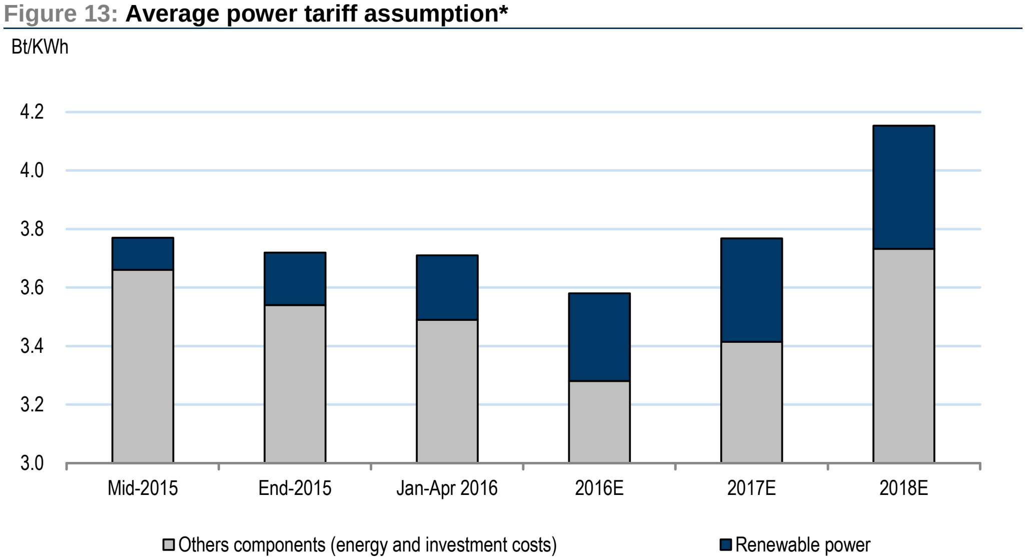

*Source: PDP 2015, Credit Suisse research*

Figure 12: **Power generation from renewable power source is projected to reach 12% in 2018.**




*Source: EPPO, PDP 2015*

Figure 13: **Average power tariff assumption***

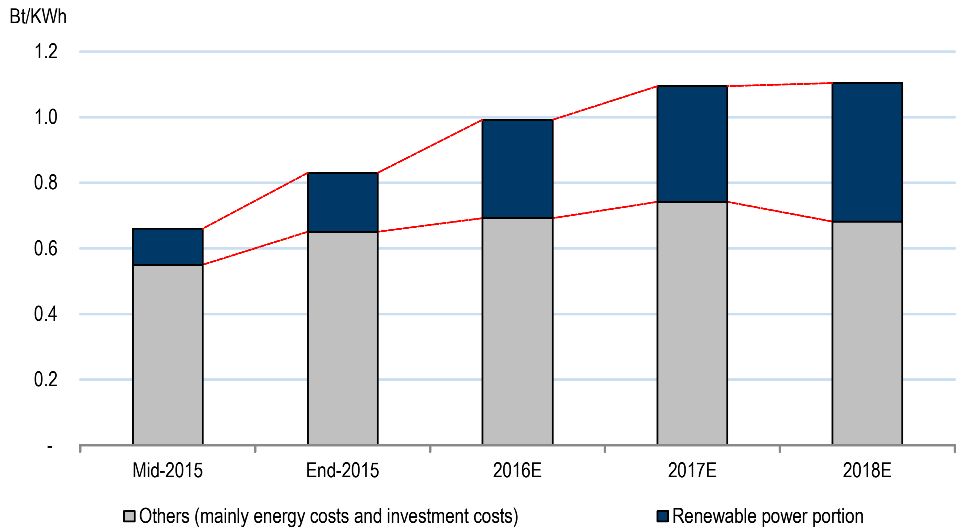



**Normally at a premium to PEA tariff for industrial users, Source: PDP 2015, Credit Suisse estimates*

The subsidies will provide a 30-38% boost to our pro-forma margins for gas-fired cogeneration plants, contributing to the increases in 2016-17 and cushion against an expected drop in 2018 (as a result of higher gas price) (Figure 14). Our pro-forma margin for gas-fired cogeneration power plants is calculated based on the difference between PEA tariff for industrial users, which is normally at a discount to Thailand's average power tariff, and natural gas cost at 8,600 BTU/KWh heat rate.

The subsidies provide 30-38% boost to our pro-forma margins for gas-fired cogeneration plants

Figure 14: **Pro forma gas-fired cogeneration margin*—fuelled by growing subsidies for renewable power generation.**



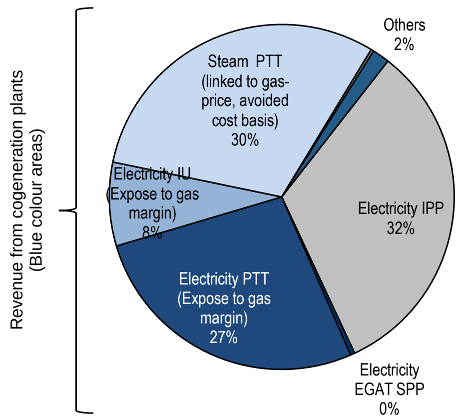

**Calculated based on the difference between PEA (Provincial Electricity Authority) tariff for industrial users and natural gas cost at 8,600 BTU/KWh heat rate.*
*Source: GLOW, EGAT, ERC, Credit Suisse estimates*

## GPSC—weighty exposure

GPSC owns a weighty and a rising exposure from electricity sales to industrial customers under its cogeneration business. 35% of its sales revenue are electricity sold to IUs (who is mainly PTT group) (Figure 15), which could see benefit from higher electricity margin from cogeneration plants. Like other cogeneration power producers, selling prices for electricity sold to IUs are benchmarked to government's announced PEA power tariff, while having natural gas as feedstock.

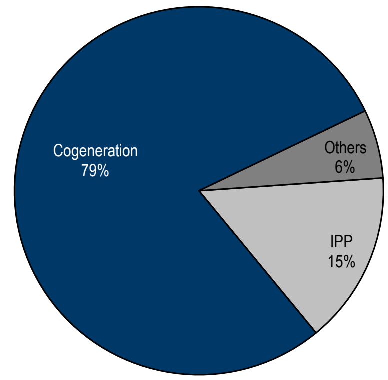
35% of its revenue is electricity sold to IUs, which will benefit from higher electricity margin from gas-fired cogeneration plants

**Figure 15: Breakdown of GPSC's revenue—highly exposed to cogeneration business**




*Source: Company data, Credit Suisse estimates*

**Figure 16: EBITDA breakdown—79% of EBITDA in FY16E to come from cogeneration power plants**

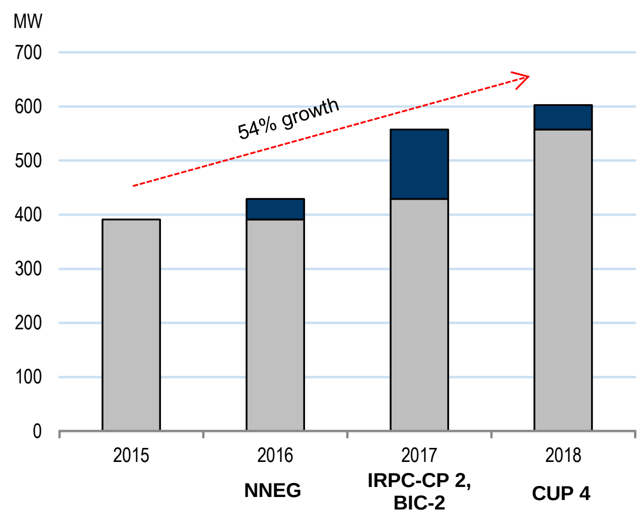



*Source: Company data, Credit Suisse estimates*

Furthermore, GPSC is having another 211MW of gas-fired cogeneration power under construction (Figure 17). All of them are due to complete in 2018, right in time to get benefit from the peak of structural expanding cogeneration power margins. Revenue from electricity sold to industrial users is estimated to rise 17% CAGR over 2015-18E (Figure 18).

