Energy Sector – Neutral

News Update

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Coal takes center stage

- **A big jump in oil rig count**
- **Diverging views on oil demand**
- **Conflicting messages from the Biden Administration**
- **En Plus: Asia's unsatiable demand drives coal price to $175/ton**

A big jump in oil rig count

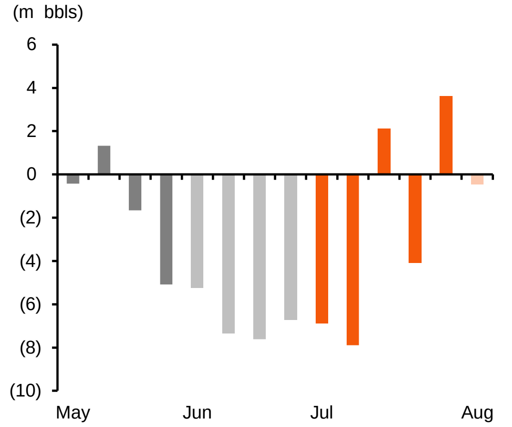
- US commercial crude oil inventory declined by 0.45m bbls w-w. This was a smaller drawdown than what the market was expecting (1.2m bbls draw). On the product side, gasoline inventories declined by 1.4m bbls while distillate stockpiles grew 1.8m bbls.
- US crude oil production nudged up 100kbd w-w to 11.3mbd.
- US petroleum products supplied declined by 1.7mbd to 19.5mbd. This was driven by declines in gasoline and jet fuel as well as "other oils".
- Baker Hughes reported that US oil rig count jumped by 10 rigs to 397 rigs as of 13 August. This was the biggest weekly rig count increase since the first week of April. Still, the number of active rigs remains less than half of its pre-pandemic level.

Diverging views on oil demand

There were some diverging views on oil demand outlook as the three major oil forecasters released their monthly updates last week.

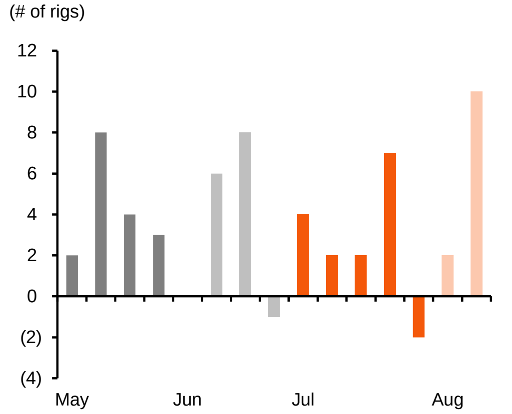
- **IEA**: The IEA lowers its oil demand growth forecast by 100kbd to 5.3mbd in 2021F. Demand is now expected to reach 96.2mbd this year. The agency cites the spread of Delta variant as the key downside risks to global oil demand recovery. For 2022F, the IEA forecasts demand growth of another 3.2mbd. On the supply side, the IEA forecasts non-OPEC supply growth of 600kbd and 1.7mbd in 2021-22F, respectively.
- **OPEC**: In contrast to the IEA's bearish view, OPEC has kept its oil demand forecast unchanged at 6mbd in 2021F and 3.3mbd in 2022F as it sees stronger outlook for the global economy. However, OPEC has raised its forecast of non-OPEC supply growths to 1.09mbd this year (from 810kbd previously) and to 2.94mbd next year (from 2.1mbd previously). This reflects not only increased quotas for Russia and Kazakhstan but also higher output from countries outside of the OPEC+ alliance such as the US and Canada.
- **EIA**: Like OPEC, the EIA has kept its global oil demand forecast unchanged. It forecasts growth of 5.3mbd and 3.6mbd in 2021-22F, respectively. Supply-side forecasts have been tweaked slightly with 2021F non-OPEC supply growth of 1.11mbd (+40kbd from previous forecasts) and 2022F growth at 3.04mbd (-60kbd vs previous forecast).

