

Energy Sector – Neutral**Earnings Preview**

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Earnings recovery to continue in 2Q21F

- **Sector earnings likely to show sequential q-q growth**
- **Petchem, oil-related names likely to stand out**
- **Most refiners will see weak results overall**
- **IRPC, IVL likely to positively surprise the market**

Below we summarize key price movements in 2Q21:

- **Oil price:** Dubai oil price averaged \$66.3/bbl in 2Q21, increasing from \$59.4/bbl in 1Q21. This will support earnings for companies that benefit from higher oil prices (ie, PTT, PTTEP). It also means we could expect significant inventory gains among downstream names.
- **Refining margins:** Singapore GRM averaged \$2.1/bbl in 2Q21, marginally higher than \$1.8/bbl in 1Q21 though it remains well below historical norms. Offsetting the impact of higher crack spread will be rising crude premiums, especially for Middle Eastern crudes (and other medium- and light-sour grades). This will be a key headwind for Thai refiners that rely heavily on these types of crude oils.
- **Chemical spreads:** HDPE-naphtha spread was broadly unchanged q-q at almost \$590/ton. However, PP-naphtha spread softened to about \$730/ton from \$810/ton though it remains at elevated level. Aromatics chemicals, however, saw significant improvements especially for BZ-ULG spread which averaged over \$310/ton, up by \$130/ton q-q. PX-ULG spread was marginally higher q-q as well.
- **Domestic oil retail:** Sales volume of gasoline/diesel suffer from the 3rd/4th COVID wave. We believe consumption of gasoline may have declined by about 8% q-q while that of diesel was 5% lower. However, domestic retail margin remains elevated at close to Bt1.9/litre.
- **FX:** THB weakened to average 31.3 per USD in 2Q21 from 30.3 in 1Q21. End-of-period exchange rate also weakened to 32.0 vs 31.2 at the end of March 2021. This means most companies will record sizable FX losses with the exception of BANPU which will be FX gain.

We provide a preview of 2Q21F earnings for each company below:

- **PTT:** We expect profit including inventory gain/loss to be roughly flat q-q. Earnings from gas operation will remain strong as rising industrial gas price (linked to fuel oil) offsets marginally higher feed cost. Oil retail will likely be weak given COVID-19 impact on fuel demand. Earnings from associates and subsidiaries will be broadly higher q-q.
- **PTTEP:** We expect normalized profit of Bt10.5bn, a 21% q-q increase. This is driven by sharply higher sales volume (new projects) as well as higher oil price. However, at the reported level, we expect significant hedging and FX losses.
- **PTTGC:** We expect a 9% q-q norm profit growth to Bt9.8bn. This is driven by higher aromatic and phenol spreads which more than offset weaker refining margin. HDPE price remains elevated but is flat q-q. This will keep olefin profit at sustainably high level.
- **SCC:** We expect profit to dip marginally q-q to Bt14.5bn. Lower PP spread as well as seasonally weaker contribution from cement and building materials.(CBM) are offset by higher by-product margins (mostly aromatic group) and dividend income from investees (such as Toyota Motors Thailand and Kubota Thailand).

- **IVL:** Results will likely be strong driven by higher integrated PET spreads in the US and Europe. This will more than offset weaker MEG spread in the US. We expect higher utilization rates overall as plants return from outages and demand picks up seasonally.
- **IRPC:** IRPC will likely report a relatively strong result driven by high lube base margins and higher utilization rate. These will more than offset the impact of weaker refining margins q-q. Spreads for styrene chain (PS, ABS) also remain strong.
- **TOP:** Similar to IRPC, TOP will benefit from higher lube base margins as well as recovery in aromatic spreads. However, refining part of the business will likely see weaker result q-q due to higher crude premiums.
- **SPRC:** We expect weaker result q-q as higher crack spreads are offset by higher crude premium. Potentially lower domestic sales may also hurt margin.
- **ESSO:** We expect weak refining and retail operation. Offsetting these weaknesses are higher PX spread though it may not be enough to change the overall downward trend.
- **BPC:** We believe the core refining and oil marketing businesses will see weaker results sequentially. However, we expect a slightly stronger result from E&P unit.
- **BANPU:** We expect norm profit to be roughly flat q-q. This is due to limited coal volume growth as production and transportation were still impacted by heavy rains earlier in the quarter. Coal ASP will likely rise q-q, helping to support coal earnings overall. Offsetting growth in coal profit is the seasonally weaker gas operation in the US. Note that 1Q21 was a very high base due to the extreme weather in Texas that caused a gas price spike. Still, 2Q21F gas profit will be stronger than 4Q20.
- **PTG:** We expect profit to weaken about 10% q-q due to lower sales volume (COVID impact) and seasonally weaker contribution from its palm complex. Still, retail marketing remains high which helps to support earnings overall.
- **SUSCO:** We believe profit will weaken q-q on lower sales volume and limited recovery in jet fuel sales.
- **SCGP:** We believe earnings are likely to be flat q-q due to seasonally weaker demand.
- **UTP:** We expect profit of Bt260m, down 10% q-q. This is because the paper machines will undergo maintenance this quarter which will limit sales volume. Margins (on a THB per ton basis) will likely be flat q-q as rising ASP offsets higher OCC costs.
- **PRM:** We believe norm earnings will be flattish q-q as higher FSU utilization rates are offset by weaker domestic tanker unit.

