Energy Sector – Neutral

News Update

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Oil recovers but natural gas takes center stage

- **Big declines in US oil inventories**
- **Asia's crude oil import rebounding in August**
- **Hurricane Ida wreaking havoc on US Gulf Coast**
- **En Plus: Natural gas prices soared**

Crude oil price staged a strong recovery last week but it's the natural gas prices that took center stage with price surging more than 10% in the US and Asian spot LNG price touching 8-year seasonal high. This week's focus will be on OPEC+ meeting on 1 September.

Big declines in US oil inventories

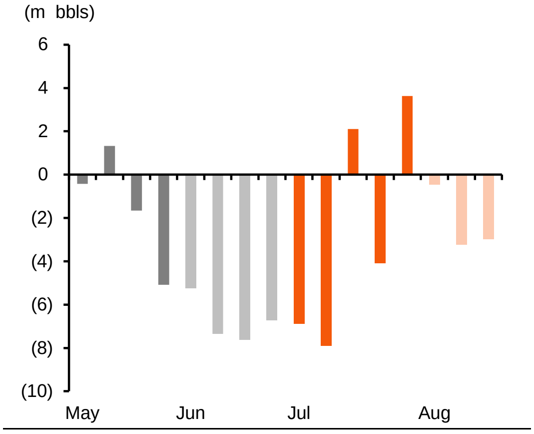
- US commercial crude oil inventory declined by 2.98m bbls w-w which was more than market expectation of a 2.7m bbls draw. Additionally, gasoline had a big weekly draw of 2.2m bbls. On the other hand, distillate inventory increased slightly, by 0.6m bbls w-w. Overall, total petroleum inventories in the US declined by 4.8m bbls.
- US crude oil production was unchanged w-w at 11.4mbd.
- US petroleum products supplied (a proxy for demand) increased by less than 2% w-w to 21.8mbd as increases in gasoline and "other oils" were offset by lower demand for distillates and jet fuels.
- Baker Hughes reported that US oil rig count grew 5 rigs w-w to 410 rigs as of 27 August.

Asia's crude oil import rebounding in August

According to shipping data, Asia's import of crude oil is likely to see a small m-m recovery. The top four consumers in the region are expected to import 21.13mbd in August, up 7.6% m-m.

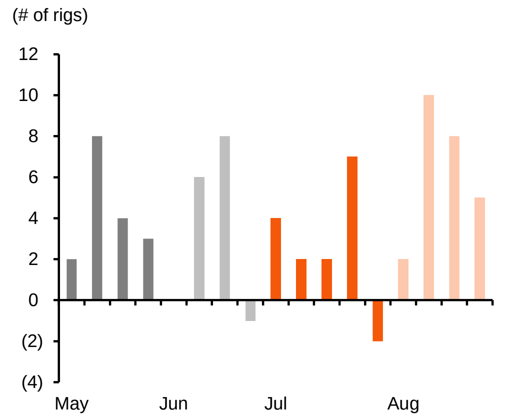
- **India**: According to Kpler and Refinitiv. India's crude oil import is on track to reach its highest level in five months in August. Kpler estimates August import at 4.33mbd while Refinitiv's figure is 4.31mbd. Regardless, these are big increases from an estimated 3.4mbd in July which was a 12-month low.
- **China**: China's August crude import is expected to inch up to about 10.03mbd from 9.64mbd in July according to Kpler. Similarly, Refinitiv pegs China's August import at 10.79mbd vs 9.71mbd in July. While teapot refineries have come under increasing pressure from the government, state-owned refineries are lifting their utilization rates to a 19-month high of 84% in August.
- **Japan and South Korea**: Japan is another major market in Asia that will likely see a strong rebound in crude import. According to Kpler, August crude oil arrival is estimated at 3.36mbd, up from 2.56mbd in July. On the other hand, South Korea's crude oil import is expected to be steady m-m in August.

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



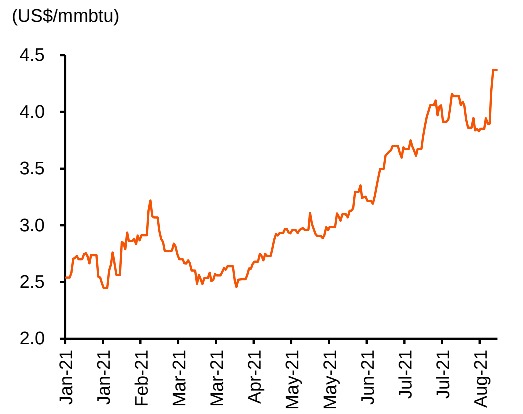
Source: EIA

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



Source: Baker Hughes

Ex 3: US natural gas price at Henry Hub



Source: Bloomberg

Hurricane Ida wreaking havoc on US Gulf Coast

Oil & gas production in the Gulf of Mexico as well as refiners on the US Gulf Coast have been shut in due to Hurricane Ida.

- **90% of GoM oil & gas production shut in**: According to US Bureau of Safety and Environmental Enforcement, 90.84% of total oil production in the Gulf of Mexico (equivalent to 1.653mbd) have been shut in as of August 28. At the same time, 84.87% of natural gas production in GoM (about 2.2Bcf/d) have also been shut in as an estimated 279 platforms were evacuated.
- **4.4mbd of refining capacity threatened**: Based on the path of the storm, S&P Global Platts estimates that about 4.4mbd of refining capacity is in the path of Ida. Most of the refiners likely to be impacted are located in Louisiana. So far, operation at a handful of refineries and petrochemical complexes has already been suspended. These include Shell's 231kbd Norco refinery and Phillips 66 Alliance refinery, both of which are in Louisiana.
- **Nearly 5m tpa of PE, PP capacity at risk**: Platts also estimates that up to 3.8mtpa of polyethylene (PE) and 1.1mtpa of polypropylene (PP) capacities are at risk of being shut down due to the storm. Other chemical plants that could be impacted include 3.6mtpa of PVC and 0.3mtpa of MEG.