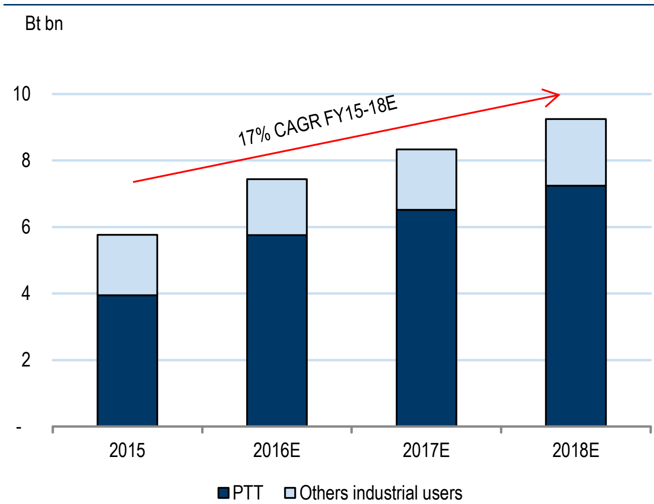
Revenue from electricity sold to industrial users are estimated to rise 17% CAGR over 2015-2018E

**Figure 17: GPSC committed to grow its cogeneration power plants capacity by 54%**



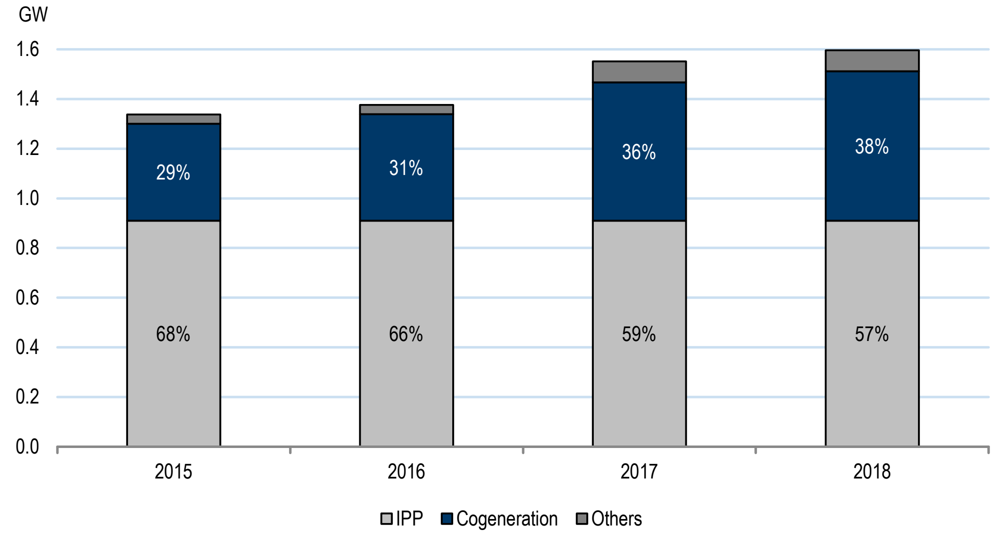

*Source: Credit Suisse estimate*

**Figure 18: Revenue from electricity sold to IUs expected to rise 17% CAGR 15-18E**




*Source: Company data, Credit Suisse estimates*

Figure 19: **GPSC's capacity—GPSC to have larger mixed of cogeneration fleets.**




*Source: Company data*

## Our earnings is 1-6% above consensus

Our earnings forecasts are 1%, 6% and 2% above consensus in FY16E-18E, respectively. We believe that majority of the difference is from our higher margin assumption from GPSC's gas-fired cogeneration power plants. Our forecast has already assumed a drop in revenue from steam, as a result of lower gas price. In addition, we have put in an expectation of a year's delay in starting up at Nam Lik 1 hydroelectric power plant (40%-owned 65 MW).

Our earnings are above consensus on higher assumptions for electricity margin from GPSC's cogeneration power plants

Figure 20: **Credit Suisse's earnings assumptions for GPSC**

| | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| *Base tariff (Bt/KWh)* | *3.35* | *3.76* | *3.76* | *3.76* |
| *Ft (Bt/KWh)* | *0.43* | *(0.18)* | *0.01* | *0.40* |
| **Thailand's average tariff*(Bt/KWh)** | **3.78** | **3.58** | **3.77** | **4.15** |
| Steam ASP (Bt/mmbtu) | 1,225 | 1,105 | 1,125 | 1,213 |
| Average gas price (Bt/t) | 318 | 244 | 254 | 298 |
| Utilisation - CUP#1-3 | 80% | 80% | 85% | 85% |

** at a premium to PEA power tariff, which electricity selling price for GPSC's cogeneration power plants are benchmarked. Source: Credit Suisse estimates*

### Earnings sensitivities

For a Bt0.01/Kwh rise in power tariff, ceteris paribus, our sensitivity analysis suggests a 1% rise in FY16 earnings forecast.

# Growing demand from PTT group

Minimum of 120 MW of high-margin cogeneration plants could be built to support expanding demand from PTT group

Among its peers, GPSC is likely to grow most in the domestic market, regardless of government's policy. GPSC is different from other utilities in which it has PTT group as a cornerstone customer.

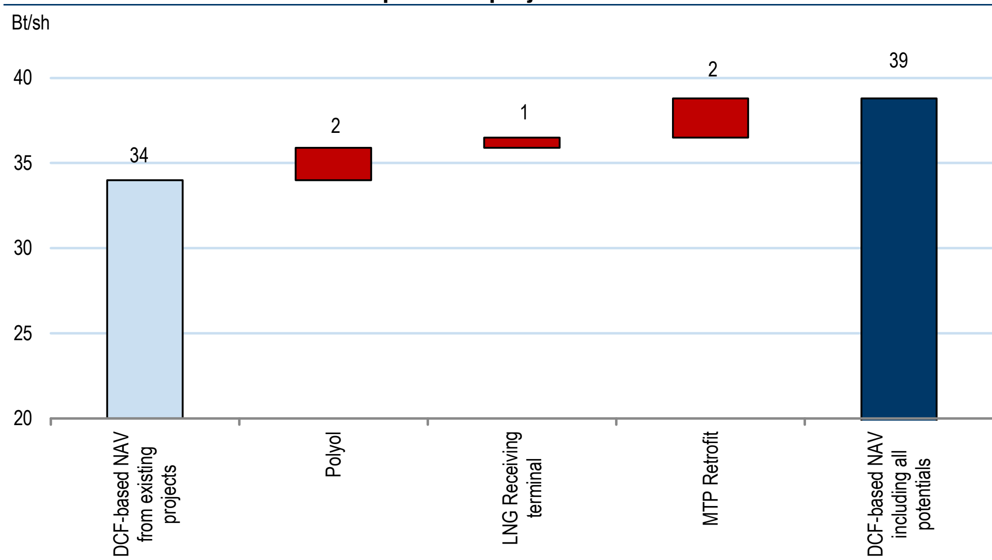
GPSC can ride on the new investment cycle with companies under the same group such as PTTGC. A minimum of 120 MW of high-margin cogeneration plants could be built to support rising demand from PTT Group, including Polyol project and Map Tha Put retrofit project at PTTGC and LNG receiving terminal phase 2 at PTT parent company (Figure 21). Importantly, electricity and steam from cogeneration power plants sold to PTT group earn high margin and could further benefit from the structurally widening cogeneration margin. The potential increase in capacity is equivalent to 20% rise in capacity for GPSC's committed cogeneration power plants.

**Figure 21: 120 MW of SPP cogeneration plants could be built to support expanding demand from PTT Group**

| Clients | Project | Estimated demand | Expected COD | Note |
|---|---|---|---|---|
| **Committed capacity** | | | | |
| PTTGC | Phenol and LLDPE projects | 45 MW | 1Q18 | CUP#4 Phase 1 (Already FID, and under development) |
| **Potential capacity** | | | | |
| PTTGC | Polyol project | 40 MW | 2019 | CUP# 4 Phase 2. (Polyol project is under FEED, PTTGC expects for FID in mid-2016) |
| PTTGC | Map Tha Put retrofit | At least 50 MW | ~2020 | Under negotiation, To require integrated-cracker cogen plant |
| PTT | LNG Receiving terminal | 30 MW | N/A | CUP# 5 (LNG Receiving Terminal 1 is currently using electricity supply from PEA, however, PTT is studying to switch from PEA to GPSC for power security purpose once PTT develops LNG Receiving terminal 2) |

*Source: Company data, Credit Suisse estimates*

**Figure 22: Our DCF-based NAV may be raised by another Bt5/share if PTT group makes final investment decisions for all potential projects**




*Source: Credit Suisse estimates*

GPSC is capable to finance these investments to support growing demand from PTT group mainly by debt. Assuming 100% debt financing, GPSC's net debt-to-equity would be at only 0.46x in FY16E, below its threshold at 2.75x.