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



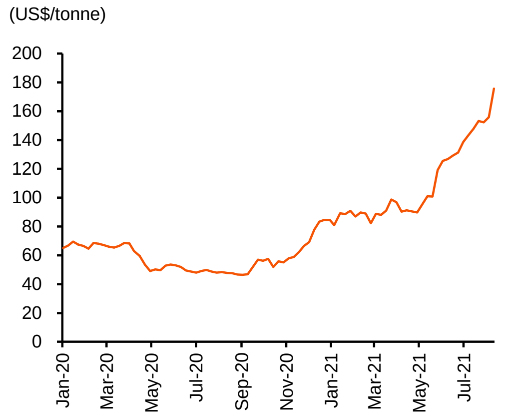
Source: EIA

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



Source: Baker Hughes

Ex 3: NEX coal price



Source: BANPU

Conflicting messages from the Biden Administration

The Biden Administration is asking for more oil output from OPEC+ members while seemingly trying to restrict outputs in the US and encouraging "green" energy.

- **Asking OPEC+ to increase output**: The White House has asked OPEC+ members to increase crude oil output. This is in a bid to arrest any run-away price increases at the pumps for Americans this summer—something that no American president wants to see.
- **Discouraging growth in US output**: At the same time, the Biden Administration has kept in place restrictions on US Army Corps of Engineers (USACE), which oversees a number of fossil fuel projects across the country. The restrictions in place prevent USACE from engaging in any project that would subsidize fossil fuels, including lowering the cost of production, consumption and/or raising revenues for fossil fuel producers.
- **Green measures proposed**: The Biden Administration has included several "green" measures as part of its budget plan. These include tax credits for energy storage and EVs, measures to limit methane leaks, and clean energy standard aims at decarbonized the electricity grids.

En Plus: Asia's unsatiable demand drives coal price to $175/ton

NEX coal price jumped nearly $20/ton w-w to reach $175/ton as of last Friday. This was the highest level since 2008.

- **Strong Asian demand**: Coal demand has been strong in Asia. This is led by China with July coal import reaching a 7-month high of 30.2m tons. Demand from other northeast Asian countries have been strong as well. South Korea's thermal coal import rose to an all-time high of 11.6m tons in July, up over 25% y-y. Japan imported 15.4m tons in July, the highest level since January while Taiwan's July import rose to 6.8m tons, the highest level in 10 months.
- **Indonesia banned 34 miners from exporting**: There have been several supply-side disruptions. In Indonesia, the government has banned 34 coal companies from exporting due to their failure to meet domestic market obligations (DMO) quotas. Two of those firms have since been allowed to resume exports, but for now, supplies to the export market could remain tight.
- **Australia's COVID outbreak could disrupt coal operation**: In Australia, new COVID lockdown measures in Hunter Valley and Newcastle (the country's main coal producing regions) are threatening to disrupt coal operations. So far, the coal industry has been able to proceed as normal though with additional precautions. However, the tightening lockdowns could lead to manpower issues that may eventually impact coal supplies.
- **China's coal supplies disrupted by weather, COVID**: Coal supplies remain tight in China. Coal-dedicated Daqin railway's shipment in July fell more than 20% y-y to 30.9m tons. The reduction has been due to heavy rains as well as limited supplies from the mines due to temporary closures. Shipments from Mongolia have also been disrupted by COVID checkpoints. Instead of the usual 200 trucks per month, China is now receiving just over 100 trucks of coal from Mongolia.

