Energy Sector – Neutral

News Update

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A bearish week

- **Big inventory draws not enough to support oil price**
- **OPEC+ compliance at 109% in July**
- **China's oil product exports plunged**
- **En Plus: India's oil demand continues to recover**

Big inventory draws not enough to support oil price

Oil price had a big pullback last week on stronger USD and concerns over the spread of the Delta variant.

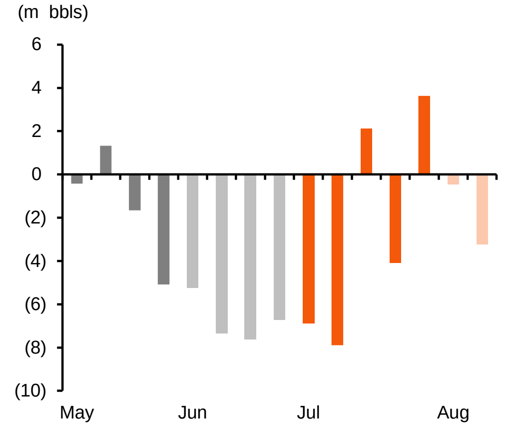
- US commercial crude oil inventory declined by a greater-than-expected 3.2m bbls w-w. On the product front, gasoline saw a small inventory build (+0.7m bbls) whereas distillate saw a relatively large draw of 2.7m bbls. In total, petroleum inventories in the US fell by 5.3m bbls w-w.
- US crude oil production increased another 100kbd to 11.4mbd.
- US petroleum products supplied (a proxy for demand) grew 1.9mbd w-w to 21.5mbd. This was mostly a reversal of the previous week's movement with big increases seen in gasoline, distillates and "other oils" categories.
- Baker Hughes reported that US oil rig count increased by 8 rigs w-w to 405 rigs as of 20 August.

OPEC+ compliance at 109% in July

OPEC+ compliance rate slipped to 109% in July.

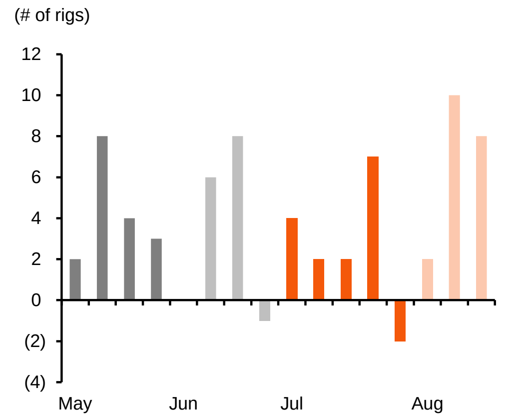
- **109% compliance rate in July**: According to Argus Media, citing an internal report by OPEC's Joint Technical Committee (JTC), OPEC+ compliance rate to production cut quota slipped to 109% in July from 112% in June.
- **OPEC carrying the weight**: OPEC member countries' compliance rate remained higher than that of their non-OPEC allies. The 10 OPEC countries bound by the production cut quota delivered 116% of their production cut in July, down from 120% in June. Their non-OPEC allies, on the other hand, delivered 97% compliance rate, unchanged m-m
- **Excess production**: Cumulatively, countries that breached the agreement have cumulatively overproduced by 125m bbls by the end of July, up from 122m bbls at the end of June. These were split into 43m bbls excess barrels from OPEC offenders and 82m bbls from non-OPEC counterparts.

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



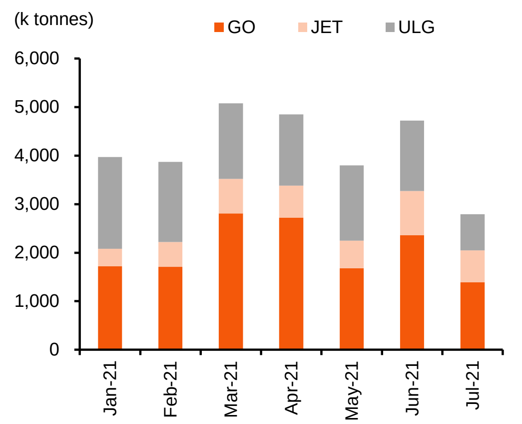
Source: EIA

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



Source: Baker Hughes

Ex 3: China's oil product exports



Source: GACC

China's oil product exports plunged

China's exports of gasoline, diesel and jet fuel plunged by 41% m-m in July as export quotas ran out.

- **Oil product exports plunged**: Exports of gasoline fell to 0.74m tons in July, down nearly 50% m-m. This is the lowest level of gasoline export since May 2020. Exports of diesel and jet fuel also fell dramatically, by 41% and 27% to 1.39m and 0.66m tons, respectively.
- **Quotas running out**: The Chinese government has granted 29.5m tons of oil export quota for the 1st batch of 2021. Essentially, all of that quota has already been used up through the first seven months when exports totaled 29.1m tons. The government has slashed 2nd batch of export quota to just 7.5m tons, implying restricted exports in the next few months until the 3rd batch of quota is released.
- **GRM remains depressed**: The lower Chinese oil product export has so far failed to meaningfully lift refining margins in Asia. The key offsetting factor is demand weakness due to the lockdown measures amid the spread of Delta variant. We believe demand recovery will be key to GRM improvement, which we expect to see towards the end of this year.