# Myanmar to be inorganic 'Big Win'

GPSC has been actively looking for investment opportunities in Myanmar, as part of its 'Big Win' strategy. We acknowledge that most of the projects are unlikely to see any conclusion in the near future. However, GPSC could somewhat take a benefit from being a first-mover. According to the company, Croco project, 400 MW (Phase 1: 140 MW) combined cycle gas-fired power plants, has seen the greatest development. Management is expecting to conclude on this potential investments by the end of 2016. The project is a mid-size combined cycle gas-fired power plant, aimed at supporting growth at Thilawa special economic zone.

Croco project, 400 MW (Phase 1: 140 MW) combined cycle gas-fired power plants, has seen the greatest development

Figure 23: **GPSC is actively looking into three potential projects in Myanmar**

| Project | Location | Type | Approx. Capacity (MW) | Customer | SCOD | Status |
|---|---|---|---|---|---|---|
| Croco | Thanlyin | Combined Cycle Gas Turbine | 400 MW (Phase 1: 140 MW) | MEPE | 2020 | FSR Clarification & MOA negotiation |
| X-Cite | Myeik | Coal-fired power plant | 2,500 MW | MEPE, EGAT | 2021-22 | MOA negotiation |
| L | Kyaiklat | Combined Cycle Gas Turbine | Approx. 500 MW | MEPE | 2020 | MOA Execution |

*Source: Company data*

# Valuation reasonable relative to growth

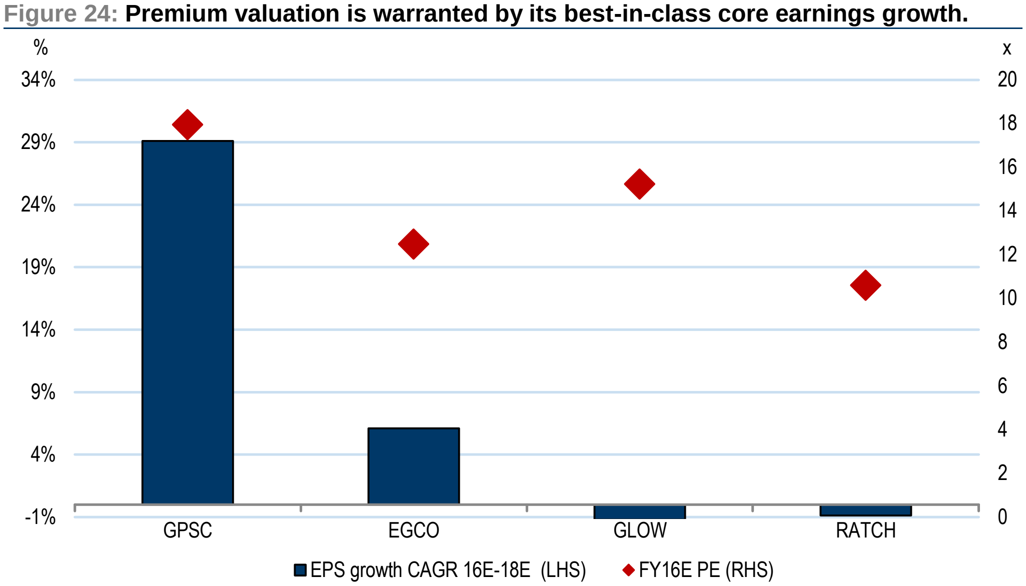
GPSC warrants a premium valuation thanks to its superior earnings growth. Its core earnings is expected to witness 29% CAGR (16E-18E), whereas those of its Thai peers is expected to be at only -0.9% to 6%. GPSC is trading at FY16E P/E 17.7x, versus Thai peers' average of 13.9x. We see sentiment improving towards the stock, and the recent rally in share price is believed to be a result of higher-than-expected dividend payment and cyclical margin expansion from lower gas costs (shown in 4Q15 results). GPSC has still underperformed EGCO and GLOW by 7-8% in the past three months. We believe that the market is yet to factor in the benefit from long-term structural margin expansion (as a result of larger mix of renewable power generation) and potential new demands from PTT group. GPSC is an under-owned name. The stock is yet to appear on the radar for foreign investors. Foreign ownership lodges at less than 1%, and presently, there are only five analysts tracking the name (according to Bloomberg).

## Warranted by superior growth

GPSC warrants a premium valuation thanks to its superior earnings growth. Its core earnings is expected to witness 29% CAGR (16E-18E), whereas those of its Thai peers is expected to be at only -0.9% to 6%. GPSC is trading at FY16E P/E 17.7x, versus Thai peers' average of 13.9x (Figure 24).

Its premium valuation can be warranted by its superior earnings growth to peers

Figure 24: **Premium valuation is warranted by its best-in-class core earnings growth.**

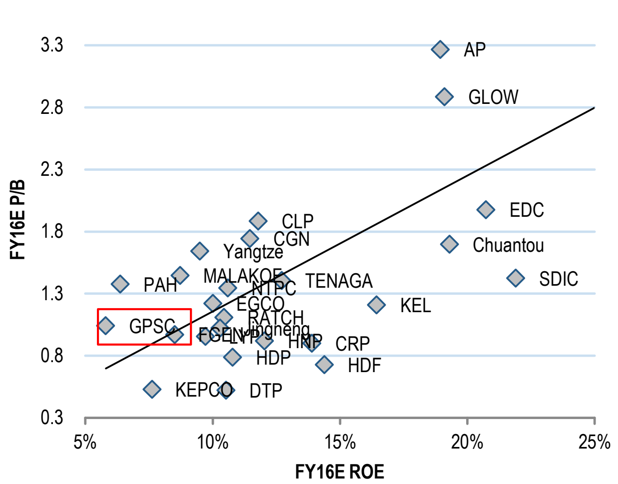



*Source: Company data, Credit Suisse estimates*

GPSC may appear relatively expensive on P/B versus ROE metric due mainly to its low ROE (Figure 25). However, we expect its ROE to improve gradually, and will reach 9% in 2018E, at a similar level with the Thai peers (Figure 26).

