

Energy Sector – Neutral

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News Update

Oil price supported by bullish inventory data

- **Inventory drawdowns across the board**
- **OPEC+ issues August, September quotas**
- **Higher crude premiums likely for September**
- **En Plus: Oil majors opt for buybacks, dividends, debt repayment**

Inventory drawdowns across the board

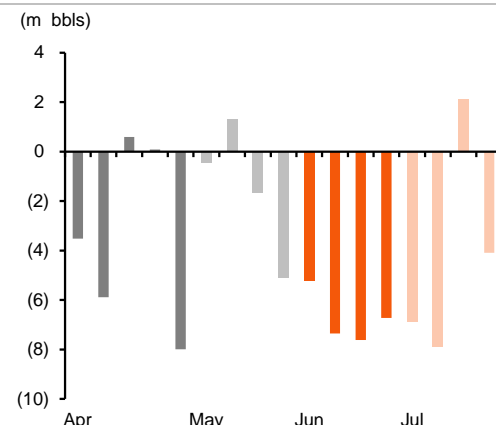
- US commercial crude oil inventory declined by a larger-than-expected 4.09m bbls w-w. Additionally, both motor gasoline and distillate fuels also saw large draw downs of 2.3m and 3.1m bbls, respectively. These bullish data have propped up oil price last week.
- US crude oil production declined 200kbd w-w to 11.2mbd. Production has been stuck around 11-11.4mbd for the past several months despite higher oil price.
- US petroleum products supplied (a proxy for demand) nudged up about 2.5% w-w to 21.1mbd. Most of the increases were driven by distillate fuel (diesel) and jet fuel.
- Baker Hughes reported that US oil rig count declined by 2 rigs w-w to 385 rigs as of 30 July.

OPEC+ issues August, September quotas

According to Argus Media, OPEC+ has issued individual country's quota for August and September production.

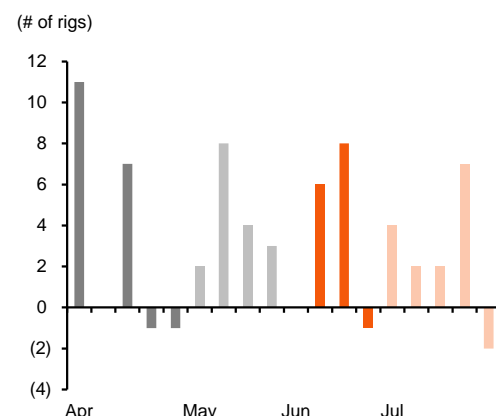
- **400kbd increase:** As per the announced agreement, OPEC+ will lift its crude output quota by 400kbd m-m in both August and September. OPEC will see about 253kbd increase each month whereas its non-OPEC partners will see increase of 146kbd each month. Most countries' quota increases are proportionate to their production with the key exception being Mexico (no increase in either month).
- **Higher Saudi output to meet local demand:** Saudi Arabia will increase its production by 105kbd according to the new quota. However, much of this output increase will likely be for domestic electricity generation whose demand typically peaks in August.
- **Russia likely to increase export:** Russia will also see its production quota increased by 105kbd in August. According to Argus, this extra output will likely be exported as loading schedule for Urals and Siberian Light crudes has been raised by 8% m-m in August.
- **Small changes for most other countries:** Aside from Iraq, Kuwait, and the UAE, most other countries will see their quotas increased by less than 20kbd. This is not enough to load an extra Aframax tanker. As such, in practice, August crude export by these countries may not see any significant change from their July loading.