Ex 1: 2Q21F Preview

	Normalized profit (Bt m)			6M as % 2021F	Change (%)		Note
	2Q20	1Q21	2Q21F		(y-y%)	(q-q%)	
BANPU	(2,725)	1,758	1,800	47.2	na	2.4	▪ Higher coal price but limited production growth due to weather; gas profit to come down q-q from high base
BCP	(40)	289	200	na	na	(30.8)	▪ Weaker core refining and oil marketing businesses; improved earnings from E&P unit
ESSO	(1,931)	311	200	na	na	(35.7)	▪ Weaker sales at petrol stations and higher crude premium offset stronger aromatic spread
IRPC	(1,031)	1,383	1,800	55.6	na	30.2	▪ Rising GIM q-q due mainly to lube base oil; higher utilization rate q-q (partial shutdown in 1Q21)
IVL	2,609	3,560	5,500	53.1	110.8	54.5	▪ Result will be strong seasonally, driven by higher integrated PET spreads in US/Europe and higher utilization rates
PTG	509	531	480	56.5	(5.8)	(9.6)	▪ Weaker sales volume due to COVID impact; lower contribution from palm complex as well
PTT	11,914	36,488	36,500	69.0	206.4	0.0	▪ Gas operation likely to remain strong but oil retail impacted by COVID; subsidiaries' earnings broadly stronger q-q
PTTEP	4,090	8,649	10,500	53.2	156.7	21.4	▪ Higher volume plus higher oil price to help drive q-q norm profit; we expect significant hedging and FX losses, however
PTTGC	1,461	8,954	9,800	76.9	570.6	9.4	▪ Stable HDPE price; higher spreads for aromatics and phenol to drive q-q growth and offset weaker refining margins
SPRC	222	(102)	(200)	na	na	na	▪ Rising crude premium a major headwind
SUSCO	73	99	75	79.5	3.3	(24.2)	▪ Lower gasoline and diesel sales due to 3rd/4th COVID waves
TOP	(283)	1,553	1,900	85.9	na	22.4	▪ Stronger lube and aromatics spreads offset weaker GRM (which is dragged down by higher crude premiums)
SCC	10,014	14,914	14,500	62.9	44.8	(2.8)	▪ Dividend income and higher by-product spreads help offset weaker PP spread, rising naphtha cost and lower cement contribution
PRM	486	418	420	43.8	(13.5)	0.4	▪ Improvement in FSU fleet utilization; domestic tanker to take a hit from COVID impact
SCGP	1,824	2,236	2,200	44.1	20.6	(1.6)	▪ Y-Y growth on consolidation of new assets and improved demand; Weaker q-q on seasonality and rising cost
UTP	228	289	260	48.2	13.9	(10.0)	▪ Higher OCC cost absorbed by higher ASP; annual maintenance means lower volume q-q
Sum	27,420	81,329	85,935	64.1	213.4	5.7	

Sources: Company data, Thanachart estimates

Ex 2: Valuation

Ticker	Rating	Current price	Target price	Upside/ downside	Market cap	Norm EPS growth		— Norm PE —		EV/EBITDA		— Yield —	
		(Bt/shr)	(Bt/shr)	(%)		(US\$ m)	2021F	2022F	2021F	2022F	2021F	2022F	2021F
BANPU	BUY	13.40	23.00	71.6	2,066	na	22.2	9.0	7.4	6.8	6.2	5.5	6.8
BCP	SELL	23.50	21.00	(10.6)	983	na	na	na	21.5	8.3	6.4	0.0	2.6
ESSO	SELL	7.45	6.90	(7.4)	783	na	na	na	136.5	36.1	20.4	0.0	0.4
IRPC	BUY	3.54	5.10	44.1	2,198	na	9.6	12.6	11.5	8.4	7.7	4.7	5.2
IVL	HOLD	38.75	47.00	21.3	6,611	165.2	(10.2)	12.8	14.2	8.0	8.2	2.7	2.5
PTG	BUY	16.70	22.00	31.7	847	(3.6)	11.8	15.6	13.9	7.3	6.9	3.2	3.6
PTT	BUY	35.75	48.00	34.3	31,028	177.8	3.4	9.7	9.3	4.5	4.2	5.2	5.4
PTTEP	BUY	108.00	140.00	29.6	13,028	68.1	15.8	11.9	10.3	3.8	3.4	5.0	5.8
PTTGC	BUY	57.00	86.00	50.9	7,809	219.4	(1.2)	10.5	10.7	6.5	6.3	5.7	5.6
SPRC	SELL	8.95	7.20	(19.6)	1,179	na	na	na	116.2	21.1	15.5	0.0	0.3
SUSCO	BUY	3.08	4.80	55.8	103	3.0	23.4	14.4	11.7	6.1	5.0	3.6	4.3
TOP	SELL	47.00	48.00	2.1	2,913	na	6.1	23.9	22.5	16.7	17.5	1.9	2.0
SCC	BUY	412.00	460.00	11.7	15,023	23.6	(8.6)	10.6	11.6	8.6	9.4	4.3	4.5
PRM	BUY	6.80	14.10	107.4	517	18.7	17.9	8.9	7.5	6.7	5.9	5.1	6.0
SCGP	HOLD	63.75	55.00	(13.7)	8,316	17.5	16.9	27.2	23.3	13.2	11.7	1.8	2.1
UTP	BUY	20.00	32.00	60.0	395	12.6	28.2	11.4	8.9	8.4	6.3	5.7	7.3

Sources: Company data, Thanachart estimates

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