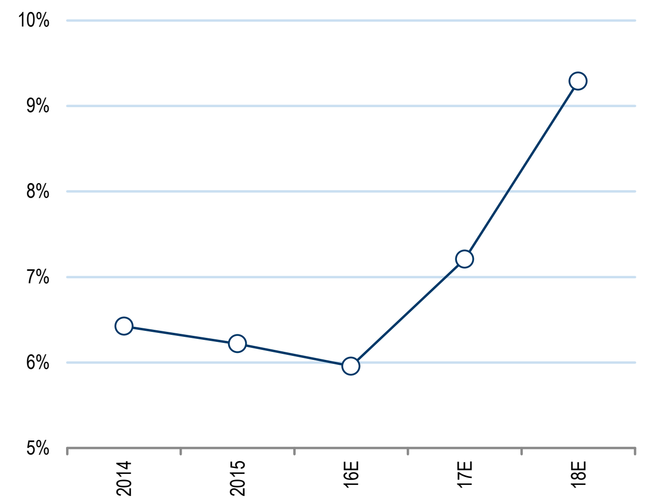
We are seeing ROE to reach 9% in 2018E

Figure 25: **FY16E P/B versus ROE—at a premium**




*Source: Company data, Credit Suisse estimates*

Figure 26: **ROE is expected to reach 9% in 2018E**



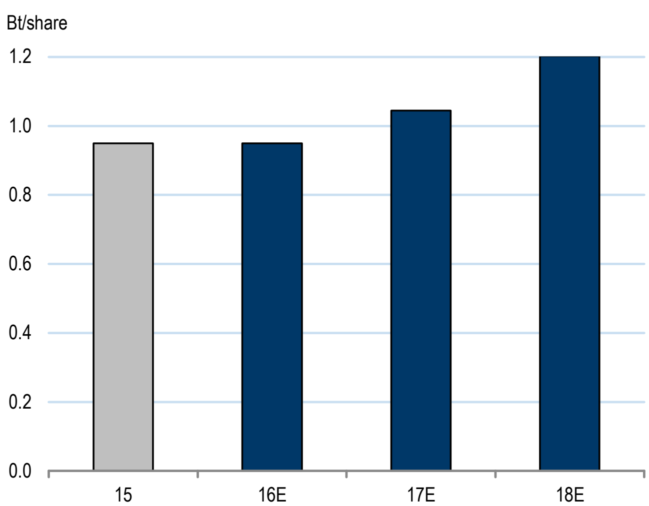

*Source: Company data, Credit Suisse estimates*

## Dividend – expected to maintain absolute amount

We believe GPSC is capable of maintaining its FY16E dividend payment at the same amount as its FY15 numbers (Figure 27), despite its large capex requirements. GPSC has Bt10 bn cash raised from the initial public offering since May 2015. Moreover, an under-geared balance sheet leaves GPSC in a better position to capture investment opportunities should they arise. Its FY16E net debt-to-equity ratio is at 0.17x, relatively low compared to its covenant's threshold at 2.75x and others Thai utilities at 0.12x-1.03x (Figure 28).

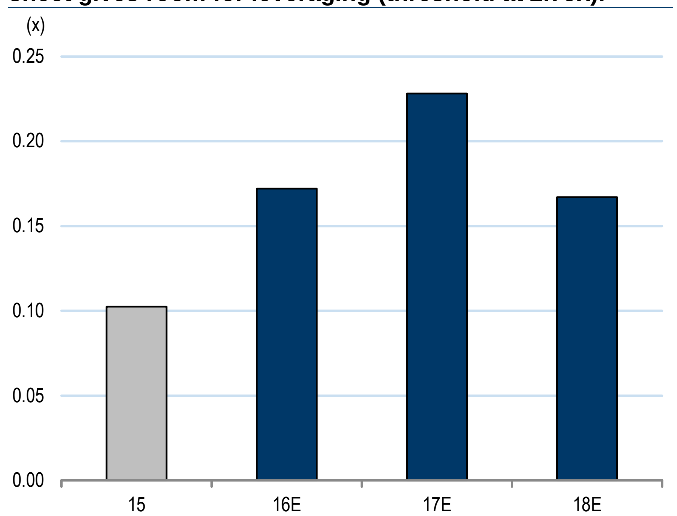
GPSC should be capable of maintaining its FY16E dividend payment at the same amount as its FY15 numbers

Figure 27: **DPS forecast—expected to at least maintain absolute amount in FY16**



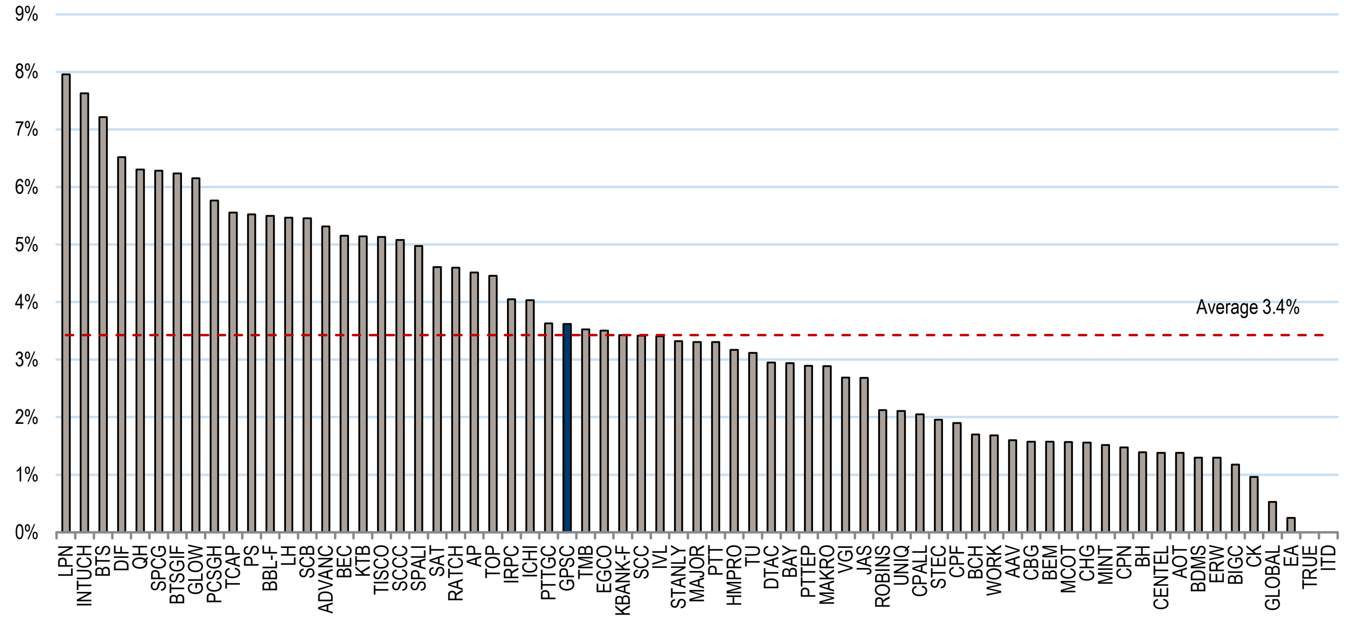

*Source: Company data, Credit Suisse estimates*

Figure 28: **Net debt-to-equity—Under-geared balance sheet gives room for leveraging (threshold at 2.75x).**




*Source: Company data, Credit Suisse estimates*

Figure 29: **FY16E dividend to be on par with Thailand's average**



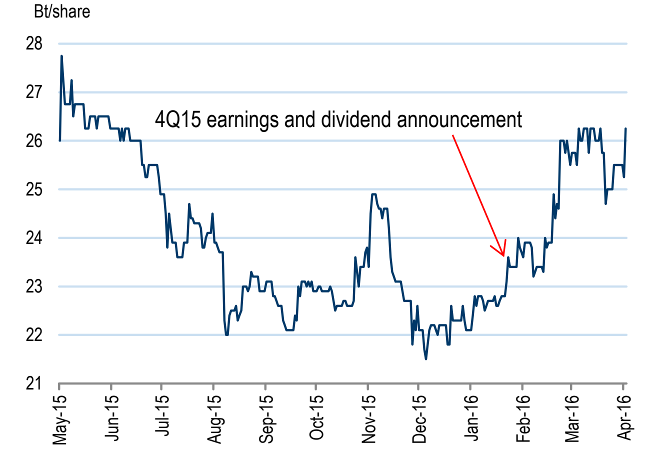

*Source: Credit Suisse estimates*

## Recent rally has not yet captured benefit from structural widening margin and potential new demand from PTT group

We see improving sentiment towards the stock, and the recent rally in share price is believed to be a result of higher-than-expected dividend payment and strong 4Q15 results (Figure 30). However, the market has not yet likely factored in the benefit from long-term structural margin expansion (as a result of larger mix of renewable power generation) and potential new demands from PTT group. We also see more clarity on its growth plan, i.e., further demand from PTT group. GPSC still underperforms EGCO and GLOW by 7-8% in the past three months (Figure 31).