Ex 1: U.S. crude oil inventory w-w change



Source: EIA

Ex 2: U.S. oil rig count w-w change



Source: Baker Hughes

Ex 3: OPEC+ Aug, Sep output quota (mbd)

Country	Aug		Sep	
	Output	vs Jul	Output	vs Aug
Saudi Arabia	9.600	0.105	9.704	0.104
Iraq	4.061	0.045	4.105	0.044
Kuwait	2.451	0.026	2.478	0.027
UAE	2.765	0.030	2.795	0.030
Algeria	0.922	0.010	0.932	0.010
Nigeria	1.596	0.017	1.614	0.018
Angola	1.333	0.014	1.348	0.015
Congo (Brazzaville)	0.284	0.003	0.287	0.003
Gabon	0.163	0.002	0.165	0.002
Equatorial Guinea	0.111	0.001	0.112	0.001
Opec total	23.286	0.253	23.540	0.254
Russia	9.600	0.105	9.704	0.104
Mexico	1.753	0.000	1.753	0.000
Oman	0.771	0.009	0.779	0.008
Azerbaijan	0.627	0.007	0.633	0.006
Kazakhstan	1.491	0.016	1.508	0.017
Malaysia	0.519	0.005	0.525	0.006
Bahrain	0.179	0.002	0.181	0.002
Brunei	0.089	0.001	0.090	0.001
Sudan	0.065	0.000	0.066	0.001
South Sudan	0.113	0.001	0.115	0.002
Non-Opec total	13.454	0.146	13.601	0.147
Opec+ total	36.740	0.399	37.141	0.401

Source: Argus Media

Higher crude premiums likely for September

Market participants expect Saudi Aramco to raise September crude premiums, according to a Reuters survey.

- **Likely higher OSP for September:** The survey respondents on average expect OSP (official selling price) for Arab Light—Saudi Arabia's main crude grade—to be increased by 36 cents per bbl in September. This would follow a string of OSP increases in the past few months. We believe the Kingdom can justify higher OSP as most of the production increase in August will be for higher domestic demand for electricity generation.
- **Offsetting higher gasoline, naphtha cracks:** The rise in OSP will be a headwind to refineries as it will offset the positive impacts of higher gasoline and naphtha crack spreads. We believe profits for most refiners in Thailand will remain under pressure in 3Q21F and likely 4Q21F as well.

En Plus: Oil majors opt for buybacks, dividends, debt repayment

Most oil majors are opting for share buybacks, dividends, or debt repayments rather than increased E&P spending as they report strong 2Q21 results.

- **Chevron:** Thanks to strong operating results, Chevron announced it would resume share buyback in 3Q21F at a pace of \$2-3bn per year. Meanwhile, capex remains restrained. For example, the company is operating just 5 rigs in the Permian basin and may add only plans to add 2 rigs in 2H21F. This is a far cry from 20 rigs it operated at the peak during mid-2019 before the oil price collapse.
- **Shell:** Shell announced a \$2bn share buyback, hiked its quarterly dividend to US\$0.24/sh (+38% from 1Q21 level) as well as paid down debt (). Capex plan will include sizable investments in renewable energy; the company expects to allocate up to 25% of capital investment in renewables by 2025F.
- **TotalEnergies:** Total announced it will allocate up to 40% of additional cash flow to share buybacks as it reported a strong 2Q21 results. The company's capex plan for 2021F is \$12-13bn, although half of this will be for renewables and electricity investments.
- **ExxonMobil:** Despite strong operating results, ExxonMobil has said that capex will come in at the lower end of its guidance of \$16-19bn. And unlike most of its peers, the company is choosing to pay down debt rather than start share buyback. To date, the company has repaid \$7bn in debt.