En Plus: Natural gas prices soared

US natural gas price at Henry Hub jumped more than 10% last week due to low inventory build amid strong demand and tight supply. Meanwhile, spot LNG price in Asia remains high after having touched an 8-year seasonal high earlier this month.

- **US gas price at Henry Hub jumped**: US natural gas price at Henry Hub jumped more than 10% to settle at $4.39/mmbtu (October contract) on Friday. This is the highest level since late 2018. The price jump was due to lower-than-expected inventory build as well as potential supply impact from Hurricane Ida. Given the strong demand outlook, we believe price at Henry Hub could touch $5/mmbtu this winter.
- **JKM futures touched $20/mmbtu**: Meanwhile in Asia, spot LNG price has remains elevated at $17.7/mmbtu after having touched an 8-year seasonal high of 17.99/mmbtu two weeks prior. In the futures market, JKM futures contract on ICE almost touched $20/mmbtu last week for the cargo to be delivered through January 2022. This reflects market expectation of a tighter LNG market through the rest of this year and into early 2022.

Ex 4: Prices And Spreads

(US$/bbl)	3Q20	4Q20	1Q21	2Q21	QTD	May-21	Jun-21	Jul-21	MTD	Last
Oil prices										
Dated Brent	42.70	44.53	60.84	68.63	72.10	68.04	73.07	74.22	69.88	71.29
Dubai	42.47	43.87	59.70	66.43	70.88	66.01	70.96	72.79	68.88	69.08
WTI	40.90	42.74	58.07	66.10	70.07	65.21	71.35	72.43	67.60	68.74
Crack spreads over Dubai										
Gasoline	4.87	5.20	7.49	10.67	12.17	10.90	9.19	11.71	12.66	15.16
Jet fuel	0.68	3.79	4.25	5.36	4.69	5.79	5.57	4.44	4.95	6.61
Diesel	5.63	4.53	5.37	6.09	6.89	6.97	6.33	6.54	7.26	7.41
High-sulfur fuel oil	(2.47)	(1.02)	(4.28)	(6.80)	(6.97)	(6.90)	(8.37)	(8.13)	(5.76)	(5.38)
Refining margins										
FCC / Dubai	(0.13)	1.07	1.21	0.95	0.65	0.91	0.42	0.56	0.73	0.60
Hydrocracking / Dubai	0.03	0.52	0.71	0.77	0.76	0.74	0.64	0.74	0.79	0.84
FCC / Espo	(0.66)	(0.33)	1.47	1.55	1.04	1.57	0.82	0.96	1.13	0.99
FCC / Arab Light	(0.90)	1.45	0.56	(0.51)	(0.84)	(0.61)	(1.07)	(0.93)	(0.76)	(0.89)
Hydrocracking / Murban	0.87	1.17	2.29	2.81	3.06	3.03	2.93	3.03	3.09	3.13
(US$/tonne)										
Aromatics spreads										
PX-naphtha	128	136	185	232	242	235	214	230	262	252
BZ-naphtha	35	119	191	367	358	410	348	372	334	347
Olefin spreads										
HDPE-naphtha	526	608	583	576	458	562	425	432	501	542
LDPE-naphtha	567	780	959	936	792	914	743	754	854	922
PP-naphtha	535	695	771	709	573	667	570	552	607	642
Ethylene-naphtha	366	463	416	406	282	454	262	284	277	307
Propylene-naphtha	412	499	461	436	297	479	335	281	322	357
Henry Hub Gas (US$/mmbtu)	2.12	2.76	2.73	2.97	3.91	2.96	3.27	3.82	4.00	4.37
Coal (Newcastle) (US$/tonne)	51.60	66.20	87.47	106.49	156.07	100.44	125.31	146.01	166.63	170.95

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	10.40	16.00	*53.8*	1,618	na	14.2	7.2	6.3	5.6	5.3	5.2	6.3
BCP	SELL	26.25	21.00	*(20.0)*	1,108	na	na	na	24.1	8.7	6.8	0.0	2.3
ESSO	SELL	7.65	6.90	*(9.8)*	811	na	na	na	140.2	36.6	20.7	0.0	0.4
IRPC	BUY	3.90	5.10	*30.8*	2,443	na	9.6	13.9	12.7	8.8	8.1	4.3	4.7
IVL	BUY	42.75	52.00	*21.6*	7,357	169.1	(0.9)	13.9	14.0	8.3	9.0	2.5	2.5
PTG	BUY	18.40	22.00	*19.6*	942	(3.6)	11.8	17.2	15.4	7.7	7.3	2.9	3.3
PTT	BUY	37.75	48.00	*27.2*	33,048	177.8	3.4	10.2	9.9	4.7	4.3	4.9	5.1
PTTEP	BUY	108.50	140.00	*29.0*	13,202	68.1	15.8	12.0	10.3	3.8	3.4	5.0	5.8
PTTGC	BUY	62.00	86.00	*38.7*	8,568	219.4	(1.2)	11.5	11.6	6.9	6.7	5.2	5.2
SPRC	SELL	8.60	7.20	*(16.3)*	1,143	na	na	na	111.7	20.3	14.9	0.0	0.3
SUSCO	BUY	3.40	4.80	*41.2*	115	3.0	23.4	15.9	12.9	6.6	5.4	3.2	3.9
TOP	SELL	48.00	48.00	*0.0*	3,001	na	6.1	24.4	22.9	16.8	17.6	1.8	2.0

Sources: Company data, Thanachart estimates