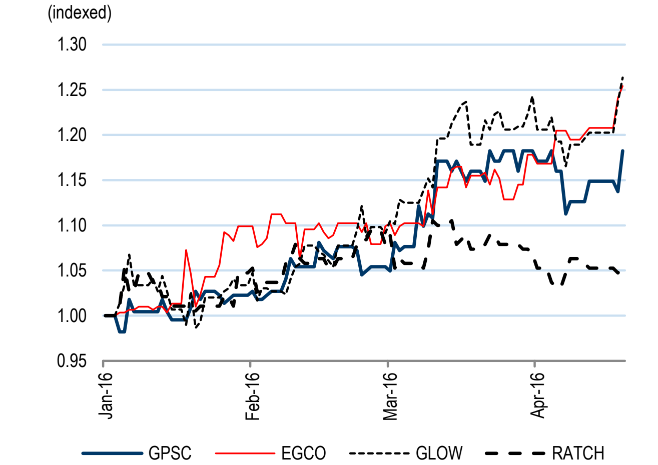
The market has not yet likely factored in benefit from long-term structural margin expansion (as a result of larger mix of renewable power generation)

Figure 30: **Strong 4Q15 earnings and higher-than-expected dividend payment are likely reasons for share price's rally in the past three months**




*Source: Company data, Credit Suisse estimates*

Figure 31: **Share price performance – GPSC still underperformed EGCO and GLOW by 7-8% in the past three months**




*Source: Thomson Reuters*

## Under the radar

GPSC is an under-owned name. The stock is yet to appear on the radar for foreign investors. Foreign ownership sits at less than 1%, and presently, there are only five analysts tracking the name (according to Bloomberg).

Foreign ownership sits at less than 1%

## Target price of Bt34/share

Our target price of Bt34/share for GPSC is based on DCF valuation of its committed projects. We employ a 7.7% cost of equity (beta of 0.5x) and 6.5% WACC. We do not apply a terminal value into our calculation.

Our target price of Bt34/share for GPSC is based on DCF valuation of its committed projects

Figure 32: **Our Bt35/share target price**

| | *Bt/share* |
|---|---|
| Value of consolidated projects | **24.1** |
| NNEG | 0.6 |
| BIC | 1.5 |
| TSR | 1.8 |
| Nam Lik | 0.9 |
| Xayaburi | 4.8 |
| RPCL | 0.2 |
| **GPSC's target price** | **34** |

*Source: Company data, Credit Suisse estimates*

**Figure 33: Regional valuation comparison table**

| Company | Ticker | Rat. | FX | Price | Target Price | U/D | Mkt Cap US$ mn | DY 16E | DY 17E | FCF yield 16E | P/E (x) 16E | P/E (x) 17E | EPS growth (%) 16E | EPS growth (%) 17E | P/B (x) 16E | P/B (x) 17E | EV/EBITDA (x) 16E | EV/EBITDA (x) 17E | ROE (%) 16E | Net D/E 16E | Net D/EBITDA 16E | EV/IC (x) 16E | ROIC (%) 16E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Thailand** | | | | | | | | | | | | | | | | | | | | | | | |
| Electricity Generating | EGCO.BK | N | THB | 190.0 | 185.0 | -3% | 2,865 | 3.4% | 3.6% | -1.2% | 12.5 | 11.7 | 86% | 7% | 1.2 | 1.2 | 19.2 | 16.6 | 10% | 103% | 8.8 | 1.08 | 2.8% |
| Glow Energy PCL | GLOW.BK | O | THB | 93.5 | 109.0 | 17% | 3,917 | 6.1% | 6.1% | 9.5% | 15.2 | 15.0 | 8% | 2% | 2.9 | 2.8 | 9.8 | 9.6 | 19% | 75% | 2.3 | 1.86 | 12.7% |
| Ratchaburi Electricity Generating Holding PCL | RATCH.BK | N | THB | 50.0 | 51.0 | 2% | 2,076 | 4.6% | 4.6% | 7.4% | 10.6 | 10.3 | 115% | 2% | 1.1 | 1.0 | 9.5 | 9.3 | 10% | 12% | 0.9 | 1.15 | 7.3% |
| Global Power Synergy | GPSC.BK | O | THB | 26.3 | 34.0 | 30% | 1,126 | 3.3% | 3.3% | -3.2% | 18.4 | 15.4 | 3% | 24% | 1.1 | 1.0 | 11.9 | 9.9 | 6% | 17% | 1.8 | 0.98 | 4.9% |
| **Average - Thailand** | | | | | | | | **4.7%** | **4.8%** | **5.2%** | **12.8** | **12.3** | **69%** | **4%** | **1.7** | **1.7** | **12.8** | **11.8** | **13%** | **64%** | **4.0** | **1.36** | **7.6%** |
| **China** | | | | | | | | | | | | | | | | | | | | | | | |
| China Resources Power Holdings | 0836.HK | U | HKD | 14.5 | 14.0 | -3% | 8,974 | 6.2% | 5.8% | -21.5% | 6.5 | 7.4 | 6% | -13% | 0.9 | 0.8 | 5.6 | 5.6 | 14% | 109% | 3.3 | 0.78 | 7.7% |
| Huadian Power International | 1071.HK | U | HKD | 4.5 | 3.5 | -22% | 7,998 | 5.5% | 4.5% | -5.2% | 7.3 | 8.5 | -36% | -14% | 0.8 | 0.7 | 6.9 | 6.9 | 11% | 193% | 4.8 | 0.86 | 5.7% |
| Datang International Power Generation Co. Ltd. | 0991.HK | N | HKD | 2.3 | 2.6 | 12% | 7,644 | 7.7% | 7.4% | 0.6% | 5.0 | 4.7 | 25% | 4% | 0.5 | 0.5 | 9.6 | 9.4 | 11% | 283% | 7.8 | 0.86 | 4.1% |
| Huaneng Power International Inc | 0902.HK | U | HKD | 6.5 | 5.6 | -14% | 16,576 | 6.5% | 5.9% | 18.7% | 7.6 | 8.4 | -25% | -9% | 0.9 | 0.9 | 6.8 | 6.8 | 12% | 141% | 4.0 | 1.02 | 6.9% |
| Longyuan Power | 0916.HK | O | HKD | 5.9 | 8.0 | 36% | 6,113 | 2.0% | 3.7% | -10.9% | 9.8 | 6.8 | 40% | 44% | 1.0 | 0.9 | 7.8 | 6.8 | 10% | 152% | 5.1 | 0.89 | 6.0% |
| Huadian Fuxin Energy Corporation Limited | 0816.HK | O | HKD | 2.0 | 3.1 | 58% | 2,125 | 4.0% | 5.4% | -48.0% | 5.1 | 3.7 | 30% | 37% | 0.7 | 0.6 | 8.5 | 7.7 | 14% | 313% | 7.1 | 0.68 | 5.1% |
| SDIC Power Holdings | 600886.SS | N | CNY | 6.6 | 12.2 | 84% | 6,960 | 5.4% | 5.6% | 8.8% | 6.5 | 6.2 | 8% | 4% | 1.4 | 1.2 | 7.5 | 7.1 | 22% | 217% | 5.7 | 0.79 | 7.7% |
| Sichuan Chuantou Energy | 600674.SS | N | CNY | 8.5 | 12.8 | 50% | 5,809 | 1.7% | 1.7% | 0.5% | 8.8 | 9.0 | 5% | -2% | 1.7 | 1.5 | 71.6 | 71.3 | 19% | 20% | 7.6 | 1.56 | 1.5% |
| Beijing Jingneng Power Co Ltd | 600578.SS | N | CNY | 5.0 | 6.9 | 39% | 3,536 | 3.5% | 4.5% | -2.0% | 9.9 | 8.9 | -3% | 12% | 1.0 | 1.1 | 7.5 | 5.3 | 10% | 47% | 3.0 | 0.67 | 5.1% |
| China Yangtze Power Co Ltd | 600900.SS | N | CNY | 12.5 | 16.4 | 32% | 31,829 | 5.2% | 5.2% | 12.2% | 17.3 | 14.5 | 4% | 19% | 1.6 | 1.7 | 12.3 | 9.4 | 10% | 110% | 5.6 | 0.78 | 4.9% |
| **Average - China** | | | | | | | | **4.5%** | **4.7%** | **-4.0%** | **9.0** | **8.3** | **6%** | **9%** | **1.1** | **1.0** | **14.4** | **13.4** | **13%** | **157%** | **5.6** | **0.88** | **5.4%** |
| **Hong Kong** | | | | | | | | | | | | | | | | | | | | | | | |
| CLP Holdings Limited | 0002.HK | N | HKD | 73.0 | 66.0 | -10% | 23,762 | 3.8% | 3.8% | 5.2% | 16.0 | 15.6 | -26% | 2% | 1.9 | 1.8 | 10.9 | 10.5 | 12% | 49% | 2.4 | 1.52 | 8.7% |
| Power Assets Holdings Limited | 0006.HK | O | HKD | 81.0 | 86.0 | 6% | 22,288 | 3.4% | 3.5% | 0.6% | 21.6 | 21.2 | 4% | 2% | 1.4 | 1.4 | 88.9 | 91.6 | 6% | -46% | (44.3) | 1.67 | 1.9% |
| **Average - Hong Kong** | | | | | | | | **3.6%** | **3.7%** | **2.9%** | **18.8** | **18.4** | **-11%** | **2%** | **1.6** | **1.6** | **49.9** | **51.0** | **9%** | **2%** | **(21.0)** | **1.59** | **5.3%** |
| **Malaysia** | | | | | | | | | | | | | | | | | | | | | | | |
| Tenaga | TENA.KL | U | MYR | 14.4 | 12.0 | -17% | 20,989 | 2.4% | 2.6% | 1.4% | 11.0 | 12.1 | 9% | -9% | 1.4 | 1.3 | 7.0 | 7.2 | 13% | 34% | 1.3 | 1.38 | 10.5% |
| Malakoff Bhd | MALA.KL | N | MYR | 1.7 | 1.7 | 2% | 2,157 | 5.1% | 4.6% | 27.6% | 16.5 | 21.7 | 6% | -24% | 1.4 | 1.4 | 8.4 | 8.7 | 9% | 221% | 5.2 | 1.16 | 5.7% |
| **Average - Malaysia** | | | | | | | | **3.7%** | **3.6%** | **14.5%** | **13.8** | **16.9** | **8%** | **-16%** | **1.4** | **1.4** | **7.7** | **8.0** | **11%** | **128%** | **3.2** | **1.27** | **8.1%** |
| **Philippines** | | | | | | | | | | | | | | | | | | | | | | | |
| First Gen Corporation | FGEN.PS | O | PHP | 21.0 | 28.6 | 36% | 1,665 | 1.6% | 1.6% | -4.9% | 10.9 | 9.8 | 19% | 11% | 0.9 | 0.9 | 5.4 | 5.1 | 9% | 112% | 3.2 | 0.81 | 9.4% |
| Aboitiz Power Corp | AP.PS | N | PHP | 44.0 | 42.5 | -3% | 7,014 | 3.8% | 3.8% | 3.7% | 17.2 | 16.4 | 14% | 5% | 3.3 | 3.1 | 12.2 | 11.4 | 19% | 63% | 2.0 | 2.31 | 13.0% |
| Energy Development Corporation | EDC.PS | O | PHP | 5.8 | 9.8 | 68% | 2,366 | 3.7% | 4.0% | 9.8% | 9.4 | 8.8 | 24% | 7% | 2.0 | 1.7 | 6.5 | 5.8 | 21% | 75% | 1.8 | 1.62 | 15.5% |
| Manila Electric (Meralco) | MER.PS | N | PHP | 333 | 280 | -16% | 8,120 | 4.6% | 4.6% | 4.6% | 20.2 | 19.7 | 0% | 3% | 4.6 | 4.5 | 10.2 | 9.8 | 23% | -36% | (0.9) | 6.61 | 34.9% |
| **Average - Philippines** | | | | | | | | **3.4%** | **3.5%** | **3.3%** | **14.4** | **13.7** | **14%** | **6%** | **2.7** | **2.5** | **8.6** | **8.0** | **18%** | **54%** | **1.6** | **2.84** | **18.2%** |
| **Korea** | | | | | | | | | | | | | | | | | | | | | | | |
| Korea Electric Power | 015760.KS | O | KRW | 59,900 | 68,000 | 14% | 33,947 | 2.5% | 2.5% | 3.5% | 7.0 | 6.7 | -58% | 4% | 0.5 | 0.5 | 4.9 | 4.9 | 8% | 71% | 2.8 | 0.79 | 5.8% |
| **Average - Korea** | | | | | | | | **2.5%** | **2.5%** | **3.5%** | **7.0** | **6.7** | **-58%** | **4%** | **0.5** | **0.5** | **4.9** | **4.9** | **8%** | **71%** | **2.8** | **0.79** | **5.8%** |
| **India** | | | | | | | | | | | | | | | | | | | | | | | |
| NTPC Ltd | NTPC.BO | O | INR | 139 | 160 | 15% | 17,353 | 4.2% | 4.3% | -20.0% | 12.7 | 12.3 | 4% | 3% | 1.3 | 1.3 | 11.6 | 12.3 | 11% | 133% | 5.8 | 1.00 | 5.3% |
| **Average - India** | | | | | | | | **4.2%** | **4.3%** | **-20.0%** | **12.7** | **12.3** | **4%** | **3%** | **1.3** | **1.3** | **11.6** | **12.3** | **11%** | **133%** | **5.8** | **1.00** | **5.3%** |
| **Pakistan** | | | | | | | | | | | | | | | | | | | | | | | |
| Hub Power Company | HPWR.KA | O | PKR | 104 | 118 | 13% | 1,154 | 9.6% | 11.5% | 15.7% | 10.3 | 8.4 | 6% | 23% | 3.5 | 3.3 | 8.1 | 7.1 | 34% | 104% | 2.0 | 2.20 | 21.5% |
| K-Electric | KELE.KA | O | PKR | 7.2 | 11.0 | 53% | 1,899 | 1.8% | 2.2% | -0.9% | 7.3 | 6.6 | 76% | 11% | 1.2 | 1.0 | 6.2 | 5.3 | 16% | 41% | 1.6 | 1.15 | 18.5% |
| **Average - Pakistan** | | | | | | | | **5.7%** | **6.9%** | **7.4%** | **8.8** | **7.5** | **41%** | **17%** | **2.4** | **2.2** | **7.1** | **6.2** | **25%** | **72%** | **1.8** | **1.67** | **20.0%** |
| **Average** | | | | | | | | **4.2%** | **4.4%** | **0.7%** | **11.4** | **11.1** | **14%** | **6%** | **1.6** | **1.5** | **14.5** | **13.9** | **14%** | **106%** | **2.2** | **1.38** | **9.0%** |