En Plus: India's oil demand continues to recover

According to government data, India's oil product demand has continued to recover in July as case count declines.

- **Demand recovery**: Total oil product demand grew 3% m-m, 8% y-y to 16.8m tons. However, on a per-day basis, consumption was essentially flat m-m.
- **Product breakdown**: Jet fuel saw the biggest jump, increasing by 23% m-m and 36% y-y to 317k tons, though this remains less than half of pre-pandemic levels. Gasoline consumption also improved 9% m-m, 16% y-y to 2.63m tons. This is in line with increased mobility as lockdown measures ease and case count remains well off its peak. Diesel demand was 6.14m tons, -1% m-m but +11% y-y. Products seeing relatively weak demands were fuel oil (-10% m-m, -5% y-y) and bitumen (-20% m-m, +4% y-y).

Ex 4: Prices And Spreads

(US$/bbl)	3Q20	4Q20	1Q21	2Q21	QTD	May-21	Jun-21	Jul-21	MTD	Last
Oil prices										
Dated Brent	42.70	44.53	60.84	68.63	72.39	68.04	73.07	74.22	69.81	64.77
Dubai	42.47	43.87	59.70	66.43	71.30	66.01	70.96	72.79	69.22	64.58
WTI	40.90	42.74	58.07	66.10	70.42	65.21	71.35	72.43	67.62	62.32
Crack spreads over Dubai										
Gasoline	4.87	5.20	7.49	10.67	11.89	10.90	9.19	11.71	12.14	11.37
Jet fuel	0.68	3.79	4.25	5.36	4.46	5.79	5.57	4.44	4.50	4.56
Diesel	5.63	4.53	5.37	6.09	6.73	6.97	6.33	6.54	6.99	10.18
High-sulfur fuel oil	(2.47)	(1.02)	(4.28)	(6.80)	(7.26)	(6.90)	(8.37)	(8.13)	(6.04)	(2.99)
Refining margins										
FCC / Dubai	(0.13)	1.07	1.21	0.95	0.66	0.91	0.42	0.56	0.79	0.34
Hydrocracking / Dubai	0.03	0.52	0.71	0.77	0.75	0.74	0.64	0.74	0.78	0.48
FCC / Espo	(0.66)	(0.33)	1.47	1.55	1.05	1.57	0.82	0.96	1.18	0.73
FCC / Arab Light	(0.90)	1.45	0.56	(0.51)	(0.83)	(0.61)	(1.07)	(0.93)	(0.70)	(1.15)
Hydrocracking / Murban	0.87	1.17	2.29	2.81	3.05	3.03	2.93	3.03	3.08	2.78
(US$/tonne)										
Aromatics spreads										
PX-naphtha	128	136	185	232	241	235	214	230	268	274
BZ-naphtha	35	119	191	367	360	410	348	372	328	334
Olefin spreads										
HDPE-naphtha	526	608	583	576	446	562	425	432	480	484
LDPE-naphtha	567	780	959	936	773	914	743	754	820	834
PP-naphtha	535	695	771	709	563	667	570	552	590	594
Ethylene-naphtha	366	463	416	406	278	454	262	284	263	249
Propylene-naphtha	412	499	461	436	288	479	335	281	305	294
Henry Hub Gas (US$/mmbtu)	2.12	2.76	2.73	2.97	3.88	2.96	3.27	3.82	3.98	3.85
Coal (Newcastle) (US$/tonne)	51.60	66.20	87.47	106.49	154.06	100.44	125.31	146.01	165.33	167.75

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	10.20	16.00	*56.9*	1,551	na	14.2	7.1	6.2	5.5	5.3	5.3	6.4
BCP	SELL	23.70	21.00	*(11.4)*	978	na	na	na	21.7	8.3	6.5	0.0	2.5
ESSO	SELL	7.10	6.90	*(2.8)*	736	na	na	na	130.1	35.4	19.9	0.0	0.4
IRPC	BUY	3.78	5.10	*34.9*	2,314	na	9.6	13.5	12.3	8.7	8.0	4.4	4.9
IVL	HOLD	41.25	47.00	*13.9*	6,939	165.2	(10.2)	13.6	15.1	8.3	8.5	2.6	2.3
PTG	BUY	17.30	22.00	*27.2*	866	(3.6)	11.8	16.1	14.4	7.4	7.0	3.1	3.5
PTT	BUY	35.00	48.00	*37.1*	29,954	177.8	3.4	9.5	9.1	4.5	4.1	5.3	5.5
PTTEP	BUY	100.50	140.00	*39.3*	11,955	68.1	15.8	11.1	9.6	3.6	3.2	5.4	6.3
PTTGC	BUY	56.50	86.00	*52.2*	7,633	219.4	(1.2)	10.4	10.6	6.4	6.2	5.7	5.7
SPRC	SELL	7.90	7.20	*(8.9)*	1,026	na	na	na	102.6	18.7	13.7	0.0	0.4
SUSCO	BUY	3.16	4.80	*51.9*	104	3.0	23.4	14.8	12.0	6.3	5.1	3.5	4.2
TOP	SELL	44.50	48.00	*7.9*	2,720	na	6.1	22.6	21.3	16.3	17.1	2.0	2.1

Sources: Company data, Thanachart estimates

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