Ex 4: Prices And Spreads

(US$/bbl)	3Q20	4Q20	1Q21	2Q21	QTD	May-21	Jun-21	Jul-21	MTD	Last
Oil prices										
Dated Brent	42.70	44.53	60.84	68.63	73.19	68.04	73.07	74.22	71.01	70.13
Dubai	42.47	43.87	59.70	66.43	71.98	66.01	70.96	72.79	70.28	69.93
WTI	40.90	42.74	58.07	66.10	71.29	65.21	71.35	72.43	68.89	68.44
Crack spreads over Dubai										
Gasoline	4.87	5.20	7.49	10.67	12.05	10.90	9.19	11.71	12.76	13.55
Jet fuel	0.68	3.79	4.25	5.36	4.48	5.79	5.57	4.44	4.56	4.24
Diesel	5.63	4.53	5.37	6.09	6.44	6.97	6.33	6.54	6.23	6.79
High-sulfur fuel oil	(2.47)	(1.02)	(4.28)	(6.80)	(7.61)	(6.90)	(8.37)	(8.13)	(6.53)	(6.85)
Refining margins										
FCC / Dubai	(0.13)	1.07	1.21	0.95	0.68	0.91	0.42	0.56	0.93	0.70
Hydrocracking / Dubai	0.03	0.52	0.71	0.77	0.77	0.74	0.64	0.74	0.83	0.74
FCC / Espo	(0.66)	(0.33)	1.47	1.55	1.07	1.57	0.82	0.96	1.32	1.10
FCC / Arab Light	(0.90)	1.45	0.56	(0.51)	(0.81)	(0.61)	(1.07)	(0.93)	(0.56)	(0.79)
Hydrocracking / Murban	0.87	1.17	2.29	2.81	3.06	3.03	2.93	3.03	3.13	3.03
(US$/tonne)										
Aromatics spreads										
PX-naphtha	128	136	185	232	236	235	214	230	262	262
BZ-naphtha	35	119	191	367	364	410	348	372	322	322
Olefin spreads										
HDPE-naphtha	526	608	583	576	440	562	425	432	477	477
LDPE-naphtha	567	780	959	936	763	914	743	754	807	807
PP-naphtha	535	695	771	709	558	667	570	552	587	587
Ethylene-naphtha	366	463	416	406	283	454	262	284	277	277
Propylene-naphtha	412	499	461	436	287	479	335	281	317	317
Henry Hub Gas (US$/mmbtu)	2.12	2.76	2.73	2.97	3.89	2.96	3.27	3.82	4.04	3.86
Coal (Newcastle) (US$/tonne)	51.60	66.20	87.47	106.49	151.35	100.44	125.31	146.01	162.55	172.75

Source: Bloomberg

Ex 5: Valuation

	Rating	Current price (Bt)	Target price (Bt)	*Upside/ (Downside) (%)*	Market cap (US$ m)	Norm EPS growth 2021F (%)	Norm EPS growth 2022F (%)	Norm PE 2021F (x)	Norm PE 2022F (x)	EV/EBITDA 2021F (x)	EV/EBITDA 2022F (x)	Yield 2021F (%)	Yield 2022F (%)
BANPU	BUY	13.50	23.00	*70.4*	2,055	na	22.2	9.1	7.4	6.8	6.2	5.5	6.7
BCP	SELL	23.90	21.00	*(12.1)*	987	na	na	na	21.9	8.4	6.5	0.0	2.5
ESSO	SELL	7.05	6.90	*(2.1)*	732	na	na	na	129.2	35.2	19.9	0.0	0.4
IRPC	BUY	3.78	5.10	*34.9*	2,317	na	9.6	13.5	12.3	8.7	8.0	4.4	4.9
IVL	HOLD	39.75	47.00	*18.2*	6,694	165.2	(10.2)	13.1	14.6	8.1	8.3	2.7	2.4
PTG	BUY	15.40	22.00	*42.9*	771	(3.6)	11.8	14.4	12.8	7.0	6.6	3.5	3.9
PTT	BUY	35.00	48.00	*37.1*	29,986	177.8	3.4	9.5	9.1	4.5	4.1	5.3	5.5
PTTEP	BUY	103.00	140.00	*35.9*	12,265	68.1	15.8	11.4	9.8	3.6	3.3	5.3	6.1
PTTGC	BUY	60.00	86.00	*43.3*	8,115	219.4	(1.2)	11.1	11.2	6.7	6.6	5.4	5.3
SPRC	SELL	8.05	7.20	*(10.6)*	1,047	na	na	na	104.5	19.1	14.0	0.0	0.4
SUSCO	BUY	3.02	4.80	*58.9*	100	3.0	23.4	14.1	11.5	6.1	4.9	3.6	4.4
TOP	SELL	45.50	48.00	*5.5*	2,784	na	6.1	23.1	21.8	16.4	17.3	1.9	2.1

Sources: Company data, Thanachart estimates

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