*Source: Company data, Credit Suisse estimates*

# HOLT® valuation

We use CS HOLT®, a Credit Suisse valuation tool that derives the stock price based on a company's cash flow return on investment (CFROI®) and estimated asset growth rates. Based on our modelled assumptions, CS HOLT® would value GPSC at Bt34/share (Figure 34), which is in-line with our DCF-based valuation methodology.

**Figure 34: Relative wealth chart and HOLT®-derived valuation**

HOLT - Credit Suisse Analyst Scenario Data

## GLOBAL POWER SYNERGY PCL (GPSC)

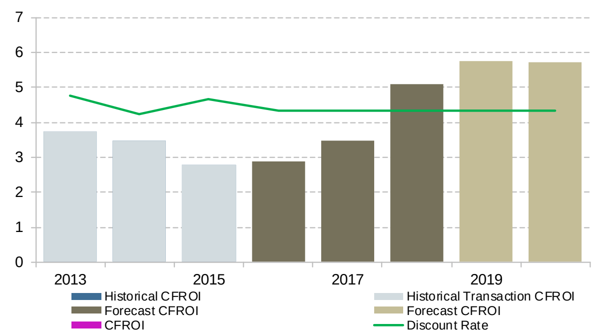
**Current Price: THB 25.25** **Warranted Price: THB 34.10** Valuation date: 19-Apr-16

| EBITDA Margin (parallel % point change to forecasts) | Sales Growth (parallel % point change to forecasts) | | | | |
|---|---|---|---|---|---|
| THB | -2.0% | -1.0% | 0.0% | 1.0% | 2.0% |
| -2.0% | 9.0% | 13.6% | 18.7% | 24.3% | 30.4% |
| -1.0% | 16.1% | 21.3% | 26.9% | 33.0% | 39.6% |
| 0.0% | 23.3% | 29.0% | 35.1% | 41.6% | 48.8% |
| 1.0% | 30.6% | 36.6% | 43.2% | 50.2% | 57.9% |
| 2.0% | 37.8% | 44.3% | 51.3% | 58.8% | 67.0% |