Ex 4: Prices And Spreads

(US\$/bbl)	3Q20	4Q20	1Q21	2Q21	QTD	Apr-21	May-21	Jun-21	MTD	Last
Oil prices										
Dated Brent	42.70	44.53	60.84	68.63	74.22	64.80	68.04	73.07	74.22	75.38
Dubai	42.47	43.87	59.70	66.43	72.79	62.37	66.01	70.96	72.79	73.32
WTI	40.90	42.74	58.07	66.10	72.43	61.70	65.21	71.35	72.43	73.95
Crack spreads over Dubai										
Gasoline	4.87	5.20	7.49	10.67	11.71	11.85	10.90	9.19	11.71	12.20
Jet fuel	0.68	3.79	4.25	5.36	4.44	4.88	5.79	5.57	4.44	5.91
Diesel	5.63	4.53	5.37	6.09	6.54	5.10	6.97	6.33	6.54	5.30
High-sulfur fuel oil	(2.47)	(1.02)	(4.28)	(6.80)	(8.13)	(5.20)	(6.90)	(8.37)	(8.13)	(7.99)
Refining margins										
FCC / Dubai	(0.13)	1.07	1.21	0.95	0.55	1.53	0.91	0.42	0.55	0.29
Hydrocracking / Dubai	0.03	0.52	0.71	0.77	0.73	0.97	0.74	0.64	0.73	0.25
FCC / Espo	(0.66)	(0.33)	1.47	1.55	0.95	2.26	1.57	0.82	0.95	0.68
FCC / Arab Light	(0.90)	1.45	0.56	(0.51)	(0.94)	0.16	(0.61)	(1.07)	(0.94)	(1.20)
Hydrocracking / Murban	0.87	1.17	2.29	2.81	3.03	2.53	3.03	2.93	3.03	2.55
(US\$/tonne)										
Aromatics spreads										
PX-naphtha	128	136	185	232	227	243	235	214	227	235
BZ-naphtha	35	119	191	367	385	348	410	348	385	385
Olefin spreads										
HDPE-naphtha	526	608	583	576	430	708	562	425	430	445
LDPE-naphtha	567	780	959	936	750	1,108	914	743	750	765
PP-naphtha	535	695	771	709	552	854	667	570	552	565
Ethylene-naphtha	366	463	416	406	285	482	454	262	285	295
Propylene-naphtha	412	499	461	436	284	481	479	335	284	285
Henry Hub Gas (US\$/mmbtu)	2.12	2.76	2.73	2.97	3.82	2.69	2.96	3.27	3.82	3.91
Coal (Newcastle) (US\$/tonne)	51.60	66.20	87.47	106.49	146.01	93.89	100.44	125.31	146.01	149.75

Source: Bloomberg

Ex 5: Valuation

	Rating	Current price	Target price	Upside/Downside	Market cap	Norm EPS growth	— Norm PE —	EV/EBITDA		— Yield —			
		(Bt)	(Bt)	(%)	(US\$ m)	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
						(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
BANPU	BUY	13.30	23.00	72.9	2,053	na	22.2	9.0	7.3	6.8	6.1	5.6	6.8
BCP	SELL	23.10	21.00	(9.1)	968	na	na	na	21.2	8.2	6.4	0.0	2.6
ESSO	SELL	7.30	6.90	(5.5)	769	na	na	na	133.8	35.8	20.2	0.0	0.4
IRPC	BUY	3.52	5.10	44.9	2,188	na	9.6	12.6	11.5	8.3	7.6	4.8	5.2
IVL	HOLD	36.25	47.00	29.7	6,192	165.2	(10.2)	11.9	13.3	7.7	7.9	2.9	2.6
PTG	BUY	15.70	22.00	40.1	798	(3.6)	11.8	14.6	13.1	7.0	6.7	3.4	3.8
PTT	BUY	34.75	48.00	38.1	30,198	177.8	3.4	9.4	9.1	4.4	4.1	5.3	5.5
PTTEP	BUY	103.00	140.00	35.9	12,441	68.1	15.8	11.4	9.8	3.6	3.3	5.3	6.1
PTTGC	BUY	56.75	86.00	51.5	7,785	219.4	(1.2)	10.5	10.6	6.4	6.3	5.7	5.7
SPRC	SELL	8.40	7.20	(14.3)	1,108	na	na	na	109.1	19.8	14.6	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	44.00	48.00	9.1	2,731	na	6.1	22.3	21.0	16.2	17.0	2.0	2.1

Sources: Company data, Thanachart estimates

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