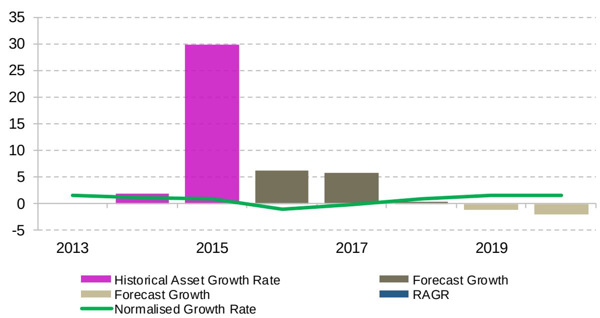
More than 10% downside | Within 10% | More than 10% upside

| | Dec 14A | Dec 15A | Dec 16E | Dec 17E | Dec 18E |
|---|---|---|---|---|---|
| Sales Growth, % | -9.8 | -5.1 | -2.4 | 21.4 | 22.7 |
| EBITDA Mgn, % | 12.1 | 12.8 | 17.2 | 17.5 | 17.9 |
| Asset Turns, x | 0.49 | 0.4 | 0.3 | 0.4 | 0.4 |
| CFROI®, % | 3.5 | 2.8 | 2.9 | 3.5 | 5.1 |
| Disc Rate, % | 4.2 | 4.7 | 4.3 | 4.3 | 4.3 |
| Asset Grth, % | 1.9 | 29.9 | 6.2 | 5.8 | 0.4 |
| Value/Cost, x | 0.3 | 1.0 | 1.1 | 1.1 | 1.0 |
| Economic PE, x | 9.8 | 35.6 | 38.0 | 31.4 | 20.4 |
| Leverage, % | 0.0 | 28.7 | 33.2 | 36.7 | 36.6 |

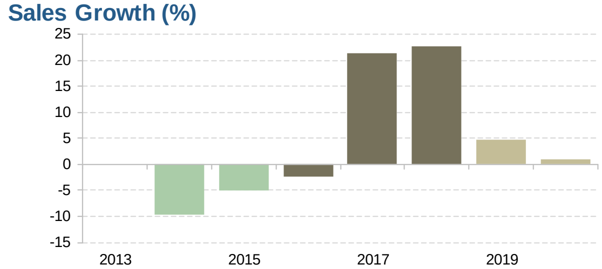
### CFROI & Discount Rate (in %)



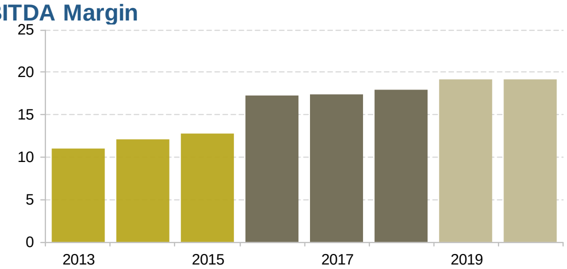

### Asset Growth (in %)



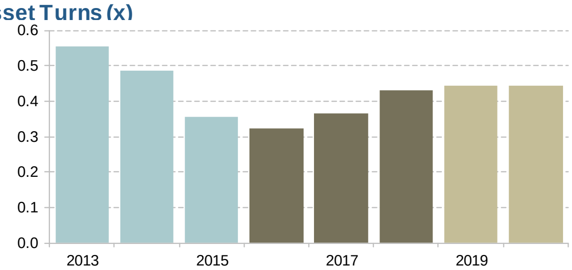

### Sales Growth (%)




### EBITDA Margin




### Asset Turns (x)




Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

*Source: Credit Suisse HOLT®*

# Risks

**Operating risk: Reliability and efficiency of plants**

The biggest risk for GPSC's operation is plant reliability

The biggest risk for GPSC's operation is plant reliability. Sriracha gas-fired IPP power plant has a guaranteed return without price or demand risk under the 25 years power Purchase Agreement (PPAs) with EGAT. We estimate that 26% of GPSC's earnings is being generated from this IPP business. EGAT is committed to paying 'Availability Payment' to IPPs as long as its plants are available for dispatch regardless of the actual dispatch. Its cogeneration business, which supply electricity and steam to PTT group and other industrial users, has a minimum take-or-pay agreement to protect the risk from lower demand. However, the segment may experience a temporary margin squeeze during the period of rising energy price. Revenue is linked to tariffs of the Provincial Electricity Authority (PEA) as announced by the Energy Regulatory Commission (ERC). ERC may delay tariff increase to calm public sentiment.

**Risk from PTT group**

Potential risks from PTT group are demand risk and risk of PTT group renegotiating sales contracts

GPSC is heavily relying on PTT group as its main customer. 56% of GPSC's revenue came from sales to PTT group companies in 2015. Potential risks from PTT group are demand risk and risk of PTT group renegotiating sales contracts.

PTT group, with most of its operations in the petrochem and related business, is the major client of GPSC. Petrochemical business is cyclical in nature, and as they often have similar maintenance plan. There is a minimum take-or-pay agreements (75-80% of the contracted volume) with its customers, as well; GPSC has scheduled its maintenance plan in accordance with the maintenance schedule of its clients.

There is a risk that PTT group may renegotiate terms for sales contracts with GPSC for a lower price. However, under securities laws concerning connected transactions, any changes demanded by PTT group which could cause significant impact to GPSC will require shareholder approval.

**The government has never renegotiated prices after the PPAs were signed**

Low regulatory risk

Regulatory risk is low. EGAT (33% of GPSC's FY16E revenue) has never renegotiated guaranteed prices or returns in any PPAs with the private sector after constructions have started, even in tough economic periods such as 1997 or 2009. There is also no history of default in payment to private power producers.

**Development risk: delay and cost overrun**

We have already factored in a potential cost overrun and delay of its development of hydroelectric power plants in Laos

579 MW (30%) of GPSC's capacity portfolio is being under construction stage, of which 347 MW is hydroelectric power plants in Laos including Xayaburi (25%-owned 1,285 MW) and Nam Lik 1 (40%-owned 65 MW).

Xayaburi is the first run-of-the-river dam located in the Lower Mekong River, and is facing strong public scrutiny over environmental impact. Recently, the concerns raised by The Mekong River Commission and Laos government to the project owners will result in additional investment costs for this project of Bt19 bn. We have already factored in the increased costs into our forecast. We have valued Xayaburi with a set of conservative assumptions, resulting in an estimated equity IRR of only 7% (versus 10%+ guidance). Our DCF-based NAV has Bt4.8/share contribution from Xayaburi project.

Nam Lik 1 project could also experience a delay in construction. We have assumed the plant to begin operation in 2H18, one year delay from current guidance. Nam Lik 1 project contributes Bt0.8/share to our DCF-based NAV calculation.

# Appendix

GPSC is a utilities flagship under PTT group. The company was founded by an amalgamation between PTT Utility (PTTUT) and Independent Power (IPT) in 2013. GPSC marked its initial public offering back in May 2015.

The company is now operating 1,338 MW of electricity capacity, 1,432 tons per hour of steam capacity and 2,080 cubic meters per hour of industrial water capacity. Other than that, another 579 MW of electricity capacity and 150 tons per hour of steam capacity are undergoing construction. Its two main assets are Sriracha gas-fired IPP power plants located in Chonburi province, and gas-fired Central Utility Plant (CUP) located in Rayong's Map Tha Put industrial estate.

Electricity and steam are major sources of GPSC's revenue. EGAT is a major customer of electricity, which accounted for 49% of GPSC's FY16E electricity revenue and 32% of GPSC's total revenue. PTT group takes 40% of electricity revenue and most of steam and industrial water volume. In total, revenue contribution from PTT group shares 57% of GPSC's revenue. Revenue from EGAT is mostly from lower-margin Sriracha IPP power plant while those from PTT group is from higher-margin Central Utility Plant (CUP), gas-fired cogeneration power plants.

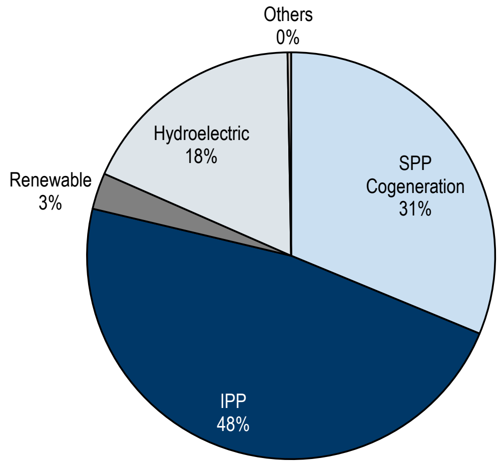
Figure 35: **GPSC's power plant portfolio**

| Name | Type | Location | GPSC's stake | Total capacity (MW) | Equity capacity (MW) | Steam (T/h) | Industrial water (Cu. M/h) | COD | Expiry |
|---|---|---|---|---|---|---|---|---|---|
| **In operation** | | | | | | | | | |
| Sriracha | IPP gas-fired | Chonburi | 100% | 700 | 700 | | 80 | 2006 | 2025 |
| CUP-1 | SPP gas-fired cogen* | Rayong | 100% | 226 | 226 | 890 | 720 | 2006 | 2021 |
| CUP-2 | SPP gas-fired cogen* | Rayong | 100% | 113 | 113 | 170 | 510 | 2008 | 2022 |
| CUP-3 | SPP gas-fired cogen* | Rayong | 100% | n/a | n/a | 280 | 770 | 2009 | 2023 |
| CHPP | VSPP gas-fired | Rayong | 100% | 5 | 5 | | | 2008 | 2038 |
| IRPC-CP Phase 1 | SPP gas-fired cogen* | Rayong | 51% | 45 | 23 | 87 | | 2015 | 2030 |
| TSR | Solar farms | Suphanburi/ Kanchanaburi | 40% | 80 | 32 | | | 2013 | 2023 |
| RPCL | IPP gas-fired | Ratchaburi | 25% | 1,400 | 210 | | | 2008 | 2033 |
| BIC-1 | SPP gas-fired cogen* | Ayutthaya | 25% | 117 | 29 | 5 | | 2013 | 2038 |
| **Total operating** | | | | | **1,338** | **1,432** | **2,080** | | |
| **Under construction** | | | | | | | | | |
| CUP-4 Phase 1 | SPP gas-fired cogen* | Rayong | 100% | 45 | 45 | 70 | | 2018 | n/a |
| Ichinoseki | Solar farms | Japan | 99% | 21 | 21 | | | 2017 | 2037 |
| IRPC-CP Phase 2 | SPP gas-fired cogen* | Rayong | 51% | 240 | 99 | 66 | | 2017 | 2044 |
| Nam Lik 1 | Hydro | Lao | 40% | 65 | 26 | | | 2017 | 2044 |
| NNEG | SPP gas-fired cogen* | Pathum-thani | 30% | 125 | 38 | 9 | | 2016 | 2041 |
| BIC-2 | SPP gas-fired cogen* | Ayutthaya | 25% | 117 | 29 | 5 | | 2017 | 2042 |
| Xayaburi | Hydro IPP | Lao | 25% | 1,285 | 321 | | | 2019 | 2048 |
| **Total under construction** | | | | | **579** | **150** | | | |
| **Total capacity** | | | | | **1,917** | **1,582** | **2,080** | | |

**Cogeneration plants*

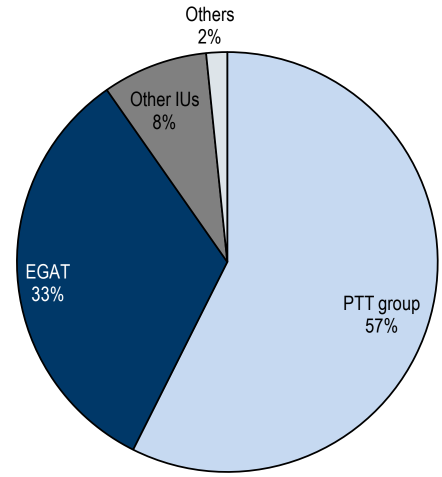
*Source: Company data*

**Figure 36: Breakdown of GPSC's electricity MW portfolio**




**Total portfolio size (operating + under construction) is 1,917 MW, Source: Company data*

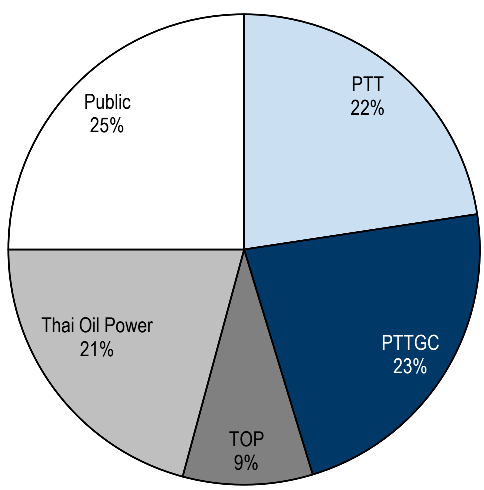
**Figure 37: FY16E revenue breakdown by customers**




*Source: Credit Suisse estimates*

Major shareholders for GPSC include companies under PTT group; PTT parent company (22.6%), PTT Global Chemical (22.7%), Thai Oil Power (20.8%), and Thai Oil (8.9%). Foreign ownership for GPSC stays at a very low level, only less than 1%.

**Figure 38: GPSC's shareholding structure**




*Source: Company data*

## Companies Mentioned *(Price as of 20-Apr-2016)*

**Aboitiz Power Corp** (AP.PS, P43.85)
**Beijing Jingneng Power Co Ltd** (600578.SS, Rmb4.76)
**CLP Holdings Limited** (0002.HK, HK$72.65)
**China Resources Power Holdings** (0836.HK, HK$14.24)
**China Yangtze Power Co Ltd** (600900.SS, Rmb12.47)
**Datang International Power Generation Co. Ltd.** (0991.HK, HK$2.27)
**Electricity Generating** (EGCO.BK, Bt190.0)
**Energy Absolute** (EAm.BK, Bt21.8)
**Energy Development Corporation** (EDC.PS, P5.79)
**First Gen Corporation** (FGEN.PS, P21.0)
**Global Power Synergy** (GPSC.BK, Bt26.0, OUTPERFORM[V], TP Bt34.0)
**Glow Energy PCL** (GLOW.BK, Bt94.0)
**Huadian Fuxin Energy Corporation Limited** (0816.HK, HK$1.98)
**Huadian Power International** (1071.HK, HK$4.27)
**Huaneng Power International Inc** (0902.HK, HK$6.37)
**Hub Power Company** (HPWR.KA, PRs104.53)
**K-Electric** (KELE.KA, PRs7.22)
**Korea Electric Power** (015760.KS, W59,900)
**Longyuan Power** (0916.HK, HK$5.66)
**Malakoff Bhd** (MALA.KL, RM1.68)
**Manila Electric** (Meralco) (MER.PS, P336.0)
**NTPC Ltd** (NTPC.BO, Rs141.2)
**Power Assets Holdings Limited** (0006.HK, HK$80.15)
**Ratchaburi Electricity Generating Holding PCL** (RATCH.BK, Bt50.25)
**SDIC Power Holdings** (600886.SS, Rmb6.46)
**SPCG** (SPCG.BK, Bt20.6)
**Sichuan Chuantou Energy** (600674.SS, Rmb8.37)
**Tenaga** (TENA.KL, RM14.4)

# Disclosure Appendix

## Important Global Disclosures

I, Wattana Punyawattanakul, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

## As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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|---|---|---|
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| Neutral/Hold* | 32% | (28% banking clients) |
| Underperform/Sell* | 10% | (50% banking clients) |
| Restricted | 1% | |

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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**Target Price and Rating**
**Valuation Methodology and Risks: (12 months) for Global Power Synergy (GPSC.BK)**

**Method:** Our DCF (discounted cash flow)-based target price for Global Power Synergy is Bt34/share. We employ a 7.7% cost of equity (beta of 0.5x) and 6.5% WACC (weighted average cost of capital). We do not apply terminal value into our calculation. We do not include any value from potential non-committed projects. Our OUTPERFORM rating is due to its strong organic growth outlook.

**Risk:** Key risks to our target price for GPSC of Bt34/share and OUTPERFORM rating include: (1) potential amendment or abide to PPA from PTT group; (2) risk from construction delay and cost overrun; and (3) production disruption resulting in lower than- expected revenue under the Availability Payment scheme.

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

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